

## Long 20<sup>th</sup> Century in Asia

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### I. Long 20<sup>th</sup> Century in Asia

#### 1. What is Long 20<sup>th</sup> Century in Asia?

The globalization today (Globalization-II) may be aptly traced back to the middle of the 19<sup>th</sup> century when a long period of political and economic transformation of traditional Asia (Globalization-I) was set in motion<sup>1</sup>.

Some of the milestones of the Globalization-I were as follows: the Opium War (1842) for China, the Meiji Restoration (1868) for Japan, the Japan-Korea Friendship Treaty (1876) for Korea, the third Burmese War (1885-86) for Myanmar, the Boring Treaty (1855) for Thailand, the Hue Treaties for Vietnam (1883 & 1884), and the Acquisition of Diwani (1765) for India.

These political landmarks were closely followed by large scale reclamation of extensive uncultivated lands in the deltas of the great rivers such as the Huang (the Yellow River), the Song Hong (the Red River), the Chao Praya, the Irawadi, the Ganges, and the Indus, and in the Assam valley, the Deccan plateau, and the Outer Islands of Indonesia, etc. Agricultural products and minerals meant for the world market (world commodities) such as rice, cotton, silk, jute, wheat, tea, sugar-cane, rubber, palm oil, coffee and tin were abundantly produced in these areas. As a result of rapid extension of fields and mines, the landscapes and ecological conditions changed drastically.

The driving forces of this rapid and extensive transformation in Asia were the unprecedented expansion of the world trade since the second half of the 19<sup>th</sup> century, the commercial activities of the European firms and the race for territorial expansion among the imperial powers such as UK, France, US, Holland and Japan.

#### 2. Problems of the Globalization-I

The most unpleasant aspect of the Globalization-I was that the majority of the huge wealth arose from the sales of the world commodities produced in Asia went into the hands of the capitalists and investors in the metropolitan countries and that the underdevelopment and low quality of life among the Asian peoples persisted.

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<sup>1</sup> Last stage of Phase I was the age of the so-called block economies, and it ended with the cessation of the World War II. Then Globalization-II commenced. However, until the breakdown of the USSR, a kind of block system continued to function. Therefore, the full-fledged Globalization-II, pure and simple, started since then.

The reasons for this untoward result were not far to seek. 1. The rapid development was almost totally planned, financed and executed by the European firms and their native collaborators. They not only controlled the production, but almost exclusively marketed the products. 2. The indigenous society was lacking in capital and failed to develop education, health service, and economic infrastructure. 3. Often extant internal conflicts among different ethnic groups and cultures were worsened due to the policy of divide and rule adopted by the colonial rulers. 4. Many of the Asian countries failed to modernize their society of their own. Therefore, they lacked basic conditions for economic development.

## **II. Long 20<sup>th</sup> Century in South Asia**

Through the examination of economic development in India, we hope to obtain certain general lessons for the uplift of the quality of life, improvement of the governance and appropriate market structure. As a vast country such as India does not allow a simple generalization, I base my argument mostly on the situations and experiences in eastern India, particularly, Bengal, where the British East India Company acquired a vast territory for the first time in Asia.

### **1. Governance of Colonial India**

British India was governed by the East India Company under the Royal Charter since 1765 through 1858, and then by the Government of India. This change occurred because of the mismanagement of India by the Company, which ultimately ended up with the Great Mutiny of 1857. The Government of India was placed under strict control by the Secretary of State who headed the India Office, London. He was a Cabinet Member and was held responsible to the British Parliament. This dual government system continued until 1947 when India obtained her independence.

### **2. Changes in Foreign Trade**

Though handmade cotton cloth had been by far the most important item of India's export since the commencement of British rule, its export came to null by the 1820's. Newly established cotton industry in Lancashire completely deprived India of her overseas market for cotton goods including UK. Indigo was also a very important item of export from India, but its exportation became freak in the 1830's and 1840's because of overproduction. In this way, Indian export tended to stagnate, if not decline, by the middle of the 19<sup>th</sup> century.

But it revived strongly and far exceeded the former size after the 1850's as clearly

shown in the table below. This remarkable increase in the volume of Indian foreign trade was closely associated with the construction of the railway, exportation of raw cotton, raw jute, opium, wheat, manufactured jute goods and machine-made cotton goods. Certainly, this revival of Indian trade was part of the process of Globalization-I explained above. Expansion of Indian trade more or less continued up to the Great Depression of 1929, then followed two decades of trade decline, the block economy, and the wartime economy. It should also be mentioned that the Bengal famine broke out and took a heavy toll of more than one million in 1943.

Export and Import of Colonial India (1813-1930)								(Million Rupees)
Export								Import
	Indigo	Opium	Raw Cotton	Cotton Goods	Tea	Raw Jute	Jute Goods	Cotton Goods
1813	15.6	1.2	4					
1830	26.7	19.9	15.3					
1850	18.4	59.7	22		0.3	0.9	2.1	33.7
1870	31.8	116.9	190.8		10.8	19.8	2.1	135.5
1890	30.7	92.6	165.3	94.9	55	76	24.8	262.2
1910	3.3	127.6	360.5		124.6	154.9	170	390.3
1930	—	—	464.1	48	260	128.8	318.9	221.7

(Source) Dharma Kumar (ed.), *The Cambridge Economic History of India, Volume II c.1757-c.1970*, Cambridge University Press, 1982, Tables 10.12, 10.13, 10.14, 10.15 & 10.19.

### 3. Globalization-I in India and ‘Development’

During the Company’s rule, the colonial government gave priority to the defense of the Empire and economic interest of the metropole, and it refrained from intervening with the Indian society. Uplift of the quality of life of the Indian people was not given a place in her agenda. This attitude was similar to that taken by the Dutch in Southeast Asia. Naturally the colonial rulers showed hardly any interest in the education and health of the mass.

The Great Revolt of 1857 put an end to this indifference to the welfare of the Indian people, and the newly formed Government of India started to adopt various policies related to public welfare and local self-government such as the Rent Act (1859), the Bengal Tenancy Act (1885), the Village Police Act (1873), the Road Cess Act (1874), and the Local Self-Government Act (1885). However, serious attempts at extension of primary education among the Indian mass began only after the World War I.

Secular rise of agricultural prices and extension of cultivation of commercial crops

started in the 1860's and lasted until the eruption of the Great Depression in 1929. The period between 1860's and 1929 saw an unprecedented opulence among the Bengal peasantry, and it encouraged the upper portion of the peasantry to amass lands. They also started to send their children to the schools. Some of the jute cultivators stopped to grow rice, and purchased it from the rural markets for their home consumption. Thus they involved themselves much deeper in the market relations and, therefore, fall of jute price caused much more serious damages to them than before.

Gradually, European businessmen started to set up jute factories near Calcutta and by 1900 Bengal jute industry superseded Dundee, the then world's chief manufacturing center, in jute goods production. All the machinery of the factories and the technical staffs were brought from UK. The owners of these factories organized themselves into the Indian Jute Mill Association and secured high profit by controlling the supply of jute goods to the world market and also by suppressing the purchasing price of raw jute from the cultivators by the monopsony, both of which were made possible by exercise of pressure through the powerful Jute Association.

#### **4. Industrial Policies under Colonial Rule**

Though India possessed some modern industries such as railway, cotton mills, jute mills, tea manufacturing factories, sugar mills, iron and steel plants etc., Indian industry as a whole had certain serious structural problems. It is important, for our purpose, to consider why and how the structural distortions came about.

##### **1) Opposition by the British Mill Owners and Proponents of Free Trade to the Government Support for Industrial Development in India**

In the first half of the 19<sup>th</sup> century, the Company government tried to improve the products of cotton and silk cloth in India, but the attempt had to be abandoned by the strong protests from the British mill owners that the Company should concentrate in exportation on the raw materials which the British needed for their industries.

In the late 19<sup>th</sup> century, the Indian government was reluctant in giving support for the Indian industrialization from the same reason. However, Governor-General Ripon (1880-84) held the opinion that India should have certain industrial base, and, under his initiatives, technical education, industrial education, survey of industrial resources of respective states started and a department of geological survey was established later on. However, these early efforts did not grow into a positive policy of industrial support by the government, because of the opposition to these policies by the rise of the doctrine of the free trade in UK.

However, the Governor-General Curzon (1899-1905) favored the governmental

support for the Indian industrialization in view of the necessity of having certain strategic industries for the defense of British Empire in Asia. He established a department of imperial trade and industry, and several state governments headed for the support of industrial development of their states. Madras state government was particularly interested in the state industrialization and established a post of the state industrial officer and promoted industrial education. She went so far as to create a state-owned enterprise. The Secretary of State who firmly favored the idea of the free trade did not like these developments in India and refused to give his sanction to the activities of the Madras government and dismissed the European senior officer who was responsible for the establishment of the state enterprise in Madras. The denial of the state initiative for industrialization of India by the London authority dealt a fatal blow to the Industrialization of India for sometime to come.

However, the extraordinary measures of negating the government support for industrial development arose sharp criticism from the Indian nationalists and, moreover, the outbreak of the World War I made it imperative to have certain industrial base in India for the defense of the Empire. Thus, the home government finally decided to support the Indian industrial development and appointed an Indian Industrial Commission in 1916.

## **2) Indian Industrial Commission**

This commission was formed to make an exhaustive survey of the existing industries in each state, and also to formulate government support policies for Indian industrialization. The commission outlined the defect of the Indian industrial structure in the following way: Hitherto, Indian industrialization was mostly carried out by the European capitalists who concentrated their investment on the industries with assured high profits, and avoided making investment in the low-profit, long-gestation-period industries, however important they were for the entire economy. Thus, though India had some highly profitable modern industries, she lacked some basic industries such as heavy-crane, tool-machine, steam-engine, optical glass, and oil-engine.

The commission argued that the government should not be directly involved in the management of enterprise, and that her role in the Indian industrial development was to assist the capitalists and investors starting and running undertakings by providing them industrial loan, industrial and commercial information, marketing organization, and high quality laborers through establishment of technical training institutions. In order to implement these activities, the commission advised to set up department of industry in the central and state governments.

## **3) Indian Fiscal Commission: Protective Tariff vs. Free Trade**

The industrial commission was not allowed to touch on an important issue, that is, introduction of protective tariff. This was politically highly sensitive problem, and the home government was highly reluctant to adopt it in view of strong political pressure against it exerted by the powerful lobby of Lancashire cotton-mill owners. On the other hand, Indian nationalists and Indian parliament members strongly requested to introduce the protective tariff since 1913. In the last analysis, the Secretary of State, considering the strong opinions in the Parliaments both in Britain and India, accepted the recommendation that India should be given fiscal autonomy in the same way as the Dominions of the British Empire. On the basis of this decision, the government of India appointed the Indian Fiscal Commission in order to make a comprehensive investigation of the Indian tariff problem in 1921.

The commission argued that if the adoption of protective tariff was likely to benefit consumer, it should be justified. Some criticized the protective tariff on the ground that it was a deviation from the principle of free trade and comparative advantage. The commission countered that the principle of free trade could deter economic development in a country where initial conditions for economic development were lacking. By giving temporary protection to an industry that has natural advantage, the industry might be able to grow into an internationally competitive one. In this case, the consumer would be greatly benefited, and therefore the grant of protection to such an industry should be economically justified. The commission, at the same time warned the grant of protective tariff might not always be beneficial. For example, a farmer who employ laborer to cultivate his land might lose because of the rise in both the wage of the laborer and the general price level of the commodities. Speaking generally, protection to particular industry might allow inefficient producers to survive, give rise to an undesirable combination among the manufacturers, and lead to political corruption. Therefore, the government should set up a supervisory board to fix conditions for the grant of protection, and to supervise the transactions of the concerned industry so that improper practices might be prevented.

Thus, the fiscal commission recommended the introduction of the protective tariff and the establishment of tariff board.

#### **4) Limitation of the Government Support for Industrialization**

Let us have an overview of the changes in the governmental support for industrialization in India. Up to the mid-19<sup>th</sup> century, the government remained indifferent to the welfare of the Indian people, not to speak of her Industrialization. Under the pressure from the metropole, the government had to abandon even the modest effort for the improvement of silk and cotton production. After the Great Revolt of 1857,

the government found it impossible to neglect the welfare of the Indian mass any more, and peasants' right to their lands began to be protected from the tyranny of the landlords and certain measures towards the establishment of local self government were taken. Rapid extension of the cropped area under the commercial crops and continuous rise of price of the agricultural products ensured that certain capital began to be accumulated among the upper strata of the cultivators. After the Partition of Bengal in 1905, nationalist movement started to gain momentum, and Indian members of parliament began to assert nationalistic view on economic policies in the Indian Parliament. Another important factor was the political conflicts among the European powers in pursuit of territorial possessions, which ultimately led to the two world wars. At this critical juncture, the British colonial government found it necessary to ask for war cooperation, and in return for the help extended by the Indian people, the colonial government had to concede, step by step, political powers to the Indian. They also find it strategically important to have certain industrial base in India in their war efforts. Against these backgrounds, the government of India increasingly interested in the growth of industrial base in India. Thus, she appointed two commissions (Indian Industrial Commission and Indian Fiscal Commission) and explored the role of government in the industrial development of colonial India. On the basis of the recommendations of these commissions as narrated above, she tried to promote a certain degree of the Indian industrialization.

How far was the Indian government successful in this connection? Obviously, grant of tariff proved to be beneficial to some of the important industries such as iron and steel, cotton mills, white sugar, match, etc., and they successfully substituted Indian goods for imports to a great extent. However, looking at the Indian industrial base as a whole, it is difficult to say that India industry overcame the basic structural weakness as pointed out by the Indian Industrial Commission.

Then, why she failed? The answer is again not far to seek. The government needed a huge amount of capital to build up the industrial infrastructure and help develop a balanced industrial structure in India. However, the colonial government was forced to pay a kind of colonial dividend (home charge) to the metropole, and was also strictly controlled by the India Office at London to keep a balanced budget so that exchange rate of Indian rupee remain on the side of overestimation. Because of these fiscal pressures exercised by the metropole and very weak internal tax base, the government of India was chronically suffering from very tight financial constraints. It simply means that the colonial government of India failed to take necessary budgetary measures to improve the industrial infrastructure, and develop human resources satisfactorily. Thus

the colonial government failed to play the role of a supporter for the Indian industrialization, even if when she wanted to do so.

### **III. A Prospect : Historical Lessons for the Uplift of the Quality of Life, Good Governance and Desirable Market Structure**

What can we learn from the lessons obtained through the study of the Globalization-I in Asia?

I would emphasize the importance of the political sovereignty to reside in the nation. However, even if the sovereignty lie with nation, if the government is corrupt or seek only the short-term efficiency, the quality of life of the mass is not likely to improve. Excessive protection necessarily produces a huge consumer loss and a low efficiency as is clearly seen in the industrial stagnation of the Indian industries during 1950's to 1970's and fall of the many socialist countries in the 80's. Pursuance of short-sighted economic efficiency and excessive protection are sure to end up with the serious problems of corruption and low-efficiency.

Then, how can it be possible to overcome these maladies? It will be political equity, democracy and social participation that are urgently needed. If these essential rights exist in a society, the politician or man in power must give chance of education to the nation, and it will enhance the quality of labor or human resources in general. Enhanced human resources make it possible to attain higher labor productivity, and the wage of laborer also rise in consequence. Increased income of the mass will extend the internal market, and demand for various goods, it will then be easier for the economy to attain scale-merit. As a result of all these, the economic efficiency of the society reaches a level one step higher than the previous one. The higher level of efficiency and production certainly enable the people to enjoy greater freedom<sup>2</sup>, or, higher quality of life.

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<sup>2</sup> In the sense of Professor Amartya Sen.