

7.8 No Mill Is an Island

Take a quick guess. Which city had the first mechanized textile mill in Asia: Osaka, Shanghai, or Bombay? The answer is Bombay, roughly twenty years before Osaka; and by 1914, India had the world's fourth largest cotton textile industry. And where was almost 85 percent of continental Asia's railroad track in 1910? In British India, with the third largest rail network in the world. So when World War I provided a brief respite from Western competition in Asia's markets, and new export opportunities as well, a savvy observer might have figured Bombay was ideally placed to benefit. So why did Osaka achieve major industrial breakthroughs, Shanghai important and lasting gains, and Bombay only a bubble of growth that disappeared once peace returned?

In all three cities, World War I brought a surge in industrial profits; but beyond that Bombay and its Far Eastern counterparts diverged. In Osaka and Shanghai, the capacity of modern mills soared, both during the war and for a couple of years afterward, with enough domestic growth to more than take up the drop in imports. In Bombay, the total number of spindles barely changed during the war, and India's consumption of machine-made cloth dropped over 20 percent.

Perhaps even more important, some Chinese and many Japanese firms took advantage of demand for more textile machinery amid a shortage of imports to start producing this equipment at home; and at least some of these firms survived to become the core of new capital-goods producers. Nothing comparable happened in India. And while the whole world went through a postwar recession, Osaka and Shanghai simply grew more slowly than in 1914–1918; Bombay mills sank back to prewar output levels, and to a market share well below what they had had in 1913.

Why the difference? Some Britishers blamed a lack of entrepreneurial spirit, but that makes little sense. The Bombay mills were, after all, run by the same people who had successfully chased British yarn out of the low end of the market over the previous few decades—not only in India but in East Asia. And India certainly had no shortage of cotton or of willing laborers.

In large part, Bombay's paradox had a simple root—it was part of a colony, not an independent state. For one thing, British-imposed tariff policies had long encouraged Bombay mills to concentrate on production of coarser yarns, aiming at markets elsewhere in Asia, while leaving the more lucrative end of the home market to Manchester; this meant that mills faced tricky adjustments if they were to engage in wartime import-substitution. But Shanghai and Osaka mills managed precisely this transition. The ways in which colonial status hobbled Bombay most become clear if we look at the downside of

what at first seem like advantages: in particular, at how India got its precocious rail network and at the absence of precocious and uncompetitive heavy industries like those built for the militaries of China and Japan.

On the one hand, British rule had helped the country get a huge rail grid well before the volume of commercial freight would have made it profitable to build one, in part because the British wanted to be able to move their troops around quickly. (In China, which remained independent but suffered many foreign interventions, the same concern worked the other way: rail construction was often resisted by Chinese who saw in it a way that foreigners could make a few troops go a long way.)

But the same colonial relationship allowed Britain to insist that all the railroad equipment, engineers, and steel be imported from Britain: indeed, providing this outlet for British capital goods (and investors) had been another central reason for pushing rail construction. But since everything was imported, this massive construction did little to nurture Indian ironworks or machine shops that might have later filled Bombay's orders for modern spinning or weaving equipment.

Second, as a colony, India never built government-subsidized arsenals, or allied facilities like coal mines and steel mills, as part of a program of defense-oriented industrialization; both Japan and China did. A quick accounting might suggest that this was to India's advantage: the arsenals were expensive, and even Japan's iron and steel industries were not internationally competitive until after World War II. (China's still aren't.) But these seeming white elephants paid huge dividends for China and Japan in 1914–1918. While a shortage of Western-made capital goods was proving to be a big bottleneck in Bombay, machinists, mechanics, and others originally trained in China and Japan's arsenals were turning their attention to the needs of Shanghai and Osaka's textile mills, match factories, and other light industries; and while domestic steel for these machines may have been pricey, at least it existed. (Meanwhile, Japan's military industries also paid for themselves another way, extracting valuable land and cash indemnities from the country's neighbors—until this led to disaster in the 1940s.) And while foreign competition was gone, even fairly high-cost production yielded profits that could be invested in better techniques to try and hold market share after the war: Shanghai industrial *investment* actually peaked in 1918–1923, while competition was intensifying. Bombay mills, which had added more workers but not more plant during the war, simply cut their work force (and its wages) when imported yarn and cloth returned. These were perfectly rational decisions for each individual mill owner to make, but collectively they signaled a huge opportunity lost for industrial leadership—one that, thus far, has not come again.