MANAGING POLITICAL RISK: GERMAN AND U.S.
COMPANIES IN INDIA, 1880–1970

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India was a popular target country for international merchants during the era of British rule, the Raj (1858–1947), and was deeply enmeshed in the global trading system. Prior to the Raj, the British East India Company had controlled foreign trade in India. It inhibited indigenous business but also initiated many infrastructure projects. The imposition of Anglo-Saxon property law ensured a more or less open field for Western businesses seeking to import manufactured goods to India or to export raw materials from there. While there is no doubt that British businesspeople were certainly the most deeply engaged, they were not alone in having an economic interest in India.

This project departs from the previous literature by focusing on German and American companies in India and their problems with political risk. Based on corporate and government files, the project compares how German and American companies in the period from the 1880s to the 1970s dealt with political risk, i.e. risk based upon the nationality – or perceived nationality – of a firm or product. It shows how thinking in nationally defined categories not only shaped policies starting in the late nineteenth century but also forced companies to rethink their strategies and to respond to nationally motivated consumption patterns. My project tracks the responses to political risk in India from German and American firms in four export-oriented industries: machine tools, chemicals, beverages, and recorded music.

Managing political risk was a relatively new challenge for Western companies in India at the turn of the twentieth century. When they first began making direct investments on a substantial scale during the late nineteenth century, by far the greatest challenge had been to overcome physical distance and infrastructure problems. My project will show how nationalism became established on the agenda of internationally active firms as receptivity to foreign firms in India waned.

Beginning in 1903, the early Indian Swadeshi (“from one’s own country”) movement in Bengal heavily criticized the influence of
foreign firms and lobbied Indian consumers to buy indigenously manufactured rather than imported products. This nationalistic argument touched off a long running debate about the categories “Indian” and “foreign” that, in hindsight, demonstrates how artificial and malleable those categories were. Comparing British firms with their German and American competitors shows that “foreign” could mean “non-British,” “Western,” or “non-Indian.” Loosely tied to the provenance of raw materials, labor, management, and capital, foreignness was not a fixed or absolute category but could, rather, vary in kind and degree.

After the outbreak of World War I, nationalistic competition and political risk reached a new level of importance when German companies found their corporate assets in India seized as “enemy property” and American, Japanese and indigenous competitors fought to increase their market shares at the Germans’ expense. During the interwar years, the spread of nationalism both in India and in the Western countries posed new problems for German and American firms. The onset of the Great Depression in 1929 triggered the imposition of tariffs and the creation of nationalistic trade zones, including the zone of “imperial preference” within the British Empire established in 1932. During World War II, German firms were once again faced with the expropriation of their assets in India.

With India’s independence in 1947, a new era of political risk opened as foreign firms faced the prospect of increasing state intervention and regulation as well as of the nationalization of certain industries. The Foreign Exchange Regulation Act of 1974 greatly restricted foreign firms’ ability to act, not least by stipulating that they could own at most a 40-percent equity stake in their Indian subsidiaries.

My project explores how German and American businesses responded to this diverse set of political risks in India. It describes similarities and differences in German and American strategies and situates them within the economic and political contexts. Some of the corporate strategies I will analyze are the creation of strong local identities, cooperation with native elites, the manipulation or temporary cloaking of nationality, and divestment from India altogether. This project shows that the management of political risk became a central concern for Western firms in India and, further, that many of the political risk strategies developed during the century I examine continue to shape the Indian business landscape and corporate decisions to this day.