

Roberto Bonfatti (Padua & Nottingham) & Bjoern Brey (Nottingham)

‘Trade disruption, industrialisation and the setting sun of British colonial rule in India’

One common feature of European empires was the prominence of trade between the colonies and the imperial powers. This resulted in a pattern of specialisation whereby the colonies exported mainly primary products, and imported mainly manufactures. The imperial powers encouraged this specialisation, which simultaneously benefited their consumers of primary products, producers of manufactures, and investors in colonial plantations and mines. From the point of view of the colonies, however, two questions arise: did colonial trade prevent industrialisation in the colonies? And did it help keeping them under control, by making them dependent on trade with the imperial power?

We attempt to answer these questions empirically, in the context of early 20th century colonial India. The paper is divided into two parts. In the first, we exploit the collapse in trade generated by World War I - which more than halved Indian imports from Britain in real terms - to investigate the impact of an exogenous interruption in colonial trade on industrial growth in India. In the second part, we investigate the impact of industrialisation levels on support for the anti-colonial movement in the 1920s and 1930s, using the WWI trade shock as an instrument for industrialisation levels.

We find that the WWI trade shock had a positive, large and highly persistent effect on Indian industry. Districts exposed to a greater 1913-17 increase in net exports to Britain experienced faster industrial employment growth in 1911-21. This placed them on a higher level of industrial employment which was still visible in 1926, 1936, 1951 and 2011 (the year of the last census). When we explore this further, we find some evidence that persistence was due to learning, and not to competing explanations (such that industries who benefited more from the WWI trade shock later expected or obtained a more favourable industrial policy, or that they experienced looser credit constraints due to war-time profits).

In the second part of the paper, we find estimate that the WWI trade shock, by leading to higher industrialisation levels, resulted in 6.8% stronger support for civil disobedience in 1922, and increased the number of seats won by the Indian National Congress in the landmark 1937 provincial election by 2.4%.

Our results have important implications. First, they suggest that the trade which took place within the European empires, while modernising the colonies in many respects, may have had a negative impact on the long-run growth of some of them. Second, our results provide a new way to rationalise the wide range of anti-industrial policies that the European colonisers adopted in their colonies in this period. To the extent that industrialisation would encourage rebellion, it was in the imperial power's interest to discourage industrialisation. Finally, our result may explain why the imperial power that industrialised fastest, Britain, was also most successful at constructing and maintaining a colonial empire: its industrial growth boosted trade with the colonies, which in turn helped to keep the colonies under control.