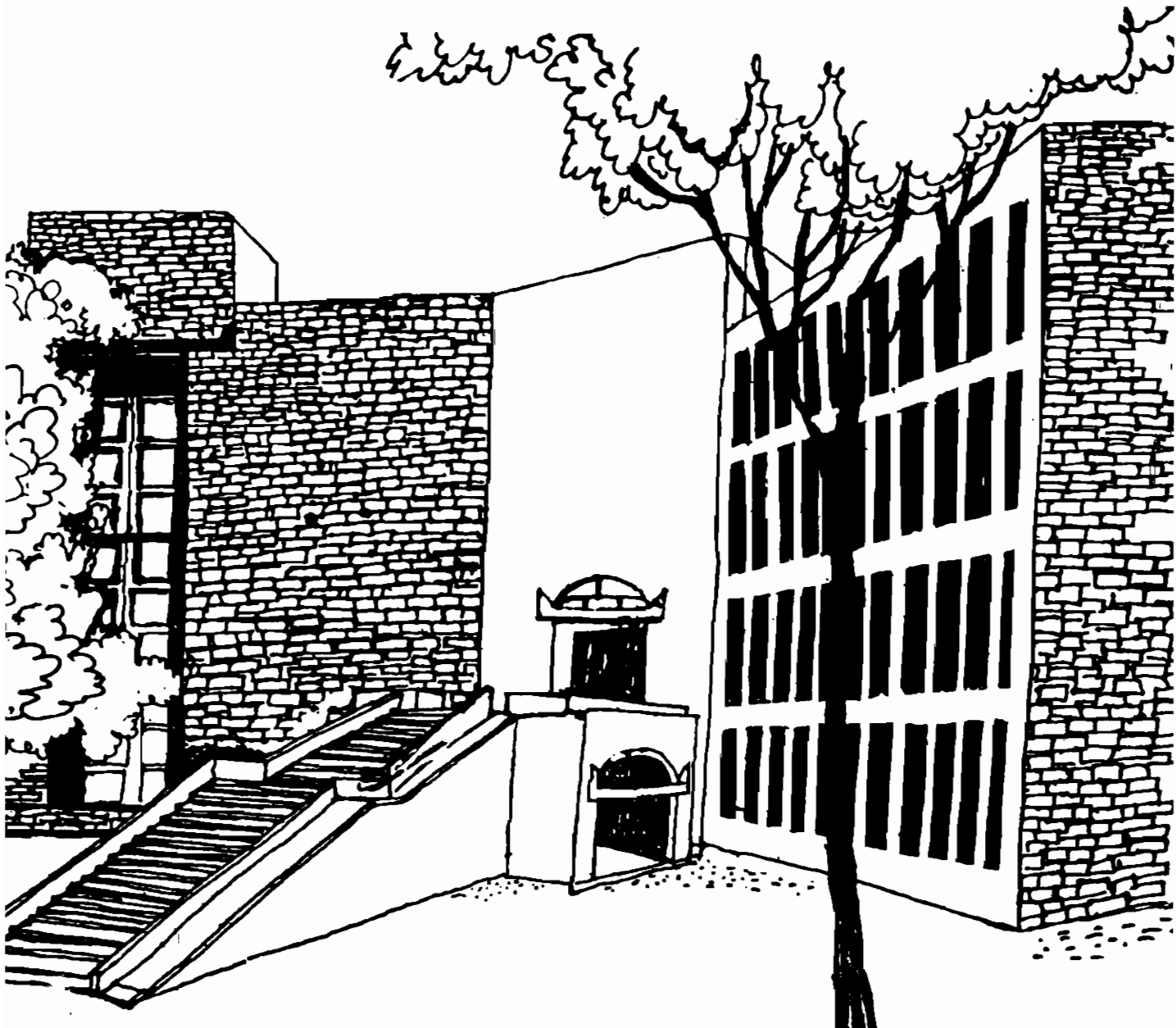




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Working Paper




INTERNATIONAL TRADE AND THE POLITICAL
ECONOMY OF STATE FORMATION IN SOUTH ASIA:
A LONG WAVE

By

Sanjay P. Thakur
(Fellow)

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Abstract

INTERNATIONAL TRADE AND THE POLITICAL ECONOMY OF STATE FORMATION IN SOUTH ASIA : A LONG WAVE ?

Sanjay P Thakur

The emerging contours of a borderless world are becoming visible in the last decade of the 20th century. The domain of the state is being redefined in the economic life of nations, and in the relations between them. In this context, it is observed that a broad sweep of nearly 2,000 years of South Asian history reveals a fascinating correlation between periods of flourishing long distance international trade and large scale state formation processes over the Indian subcontinent. There appear to be historical long waves of state formation activity.

The model presented in this essay situates the political economy of large scale state formation in South Asia within a geographical context. The narrative is taken up from the decline of empire in the ancient phase of Indian history. South Asian civilisation has essentially been nurtured in "nuclear core areas" of economic and cultural activity around the major riverine plains and their delta regions. Land revenue appropriation by itself could not form a sufficient basis to support a State structure from the originating core on a sub-continental scale. This required an expanding frontier in the shape of cash revenue earned from flourishing long distance trade and/or plunder.

The explanatory power of the model is revealed in an analysis of the political vicissitudes of attempts at large scale state formation in the three centuries prior to the advent of the Mughal Empire. The advent of this large scale state system coincided, not surprisingly, with the revival of trade. The crisis and breakdown of the Mughal State, c. 1700 and after, occurred in a period of increasingly strong presence of the European East India Companies in the foreign trade sector of the South Asian Economy. Even the earliest of these trading companies, the Portugese East India Company, began operating as a "redistributive mechanism", instead of as a purely trading concern alone creating models of mini-states. The European companies first captured the Intra-Asian trade. The subsequent struggle over trade revenue between the smaller successor states of the Mughals and the European East India Companies illustrates well, at the micro-level, the hypothesis under view.

Large scale state formation through the agency of the British Colonial Empire in India is not unconnected with the presence of the East India Company, from the outset and primarily, in the foreign trade sector of the South Asian economy. By the second half of the 19th century, the foreign trade sector of India's economy was well integrated with the world economy. The sustenance for empire derived from India's commodity exports. By virtue of India's balance of trade surplus, in fact, the British Colonial Empire could be sustained, despite Britain's adverse balance of trade with the rest of the world.

Pushing the logic of the model to the current scene, the paper points out that the crisis of the Union Government of India at present, is in fact that the State is unable to meet its developmental expenditure through the revenue generated by the administrative apparatus. The interest cost of the Indian state is high by any reckoning. In fact, revenue deficit is the primary cause of anxiety with regard to macro-economic stability. The political economy of large-scale state formation in India and its sustenance continues to depend on an "expanding frontier" as it were, of external revenue for the state, in the form of export earnings or external borrowings/ investments. Historical researchers, as well as analysts of India's "growing crisis of governability" would do well to keep in view the model suggested here.

INTERNATIONAL TRADE AND THE POLITICAL ECONOMY OF STATE FORMATION IN SOUTH ASIA : A LONG WAVE ?

Sanjay P Thakur

The emerging contours of a borderless world are becoming visible in the last decade of the 20th century. This is posing complex questions regarding the domain of the state in the economic life of nations. This marked historical flux has been induced by unprecedented high levels of mobility of capital, technology, information and to a lesser extent, human resources. This, in fact, combined with the decreasing capacity of patriotic considerations to influence either consumer preference or location choice of producers, is re-defining the role of the state in economic relations between nations and sub-national regions as well. In this context, the present paper observes that an examination of a broad sweep of nearly 2,000 years of South Asian history reveals a fascinating correlation between periods of flourishing long distance international trade and large scale state formation processes over the Indian subcontinent. There appear to be historical long waves of state formation activity.

The break down of empire towards the end of the ancient phase of South Asian history is conventionally explained in terms of the decline of long distance trade. This trade was mainly with the Roman empire as is well documented in the ancient texts and corroborated by archaeological findings. The medieval phase of South-Asian history was marked by the emergence of a "self-sufficient village economy" and small warring fiefdoms - the so called

"dark ages" c.500 A.D. - 1200 A.D¹. Meanwhile, continuing trade between the southern part of the Indian sub-continent and South-East Asia did support flourishing States in peninsular India². South India was a mid-point in the trade between the Middle East and South East Asia, including China. This did not however support state formation on a sub-continental scale.

Abortive attempts at state formation on a large scale c.1200 - 1500 A.D. have been explained mainly in terms of political vicissitudes. There is some descriptive reference in the literature to economic aspects but no integrated view taking into account the absence of long distance trade. The emergence of empire on a sub-continental scale, c.1500 A.D.-1700 A.D. has been explained predominantly in terms of political and administrative initiatives of the founders. Analysis of the economic aspects in the conventional literature has focused largely on the reorganisation of land revenue systems. In recent years, there has been substantial interest in and documentation of empirical data regarding the revival of long distance trade with renaissance Europe, c. 1500-1700 A.D. The finer details of the elements of continuity are being sifted from those marking departures. There is an awareness of multidimensional temporal and spatial perspectives³. The Indian Ocean region for example, is being seen as an unit of analysis. Transitory historical periods are also being seen, at the micro level, as eras in themselves. The non-formal 'bazar' economy is being probed and the pieces of the puzzle are assuming some shape. Though the research mission even now remains primarily

¹ R.S. Sharma, *Indian Fedualism: c.300-1200* (Calcutta, 1965)

² K.A. Nilakanta Sastri, *A History of South India* (Madras, 1958)

³ See for example, the recent writings of Sanjay Subrahmanyam, C.A. Bayly and Rajat K. Ray

a fact-finding one, an integrated view with a macro-historical perspective continues to elude the historians.

The model alluded to in this essay situates the political economy of large scale state formation in South Asia within a geographical context. South Asian civilization has essentially been nurtured in "nuclear core areas" of economic and cultural activity around the major riverine plains and their delta regions⁴. These civilizational cores or nodes are interspersed by inhospitable non-revenue generating regions. Extending the lines of administrative and political control from one core area, across non-revenue generating regions, to another core area has always posed serious problems, throughout history. This is clearly indicated by historical evidence. Even the Mughal Empire at its height struggled to control peninsular India. The last towering emperor Aurangzeb spent decades trying to consolidate administration in the Deccan, having to capture and recapture forts through bribes and treachery.

Land revenue appropriation by itself could not form a sufficient basis to support a State structure from the originating core on a sub-continental scale. That is to say, the cost of maintaining a State apparatus on a large scale could not be met by the revenue generated. This required an expanding frontier in the shape of cash revenue earned from flourishing long distance trade and/or plunder. Essentially, sources of revenue originating outside the

⁴ Coinage of phrase "nuclear core" owed to Morris D. Morris at a Delhi School of Economics seminar, circa 1982-83. The concept has been mooted by Burton Stein too: see chapters on South India and Vijayanagar in T. Raychaudhuri & I. Habib (ed.), *The Cambridge Economic History of India*, Volume 1 (Cambridge, 1982). See also, Burton Stein, *Peasant State and Society in Medieval South India* (New Delhi, 1980).

administrative and political boundaries of the State, appear to have been critical in the process.

To take up the narrative from c.1200 A.D., the efforts at large scale state formation in South Asia resumed with the Turkish conquest. The northern part of the sub-continent came under the sway of the "Delhi Sultanate", c.1200-1500. This relatively large-scale state was characterized by a succession of invader/usurper ethnic monarchs. These rulers could neither establish a stable dynasty nor a monarchy that could be beyond the reach of ambitious warlords belonging to competing ethnic factions. Consolidators among these Sultans were the ones who effectively managed a balance of different factions of the nobility. Each usurper would bring to power a new group, loyal to himself, as a check on the earlier in-group. Centralized monarchy of course depended on a standing army. This in turn required a sound economic basis of support for the State rather than a balance of terror with and amongst a host of warlords/tributaries.

One Sultan, Allauddin Khalji (1216-1316), did attempt to give the State an independent economic basis for power. There were efforts at enhancing and systematizing land revenue appropriation as well as attempts to regulate markets and prices of certain commodities. More significantly however, Khalji launched a series of plundering southern invasions, across the boundaries of the Delhi Sultanate, into the heart of peninsular South Asia. He extracted tribute, consisting mainly of accumulated hoards of treasure from previous centuries of international trade, from the local rulers. Khalji however, was wise enough not to try and extend the administrative boundaries of the Delhi Sultanate.

The subservience of the local rulers was of course shortlived. Sultan Allauddin's ambitious successors however, committed the error of expanding the administrative boundaries of the State to include peninsular South Asia. This was without appreciating the implications of this expansion for the political economy of governability, in the absence of significant long distance trade. Upheaval and a change of dynasty could not be unexpected under such circumstances.

Heroic efforts to grapple with the management of a large scale State in the absence of significant long distance trade are well documented. The tragic vision of Muhammad Bin Tuglaq (1325-1351), one of the illustrious Sultans of the succeeding dynasty, included abortive attempts to transfer the capital from Delhi to peninsular South India, floating an artificial token currency, setting up a department for irrigation and agricultural improvement, extending political relations with the Khalifa of Egypt. The collapse came when the Sultan's own administration, unable to exert any lasting coercion over locally dominant groups and hard-pressed by the Sultan himself, rose up in arms all over the Sultanate with several provinces declaring independence.

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Vasco-Da-Gama reached India in 1496. Long distance overland trade with Europe through the Levant had however resumed somewhat earlier, following the rediscovery of the goods of the East during the medieval Crusades. The "voyages of discovery" in search of a sea route to the East were in fact inspired by the prosperity of the merchant cities of renaissance Italy, based on this very long distance trade. Correlating this development with the re-emergence of large scale State formation processes in South Asia, c.1500 onwards however, appears not to have stimulated the curiosity of the historians. Though there is

awareness that the inflow of new world silver and bullion helped monetization of the Mughal economy. In the absence of a macro-historical view however, this awareness is also submerged by the pre-occupation with land revenue administration⁵.

The political inception of the Mughal Empire interestingly commenced from the western part of the sub-continent. The coastal province of Gujarat, a nerve-centre of the trade nexus, was among the earliest to be conquered and incorporated into the emerging Mughal Empire. Administrative initiatives such as the creation of a transferable cadre of noblemen/administrators, reorganisation of land revenue systems, standardization of weights and measures, a uniform currency, etc. no doubt played a vital role. In the absence of a long view, one would tend to treat these indices of political consolidation as the conditional factors for the re-emergence of commercial activity. On a larger canvas however, it is the revival of long distance trade that appears to have created the conditions for large-scale State formation processes to emerge. The coastal provinces of Gujarat and Bengal continued to be the highest contributors to the coffers of the 'high' Mughal State throughout the two centuries of its existence.

It is not surprising that the crisis and breakdown of the Mughal State, c.1700 and after, occurred in a period of increasingly strong presence of the European East India Companies in the foreign trade sector of the South Asian Economy. It is to be noted, that even the earliest of these trading companies, the Portugese East India Company, began operating as a "redistributive mechanism", instead of as a purely trading concern alone. The Estado da India

⁵ See J.F. Richards, 'Mughal State Finance and the Premodern World Economy', *Comparative Studies in Society and History*, June 1981

began to collect taxes on trade passing through the high seas ("Cartazes") and/or the foothold territories they started to control. These companies were creating models of mini-states, as it were⁶. It is the "skimming-off" of this revenue from trade by the European companies that could be a crucial factor in precipitating the breakdown of the Mughal State. In fact, faced with the problem of paying for the goods imported from India, in the Mercantilist era, the European companies first captured the Intra-Asian trade⁷. This is another aspect glossed over by analysts of the Mughal decline.

The subsequent struggle over trade revenue between the smaller successor states of the Mughals and the European East India Companies illustrates well, at the micro-level, the hypothesis under view. The provincial rulers of the post-Mughal phase, such as the Nawab of Bengal, were usurpers. These provincial governors paid nominal allegiance to the now practically powerless Mughal Emperor. Their hold over landlords/revenue farmers in the provinces was tenuous. The burden of revenue generation would naturally fall on the traders. The English East India Company had obtained an exemption from trade duties through a "firman" from the Mughal Emperor. This was not acceptable to the Nawab of Bengal who was the defacto sovereign⁸. The ineffective Emperor, confined to Delhi and its surrounding villages, still however, carried the stamp of legitimacy, both for the Nawab and the Company.

⁶ See Pamela Nightingale, *Trade and Empire in Western India, 1784-1806* (Cambridge, 1970)

⁷ See K.N. Chaudhuri, *The Trading World of Asia and the English East India Company 1660-1760* (Cambridge, 1978)

⁸ See K K Datta, *Ali Vardi and His Times* (Calcutta, 1963)

The resolution of this struggle of course, led to the colonization of South Asia⁹. Interestingly, the Maratha Empire, a transitory formation between the Mughals and British, had an organised central administration in the 'core' Kingdom. This was supported by plunder and tribute from loose feudatories outside the core Kingdom. Transitory state formations in peninsular India also rode the wave of expanding trade in the absence of a centralising authority¹⁰.

The Mughal State in crisis had of course earlier begun preying on traders in the form of forced loans extracted beyond sustainable limits perhaps, by the last towering Mughal Emperor : Aurangazeb. The subsequent failure of the state to protect trade from Maratha and Central Asian marauders and other rebels accelerated a "flight of capital" to the emerging provincial states¹¹. Indigenous business communities, harassed by the provincial rulers and anticipating perhaps more profitable opportunities under the more commercially oriented European political powers, began to ally with the European Companies. The "banias" even financed the British wars of conquest in India through the "Hundi" system of indigenous bills of exchange.

Large scale state formation through the agency of the British Colonial Empire in India is not unconnected with the presence of the English East India Company, from the outset and

⁹ See Sanjay P Thakur, "Business and Politics in India: A Historical Perspective", *Economic and Political Weekly*, July, 1989

¹⁰ See V. Narayana Rao, D. Shulman & S. Subrahmanyam, *Symbols of Substance, Court and State in Nayaka Period Tamil Nadu* (New Delhi, 1992)

¹¹ See Karen Leonard, "The 'Great Firm' Theory of the Mughal Empire", *Comparative Studies in Society and History*, April 1979

primarily, in the foreign trade sector of the South Asian economy. Apart from land revenue, earnings from opium related commercial activities - mainly its export to China - comprised the financial mainstay of British Colonial India¹².

Table 1

	Public Income	
	1858-59	1870-71
Land Revenue	50.3%	40.1%
Opium	17.1%	15.7%
Customs and Excise	12.1%	10.6%
Salt	7.2%	11.9%
Source: S. Bhattacharya, <i>Financial Foundations of the British Raj: Men and Ideas in the post-mutiny period of reconstruction of Indian Public Finance, 1858-1872</i> (IIAS, Shimla, 1971)		

With the widespread commercialization of agriculture, by the second half of the 19th century, the foreign trade sector of India's economy was well integrated with the world economy. The introduction of modern means of communication and transportation after 1850, no doubt brought a qualitatively new element into the picture. Most certainly from the administrative angle and movement of troops. The sustenance for empire however continued to be derived from India's commodity exports. By virtue of India's balance of trade surplus, in fact, the British Colonial Empire could be sustained, despite Britain's adverse balance of

¹² "Next to land revenue, opium was the most important head of revenue ... opium revenue showed steady progressive increase", S. Bhattacharya, *Financial Foundations of the British Raj* (IIAS, Shimla, 1971)

trade with the rest of the world, as is now well established:

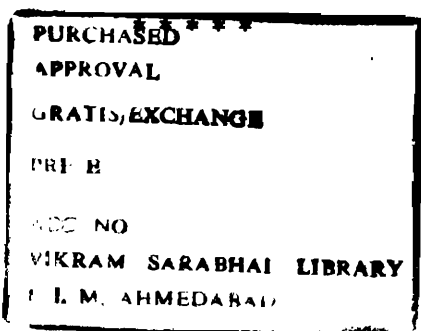
India also played a pivotal role in the days of the international gold standard, 1890-1914, in so far as her merchandise surplus with the rest of the world and her merchandise deficit with England helped England to square her international payments on current account. Besides, the currency reserves of the Indian monetary system provided the Bank of England with substantial "mass de manoeuvre" for its money and foreign exchange market operations in London¹³.

To explain contemporary phenomena in terms of historical continuity, as against an ahistorical functional framework, has its pitfalls. To push the logic of the model being presented here to contemporary India is however not without value. The crisis of the Union Government of India is in fact that the State is unable to meet its developmental expenditure through the revenue generated by the administrative apparatus. Recourse has been taken to deficit financing and foreign borrowings. In the resultant crisis of political economy, the attempted remedies include reduction of government deficit, more external borrowings a thrust on exports and now, foreign direct investments. In fact, it can be argued that the smaller pre-independence states such as Travancore (Kerala) were better off economically, prior to integration with the Union of India. A thriving export trade in spices and other cash crops enabled the beginnings of a public sector infrastructure to be created. After integration, export earnings had to be shared with other, non-exporting areas with the operation of an inter-area subsidy, routed through the federal system. The interest cost of the Indian state is high by any reckoning. The political economy of large-scale state formation in India and its sustenance continues to depend on an "expanding frontier" as it were, of external revenue for

¹³ A.G. Chandavarkar, "Money and Credit 1858-1947" in D. Kumar (ed.), *Cambridge Economic History of India*, Volume 2 (Cambridge, 1982)

the state, in the form of export earnings or external borrowings/ investment, geo-political considerations notwithstanding. Historical researchers, as well as analysts of India's "growing crisis of governability" would do well to keep in view the model suggested here¹⁴.

The basic elements of this model were stumbled upon serendipitously more than a decade ago. Why was it not apparent to the historians is not unrelated to the arbitrary periodization of Indian history into its Ancient, Medieval and Modern phases. Courses in medieval history begin teaching with an ontology, as it were, of the self-sufficient Indian village economy characterized by small principalities vying with each other for petty spoils. Some rectification has taken place in recent years. More attention is now being focused on the transitional phases. The earlier bias of direction has however continued for long. And a shift in research focus has perhaps surfaced only with a lag in the empirical data being documented more recently. While the testing of this model requires much empirical work, an examination of the secondary data could itself be an exercise of considerable proportions. It is hoped that the breadth of the canvas presented here will inspire the economic historians and political economists to fill in the enriching details.



¹⁴ See Atul Kohli, *Democracy and Discontent: India's Crisis of Governability* (Cambridge, 1992)