The 'erosion of a relationship'? Indo-British economic connections, 1950-1970

B.R.Tomlinson

When India achieved Independence from Britain in 1947 she one of the first Asian colonial territories to throw off the shackles of foreign rule. The new government in New Delhi inherited many economic problems from the colonial period, and was determined to follow fresh policies aimed at economic growth and development in industry and agriculture, and to reform the institutions of trade, finance and monetary control. The nationalist movement in India had long campaigned against the dominance of the British colonial state and British business and financial interests.[1] Yet India's economic ties to Britain remained close after Independence. In the early 1950s Britain was India's largest market for exports, her largest supplier of commodity imports and military supplies, and the main source of foreign investment and aid. The vast bulk of India's foreign exchange assets were in sterling, and her international trading and banking systems were dominated by firms that had close links to London. By 1970, however, much had changed - Britain was now only one of several foreign economic powers with which the Indian government has close relations, and many fields bilateral links between the two countries had weakened considerably, or even disappeared altogether.

The most complete account of Indo-British relations in the 1950s and 1960s is Michael Lipton and John Firn, *The Erosion of a Relationship: Britain and India since 1960*.[2] As their title suggests, Lipton and Firn map a sharp decline in a wide range of bilateral relations - economic, political, cultural and emotional. Their conclusion is that economic links were the foundations of the post-colonial connection, and that the weakening of these links from the mid-1950s on undermined the whole. Lipton and Firn argue that the fundamental reason for this was the lack of British competitiveness in trade and investment during the 1960s. They claim that India remained as attractive an area for exporters and investors (in terms of profits on sales and returns on investment) as anywhere else in the Third World, but British companies failed to take advantage because of their inability to compete with rivals from North America and elsewhere in Western Europe. The most distinctive part of their analysis is the close connection that they establish between the activities of overseas firms and the supply of government aid to India. During the 1960s, Britain cut back her supply of overseas aid in general, and aid to India in particular, partly because of balance of payments difficulties.[3] Furthermore, the aid that Britain did supply to India had less effect in promoting export sales than that of other donors.[4]

The data supplied by Lipton and Firn, and by other studies of the Indo-British relationship in the 1950s and 1960s, show an apparently striking 'erosion' of bilateral economic ties between the two countries in the twenty-five years after independence. Britain's share of India's imports of manufactures ran at over 45% throughout the 1950s, but fell to less than 30% during the 1960s; Britain was overtaken by the United States as the largest overseas supplier of the Indian market in that decade.[5] The British market took over 15% of Indian exports during the 1950s, but less than 10% by the late 1960s.[6] British firms provided 80% of India's private foreign investment stock in 1948, but their share had fallen to less than 40% by 1970.[7] India began to receive large donations of foreign aid from the mid-1950s onwards, but the British share of such donations was comparatively small. British bilateral aid to India amounted to Rs. 6.7 millions (utilised aid) during the 1950s and 1960s, less than that provided by other donors such as the United States, the Soviet Union, and the Aid to India Consortium headed by the World Bank.[8] The management of the sterling area (the countries which held the majority of their international exchange assets in sterling, and which used the London market extensively to raise capital) provided an important link between Britain and many of her ex-colonial territories in the 1950s and 1960s, until the system collapsed following the sterling devaluation of 1967, but India played little part in these arrangements except during the major crisis over convertibility and devaluation in 1947-9.[9]

In the twenty-five years after Indian independence both Britain and India diversified their economic activities away from each other. Britain's exports of goods and capital to India steadily declined as a percentage of her total exports, while India also disengaged progressively from her reliance on British supplies and markets.[10] The shadowy statistics on the arms trade suggest a similar pattern of events - while India depended largely on military equipment manufactured or designed in Britain in the 1950s, around three-quarters of her overseas defence expenditure during the 1960s was used to purchase equipment from the Soviet Union and Eastern Europe.[11] By the early 1970s, most of the connections that seemed to bind together the two economies had been weakened or broken.

This decline in Britain's stake in India had little to do with political discrimination. Perhaps surprisingly, the Indian government never sought to penalise British interests as such, while Indian policy towards foreign business interests as a whole was not particularly restrictive. After Independence, Indian policy on imports, foreign exchange, public planning and industrial development was largely pragmatic, and did not settle into a firm ISI (import-substituting industrialisation) groove until the preparation of the Second Plan in the mid-1950s.[12] India's holdings of substantial sterling balances of over £1,000 million in the late 1940s gave her some freedom from foreign exchange constraints in the early 1950s (and tended to boost her imports from Britain), but these were exhausted by 1956.[13]

After 1956 foreign exchange was an important constraint on the planning process. The regular import-supply and foreign exchange crises of the late 1950s and the 1960s ensured that the official aim of increased self-reliance and national economic independence had to be softened at regular intervals to attract foreign investment (which brought imports of capital goods that did not have to be paid for in foreign exchange). Neither the tariff system nor the industrial licensing system, which became the chief arm of planning policy from the mid-1950s, discriminated between Indian firms and foreign subsidiaries in theory. In practice, licenses were sometimes granted to encourage geographical diversity rather than industrial efficiency, while certain Indian business groups (particularly Birlas) were able to manipulate the bureaucratic process of planning for their own benefit.[14] However, even these constraints were not fatal to the interests of foreign capital, and until the late 1960s no serious attempt was made to control the operations of foreign subsidiaries. New regulations after 1969, which culminated in the Foreign Exchange Regulation Amendment Act (FERA) of 1973, did limit the ability of large foreign subsidiaries to repatriate profits or expand share capital, unless the foreign holding was reduced to 40%.[15]

On the British side, India was treated as favourably as any other Commonwealth country in terms of import tariffs and preferences - many of India's traditional imports being on the free list - in the 1950s and early 1960s. While Britain's decision to seek entry to the EEC in 1967 caused some alarm about increased duties on Indian goods, in practice British membership of the EEC after 1971 had little effect on the volume of Indian imports. Her declining share of total British imports is best explained by changing British patterns of demand rather than by direct competition from others.[16] The general decline in the competitiveness of Indian exports during the 1950s and 1960s, especially in tea, was the result of the foreign exchange and investment policies that the Indian government followed in pursuit of ISI.[17]

Britain in the 1950s and 1960s was famously described as having lost an empire, but not having found a role in world affairs. The rapid decolonisation of the British Empire after 1945, and the weakening of Britain's position as a major player in world trade, investment and currency systems, represented a dramatic change in her fortunes. These have important implications for the study of 'decolonised regions', such as South Asia, in the modern era; also for the history of society, politics and culture in Britain, and for the national identity of the United Kingdom as a whole and her increasingly disparate parts. Economic connections are a key factor here, especially the weakening of the bilateral links of trade and investment that held the

British Empire together in the first half of the twentieth century. Over the last fifty years British governments and British companies have turned away from the ex-colonial territories of Asia and Africa towards Continental Europe and the USA. This was a global trend, but it was more marked in Britain than elsewhere. Even if neo-imperialism is seen as an important part of international economic relations in the modern world, it is striking that Britain, the most prominent of the imperial powers in 1950, did not sustain her imperial role into the neo-imperial age.

The rapid collapse of British connections with her ex-colonial territories after 1950 presents a major problem for historians of the Empire and its successor states. Within the literature on British history these events are usually discussed as part of the discourse about British 'modernisation' and 'decline'. Liberal accounts of British economic history argue that the imperial economy was an anachronism by the 1950s, or even before; an anachronism that was holding back economic development and modernisation, that encouraged atavistic and unrealistic policies for sterling, and that was partly responsible for the structural and productivity problems of the 1950s, 1960s and 1970s. In this account, a commitment to Continental Europe and the US was a symptom of 'new' forces in British economy that had emerged in the inter-war period, and slowly established themselves as the basis for production and employment since then.[18] Alternative accounts, based on a neo-mercantilist analysis of international economic relations, have sought to explain both Britain's imperial decline and her subsequent problems in terms of a failed 'modernisation' - suggesting that since 1950 the British national economy was too weak to maintain the Empire, and not strong enough to sustain neo-imperial relationships. Such arguments often focus on the role of the City of London, suggesting that the needs and desires of the financial and international services sector have dominated British economic policy-making, leading to the neglect of the British national economy (represented by manufacturing industry) by concentration on the imperial connection before 1950, and by the pursuit of global, not national, ambitions in more recent times.[19] A different perspective comes from the 'new right', which argues that the loss of Empire was the cause of Britain's economic decline, and that had Britain stayed out of the Second World War she would have remained a major global power.[20]

The Indo-British economic relationship in the 1950s and 1960s provides an obvious case-study to explore these issues. But before we consider the history of colonial and post-colonial economic relations further, one note of caution must be sounded. India's political and economic circumstances after 1950 were unusual in comparison with many Third World countries. India is a 'large' country in economic terms - in the 1950s and 1960s (and beyond) most economic activity, both agricultural and industrial, was concerned with the domestic market. Foreign trade and foreign private investment provided a relatively small share of GNP (in part because of government policy that sought to foster self-reliance at the expense of efficiency). Overseas sources of military equipment, capital goods and financial and commodity aid were important, but were not important enough to destabilise the internal political balance.[21] While India was able to exploit super-power rivalry to secure competing bids for economic support from the United States and the Soviet Union in the 1960s, she was never a major Cold War battleground, and her support was never an overwhelming strategic priority for either super-power (or for Britain). There is an interesting contrast here with Pakistan, where Cold War rivalries helped to intensify American military and economic support, and where the resultant ambitions of the armed forces arguably destabilised domestic politics in the 1950s and 1960s with unfortunate results.[22] Unlike a number of Britain's African territories, there were no white settlers in India to complicate her internal politics, or to exercise emotional blackmail on British government policy.

The evidence and arguments discussed in the first half of this essay suggest that the weakening of British economic ties with India in the 1950s and 1960s was caused by the decline of Britain's economic competitiveness, made worse missed opportunities that increased aid and a greater commitment to the Commonwealth could have supplied. Can we accept this at face value? Superficially, there seems to be a convincing case, but we need to put Britain's economic role in South Asia into its proper context, by examining the apparent strength of bilateral ties before Independence, as well as their apparent weakness thereafter. We need to establish the extent of the strength of the Indo-British economic relationship in the first half of the twentieth century before we can judge the significance of its apparent decline in the 1950s and 1960s.

The essential flaw in Lipton and Firn's analysis of the 'erosion' of Britain's economic relationship with India after 1960, as with most other accounts of Britain's post-imperial economic ties to her Asian and African ex-colonies, is their assumption about the closeness of the relationship before 1947. They suggest that '[f]or about two centuries India and Britain were locked in the most important colonial connection in the history of mankind'.[23] If this is true, then the steady erosion of that connection within twenty-five years of formal independence requires serious explanation. But how close were the links between British economic agents and India in the years leading up to decolonisation, and what connection was there between political control and economic advantage for British business interests? The work of economic historians is important in answering this question.

India was a major economic asset for Britain before 1914 - her largest single market for exports, a substantial market for overseas investment, and the provider of a large army that could be used in the imperial cause. But to a large extent the linkages on which this depended were those of the public-sector colonial economy, rather than the private interests of British manufacturers or other firms. The crucial economic relationship was that provided by public investment in Indian railways and other infrastructure projects that was raised directly, or guaranteed, by the colonial government. This investment determined the level of British exports of capital goods, chiefly railway equipment, and was bound up with the issue of the Home Charges, which also provided payment for military expenditure and the costs of the Indian government in Britain.[24] The great exception to this before 1914 was, of course, the interest of Lancashire cotton manufacturers in the Indian market - their single largest source of demand - but Lancashire's Indian obsession in the 1900s was unusual and could not be sustained. India's exports were much less imperially-centred than her imports, and her ability to supply markets in the United States, Japan and elsewhere in Europe, rather than in Britain, was perhaps her most significant contribution to maintaining Britain's global economic position during the last seventy years of the *Raj*.[25]

In the 1920s and 1930s the distinctive mechanisms of the Indo-British colonial economy weakened in scope and intensity. The need to provide revenue for the Government of India through tariffs damaged Lancashire's sales in India severely, as did the new competition that British cotton exporters faced from Japanese and Indian mills. Changes in the stores-purchase rules in the 1920s removed powerful advantages that British suppliers of capital equipment had enjoyed over rivals elsewhere; furthermore that collapse of public investment during the difficult economic conditions of the 1930s weakened public-sector demand for capital goods severely. The development of indigenous banking institutions - especially the State Bank of India - and changes in the mechanism of government remittance in the 1920s also reduced the role of the British-based Exchange Banks in Indian monetary affairs. While India continued to run a balance of trade surplus with the United States and Continental Europe, and a deficit with Britain, this was no longer enough to cover Britain's much larger deficits with the advanced economies. By the 1930s Britain's chief economic interest in India was the maintenance of sufficient sterling remittance to meet the Government of India's obligations in Britain, which was entirely a matter for the imperial and colonial state, not for the private sector. The long and complex negotiations over bilateral tariff preferences for cotton goods and iron and steel that followed on from the Ottawa Conference in 1932 demonstrated how distinct the manufacturing economies of India and Britain had become.[26]

The mechanisms for financing India's contribution to the imperial war-effort from 1939 to 1945 revolutionised Indo-British economic relations at the official level. With the repayment of all India's sterling debt by 1942, and the building-up of very substantial sterling credits by 1945, the British government's interest in Indian financial policy changed from that of a creditor to that of a debtor. Complex negotiations over India's sterling balances after 1945 were an important part of the decolonisation process, but one in which political control was no longer significant. One paradox of the Indo-British case is that Britain revived her interest in the development of her imperial economy for post-war reconstruction, but India was now seen as a liability rather than an asset. With her apparently insatiable demand for dollars, and her very limited ability to trade outside the sterling bloc, India's ability to command imports of British capital goods was seen as a threat to Britain's recovery.[27] After 1947 the British Treasury's interest in providing overseas aid for India - through the Colombo Plan for Commonwealth assistance - was determined by the larger problem of constraining India's demands on the Empire dollar pool. As early as 1950 the British Cabinet had concluded the resources required for the effective development of South Asia were 'considerably more than the Commonwealth itself could provide, and that it would therefore be necessary to seek the co-operation of other countries' - in other words, the United States.[28]

Within the private sector, too, the apparent dominance of British interests in the Indian domestic economy before 1947 can be questioned. All estimates of the ownership of capital in colonial India must be treated with caution, but the data suggest that foreigners owned about 10% of capital stock (excluding agriculture) in the inter-war years, and about 2% in 1948; in terms of national wealth, foreign investments declined from nearly one-tenth in 1913 to about 5% in the 1930s, and less than 2% in 1946.[29] Certain groups of expatriate businessmen appeared to be dominant in some sectors of the colonial manufacturing and trading economy in the 1920s - especially in the jute and tea industries of eastern India - but their position was being rapidly undercut by Indian rivals better able to take advantage of the changed economic circumstances of the 1930s and 1940s. A number of British-based MNEs were also entering Indian manufacturing industry in the inter-war period; of 123 British subsidiary companies operating in India in the early 1970s, at least 52 had been established before 1945, but such operations remained relatively small.[30] An over-view of the pattern of British business investment in India in our period is provided in Appendix I to this paper.

During the late-colonial period, Indian businessmen provided the most dynamic examples of business growth, and the largest share of investment in capital goods, both in mechanised industry and in the increasingly important semi-mechanised sector in textiles and other handicraft goods. While British firms provided by far the largest share of foreign business involvement in the Indian domestic economy in 1947, foreign capital was less important for Indian business development than elsewhere in the colonial and ex-colonial world. Nor, despite the left-wing nationalist rhetoric of the 1970s, is it easy to see collusion between Indian big business and foreign capital as a significant agency for informal neo-imperialism by British or other overseas capitalists. The Indian 'national bourgeoisie' was capable of using links to foreign capital for economic or political advantage when it suited them, but their superior knowledge of local market conditions, and their closer links to the domestic political process, ensured them the upper hand.[31]

British firms expanded their operations in India quite substantially in the 1950s and 1960s as the old colonial firms of the plantation and textile sectors were replaced by the subsidiaries of British-based MNEs manufacturing consumer and producer goods for domestic industry and the growing urban middle-class market, and also in oil. More than one-third of British business investment in India was in manufacturing by 1960, with another 25% in oil.[32] British firms remained the largest single source of investment in subsidiaries and minority ventures in India throughout the 1960s, although British capital invested in India represented only 7% of the global total of British overseas capital investment in 1958, and 4% in 1971.[33]

The significance of the apparent dominance of British firms in foreign investment in India must be analysed carefully. The success of British-based MNEs in India resulted from a specific set of stimuli and responses in the British, Indian and international economic systems in the middle decades of the twentieth century. Although many of the subsidiary manufacturing companies established in India by the early years of independence were exploiting a new product or a fresh technique, their competitive advantage was usually organisational rather than technological - notably the ability to overcome unfavourable externalities by creating 'internalised' mechanisms for sourcing, production and marketing to compensate for missing markets. By the 1970s Indian corporations had acquired the internalising skills of the first wave of MNES, and so were able to compete with them effectively, while entry into new fields required an ability to overcome the much larger market imperfections caused by the planning process. A large number of new British subsidiaries set up in the 1950s and 1960s were joint ventures with local capital, with a local partner being recruited to provide knowledge, facilities and resources.[34] This suggests that particular conditions in India made her a less suitable base for 'pure' MNE activity and presented problems that internalisation alone could not overcome.

During the 1970s the growth area of new foreign investment in India was in the service sector, mostly in the form of loan capital for construction and utilities, often in collaboration with public sector partners. Investment in services represented one-quarter of total foreign private investment in India in 1973, and almost a half by 1977. Relatively little of this new investment was by British firms - whereas the United Kingdom remained by far the largest single foreign investor in the Indian manufacturing sector in the late 1970s, she had been overtaken by both the United States and West Germany in the much faster growing services sector. By 1976 the United States had replaced Britain as the largest national owner of private foreign business investment in the Indian economy. When comparing the performance of British subsidiary companies with those of other countries after 1970, it is also significant that the majority of large British subsidiaries (those with assets of over Rs 100 million in 1975) had been founded before 1947, and had expanded substantially in the 1950s. They were in a different phase of their life-cycle than American, Japanese or other firms which had entered the Indian market much later - and were certainly more likely to be affected by the FERA regulations and other attacks on 'monopoly power' in the early 1970s.[35]

In conclusion, it is undeniable that Indo-British economic ties weakened between 1950 and 1970, reflecting a mutual disengagement of bilateral relations, especially on the British side. In part this was a reflection of the problems of British competitiveness in new activities in India, and of the weak stimulus provided by official policy, especially in the provision of aid. This can fairly be called the 'erosion of a relationship' in the era of decolonisation, but the nature of the imperial economic ties that preceded it needs to be analysed carefully. British firms and other economic institutions did not dominate the Indian economy by right of conquest during the *Raj*: by the 1930s, if not before, economic disengagement was already taking place as a result of changes in the long-term economic environment and market structures in both India and Britain. Political events played only a small part in this process. The question is not 'why did the British dominance of the Indian economy decline after 1950?', but rather 'in what form did it exist before 1947?'.

The middle decades of the twentieth century, from the 1930s to the 1960s, were a transitional phase in Britain's economic relations with India, and in India's place in the modern world system. India's role as a 'colonial' economy, supplying primary products and raw materials to the world in return for imports of manufactures and foreign capital for infrastructure, came to an end during the Great Depression of 1929-33; for the next forty years or so the expanding sectors of the Indian economy were those that manufactured consumer and producer goods for the domestic sector. The shortfalls in food supply and industrial imports that resulted were met by drawing down external balances (so long as the sterling credits built up in 1939-45 lasted), by aid receipts, and by attracting private foreign investment from manufacturing firms. Britain remained an important source of such aid and investment during the 1950s thanks to the sterling balances, the Commonwealth link and the pioneering activities of British-based MNEs. By the late 1950s, however, India's aid requirements were much greater than Britain could or would supply, while other donors - notably the United States and the Soviet Union - began to take a geo-political interest in South Asia. In the late 1960s the ISI-based industrial sector began to falter, and the scope for expansion of private-sector subsidiary manufacturing companies was limited. In the new economic circumstances of the 1970s, established British economic interests in India found it hard to adapt, and new British entrants were constrained by the threats and opportunities they faced elsewhere in the world. By the mid 1970s, at the latest, the special economic relationship between Britain and India based on old colonial ties, or on the institutional links of the post-colonial honeymoon of the 1950s and 1960s, was at an end - but as much because of changes in India as because of changes in Britain.

Appendix 1:

Table 1
Estimates of total British long-term private business investment in India, excluding banking and insurance, 1921-60 (in Rs crores)

	1921	%	**1938**	%	**1948**	%	**1960**	%
Plantations	26.16	*13*	40.07	*17*	40.00	*24*	77.60[a]	*18*
Oil	13.29	*6*	27.04	*11*	17.90	*11*	116.90	*26*
Utilities and transport	55.30	*27*	53.42	*23*	25.30	*15*	32.80	*7*
Mining	25.70	*13*	21.00	*9*	9.20	*6*	10.40	*2*
Manufacturing	25.71[b]	*12*	25.06[b]	*11*	56.90	*35*	143.70	*35*
Miscellaneous [c]	57.87	*28*	68.14	*29*	14.20	*9*	19.70	*4*
Trading	-	-	-	-	34.70	*21*	23.60	*5*
Financial	-	-	-	-	5.50	*4*	17.50	*4*
TOTAL	**203.53**		**235.08**		**203.70**		**441.70**	

a revalued in the 1950s.
b jute, cotton, sugar and engineering only.
c includes trading and financial investments before 1948
Figures for 1921 and 1938 are for whole sub-continent (excluding Burma); figures for 1948 and 1960 are for Indian Union only.
The Reserve Bank of India, *Census of India's Foreign Liabilities and Assets 30.6.48* gives a total figure of British private business investment of Rs 230.14 crores; this includes banking, insurance and short-term investment. Total foreign private business investment was Rs 243.49 crores in 1921, Rs 303.18 crores in 1938, Rs 255.80 crores in 1948 and Rs 566.40 crores in 1960.
Sources: Calculated from data in A. K. Banerji, *India's Balance of Payments 1921-2 to 1938-9* (London, 1963), pp. 171, 175; Reserve Bank of India, *Bulletin* (October 1962), p. 1542.

1 This analysis dates back to the sturdy classics of Indian economic nationalism, such as Dadabhai Naoroji, *Poverty and Un-British Rule* (London, 1901) and Romesh Chandra Dutt, *India in the Victorian Age* (London, 1904).

2 Michael Lipton and John Firn, *The Erosion of a Relationship: Britain and India since 1960* (Royal Institute of International Affairs, London, 1975).

3 Total British aid to LDCs fell by 10% in real terms between 1961 and 1970: India remained Britain's main client for official aid during the 1960s, but the amount of such aid was static from 1960 to 1965, and rose less than that of other major donors from 1966 to 1971 [Lipton & Firn, *Erosion of a Relationship*, Table 7.12.

4 Most of British aid was single-tied (required to be spent on British goods, but not on specific British goods), whereas most aid from other governments was project-based or double-tied, which had a greater stimulus on exports. In 1965-7 British aid to India directly generated only half its value in exports, while US and Japanese aid directly generated 70% of its value in exports. [Lipton & Firn, *Erosion of a Relationship*, Table 7.27]. Lipton and Firn also suggest that the relatively small quantity of British aid sent to India was partly the result of a failure of political will - and that Britain (and the rest of the West) *ought* to have built close ties to a relatively pluralist and fairly democratic India for moral rather than political reasons. There is also a sub-text here about Britain's abandonment of her Commonwealth ties in favour of closer links to the European Community.

5 R.A. Batchelor *et al.*, *Industrialisation and the Basis for Trade* (Cambridge, 1980), Table A.1.

6 S.N.Anwar, *The European Community and Indo-British Trade Relations,* (Aldershot, 1983) Table 5.1.

7 Reserve Bank of India, *Census of India's Foreign Liabilities and Assets as on 30th June,* 1948 (Bombay, 1950) and *Foreign Collaboration in Indian Industry - Survey Report* (Bombay, 1968); also, Anwar, *Indo-British Trade Relations,* Table 5.5.

8 The United States provided Rs. 20.5 million (plus PL480 food aid), the Soviet Union Rs. 8.4 million (plus various barter deals), and the multilateral Aid to India consortium headed by the World Bank Rs 11.9 million. [Lipton & Firn, *Erosion of a Relationship*, Table 7.15].

9 On India's sterling balances, see B.R. Tomlinson, 'Indo-British Relations in the Post-Colonial Era: The Sterling Balances Negotiations, 1946-49', *Journal of Imperial and Commonwealth History* XIII (1985); for the wider picture, see Allister Hinds, 'Sterling and Imperial Policy, 1945-51', *Journal of Imperial and Commonwealth History* XV (1987). On the subsequent history of the sterling area, see J.D.B. Miller, *Survey of Commonwealth Affairs: Problems of Expansion and Attrition, 1953-1969* (London, 1974), Ch.12.

10 On the relationship between political influence, business activity and the pattern of British exports to India, see B.R. Tomlinson, 'Imperial Power and Foreign Trade: Britain and India, 1900-1970', in Peter Mathias and John Davis (eds.,) *The Nature of Industrialization:* I*nternational Trade and Economic Growth: From the Eighteenth Century to the Present Day* (Oxford, 1996).

11 Lipton & Firn, *Erosion of a Relationship*, Ch.11.

12 On Indian economic policy in the late 1940s and 1950s, see A.H. Hanson, *The Process of Planning: A Study of India's Five Year Plans, 1950*-1964 (Oxford, 1966); Jagdish N. Bhagwati and Padma Desai, *India: Planning for Industrialization - Industrialization and Trade Policies since 1951* (Oxford, 1970); B.R. Tomlinson, 'Historical Roots of Economic Policy', in Subroto Roy and William E. James (eds.), *Foundations of India's Political Economy: Towards an Agenda for the 1990s* (New Delhi, 1992).

13 The sterling balances were credits that Indian government had accumulated by defence expenditure on Britain's behalf between 1939 and 1945. Most of these balances were non-convertible, which increased India's dependence on British sources of supply.

14 On licensing policy and the issue of 'monopoly power', see Government of India, *Report of the Monopolies Enquiry Committee* [Hazari Committee] (New Delhi, 1965) and *Report of the Industrial Licensing Policy Inquiry Committee: Main Report* [Dutt Committee] (New Delhi, 1969).

15 On the FERA regulations and their impact, see A. Dasgupta & N. Sengupta, *Government and Business in India*, rev. edn. (Calcutta, 1981) Ch. 9. As we will see, it is likely that these regulations, in practice, penalised British firms more than others.

16 Anwar, *Indo-British Trade Relations.*

17 B.I.Cohen , 'The Stagnation of Indian Exports, 1951-61', *Quarterly Journal of Economics,* 78, 4 (1964).

18 Typical works in this *genre* are Susan Strange, *Sterling and British Policy: A Political Study of a Currency in Decline* (London, 1971), Andrew Shonfield, *British Economic Policy since the War* (London, 1958); Fred Hirsh, *The Pound Sterling: a Polemic* (London, 1965).

19 P.J. Cain & A.G. Hopkins, *British Imperialism: Crisis and Deconstruction, 1914-1990* (London, 1993).

20 See, for example, Correlli Barnett, *The collapse of British power* (Gloucester, 1984) and Andrew Roberts, *Eminent Churchillians* (London, 1994). It is fair to say that much of this analysis is concerned with a political desire to identify the short-comings of the pre-Thatcher liberal establishment, and to attack the inevitability of Britain's integration into the European Union. It contains little economic analysis, and has not influenced many economic historians.

21 Except possibly over the issue of US attempts to use food aid to influence economic liberalisation in the mid 1960s: on this episode, see Francine R. Frankel, *India's Political Economy, 1947-1977: The Gradual Revolution* (Princeton, 1978) pp.285ff.

22 Ayesha Jalal, *The state of martial rule: the origins of Pakistan's political economy of defence* (Cambridge, 1990).

23 Lipton & Firn, *Erosion of a Relationship*, page 1.

24 The need to maintain the fiscal and financial security of the colonial state lay at the heart of India's 'imperial commitment' during this period. See B.R. Tomlinson, *The Political Economy of the Raj, 1900-1947: the economics of decolonisation in India* (London, 1979), especially Ch.4.

25 Tomlinson, *Political Economy of the Raj*, esp. Chs 1 & 2.

26 On these negotiations and their implications, see Ian M. Drummond, *British Economic Policy and the Empire* (London, 1972) Chapter IV; Basudev Chatterji, 'Business and Politics in the 1930s: Lancashire and the Making of the Indo-British Trade Agreement, *Modern Asian Studies* 15, 1 (1981); D.M.Wagle, 'Imperial Preference and the Indian Steel Industry, 1925-39', *Economic History Review* 34, 1 (1981).

27 See Tomlinson, 'Indo-British Relations in the Post-Colonial Era: The Sterling Balances Negotiations, 1946-49'.

28 Quoted in Ronald Hyam (ed.), *British Documents on the End of Empire Series A Volume 2, The Labour Government and the End of Empire 1945-51 Part 2* (London, 1992) page 169.

29 Raymond W. Goldsmith, *The Financial Development of India, 1860-1977* (New Haven, 1983), page 78.

30 B.R. Tomlinson, 'British business in India, 1860-1970', in R.P.T. Davenport-Hines and Geoffrey Jones (eds.), *British Business in Asia since 1860* (Cambridge, 1989), page 101, Table 4.1.

31 S.A. Kochanek, *Business and Politics in India* (Berkeley, 1974).

32 Tomlinson, 'British business in India', Table 4.2.

33 Lipton & Firn, *Erosion of a Relationship*, Table 6.5.

34 Most joint-ventures were the result of business decisions, not of government pressure See J.W.C. Tomlinson, *The Joint-Venture Process in International Business: India and Pakistan* (London, 1970) esp. pp. 26-7. For some case-studies

of the history of British MNEs in India, see B.R.Tomlinson, 'Continuities and Discontinuities in Indo-British Economic Relations: British Multinational Corporations in India, 1920-1970', in Wolfgang J. Mommsen & Jurgen Osterhammel (eds.), *Imperialism and After: Continuities and* Discontinuities (London, 1986).

35 On the history of foreign investment in India in this period, see Michael Kidron, *Foreign Investment in India* (London, 1965); K.M. Kurian, *Impact of Foreign Investment on the Indian Economy* (New Delhi, 1966); Deepak Lal, *Appraising Foreign Investment in Developing Countries* (London, 1975); Sanjaya Lal, 'India', in John Dunning (ed.), *Multinational Enterprises, Economic Structure and Internal Competitiveness* (Chichester, 1985); Tomlinson, 'British Multinational Corporations in India, 1920-1970' and 'British business in India, 1860-1970'.