

Can disruptions to trade reshape industrial policymaking? If so, what role do connections between economic and political elites play in this? To answer these questions, we examine the impact of World War I trade disruptions on firm profits and political connections over the period 1905-65 in India. Our empirical strategy uses a triple-differences in difference event study design exploiting exogenous variation in temporary protection across firms spanning various industries and districts over time. We find that firms in industries and locations more exposed to a drop in import competition reaped large excess profits in the period 1914-21 with profits returning to pre-war levels thereafter. However, the directors of the firms that reaped excess profits formed lasting connections with the pro-independence movement led by the Indian National Congress (INC). After independence, these connections paid off as profits of connected firms rose after the INC took political power and initiated a more protectionist regime. Our proposed mechanism for this is that politically connected firms received more import licenses that they then used to get key inputs that provided them with valuable markups. Our findings suggest that political capture by industrial interest groups contributed to the broader failure of import substitution policies in India.