UNIT 26 MERCHANTS AND MARKETS: 1757-1857

Structure

26.1 INTRODUCTION

The period between the British subjugation of Bengal in 1757 and the transfer of power in 1947 saw a dramatic transformation of the Indian economy. From being at the center of the Indian Ocean trading system as the principal provider of textiles, finished goods and a variety of spices, India slipped to the rank of one of the poorest country in the world. Paradoxically, this transformation was accompanied by the extension of market economy and the rise of a modern economy based on machinery and wage labour. The complexity of India's economic experience in the two centuries under review is generally and legitimately understood to have been embedded in the structure of political and economic relations described as 'colonialism' coming in the aftermath of the British subjugation of the subcontinent in course of the eighteenth century. The present Unit intends to plot the story of India's economic transformation in two phases – between 1757 and 1857 when the colonial regime was cobbled together largely under the initiative of the English East India Company and the century following the assumption of India's sovereignty by the British Crown. The second phase, the theme of the next Unit, saw the greater integration of India into the world system of trade and exchange and the beginning of modern industrialization in the subcontinent. We will, in this Unit focus on the non-agrarian sector of India's economy – on the dynamics of indigenous merchant society and market networks as these came directly under the impact of the new structures of economic relations that the ascendancy of the English East India Company introduced.

26.2 THE BACKGROUND: AN OVERVIEW OF INDIA'S TRADING ECONOMY IN THE SEVENTEENTH AND EARLY EIGHTEENTH CENTURIES

Historical scholarship in the last three decades has substantially enhanced our understanding of the Indian trading economy in the early modern period. The range of India's commercial networks and the vitality of the Indian trading community is a fairly well established fact. No longer is Indian trade seen as being socially marginal or irrelevant or the Indian trader as some kind of insignificant peddler of the Van Leur (see Unit 21 for details) variety. The overseas trade of the subcontinent was of impressive proportions dealing with both the exotic and the ordinary and solidly grounded on a lively internal market structure, which was supported by a network of integrated commercial institutions as well as by links to the political and administrative establishments. India's overseas trade was characterized primarily by the export of textiles and a range of manufactured products and spices and the import of bullion. The centrality of merchants and markets in the working of India's economy leaves little room for doubt or ambiguity about the nature, scale or indeed, levels of development of the Indian economy in comparison with the economies of Western Europe. The Indian trader was not simply a peddler engaged in small, countless retail transactions in fragmented and volatile markets subject to chronic fluctuations. The location of the subcontinent in the trading system of the Indian Ocean combined with the advantages of India's manufacturing potential that enabled her to place at the world market textiles at competitive prices, facilitated the development of a complex trading structure that was impressive in volume and value.

26.2.1 Rurban Trade

The seventeenth century constituted the golden years of India's maritime trade. This was largely the outcome of the stabilization of Mughal power in the subcontinent and the consolidation of the Islamicate in West Asia. Both these sets of political developments were instrumental in integrating the trading system of the Indian Ocean giving it a pan Indian Ocean dimension and thereby producing an intricate network of commercial exchanges and movement of peoples and produce. As the chief supplier of textiles, India commanded a special place in the network exporting a huge range of goods and importing in return a substantial volume of bullion. These bullion imports fed directly into the Mughal mints that turned it over into the regnal coin, which was the principal instrument for both revenue payments as well as commercial transactions. The export trade was integrally connected with the subcontinent's internal trade through the twin mechanisms of bullion inflows and cash revenue payments. As the Mughal state required the cultivators to pay land revenue in cash and not in kind and furthermore in the regnal coin, the pressure to market agricultural production stimulated internal trade and absorbed the imports of specie that entered the stream of exchange. A complex hierarchy of markets emerged to channel the movements of a whole range of goods. Studies on this have suggested that for Northern India, there were three principal types of markets. At the lowest level, rural produce was exchanged in makeshift markets – periodic, temporary structures in large villages while the commodities traded in were mostly necessities of life. Directly above these centers, were regional markets catering to trade again mainly in essentials but the volume of transactions was larger and the markets were fixed rurban centers called *qasbas*. Above the *qasbas*, were large urban centers that directed the trade in high value goods including a vast range of textiles for both elite consumption within the country as well as for overseas markets in the Indian Ocean. Here it may be worthwhile to remember that the staple of the Indian Ocean commerce was medium and coarse quality cloth that was extensively used by the populations of west and south east Asia. Over and above this hierarchy of markets was the long distance trade in grain transported in carts and by peripatetic communities such as the Banjaras. The volume of this trade is not easy to quantify but available clues would suggest that it was large. The Banjaras who organized the transport of foodstuffs by land on pack oxen had in their large camps or *tandas* anything between 12000 and 20000 bullock capable of carrying 1600 to 2700 tons of grain. Movements of grain responded to the needs of marching armies during a campaign and it would seem that in the first half of the eighteenth century, when there was a marked increase in political decentralization, the grain trade actually expanded – a case of a war economy powering the trade in necessities.

26.2.2 Monetisation

The impulse for internal trade and the consolidation of markets (at various levels) was largely the pressure exerted by the re-distributive mechanisms of the Mughal State in the form of a huge revenue assessment and extraction. The emphasis on cash revenue collections and the stimulus for cash crop production, according to Irfan Habib led to increasing monetization of the economy, to stratification in rural society and over time to large-scale peasant immiseration as the poorer of them contracted debts to pay the revenue demand. The idea of the self sufficient and isolated village is no longer seen as tenable for the available evidence indicates quite clearly that exchange of goods was to be found at every level. Notwithstanding the dominance of subsistence production and the one way flow of goods from village to urban center, the coexistence of deficit areas with those of surplus ones and the policy of the State to collect cash revenues generated pressures to sell and thereby stimulate trade and exchange. Over and above this level of exchange, there was the steady development of intra-regional trade that testified to the growing integration of the Indian economy. The profusion of craft production, of textile manufacture inevitably drew upon a wide range of raw materials that were not always locally available. A case in point is the Gujarat, Bengal connection, where raw silk imports from Bengal sustained the silk industry of Ahmedabad.

26.2.3 Urban Centres, Market Places and Production

India's export trade threw its own hierarchy of urban centers and market places. The centrality of textiles in the export trade meant that India's chief port cities were located around an arc of manufacturing and supply centers. The chief ports of seventeenth century maritime India were Surat on the west coast, Hugli and Masulipatam on the east and southeastern seaboards respectively. The export trade as mentioned earlier centered around textiles that commanded flourishing markets through the century in west Asia. The trade of the North European trading companies constituted but one segment in this trade for the bulk of the textile production was absorbed by markets in the Persian Gulf and Southeast Asia. Besides textiles, indigo, saltpeter, sugar and spices were important export items (see Unit 21), the movement of which was adequately supported by the existing infrastructure of roads, communication networks and banking and insurance facilities. Thus an exporting merchant based in Surat could draw on the produce of a wide hinterland extending as far as Lahore and Burhanpur and Dacca. An interlocking system of supply merchants and markets connected the port towns with the manufacturing interior giving rise to a hierarchy of market centers and intermediary merchants who functioned as brokers for the shipper and the export merchant.

While the great towns and port cities functioned as international concourse of merchants engaged in long distance trade, the manufacturing towns in the interior served as market centers where buyers through their agents negotiated with sellers. Export merchants located in port cities contacted general brokers who in turn worked through commodity brokers specializing in the supply of specific items. They in turn worked through under contractors or sub brokers who were directly in touch with manufacturers or artisans. Their access to the producers was contingent upon the existing system of cash advances for production. Here, it is important to remember that for the greater part of the seventeenth and eighteenth centuries, weavers and artisans were price workers and were technically free to turn over their produce to the open market. The actual business of industrial production or of manufacture was organized in some cases by state or nobility sponsored factories or *karkhanas*. For the rest, the manufacture was very much an individual activity and in the case of textile production, arguably the most important line of manufacture, the weaver and his loom constituted the basic unit of production. (see Unit 18) Admittedly, weaving as an economic activity was a caste based occupation with specific groups deploying their traditional skills in claiming a monopoly control over production of specified items. This was especially true of textiles – specific caste groups undertook the business of manufacturing specialized cloth like red silk goods and resisted any attempts by other groups to encroach on their preserve. The weaver was an independent artisan who owned his loom but was dependent on the intermediary merchant for cash advances to buy yarn and other raw materials (commonly known as putting out system). These cash advances became critical in a situation where the poverty of the weaver and his restricted access to markets forced the artisan to commit his produce to the creditor.

A number of important monographs on the weaving industry in the pre colonial and early colonial period have tended to stress the similarities between the putting out system in Europe and the Indian method of textile production that relied on the system of commercial advances. The system was different, for in the Indian case, the advances were almost always in cash and never in raw materials. The weavers needed working capital to buy raw materials and to support themselves during the season of manufacture. As the Committee appointed by the English Company to enquire into the failure of the Surat investment in 1794 commented, it was only through the under contractors that the weavers found regular subsistence 'by acknowledging submission to a people who pay them regularly for their work as it comes from the looms besides occasionally assisting their exigencies and supplying them in sickness'. K.N. Chaudhuri argues that implicit in the system of advances was the idea of a contractual obligation on both sides. Just as the merchant was assured of receiving his supplies on time with a reasonable degree of certainty, the weaver regarded the advance as a deposit on orders. Once the money was delivered to the weavers it created at once a short-term supply monopoly. This meant that if the buyer for some reason did not accept the product they would have to forfeit the deposit. Of course merchants took precautions to minimize this risk but during conditions of rising demand and a responsive market, weavers could often exploit the situation to their advantage. In fact it was precisely on this issue that the English East India Company faced a running battle with the artisans and the intermediary brokers for the rejection of items supplied on grounds of even technical deficiency (mostly measurement) resulted in the weavers selling the rejected goods to other buyers at attractive prices.

26.2.4 Merchant Shipping

The diversity of markets and the overlapping levels of trade found reflection in the Indian entrepreneurial structure that accommodated large wholesale merchants with access to substantial capital assets and warehousing facilities and small retailers who combined peddling with pilgrimage. The hierarchy in India's commercial society was the product of both sociological and functional impulses. Ashin Dasgupta spoke of the dichotomy between the Muslim shippers located on the coast and the Hindu financiers and brokers whose business was largely shore based. Neither of these categories were fixed – the taboo on sea travel for instance did not apply with the same force in the Coromandel, where Hindu merchants invested in shipping and performed physically voyages to southeast Asia. In Surat, Masulipatam and Hugly, the principal ports of maritime India in the seventeenth century, the most affluent group was the ship-owning merchants who operated the business of export and freight. Examples of this category were the Chellabys and Ghafurs in Surat who owned ships, traded on their own account besides letting out cargo space for the region's freight trade. A ship owning merchant generally earned his profits in three ways. He could hire out a ship to more than a single merchant by taking on a cargo of goods on commenda.: the ship owner guaranteed to pay the shippers the value of the goods (principal) and the agreed ratio of the profits unless the goods were not sold for some reason. Alternatively, the ship owner could become a merchant in his own right by borrowing money on bottomry; the ship itself in this case becoming the security for the loan and whatever money was paid after paying the loan and the interest constituted the ship-owner's earnings. Finally the ship-owner could borrow at respondentia – the ship-owner agreed to sell the goods on board as in commenda, returning the value of the loan including the interest but only if the goods arrived safely at their destination. Of course in a single voyage all three procedures could be used as indeed, they were in seventeenth century Surat, where ship-owners reserved a part of the cargo space for their own use. In fact, a large proportion of the profits came from the proceeds of the freight business, which they monopolized. They let out their ships to pick up the season's freight for which there was sizeable demand from among the multitude of the city's small traders – Patani Bohras, Parsis and even Hindu/Bania groups. The latter constituted an important segment in the trading hierarchy – persistent in their commercial pursuits; they could not be driven out of business by rich merchants no matter how influential.

26.2.5 Banias and *Sarrafs*

The shore based Hindu and Jain merchants, often described collectively as Bania who traded on their own account, and performed a variety of inter-dependent commercial functions, occupied the second level in the trading system. These related to the business of brokerage, retail and supply and banking. In the Coromandel, the Chettys – the local commercial caste, combined banking and brokerage with sea trade while in Bengal the supply and banking sectors was shared between local commercial groups and resident merchant groups from Western and Northern India. In addition, there were the Armenians – the most important diasporic group and described by K.N.Chaudhuri (1983) as 'highly skilled arbitrage dealers who developed geographically mobile forms of commerce with an ability to measure risks of overland trade' The banking sector was particularly well articulated in course of the seventeenth century and was in the hands of Hindu groups called *sarrafs*, who financed the production of trade and the marketing of imports. The principal rationale behind the organization of indigenous banking in Mughal India was the overriding need to convert imports of bullion into regnal coins, the only admissible currency for all transactions. *Sarrafs* or moneychangers operated the business of assaying or converting all coins – foreign, old into the coin of the realm and worked in tandem with the Mughal mints whose capacity was stretched particularly during the peak trading season. The mints too were under the control of the *sarrafs* who farmed the minting rights. (for details see Unit 22)

Sarrafs also operated the *hundi*, which perhaps constituted the most important and distinguishing feature of the Indian banking system. Simply put, a *hundi* was a bill of exchange promising payment after a specified period 'usually two months or less' at a particular place and allowing a discount which included interest, insurance charges and cost of transmission. *Hundi*s became in course of the seventeenth century the principal instrument of remittance and the standard form of payment in all commercial transactions. In long distance trade, this form of payment not only met the requirements of an expanding demand for credit, but reduced the risks involved in the physical transfer of money across uncertain frontiers. The *sarrafs* issued and discounted *hundi*s that enjoyed by the end of the seventeenth century extensive circulation not only within the subcontinent but also beyond in the trading ports of the Indian Ocean.

The working of the *hundi*s was as follows. Bankers took the responsibility of transferring funds from one centre to another and would charge for the service an amount, which depended on a number of variables. For instance this would take into account the volume of traffic between the two points in question, the exchange rate between the two points and the *sarrafs* own charges. Broadly speaking *hundi*s were issued and discounted in two ways. The first was to draw money from a sarraf against a promise to pay him in another town where the *hundi* would be presented before the banker's agent. The alternative was to pay cash down to the banker with a promise from the latter that the money would be recovered in the selected destination on presentation of the *hundi*. In the former case, the sarraf's charges were higher since the risk devolved on him was correspondingly higher and because there was a time element involved. The person who drew the money had use of it for a period of time while the *hundi* matured. Between the mid seventeenth and the first quarter of the eighteenth century, the use of *hundi*s grew more complex and pervasive as networks proliferated and became more enmeshed. Major transfers became possible across distant regions and attracted the comment of eighteenth century observers like Muhammed Ali Khan, the author of the *Mirat-i Ahmadi*. "instead of collecting cash", wrote Ali, "the possessor of the *hundi* could give it to one of his own debtors and so free himself from that obligation. Not only this, similarly he may transfer it to another, until it reaches a person against whom the drawee of the *hundi* has claims and who, therefore surrendering to the latter relieves himself of the debt" Thus, in other words, *hundi* had become a form of money which was exchanged against cash at a certain rate. This practice later known as *anth* grew rapidly in the eighteenth century and we shall have occasion to talk about this at a later stage.

The social base of the merchant groups was by and large confined to specific Hindu castes that may for the sake of convenience be described as bania. This was an occupational-cum caste category that included commercial castes, both Hindu and Jain and occasionally Brahmins like the Nagars who in Gujarat had taken to the commercial calling. There were other castes like the Khatris in the Punjab and U.P., the Chettis in the Coromandel all of whom lay claims to some sort of Vaisya status in the caste order. The Muslim merchants, Bohras, who dominated the shipping and export business, were in Gujarat for the most part although there were important Turkish groups as well. In the Coromandel, there were the Chulias or Marakkaiyars, an endogamous body of Tamil speaking Muslim merchants who dominated the trade of the southern Coromandel. Caste and community differences would not appear to have impeded the working of the trading system – the entire structure was predicated on a measure of cooperation. Informal associations, linkages with the ruling power structure and personal friendships were important as mediating influences that on occasion could even deflect the market.

To conclude, one may on the basis of existing work suggest that the non-agrarian sector of the Indian economy had evolved through the sixteenth and seventeenth centuries into a dynamic and integrated system responding to market forces and capable of generating a degree of capital accumulation. Irfan Habib in his classic essay on the 'Potentialities of Capitalist Development in Mughal India', argued that from the point of view of merchant capital, the economy had reached a fairly advanced stage. However, he added the caveat that the credit and banking system, which was arguably the most impressive component of the economy, catered primarily to commerce. There was no provision or indeed predilection for any form of proto industrial investment or experiment or technology. The take off thus was not a foreseeable possibility. Equally significant were the constraints that accompanied the workings of the Mughal revenue system that was intrinsically exploitative and by its very nature bound to break down under the weight of its internal contradictions. Practically no rural market existed for urban crafts and thus when an agrarian crisis developed, it was bound to extend to the entire economy. Capital had failed to develop an independent basis for itself – its fortunes lay with the Mughal ruling class and the system they represented. Thus when the crisis came during the eighteenth century, merchant capital floundered and faced the most serious challenge ever. The high profit margins that the merchants had been used to created a sort of complacency and restricted the possibility of technological innovations. The outcome was disastrous when the twin pillars of political order and a sustainable demand market collapsed in the aftermath of Mughal decline and the growing ascendancy of the English East India Company.

26.3 THE EIGHTEENTH CENTURY CRISIS AND THE PRELUDE TO COLONIALISM

The crisis of the eighteenth century has been in recent years one of the most debated issues in Indian history. Was the century a period of unmitigated decline leading inevitably to the British conquest of Hindustan? Was it a century of large-scale decentralization, when the region came into its own to produce distinct cultural and social formations? Was decentralization coterminous with decline or was that very much the product of a particular reading that was only as valid as an alternative understanding of the same phenomenon? These are questions that have cropped up in course of the debates between nationalists, Marxists and later revisionists and we will have occasion to refer to these when we set out to identify some of the more important developments that characterized the reorganization of markets and merchants networks in course of the eighteenth century. For the moment we shall focus on the actual components in the crisis – in other word locate the changes in the existing political and commercial systems following the decline and collapse of the Mughal Empire in the first half of the century. The regional manifestation of the political crisis was not uniform – Bengal prospered in the first half of the century and grew stronger while Gujarat underwent a serious crisis in terms of political authority and economic stability. And yet given the degree of integration in the Indian Economy, it was only natural that the crisis affected all the regions in one way or the other especially in the sectors of trade and exchange.

26.3.1 The Crisis

What constituted the eighteenth century crisis? Simply expressed, this amounted to the slackening hold of the central authority in Delhi over its provincial governors, the failure of the provincial authorities to extract revenue from local agrarian society and control local magnate influence or quell agrarian revolts, the virtual collapse of communications and networks that hampered the easy movement of goods and credit, the contraction of demand on the part of the Mughal ruling class for manufactured goods and items of trade and the total collapse of all governance. This coincided with the disintegration of Muslim power in west Asia and the steady expansion of European private trade in the Indian Ocean at a time when profits from overseas trade were already under pressure. The result was a series of cataclysmic blows to the overseas trading sector and to the local merchants who faced a two-pronged crisis from about the second decades of the eighteenth century. There were regional variations to this story but none that could offset the consequences of the convergence of Mughal decline and European commercial penetration.

The vulnerability of the Mughal political edifice was apparent even as early as the closing years of the seventeenth century. With the death of Aurangazeb in 1707, the emergence of factional politics in the imperial court, widespread rural disturbances in the regions and the eruption of Maratha raids in Hindustan created an unprecedented situation of insecurity. In Gujarat itself, the premier maritime *suba* (province)of the Mughal Empire, the crisis assumed a complex aspect. The increasing isolation of the region from the hinterland, a direct consequence of Maratha raids compounded with the fissures within the region's political system to produce an extremely volatile situation for local merchants. The contraction of the hinterland deprived Gujarati traders of the markets of Northern and Central India, where their import items were usually marketed. Of greater consequence was the collapse of the administration within the region after 1720 when the incursions of the Marathas and their occupation of the *Athavisi* in 1723. The *Athavisis* was a conglomerate of twenty-eight villages from where Surat had traditionally drawn her revenues. Imperial dictates after 1720 lost their teeth as every Mughal official began to covet the lucrative posts within the administration. In Surat the posts coveted were those of the *Mutasaddi* (incharge of the port) and the *Qiladar* (incharge of the fort) and the Admiralty of the Imperial Fleet. With a collapsing revenue structure, the administration took recourse to a policy of mercantile taxation precisely at a time when profits from trade were flagging, The merchants responded to the crisis by agitating against the city administration but only with limited success.

26.3.2 Rise of European Private Trade

The consequences of these developments on Surat's trade can be easily imagined. The loss of markets in Hindustan together with conditions of instability in West Asia undermined the foundations of Surat's prosperity. As early as 1707, when Gujarati shipping was at its height, the increased volume of Gujarat's exports had glutted markets in the western Indian Ocean so much so that voyages had proved unprofitable. In the following decades, the situation deteriorated even further with the expansion of British private trade. Asian shipping gave way to British private trade as local freighters preferred to invest their cargo on European bottoms in the hope of better protection against the increasing problem of piracy on the high seas. The traditional trading order, which had so far revolved around Surat's preeminence and the leading role of her merchant shippers cracked up in the wake of political insecurity and European competition. Merchant protest proved ineffective for it neither arrested the decline of the city's trade nor the decay in the administrative system. It was, however, instrumental in introducing the English East India Company as a potential protector and political aspirant and in facilitating a new alignment between sections of the city's commercial population and the English East India Company. This in turn became the prelude to early colonial control in the region.

26.3.3 Decline of Indian Ports

The effects of the political crisis were apparent so far as the region's trade and markets were concerned. The value of Surat's export trade dipped from 16 million rupees in 1700 to 6 million in 1740s and never recovered in the decades to follow. The crisis of the export market had its inevitable repercussions on the internal trading and finance structure that had sustained it in the past. The *hundi* network was seriously undermined as merchants and European factors found it increasingly difficult to avail of credit. Interest rates escalated and Surat suffered from a wave of bankruptcies. The contraction of bullion imports affected currency – by the 1760s the problem of debased currency became serious. The Muslim shippers were among the most adversely affected as the competition of European private traders and their increasing political influence in the city cut into their ventures. Bereft of any protection from the state, they failed to put up an effective resistance against the aggression of the English traders who steadily encroached upon the freight trade turning it over into a virtual monopoly by the 1750s.

The decline of Surat was paralleled by the decay of Hugli on the east coast. The old port city made way for the rising English center of Calcutta and British shipping. The ramifications of the Mughal crisis were markedly different in the Bengal *suba*. Here, a succession of competent governors had built up an efficient administration by securing the cooperation of the local elite groups – magnates and bankers who played a vital role in the machinery of revenue management and collection. The benefits of internal security and growth did not, however, insulate the province from the larger effects of the eighteenth century crisis or from the aggressive expansion of English private trade. The decline of west Asian markets did not leave the Asian merchants in Bengal entirely unaffected. Further, the Surat-Bengal trade in raw silk and cotton entered a period of rapid decline especially after 1765 – a development that adversely affected the credit networks. The increasing menace of piracy in the high seas aggravated the situation as more and more merchants preferred to tie their cargo with English country shipping. In Bengal as elsewhere, English private trade edged Asian competition altogether in the sector of export trade and freight. The first half of the eighteenth century also saw a corresponding expansion of European commerce in Bengal bringing in its wake, increasing imports of silver, employment opportunities for supply merchants and weavers with the result that the commercial and banking sector continued to grow and represent a dynamic component in the Bengal economy. However, the displacement of Asian merchants shipping, the rise of Calcutta and the English private traders and the articulation of their aspirations, the fall out of the commercial crisis of Hindustan on Bengal's inter-regional and coastal trade did not bode well as future developments indicated.

Both the intensity and spread of Maratha raids in Hindustan and the revolts of peasant castes like the Jats and Sikhs against Mughal authority in the heartland and the Punjab resulted in a serious agrarian and commercial crisis. Agricultural production suffered while the connecting linkages between agriculture and trade were severely disrupted. The complex grid of markets and communication networks that had supported India's internal and export trade collapsed leading to shortages of production, currency deficit and urban decay. The European Companies in Western India, for instance, commented extensively on the shortage of yarn and other raw materials that weavers faced as a result of the Maratha raids and the abandonment of looms by artisan groups and the existence of famine like conditions. The large scale incidence of Sikh revolts in the Punjab, the Afghan and Rajput uprisings in the Awadh region played havoc with the inter regional traffic in the 1720s resulting in a severe shortage of cash in the Punjab and the Delhi- Agra region.

The phenomenal expansion of English private trade in the Indian Ocean had far reaching effects. Not only did it adversely affect the operations of Indian traders, it fostered a growing tendency among Company officials and private traders to intervene in the regional political set up and manipulate the prevailing disaffection to their advantage. Even before the articulation of such political ambitions became a tangible factor that threatened to alter the existing equations of power, the influence of the English East India Company had become a critical determinant in the realignment of India's overseas trading system. The Company's monopoly control over the freight trade meant that the Muslim shippers were displaced and that their hopes of readjusting to the crisis were slim. At the same time, the growing strength of the Company encouraged local merchants whose interests were not immediately threatened by the Company's activities to contemplate a closer partnership with the Company as a counterpoise to the decaying Mughal administration and to the threats of the Maratha contenders. Collaboration of a sort was thus built into the emerging structure of colonial dominance and served to inflect the process of realignment in India's trading sector.

26.4 EARLY COLONIALISM AND INDIA'S FOREIGN TRADE 1757-1800: TWO CASE STUDIES

The expansion of British private trade in the second and third decades of the eighteenth century emboldened the Company servants to manipulate the existing political set up to their advantage. Without entering into the debate whether the English take over in Bengal was by design or accident, it is important to stress the fact that the Company authorities from about the 1740s strenuously attempted to extend their privileges and were prepared to resist the local administration in the face of any encroachment – real or perceived. In Bengal, these 'privileges' assumed the form of extending the provisions of the Mughal *farman* (royal decree) of 1717 for carrying on duty free trade, to fortifying their trading settlement in Calcutta and even extending protection against fugitives escaping Mughal law. In western India, the focus of Company politics was control over the Imperial Admiralty that would facilitate and formalize the Company's efforts to dominate the shipping in the Indian Ocean and to give Company servants in Bombay and Surat a decided edge over the region's freight trade to the Gulfs of Persia and Arabia. The strategies adopted by the Company towards their political project lay in forging connections with important local groups, potential collaborators against the ruling administration. Assuming the role of protectors and patrons of client groups against the arbitrary Mughal administration, the Company represented their interests with threats of force and succeeded by the late 1750s in building a viable support base for their ventures. The strategies produced the desired results – backed by merchants, magnates and other disaffected groups, the Company assumed effective power in Bengal and Surat in 1757 and 1759 respectively. These victories enabled the Company to become a major player in regional politics and use the benefits of political office to pursue their commercial interests. The take over had important implications and as the Company enforced measures to dominate the carrying trade and to achieve a monposonistic control over the purchase of export items, the economy suffered from certain distortions.

The effects of Mughal decline and of the expansion of the English East India Company in the trade of the Indian Ocean did not spare any particular merchant group even if some fared worse than others. But did this mean that the trading economy went completely under even before the historic date of 1757 that inaugurated a new era in the commercial growth of the English Company? For it is important to remember that it was not before the end of the eighteenth century, that the nature of India's overseas trade changed substantially and she became a supplier of primary goods oriented entirely to the needs of the metropolitan economy. This Section proposes to examine the nature and functioning of the India's trading economy in the critical half century of transition, to analyze the status and strategies of India's merchant groups as they struggled to come to terms with altered reality embodied in the emergence of the English East India Company as the dominant player in the economy. We shall concentrate on two regions – Bengal and Western India, two rather atypical and contrasting cases – one, where the effects of Mughal decline were particularly acute in the first half of the eighteenth century but one that survived better the early colonial onslaught, whereas the other which escaped the tyranny of Mughal decline but which was the first to go under in the face of early colonial penetration.

26.4.1 Decline of Surat

For purposes of convenience, the study will be divided into two time periods – one between 1757-1780, when the traditional structure and orientation of India's overseas trade sustained an irreversible and major dislocation subsequent to the establishment of the English East India Company's monopolistic control over shipping in the Indian Ocean and the other between 1780 and 1818, when Indian merchants attempted to adapt to the changing conditions. Also by 1818, the colonial economy had been put in place and the decisive shifts in the structure, orientation and compositions of India's trade had been registered. For Surat, the figures of decline are pretty dramatic. Ashin Dasgupta (1979) spoke of a severe slump in the value of trade from 16 million rupees in the last years of the seventeenth century to 3 million in 1740 – a trend that continued right through the century. The expansion of English private trade in the western Indian Ocean in the 40s and 50s of the 18t:th century, documented by Holden Furber (1965) was an additional factor that aggravated the commercial crisis of the Indian merchants. The assertion of English private trade became in effect a major determinant of the Castle revolution of 1759, when the Company assumed charge of the Imperial Admiralty, Surat castle and shared power with the ruling Nawab. The transformation of the Company's political status enabled the authorities to consolidate their commercial ventures even if the markets in west Asia remained sluggish. Beginning around the 1720s, the private trade of the Company was dominated by the presence of senior servants at Bombay and Surat. Both the Governor of Bombay and the Chief of Surat exploited their office to further their private deals. Furber gives us a detailed account of Robert Cowan (Governor of Bombay) who was extensively engaged in private shipping and freighting and was eventually dismissed from Company service in 1734. Henry Lowther, Chief of Surat and William Wake, Governor of Bombay were important players who made use of their position and entered into partnerships with local notables to prosecute a vigorous trade. What is important in the story of Bombay's private trade is the growing resolve of the English merchants to wrest political control for commercial ends. Their confidence derived largely from the growing success of the Bombay Marine – the Company's naval force – in eliminating rival claims over maritime jurisdiction, thereby claiming control over navigation and shipping. Indian trade and shipping had to accept English colours and the protection of the Marine if they were to traffic at all. The visible expansion of English shipping was not as yet at this stage accompanied by a fundamental alteration in the orientation of Maritime India's trading structure. European trade remained oriented to traditional markets and dealt with traditional commodities. The change was thus, at least in the first phase restricted to the growing European preponderance in the carrying agency and the resultant displacement of traditional Muslim mercantile groups.

The Castle Revolution of 1759 largely sponsored by Surat's Hindu merchant groups and by the English servants in their capacity as interested private traders introduced important change since the political set up. The Company assumed the position of *Qiladar* and with it enjoyed considerable powers of mediation in the city's administration. This enhanced their commercial advantages. Michelguglielmo Torri (1982) has argued that the Revolution enabled the private traders to formalize the monopoly control over the city's freight trade. Of the officials engaged in the Gulf trade, the most prominent were W.A. Price, Chief of Surat (1759-62, 1767-69. 1771-74), and Thomas Hodges, Chief of Surat (1762-67) and Governor of Bombay (1767-71). The first stage in the enforcement of the monopoly was taken in 1759-60, when it was announced that only those Surat ships hired by the English Chief and chartered by him to the city freighters who wished to send goods to the Gulfs would be allowed to proceed. What this in effect meant was that the ships of the English Chief and those of his favorites had exclusive rights to proceed first. At a meeting called the Noorbundy, the English Chief conferred with the shipper freighters about the rates of freight prevailing that season and also the commission due to the English Chief and then given permission to pick up the season's freight. Others were not technically prohibited from making independent voyages but the Chief had sufficient power to render these difficult if not impossible. We come across a number of conflicts with senior Surat merchants like Mulna Fakirodin in the Mayor's Court.

The workings of the monopoly did not always go as anticipated. As Torri has shown, the interests of the Surat Chief were occasionally at variance with the English representatives in Basra who complained to the Court of Directors. Also the Muslim merchants through their contacts with the Turkish authorities had occasion to forward their complaints to London with the result that regulations to free the trade were introduced in 1769. These regulations prohibited all discrimination and ordered that all merchants, 'whether Muslim, Hindu or Parsi or English' were free to put up their ships for freight for the Gulfs of Persia and the Red Sea. On paper, these regulations threw open the freight trade, as merchants no longer had to cope with the excesses of the Surat Chief or Bombay Governor. However, these were late in coming and did not immediately restore the situation. However, Torri argues that the Muslim merchants of the city did succeed in regrouping and recovered important ground by the closing decades of the century.

While there is some evidence of the partial revival of Muslim shipping and the initiative of the Muskat Arabs in the trade of the western seas in the last decades of the century, it is difficult to argue for a Muslim recovery so to speak. There is little doubt that the Gulf trade continued for the greater part of the century to operate at very low levels and that the older 16 million mark was never repeated. The displacement of the Muslim ship-owning category was irreversible and the group was never able to recover its former position of advantage. The undermining of the English monopoly in the 1770's did not redress the situation for trade itself by this time was on the wane. The collapse of Gulf markets following conditions of political insecurity in west Asia and the diversion of European commercial interests in China boded fundamental changes for India's trading structure.

The community of non-Muslim merchants – the Banias and the Parsis fared better under the conditions of transition. For one, their interests did not immediately clash with those of the English private traders. Their investment in shipping and the freight trade was only marginal with the result that they were quite prepared to switch to English carriage. Further, their services as brokers and bankers made them indispensable for the conduct of English trade. In Western India, the connection was particularly significant. Here, a combination of circumstances resulted in the formation of a critical partnership between the English Company and the Bania community, the latter emerging as key financiers of the Company's trade and politics. The relative success of the Banias was made possible by their access to capital and credit instruments that became vital for the survival of the Company in western India. This is not to suggest that the community did not face the pressures of declining demand, of capital shortage or the contraction of Surat's Gulf trade. What seems to have happened was that following the stabilization of Indian politics around the 1780s when there was a partial reintegration of trading networks in Hindustan and Central India, the Bania merchants were able to adapt to the changing situation and consolidate their business as supply merchants and financiers. Thus, as Lakshmi Subramanian has argued, whereas the emergence of the Anglo-Bania order had occurred in a period of languishing trade and political crisis immediately preceding the Castle Revolution, its consolidation was carried out in conditions of resurgence and revival of trade. That brings us to the second phase in the period of transition, when following the stabilization of English power in Eastern India and the consolidation of indigenous regimes like those of Mysore, Hyderabad and the Maratha power in the Deccan and Central India, there was a partial integration of trading channels and credit flows in the hinterland.

26.4.2 The Case of Bengal

Developments in Bengal's trading economy in the years immediately following Plassey (1757) tended to affect more adversely the local merchants and their trading networks. As far as Bengal's overseas trade was concerned, the rise of the Calcutta fleet had by the 1740s displaced the local Asian shipping operating from Hugli. The more important long- term change was the shift to the east – the so-called commercial revolution in the Indian Ocean that Furber (1976) later elaborated. From about the

1760s the focus of English shipping and trade in the Indian Ocean moved from the declining west Asian markets to the ports in Southeast Asia and China. This was the harbinger of the new colonial economy that went beyond the traditional Asian networks to create a new set of global linkages adhering to the imperatives of the metropolitan economy.

The results of the British take over on Bengal's internal economy were even more brutal. The assertion of political power by the Company was an effective weapon in the removal of limits on private trade. The Company servants could and did make use of the political change to claim the right of exemption from custom duties, local dues and to challenge the workings of established state monopolies. The 1757 grant following Plassey that confirmed the British trading privileges in Bengal, the guarantees that goods bearing the Company's *dastak* (seal) would pass without paying customs resulted in an unprecedented expansion of British private trade. Not only did this affect the custom receipts of the Bengal Nawabs, it posed grave threats in terms of law and order forcing the Bengal Nawabs to confront the Company. The confrontations were in vain as the English traders eroded the traditional preserve of local merchants, and aggressively trafficked in opium and saltpeter. The increasing investment in Bihar's opium was in itself the product of the burgeoning China trade, the dynamics of which reflected all too clearly the emergence of a colonial economy and a new trading dispensation. Indigenous supply merchants were squeezed out of business as the Company exercised monopoly control over the salt petre and opium business. Even earlier, the textile trade had come under greater supervision with the result that the status of the artisan and merchant changed. From being independent price workers, they became Company weavers forced to commit their produce to the Company appointed *gumashtas* (agents). The decay of manufacturing towns like Dacca and the collapse of the indigenous merchants – Seths and Basaks – testified to the changes that had set in in Bengal's trading economy. The subordination of the economy to the requirements of the English Company's global commerce worked itself out in the closing decades of the eighteenth century, which witnessed the configurations of the colonial economy.

In conclusion, one may suggest that in the period of transition between 1757 and 1780, the Indian economy was subject to a variety of pressures, which threatened to alter the basis and orientation of the traditional structures of trade and merchant networks. Admittedly, the orientation of India's trade remained with traditional Asian markets and on the bi-lateral exchange of goods for specie. K.N.Chaudhuri (1983) in fact made this point when he argued that Indian trade for half a century after 1757 continued to operate along traditional channels and its composition was based on the exchange of fine textiles, foodstuffs and other materials for precious metals and manufactured products. However, the activities of the Company in controlling the freight and shipping in western India or in controlling the supply of export goods in Bengal were not without consequence. In Bengal, the elimination of the rival European trading Companies and the local Asian merchants resulted in a long-term decline of Bengal's European commerce. After 1765, with the Company's acquisition of the *Diwani* that gave them the right to the revenues of Bengal, Bihar and Orissa, there was a growing tendency to deploy Indian revenues in trade. This affected the imports of bullion into the economy resulting in serious deficits of coin. The ruthless expansion of private traders in the internal trade of Bengal undermined the moral economy and left merchants and bankers permanently crippled. The impact of Company controls on weavers, in order to monopolise their produce severely affected the artisans as they were compelled to submit to the Company's coercion. In western India, the situation was somewhat different. The Company was just one player among many and did not enjoy the benefits of a secure revenue base. Consequently it was critically dependent on local financial support. The continuing importance of the Gulf demand for Western India's textiles meant that the weavers and merchants could not be forced to produce exclusively for the Company. It was only at the very last years of the century that the Company could contemplate extension of coercive measures in western India and that too very tentatively.

Regional variations in economic performance were closely linked to the timing and nature of British political penetration. These have added fuel to the more recent debates about the nature of the early colonial impact on the trading economy of eighteenth century India. We shall have occasion to refer to these once we plot the developments that followed in the closing decades of the eighteenth century, when slowly but inexorably the colonial economy was assembled. From about the late 70s and 80s of the century, India's overseas trade changed direction although it was not before 1800, that the outlines of the new economy became perceptible.

26.5 THE FINAL YEARS OF TRANSITION 1780-1800

The post 1780 situation saw the growing influence of the Calcutta and Bombay trading ports and their impact upon the adjacent hinterland economies. In part these consequences signified the end of an older trading order and the slow and sometimes almost ad hoc assembling of the colonial economy. The initiative lay very much with the English East India Company and its servants who in their private capacity used the newly acquired political authority to eliminate all competition and explore new possibilities of trade that linked India to the larger trading world. However, for most of the period, the imperatives of early colonial trade constituted an important but not exclusive determinant in the realignment of merchant, market and credit structures in the subcontinent. The imperatives of Company trade, constituted a very important but not an exclusive determinant of the country's trading economy. The realignment of merchant and market networks in the last decades of the eighteenth century were as much in response to the emerging colonial factor as they were to indigenous stimuli that came in the wake of the new balance of power that the presence of the Maratha Confederacy and other regional polities like those of Hyderabad, Mysore and even the Punjab represented. C.A.Bayly (1983) in this connection, has argued that the early colonial economy in India had indigenous origins in the sense that the external or colonial demand factor converged with the internal one to produce a situation that generated a variety of opportunities for commercial groups and stimulated a measure of urban growth evident in the rise of towns like Nagpur, Mirzapore and Benaras.

The political context for the trading economy of India in the closing decades of the century was determined largely by the expanding presence of the English east India Company and by the stabilization of Maratha power in central and western India. The rise of the cross-country trade routes provides us an example of the reintegration of commercial and credit connections that followed in the wake of tribute payments that tied up the areas of the Maratha Confederacy with its center in Poona. The annual movement of tribute payments from Baroda, Ahmedabad, Nagpur and Gwalior to Poona working simultaneously with renewed pilgrimage traffic under Maratha patronage stimulated commercial exchanges that in turn fed into the expanding trade of the Calcutta and Bombay commercial poles. For example, Bombay's trade with Poona was so impressive even before 1770 that Charles Malet, the English Resident in Poona had occasion to remark that 'a state of hostility with this empire little affects the commercial intercourse which must be attributed to its being in the interests of the farmers of the customs and landholders not to impede the intercourse and as to the latter, it must certainly ever be our interest to promote it'. However, by the 1790s, Bombay's trade with Gujarat – the cotton bowl of the region – became perceptibly more significant in view of Bombay's growing trade in raw cotton with China. This coincided with the emergence of a further line of dependency tying the eastern Maratha domain to the Calcutta commercial pole :(? port). Increasing Bengal demand for raw cotton from the Maratha cotton bearing tracts in Central India like Amrawati and Nagpur through Mirzapur stimulated the growth of middle sized towns engaged in the supply of cotton. This was a genuine case of transition – drawing from both local stimuli as well as from the pressures of a changing external situation.

The rise and growth of Mirzapur and of Benaras as a financial center supporting the cotton trade best illustrates the dynamics of a trading economy in transition. The context for the emergence of Mirzapore was provided by the rise of cross-country trades supported by the transactions of the Maratha Confederacy and the operations of the English East India Company. The latter's financial operations resulted largely from the dispatch of the Bengal surplus into the deficit presidencies of Madras and Bombay funneled through the existing credit network of Indian financiers and dovetailed into the inter-regional commercial network. To begin with, both these factors were significant in the reactivation of the cotton traffic between northern, central and eastern India. By 1776, Mirzapore had emerged as the great cotton mart of the Benaras district and Benaras the great financial capital of the region. Enjoying the benefits of political security under the Rajas, Benaras became a key conduit for the cotton trade and a major center of *hundi*s that financed both the tribute transfer operations of the Awadh Nawabs and the English Company as well as the cotton trade of the local merchants. The steady growth in Maratha demand for silk and luxury fabrics as well as coarse textiles for the armed forces began to exert a strong pressure on the region's balance of trade situation and it became clear that the region was on the verge of a massive take off. Thus Bayly argues that the internal demand factor represented by the Maratha requirements had already gone a long way in making Mirzapore's commercial reputation and its accessibility to the English Company. Thus when the time came, it proved easy to expand the cotton trade for the purpose of re-export, first to Bengal and then to China. In other words, indigenous developments had created a situation of expansion and adaptation in Mirzapore and Benaras both of which, thereafter could adjust to the emerging colonial situation.

The colonial factor worked thus. From the late 18th century, Bengal was not in a position to meet the demands at Dacca and Murshidabad for medium and high quality cloth. This coincided with an unexpected development in 1784, when it was decided to bring cotton overland from central India and Bundelkhand to be transported by river to Bengal. This spurred the growth of towns like Kalpi, Farrukhabad and Mirzapore and Agra that were already beginning to play a nodal role in the inter-regional commerce of textiles and cotton. The year 1784 was a turning point for the reduction of duties on tea in Britain created a strong demand for the commodity. But tea could be bought only in exchange for raw cotton, which created a huge demand for the product. The subsequent rise in the price of Gujarat's cotton made it profitable to import Mirzapore cotton. In fact the connection became so close that between 1790 and 1820, the price of cotton at Mirzapore depended entirely on the relative prices in China, the anticipated demand there and the quantity likely to be produced in Gujarat.

The gradual reorientation of the Indian economy to the pressures of Company trade was not without benefit to Indian commercial groups. While the displacement of India's traditional trade had undoubtedly undermined Indian shippers and exporters forcing them to play a subordinate if not nonexistent role in the changing set up, the realignment of markets and merchant networks in the half century of transition enabled the regrouping and deployment of merchant capital in the proto colonial trade of the late eighteenth century. Bania merchants collaborated with the European private merchants in the expanding trade of cotton in Gujarat. Naupatti bankers were active in Mirzapore's cotton traffic. The community of bankers consolidated their links with the Company emerging as key collaborators of the new regime. In western India, their presence was especially important as they handled the huge flow of credit transfers that proved vital for the survival of the Company establishment in Bombay.

26.6 THE FLOWERING OF THE COLONIAL ECONOMY 1800-1857

The Indian trading economy in the first colonial century was distinguished principally by a massive fall in the share of indigenous traders in foreign trade, a complete cross over to raw material exports in place of finished goods and a shift to new markets in the Indian Ocean, like China and Southeast Asia. Together, these changes helped integrate the Indian economy to the larger world system with its nerve center in Western Europe – equally, these changes destroyed the structures of traditional business and trade dispossessing certain groups while enabling others to find new opportunities in the changing scenario. The Company-British private trader combine established a clear domination over the growing sector of India's export trade, which even by the closing decades of the previous century had shifted to markets in the eastern Indian Ocean. The change in direction was fed by a change in commodity composition – textiles, the traditional export staple giving way to raw cotton, opium and indigo, all of which facilitated purchases of Chinese tea and speeded up the integration of the Indian economy into the global system.

26.6.1 Private European Merchants

The assembling of the colonial economy was a near logical sequel to the political expansion of the English East India Company and the spectacular expansion of English private trade that among other things intensified the problem of remittance. This in turn inflected the course of overseas trade making inevitable an artificial link up of trade transfers between India, Great Britain and China and thereby setting in motion a new trading pattern and structure. The principal carriers of the new and burgeoning trade were private European merchants, who enjoyed a special license from the Company to carry on the country trade, which the Company could not handle. As agents for investment and the remittance of private savings of civilian and military officials of the English Company, they played a key role before extending their ventures to finance the import and export of the country trade. They organized themselves into agency houses – sometime around the 1780s – and by the end of the century, became the most important trading group in terms of both numbers and the volume of traffic they dominated. Their number increased from 15 in 1790 to 27 in 1828, 61 in 1835 and finally to 93 in 1846. Between 1783 and 1813, when the Charter Act partially ended the East India Company's India monopoly, the Agency Houses were very closely connected with the Company officials who were also their constituents. Their shipment of country goods to Europe were confined to the privilege trade, i.e., space hired out in the holds of the Company's East Indiamen. Most of their energies were directed to the China trade where they shipped opium and cotton, key staples in financing the tea investment of the Company and also the principal channels of remittance. The Company encouraged private traders – both Indians and Europeans – to engage in the trade and hand over proceeds of their sales to its representatives in Canton (China). The English East India Company granted licenses to select private traders to carry on business, which the Company could not handle, creating in the process a kind of sub monopoly. The latter repaid the merchants in bills of exchange drawn on their treasuries in India or on the Court of Directors in London. A close bond was thus formed between the Company and the Agency houses. Historians have seen the agency houses as the main instrument through which western capitalism and business institutions were introduced into the subcontinent in response to the requirements of the world market. Thus political subjugation and the imperatives of remitting profits to England created a situation where the produce of Indian villages serviced European trade – a development that was hardly natural or born out of the spontaneous pressures of market and competition.

26.6.2 Pattern of Early Colonial Trade

The configurations of early colonial trade were determined largely by changes in the development of trade relations between India, China and England. Here tea played an important role. The popularity of tea in England generated a huge demand for this exotic product of China. Britain had hardly anything to offer in exchange for tea and with the mounting pressure against bullion exports. The financing of tea imports required an imaginative rerouting of Indian produce that enjoyed a demand in the Chinese market. Cotton and opium provided the key to Britain's problems of trade balance. At the same time, the triangular trade arrangements seemed to solve the problems of remittance. Integrating the movement of funds between Britain, China and India through bills of exchange drawn on London or on the Company treasuries in India, the Company and the private traders were assured of regular channels of capital and remittance facilities. Thus private merchants shipped cotton and Opium to China, deposited the proceeds of their traffic into the Company's treasury at Canton and received bills of exchange drawn either on London or India. The Company on its part had access to treasure that it could deploy to purchase consignments of tea. It was this complex interlocking of financial and commercial interests that shaped India's trading economy and exposed Indian merchants and producers to an altogether new set of circumstances over which they had very little control. The items that entered this new trade were chiefly raw cotton and opium followed by indigo and sugar.

A quantitative analysis of India's foreign trade reflects a very high rate of growth. According to K.N.Chaudhuri's estimates, exports expanded from Rs. 68 million in 1814-15 to Rs.183 million in 1853-54. The expansion in imports was even more impressive from Rs.11.9 million to Rs.124 million in the same period. Bombay by virtue of its locational proximity to the cotton bowl of India enjoyed an edge in the raw cotton traffic. By 1805, the aggregate amount of cotton exported from Bombay, amounted to 80000 bales of cotton. The principal agency houses handling this traffic were Forbes & Co., Fawcett & Co., Alexander Adamson & Co. and Tate & Co. Their investments principally lay in shipping cotton consignments to China and Britain and reinvesting their dividends either in tea or in bills of exchange. The trade in raw cotton did not turn out to be of long standing and was soon superceded by the opium traffic that dominated the China trade for more than half a century.

The two outlets for Indian opium were Calcutta and Bombay, with their proximity to opium producing areas in Bihar and Malwa respectively. Barring small amounts shipped to Malaysia and Indonesia, these exports were destined for China. The agency houses dominated the trade in Bengal where it was managed as a state monopoly. The government gave out loans to the cultivators, brought the product to Calcutta and there auctioned it each month generally well above the cost price to private merchants who shipped it to China. In Bombay, the situation was different for the Company here it made no attempt to monopolise its production or trade. The fragile basis of the Company's authority in western India, the relative strength and independence of local traders and the web of interests that connected the merchant/banker with the princely states of western and central India and the Portuguese private traders stationed in coastal enclaves like Daman and Diu to oversee a clandestine traffic in the produce combined to work in favour of the local merchants, exporters and suppliers.

26.6.3 Post 1813 Colonial Trade

The expansion of India's foreign trade in the decades after the Charter Act of 1813 coincided with the second phase in the development of the agency houses. A large number of new houses came into existence. These were formed largely by adventurers from Britain. Faced with competition, these houses tended to explore other fields for investment – and came up eventually with indigo. A temporary demand for the dye combined with the problem of Bengal's balance of payments made indigo an attractive proposition. What followed was thus an overextension of trade and indigo production, which in the long run created more problems for the houses. The most serious problem was one of wildly fluctuating markets – an inevitable fall out of the remittance factor. This hiked up prices in Calcutta independent of its prices in London and the result was a glut on the London market. This combined with the contraction of fluid capital in Bengal aggravated the situation. The transfer of the Company's debt and a slump in prices in 1825 proved to be the final straw. Bullion imports fell off while a number of agency houses sold their assets and left. Between 1830 and 1833, the entire edifice crumbled wiping out a generation of agency houses. A new crop came up after the 30s to inaugurate a very different phase of Indo-European business.

So far, we have focussed on the changes in the commodity composition of India's exports. A very major transformation occurred in the field of her imports as well. The period of the Charter Acts corresponded with the most productive phase of the Industrial revolution in Britain. The phenomenal expansion of the British cotton industry combined with the high price elasticity of demand for British textiles in India and the new rate of customs levied in Calcutta in 1815 to produce a flood of imports of cotton piece goods, twist and yarn from Britain into India.

What was the impact of these developments on Indian merchants and their commercial networks? The disappearance of handlooms from India's exports and the subordinate position that she subscribed to in the new system of trade and balance of payments were obvious and crippling liabilities that early nationalists and economic observers commented upon. To what extent did the new economy dispossess indigenous enterprise; promote de-industrialization and block avenues of capitalist growth and accumulation for Indian merchants? We shall attempt to address these questions by looking at the way in which the new economy functioned and the location of Indian merchants in the dynamics of the new system and its workings. One thing needs to be constantly stressed and that is the differential advantage enjoyed by British traders in the new system as a direct consequence of British political control. Also the very nature of the trade given that it was largely induced by extra market considerations of balancing payments and remittance servicing subjected it to violent fluctuations of both the British economy as well as the policy operations of the Company's government in India. This is, however, not to suggest that Indian merchants failed to play the game to their advantage or that regional variations did not exist. In fact, the timing of British colonial control proved to be decisive in determining the trajectory of Indian enterprise. In Western India, for example, where colonial control was late in coming and where it was hamstrung by local factors and had, therefore, to accommodate parallel structures of local authority, the nature and direction of Indian trading enterprise was remarkably different.

Indian Merchants

The merchant world of India went through a complex process of redeployment in the first half of the colonial century. Those of whom who survived the crisis of the eighteenth century fitted into the new colonial system largely in the capacity of dependent partners of British firms in the expanding country trade of India. In Western India, the partnership proved to be vital and sustained – it was in the cotton and later opium trade that the conjunction between British private traders and Indian merchants produced its most striking results. Parsis and Bania merchants emerged as the most important players of Bombay and Western India's colonial traffic. Asiya Siddiqi's (1995) work on Jamsetjee Jeejeebhoy demonstrates the close connection between Parsi enterprise and British agency houses. His income derived from a variety of sources: the profit of trade on his own account, the income from hiring freight on his ships, interest on loans to shippers, dividends on shares in marine insurance companies and commission on the sale of his own bills. His prodigious talent and wealth did not, however, insulate him from the inherently unequal trading structure under which he operated. Backed by a worldwide field of operations, British merchants were able to buy and sell bills of exchange at rates that Indians could hardly afford. So much so that they had often to import British textiles and metals as a means of remittance. Thus while European remitters eagerly sought American bills, Jamsetjee found them undesirable and difficult to sell in Bombay. The problems of payments and remittance arrangements affected other ventures – for instance we find Jamsetjee unable to operate his country shipping in the face of competition for private European shipping. The victory of English shipping, argues Asiya Siddiqi was not simply a technological one. "Just as their links with the dominant international networks, of commerce and banking, centered in Britain, enabled the Liverpool trading houses to sell bills of exchange at rates which Indian merchants could not afford so also were English ships able to offer freight far cheaper than what Indian ships could do". Given these conditions, the success of Jamsetjee must be seen as a testimony to his agility and acumen that enabled him to build a substantial fortune.

Below the Europeans and the Parsis who dominated the first tier of Bombay's export trade was the supply merchants and financiers whose links with commodity production proved vital. Recent works by Amar Farooqui (1995) have emphasized the significance of the trade in Malwa opium as a source of capital accumulation. Malwa opium became the instrument, with which against heavy odds, indigenous groups in western and central India carved out a niche for themselves within the overall colonial structure. This, Farooqui argues, was reflected in the far greater participation of indigenous enterprise in the development of capitalism at Bombay compared to that of Calcutta. The Malwa trade was a huge smuggling operation, in which the main participants were the Marwari soucars, Gujarati and Parsi merchants of Bombay and Ahmedabad and the European agency houses. The wholesale trade in opium was dominated by the soucars – mostly Gujarati and Marwari who made advances to cultivators (in collusion with the princely states of Rajputana and Central India), and collected the produce. They had large warehouses where they stocked the produce. They engaged in large scale speculation and gambling in stocks. Farooqui describes the two favourite forms of speculation and trading in futures. These were *jullub* and cowri *sutta*. The former practice was an anticipation of price at certain dates 'accompanied by unreal entries and transfers'. Cowri *sutta* was a similar form of gambling wherein, 'one soucar or bania giving another, before the harvest a Cowree, as a pledge, that he will pay him a specific price, at a certain date, for a specific quantity of grain.' They serviced both petty traders as well as the agents of large opium dealers, based in Gujarat, Bombay and Rajasthan. The latter represented the second important layer in the traffic. The merchants of Ahmedabad and Bombay – both Parsis and Gujaratis worked through agents who contacted the wholesalers for procurement of the commodity and arranged for the transport of the drug by caravan to various ports on the west coast including the Portuguese centers of Daman and Diu and Goa before its final shipment to the Chinese market. By the 1820s, the networks of Bombay, Gujarat and Rajasthan opium merchants encompassed the major opium marts of Malwa, where their agents bought opium directly from the opium wholesalers.

Ujjain was the principal center for the export trade in opium. The really important dealers were Lakshmichand Panjray, Jadonjee Chabeelchand, Bhaidas Gokuldas, Appa Gangadhar. Connections with the Marathas- Holkar and Sindhia – enabled them to establish a syndicate of sorts. Among the Ahmedabad traders, we hear of Khushal Nihal Chand, Karamchand Dhongarshee, Dayaram Dulobha not to speak of indigenous Parsi firms of Bombay who affected their purchases through the medium of Malwa traders. Clearly, then the workings of the opium trade in western and Central India enabled indigenous commercial groups to develop a viable commercial base and a significant source of capital accumulation that strengthened opportunities for future enterprise.

Bengali Banyans

The same could not be said for merchant enterprise in Bengal. Not that a regrouping of commercial interests under the colonial dispensation, did not occur. The emergence of the Bengali banyans as dependent partners of the European private traders and later agency houses was an important development and as P.J.Marshall (1974) pointed out, 'Europeans traded on the capital of their banyans or Indian agents; or to be more exact the banyans traded on their masters' names and authority'. Men like Ramdulal Dey, Nabakishan, Madan Dutta, Duttaram Ghosh invested money in trade and amassed fortunes, a sizeable portion of which was invested in land. The world of business in Bengal was primarily determined by the imperatives and workings of colonial trade, which meant that any fluctuations in the trade were bound to adversely affect their operations. Unlike as in western India, where, an important segment of commercial activity remained outside the domain of official/European control, business enterprise in Bengal was inextricably tied to European colonial enterprise with the result that the Indian constituents necessarily operated from a position of disadvantage.

The ubiquity of the Bengal Banyans has to be located in the context of the consignment trade that developed after the opening of the India trade. In the absence of a proper consignment system, private traders urgently required the services of the banyan who would ‘in return for customary commissions and perquisites, etc. to take charge of safety and security of goods and with all due care and diligence to keep all such goods, wares and merchandise of the firm. Goods were from time to time deposited with or entrusted to them to redeliver when they shall be required or disposed of in the like order or condition as deposited or entrusted, reasonable wear and tear expected’. It was through the Banyan, that all purchases and sales were affected. He had to assume responsibility for quality and timely transactions. His knowledge of the market was expected to mediate trade effectively. In fact, banyans like Ramdulal Dey satisfied all these conditions and yet failed to make that critical cross over to large-scale trade. The expansion of private trade and the advent of the American clippers constituted for the banyans in the first decade of the nineteenth century the gateway to profit and wealth – a point that the career of Ramdulal Dey exemplifies.

The Banyans, representing the indigenous component of the trading economy of Bengal were located firmly in the colonial trading structure that had firmly been put in place by the first half of the nineteenth century. By the 1820s indigo emerged as the most significant export item for remittance with the result that there was an over investment in the commodity leading eventually to the first major commercial crisis in Bengal in 1829-33. Exports of indigo for instance expanded from 40,000 maunds in 1800 to 120,000 maunds in 1815 and to 118,111 in 1826-30. The banyans had a considerable portion of their capital tied up in the agency houses with the result that when the crash came following over speculation, shortage of bullion and government indifference, the entire edifice of Indo-European business crashed. It did not, however, result in the eclipse of Banyan activity. They surfaced again, this time as key partners of the new agency houses that depended on them for working capital. By the 1840s the banyans had become agency house partners in name and fact.

The Agency houses in the 1840s were of two categories: export based and import based. The exporting houses were principally involved in the production and export of country products such as indigo, sugar and silk. As the funnel for capital for indigo planters and other European producers, they were the debtor houses. They depended for their working capital on Banians, government advances and funds supplied by the importing houses. The importing houses were formed by British manufacturers to serve as agents for the sale and distribution of yarn and textiles sent on consignment from Britain. They accumulated capital from sale of their goods and remitted the proceeds to England through bills hypothecated to indigo and other exports. Indians were intimately involved in both sectors – Marwari bankers based in Burrabazar provided capital for importing houses, advanced money to dealers in cloth and became the key middlemen for distribution of cloth upcountry. They also speculated in opium, many of them lost out after the opium war. Banyans associated with export houses enjoyed a brief period of glory, a rare, almost meteoric even if short-lived success. The most notable among Bengali businessmen in this decade were Dwarkanath Tagore, Motilal Seal and Rustamji Cowasji, who figured as dominant partners in British enterprises such as the Union Bank, and in a number of insurance and coal companies. The coming of age of Bengali business did not solve the basic problems of capital sourcing – clearly the most important constraint faced by business groups in Bengal. Almost all the assets of the bank for instance were committed to financing the production of a single export item, namely indigo with the result that when indigo prices slumped owing to conditions of depression in England, there was a universal fall out of European managing agencies and their Indian constituents.

Thus while on paper, loans to indigo concerns were dropping, in fact the bank continued to increase its support to indigo cultivation. And in annual reports directors disguised their loans under euphemistic headings. This was a dangerous trend given the fact that indigo prices were dropping steadily after 1840. The more they declined, the more capital had to be borrowed to keep them in operation, the more capital borrowed, the more indigo had to be contracted for – thus flooding the market and keeping marginal concerns in operation. The Union Bank colluded in this charade until 1847 it became no longer possible to stem the rot. The bank went into liquidity even as the agency houses collapsed.

The collapse of the Union bank has been seen as a watershed, marking the end of Bengali business enterprise in large-scale business. Thereafter capital tended to remain tied to land, with Bengalis preferring to invest in *zamindaris*. Historians attempting to explain this tendency in terms of the appeal land held for Bengalis as both as source of safe investment and as a way of life, the stranglehold Europeans had on large scale trade and industry especially in the high noon of imperialism and speculative mentality born out of the get rich approach of European principals who contributed thereby to the culture of cliques and cabals. After 1848, commerce and industry were dominated by British capital and their Marwari associates who enjoyed familial traditions of support and credit and were willing to make long-term investment commitments.

26.7 DEINDUSTRIALIZATION: THE DEBATE

No essay on the trading economy of India in the period of transition and early colonialism can be complete without referring to the debates on de-industrialization. This debate in a sense encapsulates the larger question of the impact of colonialism on India's trading economy, whose workings we have already outlined. That the subcontinent's trading profile underwent major changes, in terms of commodity composition, direction and business organization can be taken as given. That India lost her primacy as a supplier of textiles in the world market, that her merchant groups suffered displacement in the principal sectors of shipping and export and that the imperatives of colonial trade and remittance shaped the configurations of India's economy are facts that need no further elaboration The implications too are clear enough and it was, therefore, not without reason that the nineteenth century came to be regarded as the era of stagnation and stasis for the Indian economy The debate came into the public domain as early as the late nineteenth century, when nationalist critiques of British rule stressed the destruction of India's handicrafts and the disruption of the traditional socio-economic order under the shattering influence of market forces represented by western capital and mediated by the colonial state. The stagnation of industrial enterprise, the enfeeblement of agriculture and the decline of traditional crafts embodied the inherently exploitative nature of British rule in the nineteenth century. Subsequent historical scholarship on the nature of India's pre colonial economy took into account the colonial factor in their reassessment of India's pre colonial economy, arguing that it accommodated definite capitalist elements and that the intervention of European control thwarted the logical progression of the Indian economy. Morris D Morris (1968) attacked this position in the late 1960s when he argued that the capacities of the pre-colonial Indian economy were not as significant as they were made out to be, and that the British did 'not take over a society that was ripe for an industrial revolution and then frustrate that development'. Further he argued that British imports of cotton did not wipe out the handicrafts industry and that imports of yarn actually strengthened the competitive position of the indigenous handloom sector despite the fall in cloth prices. The demand for cloth was elastic and the fall in price led to a movement down the demand curve. The amount of capital consumed arose and the vast expansion of British cloth skimmed off the expanding demand. The handloom weavers were thus no fewer in number than they were at the beginning of the colonial period. Morris' bald even if bold proposition, backed by little or no empirical data was refuted by Toru Matsui (Morris, 1969) Others argued that even if the competitive position of the handloom industry was strengthened by cheap yarn imports, it could not counteract the decline in the traditional spinning industry. Again from the long term point of view, the fall in the price of cloth per piece was greater than the fall in the price of yarn required for one piece of cloth and therefore the remuneration for weaving one piece of cloth was less and adversely affected the productivity for labour of traditional handicrafts. However, Toru Matsui concedes that foreign cloth could not penetrate as effectively as desired and that there was a potential realm available for Indian handloom weavers. The debate was further advanced by Bipan Chandra (1968) who demonstrated the lack of correspondence between yarn imports and piece good imports. The ratio of yarn imports to piece good imports was in fact very low. The artisan survived only because Lancashire failed to reach the Indian market and because British rule was not efficient enough to create the perfect market. Tapan Raychaudhuri (1968) also questioned the assumptions of Morris regarding the increase in per capita income as a sound indicator of economic change and of the beneficial aspects of British rule. Subsequently, A.K.Bagchi (1978) in an authoritative essay on deindustrialization in Bengal and Bihar established on a complex reading of Buchanan Hamilton's report and later census data the real incidence of de-industrialization and a relative decline in the strength of the population attached to industry. While it is true that quantitative evidence for the strength of the artisan community and its displacement in the nineteenth century is slender and that we have virtually no data on incomes, it would not be far fetched to suggest that the changes in the structure and workings of India's foreign trade affected segments of the merchant and artisan classes. Even if there was a degree of adjustment and the expansion in the trade of new commodities balanced the decline of older ones, the benefits of structural adjustment were limited and did not cover the costs of social and economic displacement. If some merchants did well, it was because of the porous nature of British rule that left some gaps for Indian merchants to carve a space for themselves.

26.8 SUMMARY

Recent scholarship has recognized the vitality of the Indian trading economy in the early modern period. The Indian merchant was in no sense a peddler, enagaged only in multiple retail transactions. There were wholesale merchants with impressive capital stocks operating within complex networks of commercial exchange. India's overseas trade brought in a huge inflow of bullion accelerating the levels of monetization and urban development in India. However, the weakening of the political centre in the early eighteenth century affected the fortunes of ports like Surat and Bengal. The latter decades of the eighteenth century saw the growth of British private trade and a re-alignment of trade routes. Indian commerce could not remain impervious to the political changes, but the impact of the eighteenth century crisis was not uniform in all quarters. While the decline of Surat was irreversible, Bengal survived until the mid century when the British conquest inaguarated a new phase in the region's trading experience. Indian merchants now regrouped themeselves as brokers and banyans to the European private trader.

26.9 GLOSSARY

Banjaras	:	Transporters of grain and other bulky goods. During the medieval period they were the important link between the rural-urban trade.
Bottomry	:	A speculative investment; money was lent out for a particular voyage. The lenders were to bear all the risks of voyage. The rate of interest depended upon the risk involved in a particular voyage.
Castle Revolution of 1759	:	In 1759, the English East India Company, backed by a section of the merchants in Surat city, occupied the Surat castle and assumed joint control of the city.
Commenda	:	A practice in which merchants combine their resources for mutual benefit.
Respondentia	:	A from of marine insurance and speculation.
Tanda	:	A *banjara* camp.

26.10 EXERCISES

1) Discuss the pattern of growth of India's trading economy in the seventeenth and early eighteenth centuries.

2) What role did the Banias and *sarrafs* play in the seventeenth and early eighteenth centuries trade?

3) Analyse the working of the *hundis* within the pre-colonial economy.

4) Discuss the impact of European intervention on Indian merchants and trade during the eighteenth century.

5) To what extent did the eighteenth century 'crisis' influence trade and markets?

6) Discuss the condition of Indian merchants during the first half of the nineteenth century.

7) Analyse the role of Bengali Banyans in the nineteenth century Indian trade.

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UNIT 27 COLONIALISM AND TRADE: 1857-1947

Structure

27.1 INTRODUCTION

The history of India's economic development between 1857 and 1947 is demonstrated by a well-known paradox. As Amiya Bagchi so pithily put it, India in 1900 while remaining the brightest jewel of the British Empire was one of the poorest countries in the world. The reasons for this paradox have engaged economic historians working on this period. Why did India grow so slowly if at all in the colonial period? What role did colonial rule play in the arrested growth and stagnation of India's economy? What were the structural changes in the organization and orientation of India's trade? How did these affect merchant activity and the industrial experience of colonial India? How did merchants and markets respond to the changes brought about by the colonial subordination of India's trading economy and its integration with the larger international economy? These are some of the questions that this Unit will address as it attempts a broad overview of the nature, trajectory and ramifications of India's trade and development. The focus will be squarely on the non-agrarian sector, on trade and markets, the changes that were recorded therein and their effects on the population. The Unit will also review some of the more recent debates on Indian merchant capital and its workings under the colonial dispensation.

The period 1857-1947 saw the consolidation and workings of formally established colonial rule in India. It was a period when the British Crown exercised direct control over a little over 60 per cent of land area in India maintained close control over the affairs of the Indian princely states. These years also saw the integration of India' economy to the imperatives of the world economy in which Britain held a dominant position. This directly fostered an extension of the market economy in India, which was increasingly integrated with the global economy, the nucleus of which lay in metropolitan Britain. India became a central pillar of the international trade economy, and accommodated in the process a large inflow of foreign capital. By 1914, three quarters of total investment in business and industry in India came from overseas. The imperatives of the international economy generated major infra-structural changes within India, where the British rulers introduced a uniform system of weights and measures, currency and communications. How instrumental were these changes in generating economic growth? Or did these benefit the colonial regime only? How did colonial interests affect Indian interests? What was the impact of the drain of wealth that underpinned the colonial regime, where the government supervised a transfer of wealth from India to Britain in the form of profits of foreign business and government charges? These questions are germane to any discussion of India's performance under colonial rule and have long formed the subject matter of intense debate among nationalist, Marxist and revisionist historians who argue for an objective assessment of the colonial regime.

27.2 FOREIGN TRADE: TRENDS AND COMMODITY COMPOSITION

In terms of sheer volume, India's foreign trade registered a significant increase from the late nineteenth century. Access to statistical evidence makes it easy to calculate the exponential rate of growth in overseas trade for the entire period from 1834 to 1940. According to K.N.Chaudhuri, the average annual rate of growth for this period, was 3.23% for exports and 3.68 for imports. (See Table 1) In spite of variations between individual decades, the period 1850 to 1914 was marked by certain homogeneity, a feature, which was lost after the First World War. The reasons for the expansion in exports lay in the expansion of multilateral trade between Great Britain, the United States of America and Japan in the second half of the nineteenth century, and in which India, by virtue of its location as a colony and as a major supplier of primary agricultural and processed goods played a crucial role. Equally important factors were a reduction in the length of sea routes and the consequent fall in transport costs, railway construction in India and elsewhere, all of which combined to raise the levels of world trade to a new and unprecedented level. India could hardly escape the consequences of global flows driven largely if not exclusively by Britain. Changes in these flows produced vacillations and fluctuations in the movement of India's exports and imports.

Table 1: Compound rates of growth (annual) in India's foreign trade 1834-35 to 1940-41

Date	Export	Import
1834-35 – 1940-41	3.23 (per cent)	3.68 (per cent)
1834-35 – 1865-66	5.61	6.01
1866-67 – 1890-91	3.27	3.69
1891-92 – 1915-16	3.84	4.15
1914-15 – 1940-41	– 2.72	– 2.33
1834-35 – 1850-51	3.61	5.61
1851-52 – 1860-61	6.31	10.10
1861-62 – 1870-71	1.37*	5.43
1871-72 – 1880-81	2.37	4.50
1881-82 – 1890-91	2.52	4.43
1891-92 – 1900-01	[no trend]*	1.23
1901-02 – 1910-11	4.80	5.43
1911-12 – 1920-21	3.00	6.49
1921-22 – 1930-31	– 1.20*	– 2.30*
1931-32 – 1940-41	4.00	3.10

* indicates that the statistical tests are not significant owing to wide random fluctuations.

Source: **Chaudhuri, K.N., 'Foreign Trade and Balance of Payments (1757-1947)', in Kumar, Dharma (ed.), *The Cambridge Economic History of India 1757-1970*, Vol. II, New Delhi, 1982, Tables 10.6, p. 832.**

Table 1A: Total value of India's foreign trade (excluding treasure), 1834-1915

(thousands of rupees)

Year	Imports	Exports	Index imports	Index exports
1834	42,611	79,934	100.0	100.0
1835	47,818	111,064	112.2	138.9
1836	55,369	132,401	129.9	165.6
1837	50,324	112,427	118.1	140.6
1838	52,406	117,747	122.9	147.3
1839	58,312	108,627	136.8	135.8
1840	84,159	134,555	197.5	168.3
1841	77,885	138,252	182.7	172.9
1842	76,036	135,518	178.4	169.5
1843	88,177	172,534	206.9	215.8
1844	107,540	165,902	252.3	207.5
1845	90,874	170,286	218.2	213.0
1846	88,966	153,554	208.7	192.1
1847	85,976	133,123	201.7	166.5
1848	83,448	160,885	195.8	201.2
1849	102,998	173,122	241.7	216.5
1850	115,587	181,641	271.2	227.2
1851	122,404	198,792	287.2	248.6
1852	100,708	204,646	236.3	256.01
1853	111,226	192,951	261.02	241.3
1854	127,426	189,272	299.04	236.7
1855	139,434	230,392	327.2	288.2
1856	141,945	253,384	333.1	316.9
1857	152,776	274,560	358.5	343.4
1858	217,285	298,628	509.9	373.5
1859	242,651	279,602	569.4	349.7
1860	234,937	329,706	551.3	412.4
1861	223,204	363,170	523.8	454.3
1862	226,323	478,596	531.1	598.7
1863	271,455	656,254	637.05	820.9
1864	281,509	680,270	660.6	851.03
1865	295,992	654,911	694.6	819.3
1866	316,786	456,654	743.4	571.2
1867	357,057	508,740	837.9	636.4
1868	359,901	530,621	844.6	663.8
1879	329,275	524,713	772.7	656.4
1870	344,691	553,361	808.9	692.2
1871	320,918	632,092	753.1	790.7
1872	318,746	552,507	748.03	691.2
1873	338,198	549,960	793.6	688.01
1874	362,221	563,592	850.0	705.07
1875	388,916	580,914	912.7	726.7
1876	374,406	610,138	878.6	763.3
1877	414,641	652,223	973.08	815.9
1878	378,005	609,375	887.1	762.3
1879	411,660	672,123	966.08	840.08
1880	531,167	745,806	1,246.5	933.02
1881	491,133	819,684	1,152.5	1,025.4
1882	520,957	834,851	1,222.5	1,044.4
1883	552,793	881,760	1,297.3	1,103.1
1884	557,030	832,552	1,307.2	1,041.5
1885	556,558	838,812	1,306.1	1,049.3
1886	617,773	884,701	1,449.7	1,106.7
1887	650,046	905,436	1,525.5	1,132.7
1888	694,404	970,495	1,629.6	1,214.1
1889	691,974	1,034,603	1,623.9	1,294.3
1890	719,753	1,002,273	1,689.1	1,253.8
1891	694,323	1,081,735	1,629.4	1,353.2
1892	662,652	1,065,954	1,555.1	1,333.5
1893	770,214	1,065,033	1,807.5	1,332.3
1894	735,289	1,089,137	1,725.5	1,362.5
1895	729,367	1,143,347	1,711.6	1,430.3
1896	761,173	1,039,840	1,786.3	1,300.8
1897	736,470	976,327	1,728.3	1,221.4
1898	721, 015	1,127,997	1,692.08	1,411.1
1899	753,044	1,090,833	1,767.2	1,364.6
1900	808,945	1,077,185	1,898.4	1,347.5
1901	887,805	1,248,952	2,083.5	1,562.4
1902	858,191	1,293,966	2,014.01	1,618.7
1903	925,922	1,535,171	2,172.9	1,920.5
1904	1,044,127	1,577,220	2,450.3	1,973.1
1905	1,121,137	1,618,356	2,631.09	2,024.6
1906	1,172,421	1,766,739	2,751.4	2,210.2
1907	1,366,475	1,774,854	3,206.8	2,220.3
1908	1,287,868	1,531,431	3,022.3	1,915.8
1909	1,225,512	1,879,681	2,868.3	2,351.5
1910	1,337,067	2,099,616	3,137.8	2,626.6
1911	1,440,554	2,279,898	3,380.7	2,852.2
1912	1,666,296	2,462,183	3,910.4	3,080.2
1913	1,913,079	2,490,074	4,489.6	3,115.1
1914	1,449,307	1,821,780	3,401.2	2,279.08
1915	1,381,693	1,994,803	3,242.5	2,495.5

Source: ***Statistical Abstracts for British India, Cf.*** **Chaudhuri, K.N., 'Foreign Trade and Balance of Payments (1757-1947)', in Kumar, Dharma (ed.),** ***The Cambridge Economic History of India 1757-1970*****, Vol. II, New Delhi, 1982, Tables 10.7A, B, C, pp. 833, 834, 837.**

The period 1834 and 1866 constituted years of highest growth for both exports and imports particularly during the decade following 1850. The main impulse for expansion came from the outbreak of the Crimean War and the beginnings of large-scale railway construction in India. Following the Crimean War, the rupture of trade relations with Russia, which was a principal supplier of oilseeds, flax and hemp gave a fillip to the demand for substitute products from India, while the transfer of a large part of the railway capital raised in England inflated the imports. This trend of increasing exports continued into the following decades of the 60s. This time, the American Civil War and the opening of the Suez Canal in 1869 became the determining factors. The American Civil War created violent fluctuations in the export trade; India's exports doubled in value between 1860 and 1865 only to fall in 1866. (See Table 1A) Most of the fluctuations were the result of the shortage of raw cotton from American sources to British textile mills forcing the latter to rely on Indian exports causing cotton prices in India to rise steeply and a spectacular growth in demand for cotton.

There was a perceptible slowing down in the decades between 1870 and 1900. Two sets of factors were responsible for this trough. One was a series of famines and agricultural pressure in India and the other a prolonged depreciation in the gold price of silver, which caused the exchange value of the Indian Rupee to decline continuously until 1893. The devaluation in the Indian Rupee achieved what D. Rothermund has called the 'miracle of stable export prices' which stimulated and sustained India's foreign trade. Around 1900, the situation showed signs of improvement and a strong upward trend continued right through to 1911.

The two World Wars proved to be critical for India's export trade and its industrial experience. The First World War affected India's import trade more than the exports traffic. The cessation of trade with hostile countries and the dislocation of markets in Britain, France and Belgium caused an immediate decline in both imports and exports The revival of exports from 1916 took place in the context of increasing government war time demand for jute bags, hides and skins for the manufacture of army boots and greatly benefited Indian exporters. Imports on the other hand lagged in their rate of recovery although after 1919, there was a veritable upsurge in imports as well.

The boom in trade came to an end in 1920 and it was not until 1924 that the import trade began to revive once again. The world depression affected India's trade and by 1932, there was a serious decline in both exports and imports. The adverse terms of trade and the sheer absolute size of the decrease in foreign trade produced serious deflationary effects on the economy. The general recovery, which began in 1935, was checked by the two-year recession starting in the US in 1937. With the outbreak of the Second World War, there was a perceptible increase in the value of both exports and imports. The two World Wars and the depression of 1929 were among the most important single external events that influenced the structure of India's foreign trade and business.

If fluctuations characterized the course of India's overseas trade in the second half of the nineteenth century, the changes in its commodity composition were no less marked. As far as exports were concerned, major shifts took place in the composition of trade. India became an exporter of agricultural produce and an importer of manufactured products. The complete elimination of Indian handloom textiles from international markets, a development that began in the first decades of the century, was among the most visible change in the period under review. India was left to largely export primary commodities, which she exchanged for the advanced industrial products of the west and in the event became a classic case of a colonized economy.

Not that this eliminated all possibilities for economic gain and activity for indigenous merchants. In fact, as we shall see, the distribution of British goods was affected through indigenous mechanisms of marketing and retail controlled by a number of enterprising business communities.

The principal exports in the second half of the nineteenth century were food grains, jute, oilseeds, tea, hides, skins and cotton. Of these both cotton and jute which became the basis for industrialization were linked with war time contingencies that catapulted Indian exports into the world market. For instance, the story of cotton exports was linked with the disruption of American cotton supplies during the Civil War, and when Indian cotton emerged as an invaluable substitute. In terms of value share in India's total exports in the 60s, raw cotton accounted for 52.2%. The boom was an important starting point of a long-term change in the direction of the cotton trade in India. Even after American cotton exports resumed, India was able to keep up its own exports largely due to the growth of the textile industry in Europe. Added to this was the emergence of Japan who by 1913-14 had emerged as a major customer for Indian cotton using 45 per cent of the total exports. (See Table 2)

Table 2: Exports from India: commodity composition, percentage share of selected items in total export value, 1850-1 to 1935-6

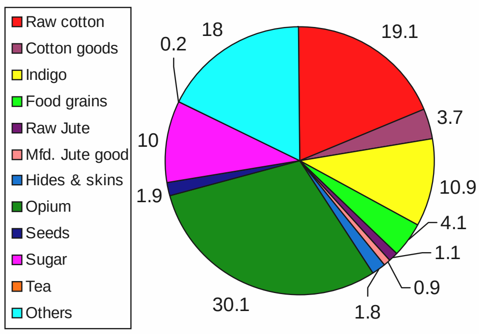
Year	Raw cotton	Cotton goods	Indigo	Food grains	Raw Jute	Mfd. Jute good	Hides & skins	Opium	Seeds	Sugar	Tea
1850-1	19.1	3.7	10.9	4.1	1.1	0.9	1.8	30.1	1.9	10.0	0.2
1860-1	22.3	2.4	5.7	10.2	1.2	1.1	2.0	30.9	5.4	3.1	0.5
1870-1	35.2	2.5	5.8	8.1	4.7	0.6	3.7	19.5	6.4	-	2.1
1880-1	17.8	4.2	4.8	17.1	5.2	1.5	5.0	18.2	8.6	-	4.2
1890-1	16.5	9.5	3.1	19.5	7.6	2.5	4.7	9.2	9.3	-	5.5
1900-1	9.4	6.4	2.0	13.1	10.1	7.3	10.7	8.8	8.3	-	9.0
1910-11	17.2	6.0	0.2	18.4	7.4	8.1	6.2	6.1	12.0	-	5.9
1920-1	17.4	7.6	-	10.7	6.8	22.1	3.5	-	7.0	-	5.1
1930-1	21.0	1.6	-	13.5	5.8	14.5	5.3	-	8.1	-	10.7
1935-6	21.0	1.3	-	-	8.5	14.5	-	-	-	-	12.3

Imports: Percentage share of selected Items in total value, 1850 to 1933-4

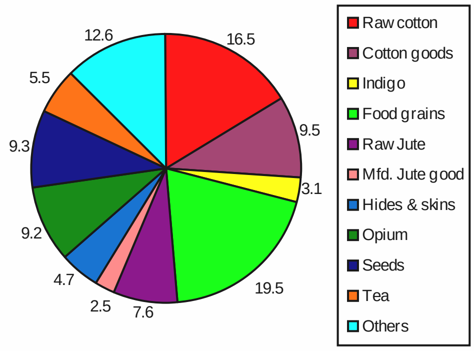
Year	Cotton twist and yarn (%)	Cotton piece goods (%)	Metals (%)	Machinery (%)	Railway Materials (%)	Mineral oils (%)
1850-1	9.0	31.5	16.8	-	-	-
1860-1	7.4	39.6	10.6	-	8.1	-
1870-1	10.1	47.0	8.1	-	4.4	-
1880-1	7.4	45.5	7.5	-	2.2	-
1890-1	5.2	37.9	8.4	3.0	4.5	3.3
1900-1	3.1	33.8	8.6	2.9	4.8	4.3
1910-11	2.3	31.2	11.2	3.7	4.6	2.5
1920-1	4.0	26.4	12.1	6.7	4.2	2.5
1930-1	1.9	13.5	9.7	8.7	-	6.4
1933-4	2.2	13.1	8.2	11.1	-	5.1

Source: ***Statistical Abstracts for British India, Cf.*** **Chaudhuri, K.N., 'Foreign Trade and Balance of Payments (1757-1947)', in Kumar, Dharma (ed.),** ***The Cambridge Economic History of India 1757-1970*****, Vol. II, New Delhi, 1982, Tables 10.11, 10.18, pp. 844, 858.**

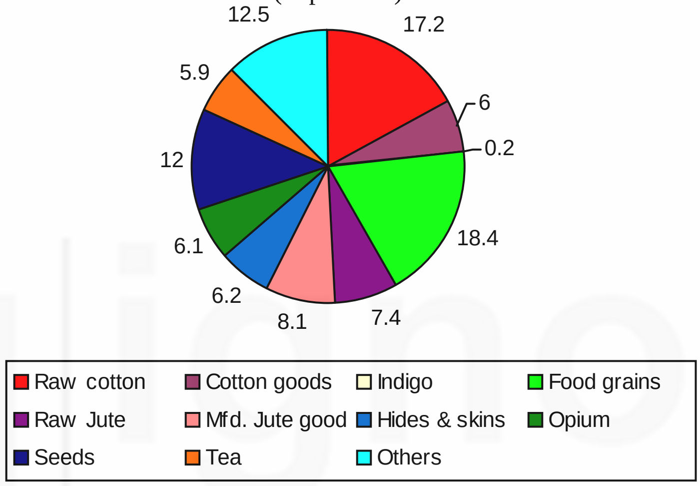
Exports from India: 1850-1
(in per cent)



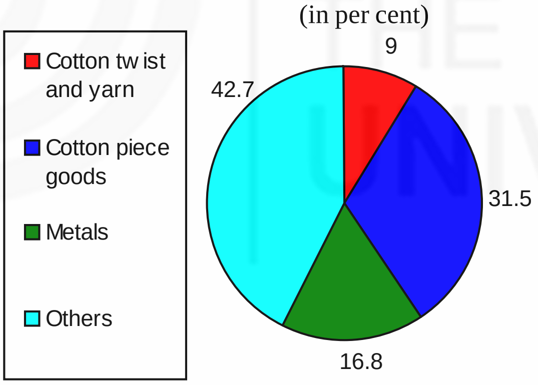
Exports from India: 1890-1
(in per cent)



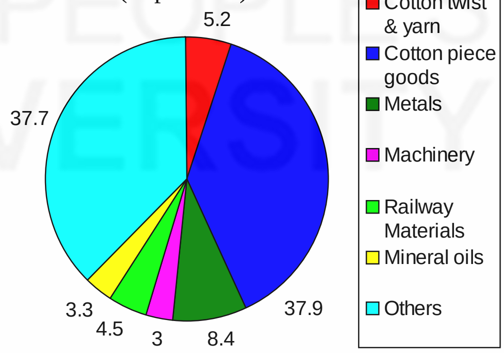
Exports from India: 1910-11
(in per cent)



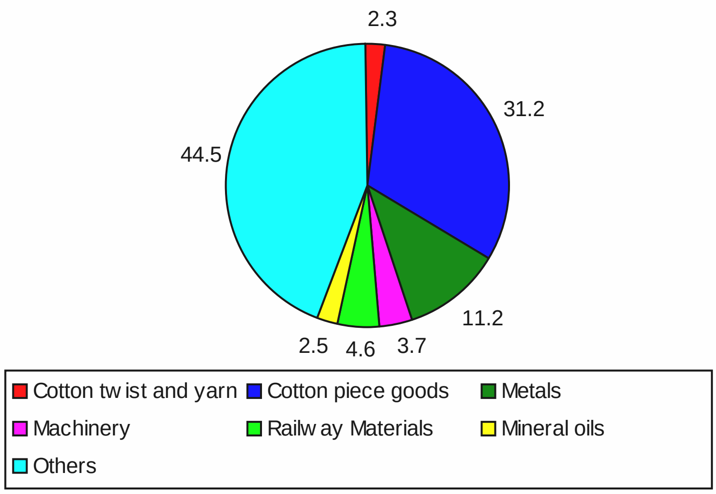
Imports from India: 1850-1
(in per cent)



Imports from India: 1890-1
(in per cent)



Imports from India: 1910-11
(in per cent)



Closely following on the tracks of cotton was India's export trade in food grains. During the fifty years preceding 1914, India possessed a very large export trade in food-grains, which accounted for 10 to 20 per cent of total export value. Indian wheat commanded an important market in Britain. After 1922, the wheat trade entered a phase of decline partly due to the increased demand for wheat in India itself and partly because of competition from other wheat growing countries.

Accompanying the increased level of trade in food-grains, was a growing demand for container bags. This generated a demand for jute as an export item, which in turn and over time led to the establishment of India's second major manufacturing industry in this period. The principal catalyst for the initial expansion of jute was the Crimean War that disrupted supplies of Russian hemp and flax. In the 1880s, according to K.N.Chaudhuri, India took a lead in the export of finished bags eliciting the resentment of Dundee (in Scotland) mill-owners who in the early years of the twentieth century complained of Indian competition in the American and Australian markets. Between 1900 and 1914, the industry in Bengal was unusually prosperous and both exports and profits in these years were exceptionally high. (See Table 2A)

Table 2A: Invoice amount of investments from Bengal, from season 1766 to 1780

	Piece goods	Silk	Saltpetre	Drugs	Total
In season					
1766	£329,498	£91,602	£14,123	£2,288	£437,511
1767	415,774	132,596	12,345	4,746	565,461
1768	500,797	137,299	16,071	4,171	658,338
1769	576,281	142,328	17,733	5,944	742,286
1770	451,152	160,337	16,606	5,570	633,665
1771	571,542	170,457	21,452	5,007	768,458
1772	697,778	136,270	24,275	7,555	865,878
1773	508,622	94,431	22,306	7,213	632,572
1774	466,944	160,016	14,262	7,645	648,867
1775	659,255	239,514	23,968	10,100	932,837
1776	446,277	318,406	16,736	7,104	788,523
1777	614,539	434,268	23,971	9,455	1,082,233
1778	595,079	633,836	23,252	14,057	1,266,224
1779	563,675	481,862	26,146	10,770	1,082,453
1780	639,938	554,237	34,911	25,872	1,254,958
	£8,037,151	£3,887,459	£308,157	£127,497	£12,360,264

***Source:* *Ninth Report of Select Committee, 1783, Appendix 6. Cf.* Chaudhuri, K.N., 'Foreign Trade and Balance of Payments (1757-1947)', in Kumar, Dharma (ed.), *The Cambridge Economic History of India 1757-1970*, Vol. II, New Delhi, 1982, Tables 10.2C, pp. 819,**

Of the three remaining exports, seeds, hides and skins, and tea, the first was next only to cotton and jute in total exports and before 1914, India was the world's largest supplier of rapeseeds and groundnuts. Unlike tea, the trade in hides and skins and oil seeds was not new. It was tea that was a classic example of import substitution from a non-colonial to a colonial era. The industry owed its existence entirely to British capital and enterprise. The real expansion for tea as a significant item of export came in the 1880s.

The structure of India's imports remained stable through out the period. Miscellaneous items made up India's imports. A variety of Asian products such as coffee, Chinese tea and sugar and spices from Southeast Asia constituted one category. The second group consisted of European luxury goods and finally there was an entirely new class of articles of mass consumption, namely textiles, metal goods, paper and glassware. Cotton textiles accounted for the bulk of the imports, which fell off only towards the end of the First World War. With the maturing of Indian industry and the emergence of Japan as one of the most efficient producers of cheap cloth, the monopoly of Britain in the Indian market was definitely broken.

India's exports far exceeded that of imports and yet India remained in trading deficit with Great Britain. This was a consequence of the nature of the imperial connection that tied India to Britain and that imposed on the colony the burden of Home Charges that included the administrative and defense expenses incurred by Britain. As Rupee prices fell continually, the payment of the tribute to Britain generated an increasing quantum of unrequited exports of primary produce from India and the effects of railways and integration into the world market remained partial and limited.

27.3 INTERNAL TRADING NETWORKS

If overseas trade represented the visible face of the colonial economy and its functioning and enabled an integration of the subcontinent with the larger global economy, it was the internal trading network that provided the critical scaffolding for India's export trade and for the subsequent development of Indian industrial enterprise. Until the emergence of the modern industrial sector in the aftermath of the First World War, indigenous merchant communities remained largely confined to what Rajat Ray has called the world of the bazaar, which was distinct from the world of modern business and industry but which remained closely inter-related. The bazaar was aligned to internal trade, especially to the marketing of agricultural produce, the financing of inland trade in commodities, the facilitation of movements of artisan production and peasant crops. Operating the bazaar were bankers or shroffs and commission agents or *arhats*. The former used bills of exchange or hundis to finance and market the trade in agricultural produce as well as the marketing of imported goods. The size of their operations was impressive and enabled them to accumulate capital and forge long distance connections in the inland market, and which proved critical when they made the transition to industry.

Even historically, India's inland trade had strong links with maritime trade. The opening of the country through the railway network made the links even stronger. The development of the railways under colonial rule both expanded and diverted the movement of goods in the interior. For instance, the Great Indian Peninsular Railway diverted cotton traffic that had in the eighteenth century moved along the Ganges river to Bengal was diverted from Nagpur in central India to Bombay. In the process old routes dried up. Boat and steamer traffic down the Ganges and Jamuna dwindled as the East Indian Railway ran up the Gangetic valley to Agra. The inland trade of India came to flow through the railway network that was essentially oriented to the export trade controlled by imperial interests, and which enabled the two leading foreign firms – Ralli Brothers and Volkart Brothers to set up buying organizations far into the interior of the country. Even though admittedly, the railway network was intended to facilitate the operations of European export interests, the establishment of a far reaching network of distribution channels stood Indian merchants and middlemen in good stead as they worked in the capacity of brokers and upcountry dealers. However, this is not to deny the evident hegemony of the foreign firms who had the pick of the business or that indigenous firms tended to operate in areas in which foreign firms found either more risky or not sufficiently lucrative in terms of profit margins.

In addition to the trade in agricultural products that followed the railway network and serviced the export economy, there was the caravan trade to central Asia. We have a compelling description of this trade operated largely by peddlers from

Neeladri Bhattacharya's work (2003). This trade brought into India from Bukhara and Samarkand, Persian carpets, currants, dyes, saffron, goat and camel hair, sheep skins and dyes from Kabul and furs, horses, manna, wool and bullion from Bukhara. The return trade was in English cotton piece goods, silks, chintzes, spices, drugs,, medicines and Kashmir shawls. There were shifts in this traffic as well in the period under review; for instance, the fine horses of Bukhara no longer commanded the same prices in the later nineteenth century. Imports of silks also shrank, while those of dried fruit, fur and skins went up. Among exports, cotton manufactures and tea gained ground together accounting for 60 per cent of the total value of exports to Afghanistan and Iran in the 1940s. By the second decade of the twentieth century, over Rs.3 to Rs. 4 lakhs worth of charas (medium of payment) was annually coming into Punjab through Ladakh, constituting 55 to 65 per cent of the value of imports; raw silk, borax, wool, horses and ponies accounted for the rest. Among exports again, tea and cotton goods became important, the former accounting for 25 to 30 per cent and the latter 55 to 65 per cent of the total value.

No account of India's trade in the period under review will be complete without reference to the movement and migration of Indian merchant capital into the world of the Indian Ocean. As we know, between 1750 and 1850, the merchant world of India had gone through a complex process of regrouping and had undergone major reverses especially in the sector of foreign trade. During the first colonial century, there was undoubtedly a massive fall in the share of India's foreign trade controlled by its indigenous traders. However, the latter had whenever possible responded to opportunities, functioning as collaborators with British private merchants. This collaboration proved particularly significant in the case of the opium trade, which became one of the most important sources of capital accumulation for many Indian mercantile groups – the Malwa soucars being a case in point and so vividly described by both Claude Markowitz and Amar Farooqi.

Rajat Ray has in an important essay (1995) argued that even in the era of 'high imperialism', i.e. the 1858-1914 period, Indian merchants continued to play a role in international trade, which was not purely residual. While the trade between India and Europe was monopolized by British business, the trade of India with the rest of Asia and Africa remained with the Indians. Trade with Southeast Asia increased considerably in the second half of the nineteenth century – so did the trade in the western Indian Ocean. It is to this sector of Asian trading enterprise that we shall now turn our attention.

27.4 MERCHANTS: EUROPEANS AND INDIANS AND THE RACIAL DIVISION OF ECONOMIC SPACE

The configurations of the Indian trading economy in the high noon of Imperialism were determined by the communication and transport revolution that accompanied colonial rule in the nineteenth century. Dramatic changes in shipping and transportation embodied by the railways and steam shipping fundamentally altered the organization and finance of Asian trade and gave Western capital mastery around the 1870s. The great liners swept the high seas displacing the sail ships and enforced a monopoly by the formation of rings among themselves, (also called Conferences) from about 1875. This was accompanied by telegraphic communications that provided the basic conditions for forwards trading on a large scale. The large European firms extended their grip over the commerce of the east, selling cargo several months ahead, did their import and export business on the principle of simultaneous operations. What this meant was that as soon as a firm purchased produce in India, for a price fixed in rupees, it simultaneously sold its bill to an exchange bank, fixed the exchange in pounds, and engaged the freight with the shipping line. Three operations were necessary to fix the sterling price of produce ahead of delivery – the price of rupees, the rate of exchange and the rate of freight – all fixed simultaneously for a small margin. Under these altered circumstances, the Asian merchant consigning goods on a ship for whatever these might fetch at a port of call were over. Only large firms with a base in the metropolitan country, that is Britain could operate in such complex conditions. (Conferences were in essence monopoly rings to exclude all competitors by such means as rate wars and deferred rebates. Supported by government contracts for carrying mail, the P&O Company and the British Indian Steam Navigation Company grew into giants and dominated the coastal and overseas shipping of India. Formed in 1875, the P&O Company formed the first ring called the Calcutta Conference, with a few other steam ship lines of London, Glasgow and Liverpool to prevent all comers from entering their preserve. The system was extended to China in 1879.

Working in tandem with the shipping conferences were European Managing Agencies and Exchange banks that in their new incarnation completely distanced themselves from Indian collaboration. Early exchange banking had been located in India with strong Indian partnership; now they shifted their headquarters to London beyond the reach of Indians. Indian directors were shut out. The banks monopolized the financing of India's export trade that was concentrated in the hands of the shipping Conferences, the managing agencies and the exchange banks. The managing agencies closely financed and supported by the banks were engaged in extensive imports of manufactured goods and in exporting raw cotton, jute, gunnies, hessian, cotton yarns, grains and seeds, tea and a variety of country produce from India.

The increasing racialisation of the economic space whereby Europeans dominated the uppermost tier of the trading structure meant that Indians were necessarily pushed into a corner. How did they respond and what were the options available before them? Prevented from competing with the Europeans, they turned inwards and concentrated on inland trade that fed and serviced crucially the export import lines. Trading communities like the Marwaris and Gujaratis emerged as principal distributors of British imports and as the major players in the marketing of agricultural goods in the subcontinent. Taking advantage of the spreading railway and telegraph network, Marwari and Gujarati trading communities stepped in to finance and market the trade in agricultural products and import items. This provided the context both for the emergence of what Rajat Ray has called the Bazaar economy that was segregated from the consolidated enclaves of European banks and corporations.

The most important class of merchants in the inland trade of India were the Marwari shroffs or bankers and commission agents (*arhatiyas*) who controlled the flows of money and produce in the *mandis* or market towns of the interior. The *arhatiyas* were distinct from ordinary brokers in that he guaranteed the bills or *hundis* through which trade transactions were made between buyer and seller. The *arhatiya*, functioning as a link between the buyer and seller, gave a contract of guarantee, undertaking that delivery should be taken on due date or given at the price at which the order was accepted failing which he would be liable to pay the difference. The *arhatiyas* controlled the expanding grain trade and financed the smaller merchants or *beparis* who brought the grain to the market towns The *arhatiyas* maintained grain stores and speculated on the difference of grain prices between distant market towns. The larger commission agency houses were bankers, acting for merchants from other areas and allowed them to draw credit for their business transactions. The system of interlocking commission agencies formed a network through which long distance trade and credit developed in the interior of the country into a dense web in course of the nineteenth century.

The prominence of the Marwari merchants in the mid nineteenth and twentieth century dated from the first decades of the nineteenth century, when they developed for the first time the futures trade in opium. The fluctuations in opium prices together with the unstable exchange between India and China made the opium market particularly favourable for high speculation. Regular Marwari opium futures trading in Bombay started in the 1840s while in Calcutta it developed from the 1860s. Huge fortunes were made in opium speculations with the result that the community was well placed to enter the money market and subsequently develop speculation in the stock market.

The banking business and the merchants associated with it underwent a major transformation in course of the nineteenth century. It may be recalled that until the establishment of the official British system of treasuries and a uniform silver coinage, the hundis of Indian bankers had functioned as critical instruments in the remittance of funds during times of peace and war. After 1860, the situation changed and the *hundi* became a pure trade bill, a means by which bankers financed and facilitated the rapidly increasing flow of inland trade along the railways.

The emergence of the bazaar in the context of expanding internal trade as a distinct but inter-related sector of the colonial economy demonstrated the vitality of Indian business, that was able to carve for itself an important niche in the transformed trading economy of colonial India. The bazaar was not, in any sense a marginal or inferiorised strata in the business world of India – like the European banking sector, it dealt with financial instruments and mobile credit and financed the *arhatiyas* or commission agents and functioned as a parallel interlocking system of trade, exchange and credit.

The link between the bazaar and the European exchange banks, was however tenuous. There was no unified money market in India and different rates prevailed in each of its three segments. The money employed in native banking and commerce, the money employed in European commerce, and banking and the metallic currency issued by the Government of India and partly kept in reserve in treasuries. Whereas the money circulating in the first two sections consisted of paper, the money in use among the people was in metal. The usurious rates at which the common people obtained loans had no relation whatever to the rates of mobile money at the command of banks and the bazaar.

The two most important Marwari banking firms in the nineteenth century were Tarachand Ghanshyamdas and Bansilal Abirchand, both of whom began with opium and cotton speculation. In the 1920s, the banking house of Bansilal Abirchand with their headquarters at Nagpur commanded a huge network of more than thirty branches spread over the Bombay Presidency, central India, Bengal and Madras Presidencies and the princely states of Rajputana, Hyderabad and Mysore. The Poddars of Ramgarh who owned the firm of Tarachand Ghanshyamdas, had at their command an even wider network in India to help distribution of Burma Oil.

The accumulation of capital and skill and commercial intelligence enabled indigenous merchants to discover new avenues of commercial gain and discover new possibilities for export business that was at one level, outside the strict confines of the colonial economy and at another was part of the integrative operations of the capitalist world.

Contrary to the generally held assumption that Indian capital was unable to penetrate the capitalist world economy dominated by the Western powers, recent scholarship has established the importance of Indian capital movements and migrations in the nineteenth and twentieth centuries. While admittedly the international trade of Asia in the later nineteenth century was monopolized by European and American banks and shipping corporations, Asian shipping and capital was able to find a new sphere of activity in inter-Asian trade. As the volume of exchanges along the coast of Asia and Africa increased steadily with the concentration of cash crops in areas of natural advantage and with increasing imports of food into these areas, Indian capital found profitable outlets in financing the trade in food grains and textiles to Africa and Asia. Furthermore, like the Chinese, the Indians who had a long tradition of experience and expertise in handling money and brokerage, were able to take full advantage of the internationalization of the economy. Thus it was no coincidence that trading communities like Chetties of South India should have moved into Burma from where the export of rice created a new trade in money. Similarly the business in money arising from the export oriented clove plantations in and around Zanzibar was monopolized by enterprising Gujarati merchant communities.

27.5 THREE MERCHANT COMMUNITIES: CHETTIARS, MARWARIS, SHIKARPURIS

The Nattukottai Chettiars were among the most important and impressive participants in the pan-Asian bazaar economy that functioned in tandem with the colonial economy controlled by European capital and enterprise. To this community goes the distinction of having opened 'Lower Burma' to commercial agriculture. Emerging as intermediaries between the native cultivators who had neither access to capital nor expertise in handling credit and the colonial economy, they became indispensable to British banks.

Historically the community was known to have engaged in extensive money lending to the Sivaganga and Ramnad *zaminaris* on *hundis* and mortgages and in marketing and financing the grains collected as rent in these two estates. As early as the 1830s they were attracted to Ceylon and the Straits settlements and subsequently after the British annexation of 1852 to Lower Burma. There they quickly built up their liquid reserves and concentrated their capital on overseas credit operations in four zones, namely, Burma, the Federated Malay States, French Cochin-China and Ceylon.

The overseas expansion of Chettiar finance and banking started with Ceylon, where their initial business involved supply of rice and piece-goods from India, pawn-broking and shop-keeping. These activities subsequently led to banking and trade in money which accompanied the development of European plantations. Until the 1840s, European planters were dependent on Chettiars for their exchange operations. The planters who obtained sterling bills on London for shipments of coffee, converted the bills into silver rupees, the current coin of Ceylon, through the agency of the Chetty bankers. The Chetty bankers shipped silver rupee coins on native vessels for which they paid a shipping charge of two rupees per bag of rupees brought from India. With the entry of the Oriental Bank in 1847, the Chetty bankers lost this branch of commerce and reoriented their ventures by stepping in as intermediaries between European exchange banks and native Ceylonese borrowers. The exchange banks made large advances to the Chettiars for short term periods at two or three per cent above the bank rate and the Chetty bankers in turn made advances to local Ceylonese at a margin of three per cent.

In Southeast Asia, the Chettiars operated initially as traders selling lungi cloth dyed on the Coromandel coast to the Malays. With the annexation of Lower Burma by the British, the Chettiars moved in as moneylenders and as financiers of the rice trade. By the beginning of the twentieth century, the Chetty network was widespread in Burma, its headquarters located in Mogul Street in Rangoon and connected closely with four principal upcountry markets – Mandalay, Bassein, Henzada and Moulmein, which acted as the principal channels for the movement of funds to the Chetty banking establishments distributing loans for the rice crop in the interior.

The banking business of the Chettiars sustained a huge expansion in the twentieth century and on the eve of the Great Depression, their business had increased five times over – with 1650 firms operating a working capital of 750 million rupees. It was in the same period that Chetty capital moved to new and profitable areas of investment. As Singapore became important, the Chettiars turned from peddling in Coromandel cloth to large-scale financing of opium imports from India which in turn led to banking. This was undertaken in close collaboration with the European exchange banks – the Chetti opium importers formed an important channel through which the paper notes of the exchange banks circulated in the straits.

The movement of Chetty capital and enterprise was not an isolated phenomenon. Like the Chetties, Gujarati merchant communities spearheaded an impressive movement of capital into the western Indian Ocean. Bhatias, Khojas and Cutchi Memons came into prominence in the second half of the nineteenth century, when they established themselves in all the major ports of the Arabian Peninsula. Originally grain sellers, these communities began migrating into Bombay in the latter decades of the eighteenth century and went on to form merchant colonies in Muscat, Aden and Zanzibar. The substantial trade that developed between India and east Africa and centered primarily on Zanzibar was largely a preserve of various groups of Gujarati merchants. Trade with the Middle East, particularly with the Persian Gulf remained also an important area of activity for many Indian traders from Kutch and Kathiawar, Sind, Gujarat proper and Bombay.

The movement of Gujarati capital and enterprise while driven by the imperatives of the colonial economy was clearly able to carve for itself an important domain of autonomy in the trade of the Indian Ocean. Their chief function was to distribute Manchester cloth in Arabia and Africa. Later in the period, the Japanese relied on their network as well and eventually the Bombay mills used the same agency to push their products in the Red Sea zone.

The regular steamship service between Bombay and the Persian Gulf made Bombay the principal market from which the Arab countries and Iran purchased goods. The vitality of Gujarati merchant enterprise in Bombay had been consolidated through the nineteenth century, with the result that they were able to step in as critical intermediaries in the trade. With their strong position in Bombay, built up through family connections, they built up an extensive network for the distribution of goods in the Western Indian Ocean. The marketing network that they built up fell into three zones: the Persian Gulf, the Red Sea and the coastal stretch of Africa from Zanzibar to Mozambique. In the Persian Gulf, their main centre was Muscat, where a settled Indian community conducted an active trade with India in rice, grains, spices and coffee. As early as 1840, Muscat boasted of a strong Indian community (some 2000 Indian merchants). In the succeeding decades, this settlement became more entrenched. Indents for Manchester goods were sent by the Muscat Gujaratis to their Bombay agents who placed the orders with the shipping forms in Bombay. The Bombay agents made payments against the bill of lading and then drew *hundis* on their Muscat correspondents at 21 days at a commission of 2 per cent. Bahrein and Kuwait were two subsidiary centres of Gujarati trade in the Persian Gulf. Shells and pearls were the principal items that entered this trade.

On the Red Sea, Aden dominated the trading network. Its imports of piece goods and yarns were sizeable and its trade stretched beyond the British settlement. Three or four large Indian firms in Aden, with branches in Bombay and Djibouti controlled the entire import of yarn and piece goods and distributed it on the other side of the Red Sea.

In East Africa, the Gujarati trade zone centering around Zanzibar extended to Mozambique in the south and to Kampala in the north. Resident Gujaratis imported a variety of Indian goods - rice, piece goods, wheat and flour from India and exported cotton, cloths and ivory to India. The typical Gujarati firm in Zanzibar had a branch in Bombay that undertook the business of importing piece goods from a local piece-goods merchant on cash against documents, and of shipping the goods to the Zanzibar office on credit. Thereafter, the Zanzibar office would, instead of making cash payment to Bombay, utilize the proceeds of sale for purchase of cloves for the Bombay market. The Zanzibar Indian firms also dealt in Manchester goods and Japanese goods. In Zanzibar, the Gujaratis importing and wholesale firms passed on the imported goods to Indian retailers who formed a network in the country. Credit for 90-120 days was readily extended to this secondary network – a nexus so dominated by Gujarati capital that the foreign firms made no attempt in Zanzibar to obtain direct access to the markets. The importance of Zanzibar declined in course of the twentieth century making way for Kampala to emerge as the principal centre of the Gujarati network.

A third merchant diaspora studied recently by Claude Markovits was constituted by the Shikarpuri merchants and Sindworkis who operated very different networks. Shikarpur was the centre of a financial network which developed in the second half of the eighteenth century following the rise of the Durrani empire (in Afghanistan, 1747-*c.*1823-6). The decline of Durrani power did not entirely deflect Shikarpuri enterprise for taking advantage of the capital that the merchants had accumulated, they were able to take advantage of a new surge in Indo-Central Asian trade from the 1840s to build a far-flung network based on the financing of the caravan trade and on the close links with the Uzbek Khanates of central Asia. This was a network that functioned quite independently of the British connection and was able to maintain it until the Russian revolution. The case of the Sindworkies was quite different. Hyderabad in Sind was home to a community of bankers and merchants who had close links with the Amirs of Sind and who were overthrown by the British in 1843. Undeterred, the Sindworkis exploited the growing commercial connections between Sind and Bombay to embark upon a new venture, namely that of selling local craft productions to a European clientele, first in Bombay, then in Egypt and then worldwide. These two networks, a study in contrast had many features in common in that they both used ‘traditional’ forms of business organization and of accounting techniques. At the same they, at least the Sindworkies operated in conditions of a global economy.

27.6 MERCHANTS' ORGANIZATIONS AND BUSINESS STRUCTURES

How does one explain the relative success of merchants in colonial India? Historians have suggested that the success of merchant communities like the Chetties, the Gujaratis and the Sindhis were largely to do with the community structure, their accounting system, partnership arrangement, agencies and communal mechanisms of bazaar rate determination. In the case of the Chetties, whose business organization and practices have been studied by David Rudner. Their community structure provided a firm foundation to the commercial organization of the Nagarathars. The Nattukottai Chetties called themselves Nagarathars because the community was divided into nine *nagarms* (townships) with a temple at the head of every such unit. Each temple levied a tax on every married couple assigned to it. Among the member thus apportioned, the *nagaram* settled disputes out of court by arbitration.

Their system of accountancy was the double entry system of bookkeeping in which Chetty boys were trained from year 8. Sons of rich parents were apprenticed to learn business in firms that did not belong to their parents. Chettiar firms generally were partnerships between relatives through marriage. The same Chettiar male could be partner in several firms, which gave rise to a system of interlocking partnerships across the four zones.

A characteristic feature of Chetty enterprise was the system of agencies and inter-bank system of accounting. An agent entered into the banker's service on a three-year contract and before setting out for his overseas destination received an advance in salary that amounted to Rs.300 for Burma in contrast to Rs.100 for Madras. On his return, he got a net ten per cent share in the net profits if he was considered industrious during his agency. Auditing of accounts was done triennially while control of the agent was maintained by examination of weekly or monthly dispatches of the book extracts and issue of instructions by correspondence. Six months before the expiry of the agency, the new agent was sent to learn the business and familiarize himself with local business conditions. The agent then returned home, settled accounts and resumed his engagement either with his earlier employer or with another banker, or start business on his own. Under such a complex and interlocking system, Chattiars were found to act in multiple capacities, either as partners banking on their account or agents of their caste men.

The Chetty banks adopted among themselves the inter-bank system of accounting. This involved crediting and debiting interest with each other at the end of the year after exchanging a memorandum of interest calculations accepted by both parties before adjustment was made in the books. Chetty inter-bank rates varied every month according to seasonal demand. Overseas Chetties fixed the current rate every month at an assembly in a special building where each banker secretly indicated his figures to a chairman who announced the average and arrived at the rate in accordance with the demand and supply for capital among the Chetties and the bank rate then prevailing. The community also made use of weekly meetings to fix the thavanai rate or the interest on deposits from outsiders.

Among Gujarati businessmen as well as the Sind merchant networks, the business organization remained strongly centered round community ties. Markowitz mentions the workings of the *shah-gumastha* system in connection with the Shikarpuri merchants. Distinguishing it from the Chetty system where Markovits argues the agents were not partners in the same sense as the Shikarpuri *gomasthas* (agents). The system originated before the eighteenth century but by the 1840s it was firmly in place in Shikarpur. It allowed a small groups of bankers located in Shikarpur to control financial and commercial transactions over an extensive area. The *sarraf* or the banker was the merchant capitalist or shah who advanced the funds to his agents or *gumasthas*, who were remunerated in the form of a share in the profits of the financial and commercial operations they undertook for him. Once in central Asia, the *gumasthas* started their own business and became *shahs* in their own right. The basic function of the system was to ensure a regular supply of capital for long distance financial and commercial ventures. The *hundi* was the cementing mechanism in the network – within the Shikarpur circuit *hundis* were honoured on sight. In Hyderabad on the other hand, among the Sindworkies, there developed a kind of dual system that combined features of the *shah-gumastha* system with that of European commercial partnerships. These were associations of several *shahs* or capitalist partners with several *gomasthas*. The firms had head offices and branches and demonstrated exceptional longevity.

27.7 SUMMARY

What is one to make of the story of Indian trade in the global economy of the late nineteenth and early twentieth century? Obviously it cannot be detached from the reality of colonial subordination and the imperatives that the colonial connection engendered. Without discounting the dynamism and resilience of Indian merchant capital and initiative in working the regional and global economy of the period, it must be kept in mind that the workings of colonialism undermined the full potentialities of trade and its prospects for industrialization. Historians have debated at length the impact of colonialism on the Indian economy. Despite the significant additions made to our understanding of the subject, there is little doubt that the workings of the colonial economy were instrumental in restricting the basis of the Indian economy and slowing its take off. Tapan Raychaudhury for instance drew attention to the fact that the so called integration into the world economy by means of railways was largely if not exclusively oriented to foreign exports that favoured British capital and led to the growth of enclaves with very little linkage effect. By developing in enclaves, foreign activity created for itself a separate leaving a subordinate one to the traditional businessman. More recently, Rajat Ray who argues that it is too simplistic to posit a simple opposition between a modern European dominated world economy and an Asian bazaar economy has contested this dualist characterization of the Indian economy. In his view there emerged within the world capitalist economy, a specific sub-formation, namely the bazaar which was clearly subordinated to the former but which nevertheless adapted itself successfully to the world economy dominated by Europe. A third view is that of Markovits who accuses Ray of remaining dualist. For him, what is more important is to identify the specificities of the local situation that enabled some Asian merchant networks to adapt successfully and not see them as a form of global sub-formation within the international economy. Each network found its place within the global order through a complex process of negotiation that involved conflict as much as collaboration.

The linkages between trade and early industrialization were important. The proceeds from opium and cotton speculation in Western India formed the capital base of both Gujarati bankers as well as Parsis who founded the first textile mills in Western India. One of the characteristics of trader-industrialists, especially the bazaar industrialists was the combination of bazaar transactions while expanding into the modern sector. Bazaar industrialization, according to Rajat Ray, remained strictly limited for it catered to the domestic market primarily and here the poverty of the masses was a major constraint. The one way free trade policy which India was forced to adopt retarded the industrial development of India. The base of the industrial sector remained narrow and this meant that enormous technical and infra-structural constraints had to be overcome before industrialization could take off.

27.8 EXCERCISES

1) Analyse the changing pattern of India's trade during the second half of the 19th century.

2) What role did the India merchants play in India's trading economy during the late 19th century?

3) Analyse the impact of railways on Indian markets and merchants.

4) What accounts for the dynamism of the 'bazaar economy' in the colonial period?

5) Analyse Chettiar participation in the 'pan-Asian bazaar economy' during the second half of the 19th century.

6) Discuss the operation of the Gujarati merchants in the Oceanic trade during the second half of the 19th century.

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M.A. History

List of Courses

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MHI-05 History of Indian Economy

Block-wise Course Structure

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