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Asian Capital in the Age of European Domination: The Rise of the Bazaar, 1800–1914

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I. A Dual Economy?

There was a time when the economic confrontation between East and West was perceived as a confrontation between Gemeinschaft and Gesellschaft. 'East is East and West is West, and never the twain shall meet,'—thus wrote J. H. Boeke, quoting Rudyard Kipling with warm approval. The notion has since been undermined by deeper explorations into the history of the Chinese and Indian merchant bankers, and the Jews of the Islamic world. Over large parts of Java, with which Boeke was most familiar, there was indeed a sharp contrast between the local communal economy and the sophisticated capitalism of the Dutch colonists. It appeared an inevitable process of history that the Dutch corporations should subjugate the petty Javanese communities of princes, peasants and pedlars. It was also taken for granted that the phenomenon was general and that European gesellschaft did not confront and conquer such petty gemeinschaften in Java alone. But when the individual studies of the Chinese, Indian and Islamic–Jewish long-distance trade and credit networks are seen in over-all perspective, the impression that emerges is one of confrontation, at the higher level, between two gesellschaften: one of European origin, the other Eastern. Nor does it appear to be the sort of outright collision that simply resulted in the latter being broken up and relegated to a corner. The idea nevertheless persists that the 'bazaar economy' of the East was a debased, fragmented and marginal sector absorbed and peripheralized within the capitalist world economy of the West.

Even a brief tracing of the line of descent of the idea will show how it has been so persistent. At the time when Boeke developed the theory of the dual economy, the historical researches of his contemporary,

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J. C. Van Leur, yielded a picture of Asian trade that contrasted sharply with the trade of Europe. In Van Leur's view the international trade of Asia before the coming of the Europeans was a trade in high value products by a numerous body of pedlars whose individual transactions were small. They operated separately in countless different markets isolated from one another and rendered extremely unstable by the seasonal character imparted to the markets by the monsoon winds. These factors dictated person-to-person haggling, retail sales, purchases in small quantities, fluctuating prices, and the insignificance of wholesale trade as a regulator of prices. In early Indonesian trade with the Arabs, Gujaratis and Chinese, Van Leur found no true wholesale traders, except some court notables backed by state power.

A large number of pedlars with small cargoes and small capital, a limited number of ships and a resultant over-abundance of 'shipper-passengers', products in small quantities, long trading periods, as many markets as there were towns and ports, each one with its own money, its own weights, its own measures, its own customs: from these alone the character of international Asian trade can be imagined.[1]

Van Leur's historical sketch of the Asian pedlar was paralleled by Boeke's economic theory of two separate economies in Asia under Western domination. Boeke conceived a dual society in which a developed capitalist enclave imported from the West coexisted—in a state of contradistinction—with an indigenous pre-capitalist economy. The capitalism of the West was to him a 'philosophy of life' finding expression 'in rationalism, in the tendency to make self-interest our lodestar, in the limitless multiplication of wants, in exchange trade and traffic, in industrial enterprise with capital as basis and profit as aim, in a sharp distinction between business and household and a continuous narrowing of the latter, in the commodity character of all products, in a steadily growing division of labour with its counter-part: organization and planning, in contracts and corporations.' He contrasted it with Eastern 'pre-capitalism,' in which he found the following features:

communalism, original organic social bonds, *Gemeinschaft*, traditional class distinctions—a man is born to occupy a certain social status and never dreams of trying to get into another; individual needs, at least those of the masses, are limited and modest; little or no exchange; goods, not commodit-

[1] J. C. Van Leur, *Indonesian Trade and Society. Essays in Asian Social and Economic History* (Bundung, 1955), pp. 214, 132–5, 201–7.

ies, are produced; production is in and for the household; there are no professional traders; the family, the joint family is the basic unit in respect to both production and consumption; people may work together but there is little division of labour; economic organization is mostly entirely lacking; and finally economic and non-economic motives are intimately commingled, economies still being secondary, subordinate to religion, ethics and tradition.[2]

This is a stark picture, corresponding more to the feudalized Frankish realm under Charlemagne's successors than to the Ottoman, Safavid, Mughal and Ch'ing empires. Even the intermediate social period of transition from pre-capitalism to fully developed capitalism—the 'early capitalism' of the West with its craft guilds and local capital—was, in Boeke's view, a period altogether missing in Asian history. While conceding the existence of Chinese and Indian business groups in Southeast Asia which exhibited some of the features of early capitalism—viz., 'handicrafts pursued as professions, exchange within the limits of a local market, unorganized industries with little capital, urban economy, in their associations a transition from the communal to the corporate, from the clan to the Kongsi'—Boeke maintained, quite contrary to the facts, that such merchant communities were not independently sprung from an older Asian phase of historical development, but were on the contrary 'the bastard products of fully developed Western capitalism', serving merely 'to bridge the chasm that yawns between pre-capitalism and high capitalism.'[3]

More recently Niels Steensgaard has re-emphasized the large number of retail transactions in the Asian trade of the seventeenth century.[4] Standing out in bold contrast with the dreary Asiatic scene is Immanuel Wallerstein's burgeoining 'capitalist world economy' which expanded outwards from Northwestern Europe around the same time. Wallerstein is careful to posit the existence of world economies before this, especially those of Islam and China. But in his view the distinction lay in the fact that these were pre-capitalist systems wherein economic relations were determined not by market mechanisms but by the redistributive action of the central state power. Such pre-capitalist world economies are assumed to have been fractured, peripheralized and absorbed within the all-embracing sweep of the capitalist world economy centred on the Atlantic

[2] J. H. Boeke, *Economics and Economic Policy of Dual Societies as Exemplified by Indonesia* (New York, 1953), pp. 12–14.

[3] *Ibid.*, p. 15.

[4] Niels Steensgaard, *Carracks, Caravans and Companies* (Copenhagen, 1973), *passim*.

community.[5] It follows that, having ceased to exist, they have no further history. The attention then shifts automatically from Boeke's 'pre-capitalism' and Van Leur's 'pedlars' to Clifford Geertz's notional construct of the 'bazaar-economy', a phenomenon his sociological explorations profess to have uncovered in contemporary Java at one end, and contemporary Morocco at the other. Oblivious of the sense in which the bazaar is described in official documents, Geertz proceeds to characterize it as a type of economy in which the total flow of commerce is fragmented into a very great number of small and isolated person-to-person transactions conducted through a multiplicity of small enterprises operating amidst erratic prices with unsystematic, clumsy and unanalytical accounting and lacking the capacity for organization that would enable them to create effective networks for exploiting untapped market possibilities.[6]

Nothing can be further from the sense in which the bazaar is understood in those parts of Asia where the term is used extensively enough to find specific mention in official currency and exchange reports. Village fairs and weekly markets, which correspond to the sort of trade described by Geertz, are called shandies or haats in India, to distinguish them from the urban centres of wholesale commerce, known as bazaars.[7] There is a further, and higher, sense to the term 'bazaar' when used in the abstract singular. It then refers to the indigenous money market which finances, through promissory notes, bills of exchange (suftajas, hundis, etc.) and other negotiable instruments, the wholesale and forward trade over the longer distances. It may be noted that the biggest and most reputable shroffs (indigenous bankers) in Bombay and Calcutta regularly reported the bazaar rates of the month to the official monetary authorities of British India, and that these were annually published by the Controller of Currency and, later on (i.e. from 1935), by the Reserve Bank of India.[8] There was a bank rate and a

[5] The notion of the capitalist world economy is set out in Immanuel Wallerstein, *The Modern World System: Capitalist Agriculture and the Origins of the European World-Economy in the Sixteenth Century* (New York, 1974); *The Modern World System II: Mercantilism and the Consolidation of the European World-Economy 1600–1750* (New York, 1980); *The Modern World System III: the Second Era of Great Expansion of the Capitalist World-Economy 1730–1840* (San Diego, 1988); *The Capitalist World-Economy* (Cambridge, 1975).

[6] Clifford Geertz, *Peddlers and Princes. Social Change and Economic Modernization in Two Indonesian Towns* (Chicago, 1963), p. 28; Clifford Geertz, 'Suq: the bazaar economy in Seffrou', in Clifford Geertz, Hildred Geertz and Lawrence Rosen, *Meaning and Order in Moroccan Society. Three essays in Cultural Analysis* (Cambridge, 1979), p. 214.

[7] The distinction is officially set out in Government of India, *Agricultural Marketing in India: Marketing Series no. 5. Report on Fairs, Markets and Produce Exchanges in India* (Delhi, 1943), *passim*.

[8] Government of India, *Report of the Controller of Currency for the year 1927–28*, p. 17.

bazaar rate: the latter was the rate at which the bulk of the inland wholesale trade of British India was financed.[9] There were corresponding indigenous money rates in Ch'ing China. Furthermore, as we shall see, there were obscure but significant extensions of Chinese and Indian banking into Southeast Asia in the course of the nineteenth century. In the same century, extensions of Gujarati trade and finance wrought important changes in the economies of the Persian Gulf, the Red Sea and the sea-board of Africa facing the Indian Ocean.

The extensions of Chinese and Indian business activity into Southeast Asia, West Asia and Eastern Africa occurred precisely at the time when Western economic dominance was consolidated. What were the accommodations reached between these expanding Gesellschaften? How, for instance, did the Chinese overseas capital that so visibly transformed the economic face of Southeast Asia fit into the capitalist world economy which was drawing the whole sphere into its orbit around the same time? Or, to take another instance, how did the overseas Indian capital that transformed the face of Eastern Africa similarly come to an accommodation with the expanding European imperialism? Do historical facts correspond to the a priori notion that the Asian money transfers and capital movements were the 'bastard offspring' of the already accomplished hegemony of developed Western capitalism?

The answers to these questions are complex. It can be no part of serious history to argue that capitalism in its wider and deeper sense had developed anywhere in Asia at the time when the corporate economy of Northwestern Europe began incorporating large parts of that vast continent into its expanding orbit. Equally, no historian aware of the facts would argue that Asian capital movements blazed no trails, or were confined to the circuits defined by colonial European capital alone. Most of interior Asia on the eve of the Western penetration, and many parts of the Afro-Asian coast line, consisted of innumerable isolated communities in which the market played but a limited (though all the same not insignificant) role in communal life. But however tenuously, such communities were linked at the same time to integrated long-distance networks of trade and credit through which money moved with surprising facility.

To understand these varying patterns, it is necessary to arrive at some sort of classification of the economies of the East. From the

[9] For a more detailed discussion of the bazaar rate and the sense in which the term bazaar was used, see Rajat Kanta Ray, 'The bazaar: changing structural characteristics of the indigenous section of the Indian economy before and after the Great Depression', *Indian Economic and Social History Review*, vol. 25, 3 (1988).

economic perspective, the several Asian communities had long co-existed at various levels of development. Economic skills were not uniformly distributed. The crucial skills in long-distance trade were marine experience, account-keeping, and the handling of money. It is no accident of history that the native communities of those tropical areas where immigrant Chinese and Indian businessmen flourished had no experience of deploying and transferring credits, nor any idea of the associated art of accountancy. No money exchanges, for instance, existed traditionally in the Dutch East Indies or British East Africa. In China and India, on the other hand, inland exchanges dated back to an obscure antiquity. In an age of expanding trade, and monetization, such pools of financial skills might be easily attracted to areas where the necessary experience of handling money was lacking. Nor was marine experience of the sailing age by itself a guarantee for success in an age when steamships would carry a new type of international trade conducted largely through forward transactions.[10] Thus we find the ancient but illiterate Arab and Bugis mariners and traders falling behind their Chinese and Indian competitors in Indonesian waters in the Suez era. Within China and India, again, the skills of banking and accountancy were confined to certain specialized merchant communities operating through widespread community networks. The banking skills of these hereditary Chinese and Indian business communities, and of the Jews and Armenians of the Islamic World, had long reached the level of development comparable to that of the Italian Renaissance bankers.

Such pre-existing skills enabled the Chinese and Indian businessmen, and the Baghdadi Jews, to reach advantageous accommodations with the European corporations in developing the less monetized regions in the equatorial belt and in the outlying Arab provinces of the Ottoman empire. Hereditary financial experience was essential to operate with facility through the new circuits created by the communications revolution of the Suez era. The indigenous races of the tropics lacked that experience; so did the Arab tribes despite their long sea-faring tradition. When the tropical belt of Asia and Africa was brought suddenly under the regime of international capital, the Asian business communities that could cope with the new conditions forged ahead. Some of these groups expanded in collaboration with the newly dominant European capital. Other groups expanded more

[10] Sailing skills were redundant in the steamship age. What was needed, to carry on forward transactions, was financial and accounting skills.

autonomously in areas left alone by the Europeans. Gujarati capital in Zanzibar is an example of the latter type of expansion; Chinese capital in Singapore, of the former. None of these achievements would have been possible without the historical accumulation of business skills back home, and without a prior history of Chinese and Indian migrations to the tropics which had laid down overseas business networks of considerable antiquity.

In section II of this essay I shall trace how financial and business organization developed into integrated networks in China, India and certain other parts of Asia to the time when the Europeans established their mastery. Sections III and IV will show how Chinese and Indian capital expanded overseas in the high noon of European supremacy. There is no doubt that nineteenth-century imperialism redefined economic space with unprecedented sharpness, reserving the best sphere of business to the operations of Dutch, British and other European corporations. But between this sphere and the vast areas of subsistence agriculture and peddling trade, there was an expanding intermediate sphere of Asian commercial credit operations which forms the subject of this essay.

This was the bazaar, a sector defined by the imposition of European domination. The bazaar was a new formation in the Afro-Asian economy, its rise intimately associated with the coming of the global capitalist economy of Europe. These were related but distinct phenomena, one no less important than the other in shaping the economic and social life of the tropics. To conceive the 'modern world system' in terms of 'the European world-economy' alone is to miss a dimension in its formation without which its over-all shape cannot be grasped. The rise of the bazaar moulded in a vital manner the process by which the capitalist world economy expanded outwards from Europe into Asia and Africa.

II. The Banking and Trading World of Asia from Earlier Times to the Nineteenth Century

Pre-colonial Asian 'Exchanges'

How sophisticated was the pre-colonial business world of the Indian Ocean? The question has been subject to prolonged debate. Historical researches subsequent to Van Leur have not substantially modified his notion of the fluctuating and fragmentary nature of the Asian markets and the seasonal and uncertain character of commercial transactions. But M.A.P. Meilinck-Roelofsz, S.D. Goitein and Ashin Das Gupta have established with a wealth of historical documentation that Asian traders had for centuries transacted a sophisticated and voluminous trade that included bulk cargoes of essential commodities.[11]

Malacca traders and Surat merchants operated in the seventeenth century with substantial amounts of capital, and one of them, Mulla Abdul Ghafur of Surat, created a far-flung and tightly-controlled shipping network that stretched at one end to Manila and at the other end to Mokha. Meilinck-Roelofsz maintained, nevertheless, that the essential features of the development of capitalism in 16th–17th century Europe were absent in the trade of the Indonesian archipelago—the system of family trading continued, the merchant remained vulnerable to the whims of an arbitrary sovereign, and there was no systematic form of accountancy, nor a banking and credit system that could make international traffic in goods and currency possible. The trading world of Asia, however, was richly variegated, and as Goitein and Das Gupta have shown, what was true of the Eastern Archipelago was not necessarily true of the Caliphate and of the Western Indian Ocean. There, for over seven centuries, a developed credit system gave the bigger merchants cheaper and easier access to liquid capital, which could be moved to and fro by means of bills of exchange transacted by Jewish and Bania bankers over vast distances.

If patient researches among contemporary historical documents have not upheld the notion of the primitive state of Asian trade and economy before the establishment of European rule, neither have they lent any substance to the notion that Asian business groups were the bastard offspring of European capital. Contrary to what Boeke thought, the Chinese and Indian commercial groups that flourished under Western capitalist hegemony did have an independent origin and function. In part they undoubtedly acted as the instruments of European overseas capital, but not entirely. The vast internal trade of China and India in the nineteenth century was organized and financed by native bankers and merchants through large interior networks that the European corporations in the ports never managed to

[11] M. A. P. Meilinck-Roelofsz, *Asian Trade and European Influence in the Indonesian Archipelago between 1500 and about 1630* (the Hague, 1962), pp. 5–8; Ashin Das Gupta, *Indian Merchants and and the Decline of Surat c.1700–1750* (Wiesbaden, 1979), pp. 10–15; S. D. Goitein, *A Mediterranean Society. The Jewish Communities of the Arab World as Portrayed in the Documents of the Cairo Geniza* (Berkeley, 1967), pp. 229–48.

understand and control, far less to appropriate.[12] These financial and commercial systems in the hinterland had their roots in the soil, and they adapted flexibly to the hegemony of overseas European corporations in the colonial port cities, preserving to themselves a volume of traffic in the interior that bulked several times more than the flow of exports and imports at the ports. The capital that financed the hinterland traffic came from the indigenous banking and mercantile concerns. The institutional and organizational forms of these concerns required no major alteration to handle the increasing trade and to maintain their own in the altered conditions of European ascendancy.

The existence of organized Asian 'Exchanges' was noted by several foreign banking experts in India and China. They distinguished the 'native' money market from the European or 'foreign' money market.[13] Referred to in Indian official documents as the bazaar,[14] these indigenous money markets long pre-dated, in China, in India and in the Islamic world, the coming of the Western banks. Even before the English East India Company managed to set up the Bank of Bengal, the Company officials found money in eighteenth-century Bengal a saleable article, subject, like any other commodity, to price variations in the market.[15] The early European 'private traders' encountered the same phenomenon in China, where, long before any Western bank started operating, there were 'money shops'. As the *Chinese Commercial Guide* instructed the foreign merchants, these did 'not appear to differ materially in any respect from similar [private banking] establishments in Europe.'[16]

[12] See Rhoads Murphy, 'The Treaty Ports and China's Modernization', in Mark Elvin and G. William Skinner (eds), *The Chinese City between Two Worlds* (Stanford, California, 1974); C. A. Bayly, *Rulers, Townsmen and Bazaars. North Indian Society in the Age of British Expansion 1770–1870* (Cambridge, 1983).

[13] Frank M. Tamagna, *Banking and Finance in China* (New York, 1942), p. 5; John Maynard Keynes, *Indian Currency and Finance* (London, 1913), pp. 195–6.

[14] The Indian Central Banking Enquiry Committee officially stated in 1931: 'In India there are two money markets, namely, the Indian money market or bazar, and the market controlled by banking institutions working on western lines.' *Indian Central Banking Enquiry Committee 1931*, vol. 1, part 1, *Majority Report*, p. 401. The sense in which the term 'bazaar' was used here differs materially from Geertz's.

[15] The Reporter of External Commerce wrote to the Board of Commerce in Bengal on 13 August 1798: 'The prices of money in Bengal rises and falls (*sic*) in the same proportion as any other commodity.' Bengal Board of Trade (Custom) Proceedings, 14 August 1798, quoted in G. Kumar, *Select Documents on Indian Trade and Industry (1773–1833)* (Patna 1981), p. 31; C. N. Cooke, *The Rise, Progress and Present Condition of Banking in India* (Calcutta, 1863), p. 28.

[16] Quoted by John Francis Davis, *China: A General Description of that Empire and Its Inhabitants* (London, 1857), vol. 2, pp. 272–3.

The native Exchanges operated through negotiable instruments. The use of these instruments for tax and trade transactions was well understood in the Chinese, Indian and Islamic civilizations at a time when Western Europe, starved of money, had been compelled to organize all material activity around the feudal manor. If there is no hard evidence for the contention of enthusiastic Sinologists that the Chinese taught the technicalities of book-keeping and money transfer to the Italian merchants who led the revival of trade in late medieval Europe, it seems likely all the same that the use of bills of exchange and the art of banking evolved in China before any other civilization. The evidence, though obscure, suggests that these financial instruments originated, in China and then independently in India, as fiscal devices for remittance of taxes and payment of soldiers, subsequently developing as a system of mercantile credit and remittance. The hui piao, a treasury bill in Tang and Sung which could be encashed at government treasuries in major commercial centres throughout China, is reported by the historian Ma Tuan-lin to have been in use in the reign of the Tang Emperor, Hien Tsung (A.D. 806–821);[17] and the hundika, an assignat for soldiers' payment against future revenue which later developed as the hundi or the trade bill, is mentioned by the historian Kalhana as having been issued by the Kings of Kashmir at least as early as A.D. 914–935.[18]

The system of internal exchange through negotiable paper underwent a critical development in Sung China. In 970 an official exchange bureau was established which centralized the business of issuing to merchants, against deposit of cash, the treasurer's circular letter. This was valid for presentation to the magistrate of any city, who was directed by the circular to pay the stated amount without any delay. The volume of these bills of exchange, issued at a commission of 2 per cent, reached 1,700,000 strings (tiao) of cash in A.D. 997. Twenty years later, the figure rose to the substantial amount of 2,930,000 strings of cash. Thus the Chinese Treasury emerged in the 11th century as a gigantic bank, its operations stimulating the widespread use of paper money that Marco Polo saw with uncomprehending wonder in the reign of Kublai Khan. The thirteenth century,

[17] As narrated by Ma Tuan-lin, traders returning from the capital, preferring light luggage, took their money, which was encashable in any of the provincial treasuries, in the form of paper notes, what was then known as flying currency. Srinivas R. Wagel, *Chinese Currency and Banking* (Shanghai, 1915), pp. 146–7.

[18] Kalhana, *Rajatarangini*, translated by Ranjit Sitaram Pandit (New Delhi, 1977), pp. 208, 209, 211.

in which the Venetian traveller reached the Middle Kingdom, saw a critical development in the monetary system. The handling of remittances and exchange of monetary documents, hitherto a treasury preserve in the main, passed increasingly into the hands of the state-patronized Shansi bankers of the north. As the trade of the Shansi merchants in salt, iron, coal and silk expanded beyond the province, they gradually built up an extensive network of branches and agencies which enabled them to undertake remittance operations for their own trade, and eventually, with the accumulation of funds derived from trade, to finance other merchants and remit their funds at a low charge of 3 per cent or less. The Chinese government, seeing the advantage of this cheap and efficient agency, entrusted to the Shansi bankers the collection of taxes and remittances to Peking. From 1403, however, the government ceased to issue paper money, and when the European traders arrived in China, its monetary system, except for bankers' paper, was based purely on copper for internal circulation and silver for foreign transactions.[19] By then private banking paper was well established.

If the Shansi bankers were the first in history to introduce the system of drafts and discounts, the distinction of financing international trade by bills of exchange (suftajas) went to the Jewish bankers of the Caliphate. The Jewish merchants of Baghdad, who had settlements in Egypt, Iran and Central Asia, financed long-distance trade to India at one end and through North Africa to Spain at the other. They were bankers with a widespread machinery for paying by cheques and bargaining on credit. Suftajas, of which one of the earliest among the Geniza documents in Cairo is dated 1025, were transacted by the Jewish bankers over long distances wherever any two places had a long and regular business connection. The heaviest traffic in these instruments was between Baghdad and Cairo. In addition there were promissory notes, which were negotiable and could be 'bought' in the market, for transactions in internal trade. The extensive circulation of these promissory notes and suftajas and the operations of the Money Exchange (dar-al-sarf) in large commercial centres like Cairo (Fustat) indicated the growth of a paper economy in the Islamic world in the 11th, 12th and 13th centuries.[20]

[19] Wagel, *Chinese Currency and Banking*, pp. 147–57; Hosea Ballou Morse, *The Trade and Administration of the Chinese Empire* (London, 1908), pp. 129–43; Tamagna, *Banking and Finance in China*, pp. 13–16.

[20] S. D. Goitein, *Letters of Medieval Jewish Traders* (Princeton, 1973), pp. 20, 314; Goitein, *A Mediterranean Society*. pp. 229–48; S. D. Goitein, *Jews and Arabs. Their Contacts through the Ages* (New York, 1964); Abram L. Udovitch, 'Commercial Techniques in

In Hindustan, upon its conquest by Islam, the older Hindu system of discounting assignments given to nobles and soldiers continued. Multani financiers and Jain bankers (referred to as Multanis and Shahs) encashed drafts against revenue assignments (iqta) distributed by Sultan Balban (1266–1286) among the victorious Turkish aristocracy of the early Delhi Sultanate. By the time of Firuz Tughlaq (1351–1388), bankers of Delhi had a network spread wide enough to discount locally the cash orders (itlaq) given to soldiers on the outlying treasuries of the empire. This implies that the bankers had agencies everywhere to realize the dues and remit the proceeds.[21] There is also indirect evidence that a financial machinery had sprung into existence that could operate drafts and bills of exchange across the boundaries of independent states. Thus the Bahmani Sultan Mahomed Shah I issued a draft to 300 musicians in 1367, to be encashed at the treasury of his enemy, the Hindu Raja of Vijayanagara. This was an insult, an implied challenge to the latter's sovereignty.[22] Among the leading bankers of the age were the Porwal and Oswal Jains, whose wealth, piety and lavish building activity is attested to by a series of temples built between the eleventh and seventeenth centuries.[23] The Oswals made their fortunes as finance ministers, treasurers, paymasters, tax farmers and bankers to the ruling Rajput families.[24] Occasionally, such bankers figured as financiers in key

Early Medieval Islamic Trade,' and Bertold Spuler, 'Trade in the Eastern Islamic Countries in the Early Centuries,' in D. S. Richards (ed.), *Islam and the Trade of Asia. A Colloquim* (Oxford, 1970), pp. 13, 54.

[21] L. C. Jain, *Indigenous Banking in India* (London, 1929), p. 10; Tapan Raychaudhuri and Irfan Habib (eds), *The Cambridge Economic History of India, vol. 1 c.1200–c.1750* (Hyderabad, 1982), p. 86.

[22] John Briggs (trans.), *History of the Rise of the Mahomedan Power in India till the year* A.D. 1612. Translated from the Original Persian of Mahomed Kasim Ferishta, vol. 2 (London, 1829), pp. 308–9.

[23] The Adinath Temple at Dilwara built by Vimal Shah (A.D. 1031–A.D. 1150); the Neminath temple of Tejpal and Vastupal, two brothers of the Porwal Bania community, at Dilwara (A.D. 1230); the Chaumukha temple at Ranakpur built by Jai Singh Cholashah (A.D. 1332); the Chaumukha temple at Palitana (A.D. 1618); the Girnar temples (12th century onwards), the Parsvanath temple at Lodorva rebuilt by Tharu Shah (A.D. 1617).

[24] Bhandari (treasurer) Naraji helped Rao Jodha found Jodhpur. Bachhraj, a Jain mutsuddi, accompanied Rao Bika in his northern expedition from Jodhpur and assisted in organizing the new Bikaner state. Hamir Singh was helped in the recovery of Mewar from the Delhi Emperors by Mehta Jalasi, and Maharana Pratap by his minister Bhamashah. Man Singh of Ambar and Jai Singh were accompanied in their expeditions by several Jain bankers. *Oswal Jati ka Itihas* (Indore, 1934), *passim*.

campaigns that decided the destiny of the land. During the Mughal–Afghan contest for supremacy in Hindustan, the Nallapuria banking family of Rewari gave large loans to Hemu, the Hindu general of the Afghans, in his ultimately unsuccessful campaign.[25]

Akbar's victory over Hemu at Panipat and his subsequent campaigns created between 1556 and 1600 a unified Mughal trading zone from the lower Gangetic valley to the Arabian Sea. These events laid the foundations of an integrated financial framework for long-distance trade in the Mughal empire. Scores of Jain and Bania bankers migrated to Agra, Bengal and Gujarat as treasurers, ration suppliers and paymasters of the Rajput regiments in Mughal service.[26] The far flung treasuries of the Mughal empire, which evolved a system of granting letters of exchange upon one another at a low charge for merchants and travellers, supplied the arteries of a more closely intermeshed mercantile network.[27] Private banking services also existed for the transfer of money, for we learn from the *Akbarnama* that when Akbar found it necessary to send Rs 3 lakhs for his army in the Deccan, he ordered the amount to be distributed among his nobles, who were asked to arrange the remittance by means of hundis. The system of temporary revenue assignments (jagirs) for noblemen, by which the entire Mughal imperial system was maintained, afforded an enormous business to the bankers. They undertook by means of hundis, to transfer the assigned revenues of the nobles of the empire to the places where they were posted.[28]

But the hundi as it evolved from the earlier hundika was no longer simply a means of encashing or transferring the assignats of soldiers and officers. Abul Fazl, the historian of Akbar, perceived it in the

[25] Brijkishore Bhargava, *Indigenous Banking in Ancient and Medieval India* (Bombay, 1934), p. 28.

[26] One route took them to Agra, and further east to Patna and Dacca. A southern route across the Aravalli Range took many of them, including the Nagar Seth family, to Ahmadabad. *Oswal Jati ka Itihas* cites numerous examples of Bania bankers following Rajput warriors through the length and breadth of the Mughal empire, especially to the rich provinces of Bengal and Gujarat. The Jain bankers formed a large colony in Agra, the capital of Akbar's empire and the heart of the money market. Surendra Gopal, 'Jain Merchants in Eastern India under the Great Mughals', in Dwijendra Tripathi (ed.), *Business Communities of India. A Historical Perspective* (New Delhi, 1984), pp. 70–4; *Report of the Bikaner Banking Enquiry Committee* (Bikaner, 1930), pp. 96–7.

[27] Tavernier describes in detail how he and Hindu merchants used these exchange services between Aurangabad and Golkunda.

[28] Irfan Habib, 'Banking in Mughal India,' in Tapan Raychaudhuri (ed.), *Contributions to Indian Economic History* (Calcutta, 1960), pp. 10–11.

sixteenth century as a wonderful instrument for making private remittances.[29] The hundi came to serve the great network of inland trade that sprang up within the Mughal empire. It also served the no less impressive maritime trade that connected Surat to the Red Sea and the Persian Gulf in the seventeenth century. The Jain and Bania bankers created an unprecedented credit network, with its twin centres in Surat and Agra. It stretched inland to Lahore, Golkunda and Dacca; through the straits of Malacca to Bantam, Achin and the Philippines; and westwards across the Arabian Sea to Basra, Hormuz and Mokha, serving the mercantile exchanges between three great empires, Mughal, Safavid and Ottoman.[30]

Tavernier, the author of the most detailed account of how the great trans-Asian hundi network of the seventeenth century worked, makes it clear that the hundi, which covered the costs of remittance, exchange and insurance, was no longer simply a mechanism for transferring moneys, but a highly centralized financial device for raising credit for long-distance trade on the bankers at Surat and Agra. A merchant short of ready cash could raise money, at every major commercial centre in India and at any foreign port of the Indian Ocean with a well-established Gujarati financial and mercantile presence, by drawing a hundi on the Bania bankers of Surat at rates that varied from place to place. Despite fluctuations, these rates of exchange were sufficiently standardized on account of the volume of hundi traffic to be tabled systematically by Tavernier: at Lahore on Surat, $6\frac{1}{4}$ per cent; at Ahmedabad, 1 to $1\frac{1}{2}$ per cent; at Sironj, 3 per cent; at Burhanpur $2\frac{1}{2}$ to 3 per cent; at Dacca, Patna and Banaras, where letters of exchange were given in the first place on the Agra bankers who then rediscounted these bills with the Surat bankers, 10, 7–8 and 6 per cent respectively (these were whole rates including discount at both Agra and Surat); at Golkunda, 4 to 5 per cent; at Goa the same; at Bijapur, 3 per cent; at Daulatabad 1 to $1\frac{1}{2}$ per cent. Political trouble or lawlessness might, however, push up the rates at these inland centres by 1 or 2 per cent. Tavernier then proceeded to quote the rates of exchange at Surat for the overseas ports:

When you arrive at Surat, to embark, you find there plenty of money. For it is the principal trade of the nobles of India to place their money in vessels

[29] Irfan Habib, 'The System of Bills of Exchange (Hundis) in the Mughal empire,' in *Indian History Congress. Proceedings of the Thirty-third Session*, (Muzaffarpur, 1972), pp. 290–303.

[30] Jean Baptiste Tavernier, *Travels in India*, trans. V. Ball, ed. W. Crooke (London, 1925), vol. 1, pp. 36–8.

in speculation for Hormuz, Bassara and Mocha, and even for Bantam, Achin and the Philippines. For Mocha and Bassara the exchange ranges from 22 to 24 per cent and for Hormuz 16 to 20; and for the other places I have mentioned the exchange varies in proportion to the distance. But if the goods happen to be lost by tempest or to fall into the hands of the Malabaries, who are the pirates of the Indian seas, the money is lost to those who have risked lending it.[31]

On the evidence of an English East India Company report on the internal trade of Bengal, the volume of traffic in money within India had reached sufficient proportions by the mid-seventeenth century to integrate the markets in those commodities of long distance, such as silk, which were financed by the hundi. An increased demand in Agra for silk from Kasimbazar would increase the demand for hundis on Bengal, the altered rates of exchange making it profitable for the Bengal bankers to advance liquid funds against these bills: 'according as this silk sells in Agra, so the price of silk in Kasimbazar riseth or falleth. The exchange of money from Kasimbazar to Patna and Agra riseth and falleth as the said silk findeth a vent in Patna or Agra.'[32]

In China, too, banking assumed a more articulate structure in the seventeenth century. The money shops came to handle a more ample volume of silver from the new world brought in through the southern ports by the European trading companies. Local money shops in Southern China—small, independent organizations that lacked the scope of the northern Shansi banks with their network of branches scattered over several provinces—began commercial credit operations by consigning silver shoes, needed for larger mercantile transactions, against a delayed payment in copper, which was the sole metal from which coins were made for internal circulation. These money shops eventually developed a system of monetary transfers by book entries, the leading part being taken by Ningpo traders and bankers who invented the transfer-tael (kuo-chang) system of moving funds: a system of pass-book entries issued to merchants who traded with each other and made payments by means of entries through these pass-books certified by their respective bankers. A Confucian Commentator, Ku Yen-wu, drew up the first draft of secret regulations concerning the organization and operations of banking firms at the end of the sixteenth century. The Shantuk banking group of Canton, which eventually became the sole port for China's external trade,

[31] The banker's letters of exchange thus covered overseas insurance *Ibid.*

[32] Cited by K. N. Chaudhuri, *The Trading World of Asia and the English East India Company 1660–1760* (Cambridge, 1978), pp. 184, 354.

sprang up in the reign of Kang-Hsi (1662–1722), its official guild being first mentioned in 1675. Chinese banks at the opening up of European trade fell into two distinct groups: the northern group of Shansi banks operating under official patronage through the entire imperial system, and the southern group of 'native banks' or Ch'ien Chuang, smaller institutions specific to localities which orginated from money shops where one kind of money could be exchanged for another.[33]

Van Leur's proposition about fragmented markets in Asia thus no longer applied to the developed internal Exchanges in India and China in the seventeenth century. An increased influx of silver led to more substantial monetization in both countries, offering more business in the handling and exchange of money to specialized communities. Among them were the Jains and Banias in India and the Shansi and Ningpo men in China. But when it came to far-flung markets like Surat on the one hand and the ports of the Persian Gulf and the Red Sea on the other, market uncertainties were obviously far greater. This would be evident from the rates of exchange at Surat on Basra, Hormuz and Mokha (ranging from 16 to 20 per cent) as compared to those on inland markets (ranging from 1 to 10 per cent). Tavernier's vagueness about the rates of exchange on Achin, Bantam and the Philippines was indicative of even greater uncertainties in the Eastern Archipelago, and it is indeed doubtful whether letters of exchange were available at Surat on these markets to any appreciable extent. Nor is there any hard evidence of their circulation even earlier in the heyday of Malacca, a port of call where Chinese and Indian merchants had congregated at one time to barter commodities with the Spice Islands. The isolation of markets stressed by Van Leur was thus a factor to reckon with in the trade between Surat and Mokha, and even more so in the trade to Malacca and Achin. His proposition, however, does not have the same validity as regards the great internal Exchanges of China and India.

Growth of European Imperialism in Asia

The conversion of European maritime power into territorial imperialism in the eighteenth and nineteenth centuries gradually altered the

[33] Tamagna, *Banking and Finance in China*, pp. 15–17; Wagel, *Chinese Currency and Banking*, pp. 155–60; Susan Mann Jones, 'Finance in Ningpo: the "Ch'ien Chuang", 1750–1880', in W. E. Willmott (ed.), *Economic Organization in Chinese Society* (Stanford, 1972), pp. 47–9, 60–1; Susan Mann Jones 'The Ningpo Pang and Financial

conditions in which the trans-Asian mercantile and financial networks operated. The consequences were, in some respects, paradoxical. First of all, the contending East India Companies and subsequently the private corporations, the exchange banks and the steamship companies created large international networks, thereby displacing Asian Capital from many of its traditional preserves. Secondly, the increase in inland trade and inter-Asian commerce accompanying the creation of these European-dominated international networks enabled a wide variety of Asian financial and mercantile interests, both old and new, to expand vastly their turnover and their sphere of operations, albeit in a dependent capacity. Last and not least, despite their dependence on the new institutional framework created by international capital, many of the Asian bankers and merchants showed a certain capacity for bargaining which enabled them to preserve for themselves a lucrative sphere of operations. Contemplate as it might, European capital did not quite penetrate this autonomous sphere. The resultant Asian business structure was considerably more complex than the bastard organs of Western capitalism that Boeke professed to see in the intermediary Asian mercantile groups.

The historical explanation for this paradoxical and variable picture lies in the fact that European territorial imperialism was not imposed all at once, nor uniformly. The Manchu Empire of China, despite the opium wars and the Taiping rebellion of the mid-nineteenth century, rallied with the Tung-Chih restoration and tottered on under the Dowager-Empress through the rest of the century to meet its final demise only in the revolution of 1911. In the Islamic world, the decaying Ottoman Empire similarly retained its medieval overlordship over the extensive Arab lands to the border of Persia until the First World War. Persia itself, a pawn in the Great Game between England and Russia, never formally lost its independence. As a sovereign realm, it vaunted its debased and fluctuating coin, the Kran, even when the British, having seized neighbouring Mesopotamia from the Turks, proceeded to impose over it that universal currency of empire, the rupee. The great colonial empires of the East were no more than two. There were the Dutch in the 'Indian Archipelago' and the British in 'Continental India.' It took a long time for them to give their colonies final shape.

The two dates which are quoted as the beginnings of these two colonial empires—1619 (the date of the founding of Batavia on the

Power in Shanghai,' in Elvin and Skinner, *The Chinese City Between Two Worlds*, pp. 73–81.

site of newly conquered Jacatra by Coen) and 1757 (the date of the victory of Clive at Plassey over the Nawab of Bengal)—give no clue to the actual timing of the consolidation of large stretches of territory under Dutch and British rule. It was not until 1743 that the Dutch, after a series of violent interventions in Mataram, made themselves rulers of the entire north coast of Java, and not until 1818 that the British, having finally overthrown the Marathas, became paramount in India. Even so, Dutch and British rule was far from complete in the wide areas over which they proclaimed their supremacy. Beyond Java, the Dutch forward movement into the Outer Possessions was energetically pursued only in the second half of the nineteenth century. The establishment of British positions in Singapore, Malaya and Sarawak prevented the Dutch from imposing a complete mastery over the Eastern Archipelago, a circumstance of immense significance to the development of Chinese enterprise in and around Singapore. In India, similarly, the survival of native rulerships over wide stretches of Rajputana, Malwa and Gujarat afforded a protective shelter to Indian enterprise which enabled it to consolidate itself in the British port of Bombay.

Chinese and Indian financial and mercantile interests were not passive spectators in the expansion of British and Dutch power in mainland Asia and the Archipelago. Whether in the trail of imperialism or in advance of its territorial limits, the businessmen of China and India penetrated more deeply than ever into the finances and inland economies of princes, pedlars and peasants in course of the eighteenth and nineteenth centuries.

Java had no developed indigenous banking networks like those that English factories could tap in seventeenth and eighteenth-century India. The Dutch from the beginning used immigrant Chinese as agents for driving the Dutch tax machinery and mercantile system into the interior. Nor did Java ever have the sort of organized land tax system that provided the economic basis of the great agrarian bureaucratic empires of the Manchu and the Mughal. Dutch revenues were derived from the farming out of specified monopolies. Chinese towkays (leading merchants), who were appointed as Kapitan Chinas, were given the monopolies of gambling, coining and customs. In the second half of the eighteenth century, the Dutch as well as the native princes in Java took to farming out entire villages and territories to Chinese financiers who ruthlessly exploited the villagers.[34]

[34] Victor Purcell, *The Chinese of Southeast Asia* (Kuala Lumpur, 1980), pp. 395, 407–8.

When the English, impelled by the Napoleonic wars, landed in Java in 1811, their leader, Raffles, counted on the hostility of the princes against the Dutch–Chinese collaboration to effect an easy conquest of the island. He reckoned that the Dutch would be unpopular because they had depended far too long on the Chinese for their tax and trade arrangements. These arrangements consisted simply in farming out taxes to the latter and procuring goods through their agency. As he wrote on the occasion to the Governor-General of India,

> The Chinese, in all ages equally supple, venal and crafty, failed not at a very early period to recommend themselves to the equally crafty, venal and speculating Hollanders. They have, almost from the very first, been the agents of the Dutch, and in the island of Java in particular, they have almost acquired the entire monopoly of revenue farms and government contracts. At present many of the most respectable Dutch families are intimately connected with the Chinese in their contracts and speculations, and it is only very lately that Marshall Daendels sold the whole provinces of Pasuki to the Captain China, or head Chinaman of Surabaya.[35]

Only a part of Java had been subjected to direct Dutch rule when Raffles began his naval and military operations. Taking advantage of the struggle between the English and the Dutch, the Sultan of Jogjakarta and the Sultan of Palembang resolved to throw the European presence into the sea. The latter at once ordered the massacre of the Dutch garrison. A general confederacy of the native courts was formed on the initiative of the ruler of Jogjakarta. It was only when English forces crushed the rebellion that Raffles could report to Minto in 1812: 'The European power is for the first time paramount in Java.'[36] During the drive of the native rulers to expel the Europeans, their wrath fell by natural association on the Chinese financiers and merchants. Their tax farming and monopoly contract operations had long outraged the moral sense of princes and peasants alike. The Sultan of Palembang, fleeing from the English occupying force, ordered the massacre of 'the wealthy Chinese and other inhabitants, whose property was to be the prize of the assassins.' A large Chinese junk then lying at Palembang, commanded by an American

[35] Raffles to Lord Minto, 10 June 1811, letter quoted in Sophia Raffles, *Memoir of the Life and Public Services of Sir Stamford Raffles, Particularly in the Government of Java 1811–1816 and of Bencoolen and Its Dependence 1817–1824; with Details of the Commerce and Resources of the Eastern Archipelago, and Selections from His Correspondence. By His Widow* (London, 1830), p. 72.

[36] Raffles to Minto, 25 June 1812, *ibid.*, p. 129.

supercargo, barely escaped plunder and destruction owing to the arrival of the English marines.[37]

The Dutch, upon their recovery of Java and other islands from the English by treaty in 1816, adhered to the device of auctioning out the right to open pawnshops that Raffles had adopted in 1814. They extended the farming system all over Java, the licensees being invariably Chinese tax farmers and monopoly contractors.[38] George Windsor Earl, during his visit to Java in the 1830s, found the system of farming out of government imposts prevailing in every town. The Capitan China with his associates was in every case the farmer of the revenues.[39] Thirty years later another English visitor, John Cameron, found the Chinese lucratively engaged in the farming of opium, spirits, pawn shops and gambling houses not only in Java, where the Dutch had first introduced the system as the only practicable method of collecting a revenue, but also in the Straits Settlements, where the English had copied the device, as did later on the King of Siam, Rajah Sir James Brooke of Sarawak and the French in Saigon. European firms did not compete for these government tax farms as they would necessarily have to operate through the native excise service. The farmers were 'usually Chinese of large capital'—their profit sometimes considerable, but not more than would be the cost of collection by a paid establishment.[40]

Chinese financiers were even more influential in the interior states of the Malay Peninsula. From Swettenham's Journals we learn of Chinese financial magnates, such as Towkay Lim Tek Hee, who at the time of the British intervention was found to have a claim of $200,000 upon the ruler of Klang. The Towkay, who was raised by the British to the position of treasurer, obtained charge of the finances and revenues of the state, a business in which he used bills and cheques to make financial settlements and remittances. Not surprisingly, the Chinese financiers and merchants, who had already penetrated in a large way into the tin mining enterprises in the interior,

[37] *Ibid.*, pp. 116–18.

[38] J. S. Furnivall, *Studies in the Social and Economic Development of the Netherlands East Indies* (Rangoon, 1933), part III C. *State Pawnshops in Netherlands India*, p. 1.

[39] George Windsor Earl, *The Eastern Seas. Or Voyages and Adventures in the Indian Archipelago in 1832–33–34 Comprising a Tour of the Island of Java—Visits to Borneo, the Malay Peninsula, Siam, &c; Also an Account of the Present State of Singapore, with Observations on the Commercial Resources of Archipelago* (London, 1837), p. 31.

[40] John Cameron, *Our Tropical Possessions in Malayan India. Being a Descriptive Account of Singapore, Penang, Province Wellesley, and Malacca; Their Peoples, Products, Commerce and Government* (London, 1867, reprint Kuala Lumpur, 1965), pp. 210–19.

welcomed and assisted the British intervention in the Malay States in 1873.[41]

In India the English East India Company had used banker's hundis for trade purposes alone in the seventeenth century; but in the eighteeenth, the English showed themselves as adept as any native power in using such financial instruments for political and military purposes. The simultaneous decline of the Mughal, Safavid and Ottoman empires dealt a death blow to the great Surat–Mokha trade in the first half of the eighteenth century; and the disruption of inland communications reacted adversely on the channels of trade in Hindustan.[42] But political turmoil, while contracting the scope of investment in trade, extended the bankers' hold on state finances. The enhanced influence of the bankers in the affairs of state was strikingly exhibited in the conspiracy that the house of Jagat Seth engineered at the Court of Murshidabad which gave Clive his virtually bloodless victory at Plassey. As Alfred Lyall wrote in restrospect after Pax Britannica was firmly established:

> In the eighteenth century there was a rich, enterprising, commercial and banking class who conducted exchange operations all over India . . . The great bankers of Upper India look back gratefully, from these levelling times of railway and telegraph, to the golden days of immense profits upon daring ventures when swift runners brought secret news of a decisive battle, or a great military leader offered any terms for a loan which would pay his mutinous troops. In those times a man whose bills were duly cashed in every camp and court of the Northern Provinces had often to remit specie at all hazard and the best swords of Rajputana were at the service of the longest purse.[43]

What the bankers could advance, they could also withhold; and Peshwa Baji Rao, would-be successor to the Mughal supremacy, had to undergo the mortification of being denied any further loans when he became hopelessly involved in debt on account of his host of hungry troopers.[44] The Marathas, the Rajput princes, the autonomous Mughal governors of Awadh, Bengal and Hyderabad, all resorted indiscriminately to the farming out of taxes to finance their wars and pay their troops; and they all insisted, prudently, on bankers standing surety to the renters (ijaradars), though as often as not the bankers themselves were the principals in these lucrative but uncertain

[41] *Sir Frank Swettenham's Malayan Journals 1874–1876*, ed. P. L. Burns and C. D. Cowan (Kuala Lumpur, 1975), 20, 21, 25 November 1874, pp. 152–7.

[42] Das Gupta, *Indian Merchants and the Decline of Surat, passim.*

[43] Quoted in Bhargava, *Indigenous Banking*, pp. 223–4.

[44] J. Grant Duff, *History of the Mahrattas* (London, 1826), vol. 1, p. 390.

speculations.[45] The unceasing warfare was necessarily accompanied by large-scale transfers of money to the areas of operations, and of tribute from the despoiled to the victors. The bankers' hundi was ready to hand as the most convenient device for effecting these transfers, as the harried princes of Rajputana, for example, found when compelled by the marauding mercenaries of the Maratha confederacy to remit blackmail annually to Gwalior.[46]

The rival East India Companies, the English and the French, were no less aware of the military significance of the hundi bankers' word, which held fast—as the French ex-Governor-General in India observed in 1777—to 'a chain that extends everywhere.'[47] French hopes of enlisting the bankers in an alliance between themselves and the native powers against the English East India Company did not bear fruit. The English in Bengal and Bombay, on the other hand, were able, by virtue of their punctual repayments, to win the confidence of the Bania bankers of Banaras and Surat. The bankers drove a hard bargain, but they enabled the English, in their confrontation with the Marathas, to raise money and move funds into the area of operations in the Deccan and in Hindustan. Three great banking houses—the house of Manohardas of Banaras, Arjunjee Nath Tarwady of Surat and the Kashmiri Mal-Lala Bachraj partnership—transferred, by their trans-Indian hundi operations, the enormous British revenue surplus in Bengal, Bihar and Banaras to Western India, enabling the British to achieve a husbanding and distribution of resources on an all-India basis to break the Maratha confederacy.[48]

Those who lost out in this revolution of political fortunes, princes as well as people, focused their moral resentment on the Banias as the allies of the British; and the ruling Muslim aristocracy in Surat, resentful of the English ascendancy, instigated the weavers of the town to rise against the collaborating Bania bankers and to burn their account books in the riots of 1795.[49] The close alliance of the Banias

[45] National Register of Private Records, no. 5 (National Archives of India 1973), no. 351, p. 158; Sir John Malcolm, *A Memoir of Central India* (London, 1824), vol. II, pp. 38, 50.

[46] The documents in the private archives of the Jaipur rulers contain copies of the hundis by which the Jaipur bankers transmitted the chauth (tribute) payable to Daulat Rao Sindhia to the Gwalior bankers in 1810. National Register of Private Records no. 1 (National Archives of India 1971), Descriptive list of Documents in the Kapad Dwara Collection, Jaipur, nos. 1069, 1070, 1072, p. 98.

[47] Quoted by Bayly, *Rulers, Townsmen and Bazaars*, p. 172.

[48] *Ibid.*, p. 211; Lakshmi Subramanian, 'Capital and Crowd in a Declining Asian Port City: The Surat Riots of 1795,' *Modern Asian Studies*, 19, 2 (1985).

[49] *Ibid.*

with English political power was further confirmed as land, which British law converted into a saleable commodity, afforded an expanding field of investment to the Banias in course of the nineteenth century.[50] Leading bankers and merchants, such as the contractor Joti Prasad and the great Marwari firm of Bansilal Abirchand, were decorated by the British for strong support in suppressing the rebellion of 1857;[51] and interestingly, all over the towns of Hindustan, the two groups which fled from the wrath of the Mutineers were the Banias and the Bengalis.

Enough has been said above to make an essential point: certain Asian merchant communities with specialized skills in finance and brokerage were closely associated with the political ascendancy of the Dutch and English East India Companies. Such groups were able to exploit the imperial connection to expand their mercantile and financial operations. Moreover, even some sea-faring and caravan-driving communities which were quite unconnected with the intrusive capital of Europe flourished in the late eighteenth and early nineteenth centuries. The imperial structure tightened over time and squeezed out several Asian business groups, but this did not happen as a systematic process until the imperial communications revolution of the mid-nineteenth century. Till then, European control of Asian trade was slack enough to allow a large volume of indigenous navigation and traffic to flow along the older channels. The establishment of formal territorial empires in certain parts of Asia, especially the Dutch in Java and the British in India, and the more general ascendancy of European political power throughout the East in the course of the nineteenth century, did not immediately deflect the Asian fleets and Asian caravans from the established maritime and overland routes.

Indeed, there were several instances of maritime groups expanding their operations despite imperial restrictions: especially the Bugis and Arab sailors in the Eastern Archipelago and the Indian Ocean. The Bugis traders, disturbed in their home territory in Celebes by the establishment of the Dutch spice monopoly, spread over the Malayan waters in the eighteenth century, eventually establishing themselves as the ruling power in Riau, where they developed, in contravention of Dutch monopoly regulations, a two-way entrepot trade with China

[50] Government of India, Department of Revenue and Agriculture, Memorandum on the Restriction of the Power to Alienate Interests in Land (Confidential, Calcutta, 1895), pp. 3, 7.

[51] *Oswal Jati ka Itihas, passim*; Surendra Nath Sen, *Eighteen Fifty Seven* (n.p. 1957), passim.

and India, buying textiles and opium from English and Portuguese ships sailing from India, bartering Coromandel, Bengal and Surat textiles for tin, pepper and other tropical produce from the local islanders, and selling the tin, opium and pepper at a higher price to the Chinese junks which came visiting Riau in increasing number.[52] Driven from Riau by the Dutch in 1784, the Bugis returned with English help in 1795 and, to the chagrin of the Dutch, diverted much of the trade of the Archipelago to the British free port of Singapore in the next century.

Similarly, the Arab sailors of Muscat and Hadhramaut, despite the opposition of the English and Dutch fleets, vastly expanded the domain of Arab shipping in the Indian Ocean at the turn of the nineteenth century. The fleet of the Imam of Muscat scoured the Persian Gulf, captured Zanzibar and opened up a triangular maritime traffic between the slave coast of East Africa, the Persian Gulf and the sea board of Western India.[53] The Arab trading tribes of Hadhramaut sailed in even larger numbers to Singapore, Penang, Malacca and the Indonesian Archipelago, developing an independent trade and forming Arab colonies in Palembang, Pontianak, Surabaya and Singapore. The Arab naval emigration, which started around 1800, reached its zenith in 1845–1855, when Arab shipping realized enormous profits in the Eastern Archipelago.[54]

Side by side with the new sea lanes opened up by Bugis and Arab navigators, the ancient overland caravan routes of Asia continued well into the nineteenth century to link the Russian marts of Astrakhan and Irkutsk over the Hindukush Range to India and across the Gobi desert to China. The Hindu bankers of Shikarpur in Sind financed by means of the hundi an obscure but important traffic to Kabul, Bokhara and Astrakhan. Munshi Mohan Lal, in the course of his travels in Central Asia, saw the Shikarpur shroffs 'writing Hoondees, or bills of exchange, which you can take in the names of their agents at Bombay, Sindh, the Punjab, Khorasan, Afghanistan,

[52] Sinhappah Arasaratnam, 'Dutch Commercial Policy and Interests in the Malay Peninsula 1750–1795', in Blair B. Kling and M. N. Pearson (eds), *The Age of Partnership* (Honolulu, 1979), pp. 173–4.

[53] *Selections from the Records of the Bombay Government, New Series no. 24* (Bombay, 1856), Memoir Descriptive of the Navigation of the Gulf of Persia, by Captain G. B. Brucks (1829), pp. 613, 632.

[54] *Selections from the Records of the Bombay Government. New Series no. 212. Hadthramut and the Arab Colonies in the Indian Archipelago*, by L. W. C. Van Den Berg (translated into English by C. W. H. Sealey, Bombay, 1887), pp. 45–51.

part of Persia and Russia.'[55] The Shikarpur shroffs had agents, called Artias, a few of them Afghans and the rest emigrants from Shikarpur, posted in Kabul and Kandahar, whence the camel caravans, leaving the huge Buddha statues of Bamian on one side, would cross the Hindukush Range and unload their goods at Bokhara. From Bokhara, again, 4000 to 5000 camels, loaded with Oriental goods, would push on to the Russian marts of Astrakhan and Makria, taking back on their return journey to Kabul the copper, steel, iron, lace and blue paper of Russia. Mulla Rahim Shah, a respectable merchant of Kabul with whom Mohan Lal became acquainted in Turkestan, bought Kashmiri shawls for Rs 17,000, and travelled to Bokhara and onwards to the celebrated Russian mart of Makria, and thence to Moscow, where he realized Rs 34,000 for his shawls.[56]

The great trans-Eurasian trade in Chinese tea to Russia arose in the seventeenth century. It remained the object of envy to English businessman and statesman alike long after they had forced open the treaty ports on the coast of China. The tea, destined in the first stage for the Kiakhta overland market, was loaded in chests in the southern province of Fukien. The tea chests, taken down in boats to the China Sea, were then coasted along to the central port of Shanghai, where larger junks took them up the coast to the northern port of Tientsin in 15 days. From here smaller boats took the tea upstream to a landing point near Peking, where it was put up on the backs of camels and mule carts, which trekked all the way to Kalgan, the frontier fort on the Great Wall of China, and thence across the Gobi desert to the mart of Kiakhta, the entire journey from Fukien to Kiakhta taking in all three months. From Kiakhta the winter route ran across the frozen ice of Lake Baikal to the capital of Eastern Siberia, Irkutsk, where the brick tea was unloaded for Siberian consumption. The rest of the cargo was sent overland to Kazan and Nijni Novgorod—a journey of six months—and by rail on the last stretch to the final destination of Moscow.[57]

[55] Mohan Lal, *Travels in the Punjab, Afghanistan, Turkistan to Balk, Bokhara, and Herat; and a Visit to Great Britain and Germany* (London, 1846), p. 438.

[56] Munshi Mohan Lal, *Journal of a Tour through the Punjab, Afghanistan, Turkistan, Khorasan, and Port of Persia in Company with Lieut. Burnes and Dr Gerard* (Calcutta, 1834), pp. 67–8, 122.

[57] *Parliamentary Papers* [hereafter *PP*], vol. 46, 1868–69, Papers Relating to the Trade of India with Eastern Turkestan; Morse, *Trade and Administration of China*, pp. 302, 316.

While the romance of Chinese tea boiling in Russian samovars could not fail to fire the imagination of explorers, for hard-headed businessmen the main object of attention was the enormous inland trade of China and India, which bulked several times larger than the entire European trade with Asia. The inland trade, a domain of indigenous bankers and traders, was but imperfectly penetrated by European capital in India, and not at all in China until the last quarter of the nineteenth century. The trade consisted, as Davis observed with regard to mid-nineteenth century China, 'rather in necessaries than superfluities of life.'[58] The great variety of climate and the consequent interdependence of the northern and southern provinces made China practically independent of foreign imports. The south provided the great staple of rice, as well as sugar; the east furnished the valuable cargoes of tea, silk and cotton; from the west came metals and minerals and from the north furs and a great variety of drugs whose growth was unsuited to a warmer climate.[59] There were two great arterial waterways for the enormous inland trade of China: the Grand Canal, a safe inland waterway running a thousand miles south and north from Hangchow to Tientsin with millions engaged in pushing along the unbroken line of grain junks, each carrying above a hundred tons of surplus grain from the south to feed the imperial capital of Peking; and the lower and Upper Yangtze route, running inland from the coast to Hankow and Ichang on the lower reach, and then over several rapids on the upper reach all the way to Chungking in the inner province of Szechwan, carrying up the products of the southern provinces and foreign countries and bringing down rice, tea, coal and timber.[60]

India, where inland trade was less self-contained on account of stronger links with maritime trade, had less well developed inland waterways than China. Since the seventeenth century, the arterial inland trade route which connected Gujarat to Bengal, complementing the direct round-the-peninsula coastal traffic between the two maritime provinces, ran upcountry from Surat via Burhanpur to Agra, and then down the Jumna and the Ganges to Patna and Dacca, effecting the exchange of surplus Gujarat cotton for the silks of Bengal. The late eighteenth and early nineteenth centuries saw the rise of a new inland cotton route from Central India and Bundelkhand, with long lines of bullock carts laden with bales destined for the inland river port of Mirz-

[58] Davis, *China*, vol. 2, p. 379. The remark applies no less appropriately to India.
[59] *Ibid.*
[60] *Ibid.*, pp. 358–9; Morse, *Trade and Administration of China*, pp. 307–14.

apur, whence boats took the cargo down the Ganges to Bengal.[61] The Great Indian Peninsular Railway diverted this cotton traffic in the opposite direction—from Nagpur to Bombay—in the mid-nineteenth century;[62] and boat and steamer traffic down the Ganges and the Jumna dwindled as the East Indian Railway ran up the Gangetic valley to Agra.[63] The inland trade of India came to flow through the superior railway network the British constructed in the second half of the nineteenth century, and which enabled the two leading foreign firms exporting Indian produce—Ralli Brothers and Volkart Brothers—to set up buying organizations far into the interior of the country.[64] In China, modern transport services progressed far more slowly, and the penetration of foreign capital was in consequence not so deep. At the beginning of the twentieth century steamboats plied on the lower Yangtze route up to Hankow and were outweighed by junk traffic even on this run; the rest of the Yangtze route to Szechwan had junks plying under Chinese ownership.[65] Before the First World War, China had only 5000 miles of rail roads compared to 35000 miles in India.[66] By far the greatest transport network in Asia, the Indian rail roads linked the Indian economy more closely to metropolitan interests than was the case anywhere else in Asia, with the exception of the two bigger islands of the Dutch East Indies. Java and Sumatra had, by the beginning of the twentieth century, been traversed by 2500 miles of rail roads, a system less wide in its scope but giving the Dutch sugar and tobacco planters nearly as good access to the interior.[67]

High Imperialism and Asian Banking

British rail roads in India, and the Dutch rail roads in Java and Sumatra, were but part of an entire communications revolution in the later nineteenth century—the greatest in history since the invention of

[61] J. Forbes Royle, *On the Culture and Commerce of Cotton in India and Elsewhere* (London, 1851), pp. 39–43.

[62] *PP*, vol. 46, 1868–69, Report on the operations of the Cotton Department for the year 1867 by Henry Rivett-Carnac, p. 421.

[63] Government of India, Ministry of Shipping and Transport, *Report of the Inland Water Transport Committee*, October 1970, pp. 4, 43.

[64] *Indian Cotton Committee*, Minutes of Evidence (Calcutta, 1920), vol. V, part II, *passim*.

[65] Morse, *Trade and Administration of China*, pp. 307–11.

[66] Wagel, *Chinese Currency and Banking*, pp. 7–8.

[67] D. G. E. Hall, *A History of South-East Asia* (London, 1964), p. 552.

the sail and the wheel. It altered fundamentally the organization and finance of Asian trade and at length gave Western capital an assured mastery around the 1870s. Together, the Suez Canal, steamships, railways, telegraph and the exchange banks represented a giant forward movement of Europe into Asia, altering the very conditions in which the Asian business communities would henceforward function.

Before the opening of the Suez Canal to regular traffic in 1870, Eastern produce was exported to the West ordinarily in sailing vessels round the Cape of Good Hope, a voyage of 3 to 6 months during which perishable articles such as foodstuffs were liable to rot. The opening of the Suez Canal resulted in steam vessels gradually taking the place of sailing vessels. The duration of the journey was reduced to 5 weeks, facilitating shipments of rice from Southeast Asia and wheat from India in greatly increased quantities to feed the burgeoning industrial economies of Europe.[68]

The oceanic 'liners' passing through the Suez Canal to the Red Sea, the Persian Gulf, the Arabian Sea and the Bay of Bengal, and through the Straits of Malacca to the China Sea, swept the sailing vessels from the high seas, confining them to smaller coastal runs. The age of Bugis shipping in the Eastern Archipelago, and of Arab shipping from Muscat and Hadhramaut to Africa, India and Java, was over. The British India Steam Navigation Company began to run regular steamer services between India and the Persian Gulf, and the Asiatic Navigation Company between India and Java, reducing native craft to insignificance, though it may be noted in parenthesis that a certain amount of traffic on Arab dhows and Chinese junks persisted between Muscat and India, and between Singapore and China, respectively.[69] But as far as steam shipping is concerned, the great liners maintained a tight monopoly in the Eastern seas. They formed rings among themselves (called 'Conferences') from around 1875, and introduced the system of 'deferred rebates' in 1877. The first joint Asian venture to break into this monopoly—that of Tata Line and Nippon Yusen Kaisha in 1893—collapsed: Tata retired and

[68] *A Review of the Effect of Low Exchange on the Export trade of India* (govt. publication, n.p., n.d., in National Library of India bound volume of 1890s), p. 43.

[69] *Selections from the Records of the Government of India, Foreign Department, no. CLXV, Report on the Administration of the Persian Gulf Residency and Muscat Political Residency for the year 1878–79* (Calcutta, 1880), pp. 29, 110–12, 121; *Hadthramut and the Arab Colonies in the Indian Archipelago*, p. 51; No. 12265 dated 18 March 1907 from the Collector of Customs, Calcutta, to the Marine Secretary, Government of Bengal, quoted in *Indian Shipping Series, Pamphlet no. 2, The Deferred Rebate System* (Bombay 1923), pp. 29–32.

N Y K joined the combination in 1895.[70] Eventually, however, a certain amount of traffic in Chinese steamers was to spring up on those runs (between the Archipelago, Singapore and points on the China coast) on which the 'Conference' did not operate.

Within two years of the first steamship reaching Shanghai through the Suez on 19 March 1870, the great system of overseas and trans-Siberian cables closed its circle, pressing into an evertightening coil the far-flung trans-Eurasian exchanges from London to Nagasaki. The British Indian Telegraph Company laid the first direct cable from Bombay to England through the Suez on 23 June 1870. Next year the Eastern Extension Company laid down cables from Madras to Penang, Singapore, Batavia, Hongkong and Shanghai, and the Great Northern Telegraph Company of Denmark simultaneously extended the line from Nagasaki to Shanghai. Finally the Great Northern Telegraph Company extended the trans-Siberian line, which had been completed in the late 1860s, from Vladivostock to Shanghai and Nagasaki, closing the Eurasian circle of telegraphic communication in 1872, a year which also witnessed the extension of the cables of the Eastern Extension Company from Batavia to Port Darwin in Australia. The distant shores of Asia and Australia were now in instantaneous communication with the great money markets of Berlin, Copenhagen, Amsterdam, Paris, London and New York; and the so-called Dark Continent was also dragged into this international net when the Eastern and Southern African Company built a new line from Aden via Zanzibar, Mozambique and Laurenço Marques to Durban in Natal in 1879, an event of importance to Indian businessmen who were extending business to these distant spheres around this time.[71]

Telegraphic communication altered the whole character of transactions in produce from the East, sales of imported manufactures from the West, and monetary, exchange and bullion transactions. More and more forward business was being done and sales were being made even while goods were on water.[72] The large European firms that slowly extended their grip over the commerce of the East, selling

[70] *Ibid.*, pp. 6, 45–6.

[71] *The Imperial Gazetteer of India. The Indian Empire*, vol. II, *Economic* (new ed. Oxford, 1908), p. 441; Compton Mackenzie, *Realms of Silver. One Hundred Years of Banking in the East* (London, 1954), p. 40.

[72] *PP*, vol. 9, 1866. Minutes of Evidence taken before the Select Committee on East India Communication. Evidence of William Hamilton Drake of Parry & Co. of Madras, p. 45.

cargo several months ahead, did their import and export business on the principle of simultaneous operations. For instance, as soon as the 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. Here were three operations 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. As the head of a large Manchester firm with an extensive network of branches in India told the Gold and Silver Commission in England in 1887: '. . . nearly all the business done now, since telegraphic communication was so perfect, is done simultaneously. There is very little produce shipped, I believe, from India for sale, on what you might call speculation, as merchants' speculation, and there are very few Manchester goods, I think, shipped in that way.'[73] The day of the individual Asian merchant and speculator, consigning goods on a ship for whatever it might fetch at the port of call, was over. Only large firms with a base in the metropolitan country could operate in such complex conditions. An insight into the altered conditions is afforded by what the Manchester firm further told the Gold and Silver Commission: 'we look from day to day at the price we can get for the produce in the currency of the country in which we sell it. We have every day fluctuations in the rupee price, the rate of exchange and the rate of freight, and as the whole thing is worked by telegram, of course we practically stop operations if the margin is against us, until one of the three things gives way. . .'.[74] The altered technological conditions of international trade had finally decisively turned the balance against the Asian merchant and in favour of the European corporation.

The related changes in the banking sphere were equally profound. In the second half of the nineteenth century 'exchange banks' came to occupy the commanding heights in the import and export trade of the East by concentrating the business of buying and selling import bills and export bills and by effecting telegraphic transfers of funds with London and other leading money markets in the West. The first among these, the Oriental Bank, did not survive the nineteenth century; those that did, and carried on extensive operations in the East before the world economic depression, included the Chartered

[73] *PP*, vol. 22, 1887. Gold and Silver Commission. First Report of the Royal Commission to Inquire into the Recent Changes in the Relative Values of the Precious Metals (London 1887). Evidence of J. K. Bythel, p. 100.

[74] *Ibid.*, p. 114.

Bank of India, Australia and China, National Bank of India, Mercantile Bank of India, the Eastern Bank, Lloyds Bank, Hongkong and Shanghai Bank, all these being English; two leading Dutch banks, Nederlandsche Handel-Maatschappij and Nederlandsche Indische Handelsbank; the Comptoir National d'Escompte de Paris, the Deutsche Asiatische Bank, the Yokohama Specie Bank, and the National City Bank of New York.[75] These banks concentrated in their hands the entire exchange business between East and West, a business in which no Asian concern (except Japan) had an entry.

Capture of the commanding heights did not, of course, mean the occupation of the lower reaches of the economy; and the Western financial institutions were not uniformly effective in remoulding the money markets in Asia in accordance with the requirements of Europe and America. Much depended, so far as fluctuations in rates of exchange or fluctuations in internal rates of money are concerned, on the degree of political authority exercised; and Asia, it must be remembered, was not uniformly colonialized. In the Dutch East Indies and British India, rates of exchange were closely regulated by the official Java Bank and the Government of India's Controller of Currency. Except for a period of precipitous fall in the gold value of silver which plagued Indian currency in the 1880s and 1890s, exchange rates were remarkably stable in both colonies, assuring the foreign investor that his returns would not be wiped off by a sudden fluctuation in exchange. In China, where the European powers had no formal political authority to remould the currency, exchange rates fluctuated violently. Consequently forward trading was much less developed there than in British India, and to cover their risk the exchange banks charged double or even more than what they did in India for changing the gold currencies of the West into the silver currencies of the East. Furthermore, the confusion in exchange allowed the Chinese brokers to play a vital part in settling exchange problems between the foreign firm and the Chinese merchant.[76]

As for the rates in the internal money market, they fluctuated all over the East according to the seasons, and, generally speaking, were not regulated by Western financial institutions. The only exception to

[75] For an account, see A. S. J. Baster, *The Imperial Banks* (London, 1929); Compton Mackenzie, *Realms of Silver*; Geoffrey Tyson, *100 years of Banking in Asia and Africa* (London 1963); *The Indian Central Banking Enquiry Committee Report.*

[76] Frank R. Elridge (Chief of the Far Eastern Division of the United States Bureau of Foreign and Domestic Commerce), *Trading with Asia* (New York, 1921); Gold and Silver Commission, Evidence of A. D. Provand, *PP*, vol. 22, 1887, pp. 168–75.

this in the later nineteenth century was the Java Bank. It successfully regulated the volume of money in accordance with the seasonal needs of trade. It could do so because of its more advanced management compared to that of the Presidency Banks of Bengal, Bombay and Madras. Under its management rates of money did not show the continual fluctuations so familiar in India. Bills were discounted at the same rates in Batavia, Semarang and Surabaya, whereas the discount diverged widely in Bombay, Madras and Calcutta.[77] Fluctuations in the money markets of Continental Asia were generally more rapid than in the Dutch East Indies. The maintenance of a uniform bank rate by the Java Bank was facilitated by the absence of any competition to it from the native quarter. There was no developed indigenous money market in the Archipelago, and no intermediate rate of money between the Western bank rate and the high and inflexible rates of usurious money-lending. In China, in India, and in the Islamic world, a third rate of money—highly sensitive to the seasons—gave the internal money markets their specific character.

This fluctuating intermediate rate—always lower than the rates charged by the usurers and occasionally lower than the bank rate—was referred to in official documentation as the bazaar rate,[78] a rate determined by indigenous bankers who made the flows of money through the domestic economy conform to seasonal trade needs. The pattern of the seasonal marketing operations of the indigenous bankers depended on the particular agricultural calendar of the country concerned. In sharp contrast with England, France and Germany, where bank rates had steadied by the mid-nineteenth century around 3, 3½ and 4 per cent respectively,[79] rates of money fluctuated in Egypt and India from the busy season to the slack season. They ranged in Egypt from 9 to 10 per cent in the busy season to 4 to 5 per cent in the slack season, and in India from 8 to 9 per cent in the busy season to 3 to 4 per cent in the slack season. The main crop in Egypt being cotton, the demand for money came to a sharp point in the three winter months—January, February and March. The same pattern repeated itself in India, where money became tight after the harvesting of the winter crop. After climbing to a peak in January,

[77] N. P. Van Den Berg, *The Money Market and Paper Currency of British India* (Batavia, 1884).

[78] *Report of the Controller of Currency for the year 1927–28* (Government of India, Calcutta, 1928), p. 17; *PP*, vol. 61, 1898–99. Minutes of Evidence before the Currency Committee, part I, evidence of Allan Arthur, pp. 548, 563.

[79] *PP*, vol. 23, 1886. Third Report of the Royal Commission appointed to Inquire into the Depression of Trade and Industry (London, 1886), Appendix B, pp. 371–72.

February and March, the rates charged by the shroffs dropped precipitously in the prolonged rainy season which began in June, stopping all agricultural operations for the moment.[80] Crop patterns in the Turkish empire were different from those in Egypt and India—the crops being more varied and spread out over eight or nine months. So there was no pressure on the money market for a short concentrated spell during the year. But Turkey was somewhat exceptional. And so, in a different manner, was Persia, where money was perpetually tight and continual fluctuations were caused in gains on specie by the operations of petty bankers. Wholesale trade was carried on by bills of very long duration—not less than 3 or 4 months—at a discount of no less than 12 per cent, since a merchant had to give long credits at high risk if he wanted to do wholesale trade on a large scale.[81] The Turkish and Persian territories in West Asia, it must be borne in mind, were dry areas falling outside the monsoon zone of Asia. In China, on the other hand, monetary conditions conformed to the seasonal pattern of monsoon Asia. Here the busy season in the Exchange coincided with the marketing of the two principal exports, tea and silk, most of which were shipped between June and September. The slack season in the Exchange, when the demand for bills was low, stretched from February to the beginning of May.[82]

Indigenous bankers and merchants, who undertook the management of these vast flows of money through the domestic economies of monsoon Asia, performed a vital function within the imperial financial and trading order of the later nineteenth century. Without the internal monetary regulation of the seasonal flows, the machinery of imports and exports would have ground to a halt. The new order of international trade guaranteed a profitable field of operations to those Asian business communities which could service the system. By the same logic the communities that could not adjust, faded out. Among such unsuccessful groups were the Bugis and Arab traders of the Archipelago. Though doughty sailors, they lacked the special skills that would enable them to participate in a modern financial system.

The Hadrami Arabs operating in the Malay Archipelago were quite ignorant of the double entry book keeping used in European

[80] *PP*, vol. 61, 1898–99. Minutes of Evidence before the Currency Committee, part I, evidence of E. Vincent, pp. 680, 682.

[81] *PP*, vol. 23, 1886. Third Report of the Royal Commission on Depression of Trade and Industry, Appendix D, pp. 480–1.

[82] *PP*, vol. 22, 1887, Gold and Silver Commission, evidence of A. D. Provand, p. 169, and evidence of D. McLean of Hongkong and Shanghai Bank, p. 268.

trade. The bigger Arab merchants did note transactions in books, but their business books were 'of the most primitive order,' with no idea of a balance sheet or of making up books at year end. They remitted their money to home in hard cash through friends, relations or fellow tribesmen. They would make no use of houses of business or European banks to make remittances through bills.[83] When the sailing ships, which were the main basis of their commercial strength, became outmoded, the Hadrami Arabs were pushed out of the burgeoning trade of Singapore and the Archipelago. The Buginese, who were equally backward in their business techniques, suffered the same fate. At the beginning of the twentieth century, the business directories drawn up by Arnold Wright for Netherlands India and the British Straits Settlements recorded numerous Chinese firms which had grown rich in cooperation with the Europeans. But few Arab firms were of sufficient importance to find mention in the directories. No Bugis trader was mentioned even in passing, so complete was their disappearance from the modern business scene.[84]

The groups that flourished in the new business setting were skilled in accounts, in brokerage, and in the handling of money. They were capable of transacting bills of exchange, and were in a position to forge long-distance connections of credit and commerce. Among them were the Bania communities of India, who had possessed the double entry system of book-keeping since time immemorial.[85] Among them, too, were the Jews of the Islamic world and the Chinese merchant communities, with their no less ancient and sophisticated financial skills. These hereditary banking and trading communities were able to operate successfully within the complex system of finance and trade that the communications revolution of the later nineteenth century enabled the European powers to impose on the organization of Asian business. The five great colonial port cities of nineteenth-century Asia—Shanghai, Hongkong, Singapore, Calcutta and Bombay—became the focal points of Asian trade and finance. The concentration owed as much to the expanding participation of the Jewish, Indian and Chinese merchant communities as to the influx of Western capital. Their hereditary skills in banking and brokerage

[83] *Hadthramut and the Arab Colonies in the Indian Archipelago*, pp. 32, 47.

[84] Arnold Wright (ed.), *Twentieth Century Impressions of British Malaya. Its History, People, Commerce, Industries and Resources* (London, 1908); Arnold Wright (ed.), *Twentieth Century Impressions of Netherlands India. Its History, People, Commerce, Industries and Resources* (London, 1909).

[85] Bhargava, *Indigenous Banking in Ancient and Medieval India*, pp. 165–9.

ensured them a place in the international capitalist system that developed with the opening of the Suez Canal.

At the end of the nineteenth century the Jews of Baghdad were still the pre-eminent banking and trading community of the Islamic world, as they had been since the days of Harun Al Rashid. An authorized 'millat' of the Turkish Empire like the Christian sects, enjoying autonomy in their personal and communal affairs, the Jewish community was 50,000 strong in Baghdad, almost outnumbering the Sunni Arabs and exceeding the combined Christian, Turkish and Persian minorities in 1900. Capital was mostly in the hands of Jews, who had traditionally held the post of chief banker, besides constituting the principal element among the numerous class of local sarrafs whose shrewd operations had made Baghdad the undisputed financial capital of the Turkish province of Mesopotamia. Baghdad was the principal money market in the Asiatic part of the empire with important ramifications in neighbouring Persia. All imports, passing through the post of Basra, were gathered into the hands of the Jews of Baghdad, and distributed from there over Ottoman and Persian territories. Cotton cloth from Manchester and Bombay, which formed three-fourths of the imports, was handled by large British and Jewish firms, but the latter proved more than a match for their European competitors. Since the opening of the Suez Canal and the initiation of a regular line of steamers, the Jewish firms began to outbid the British, importing goods direct from Europe and cutting out Westerners from the trade of the Middle East, proving beyond dispute their capacity to operate within the new order of telecommunications and steamships.[86]

Two mail services opened by the British Indian Steam Navigation Company between Bombay and the Persian Gulf enabled four big Jewish firms in Baghdad, with branches and agencies in the interior towns of Persia, to capture the market for Indian goods in Iraq and Persia. So strong was the Jewish hold on the trade in piecegoods and yarns that these four firms, acting in combination, forced low prices on the Bombay mill owners, whose goods they obtained through Persian and Jewish merchants permanently located in Bombay. The transit trade from India through Iraq to Persia was an important factor in the operations of the Jewish firms of Baghdad. The Jewish bankers and merchants did not confine themselves to textiles alone.

[86] *PP*, vol. 23, 1886, Third Report of the Royal Commission on Depression of Trade and Industry, Appendix D, p. 484; Stephen Hemsley Longrigg, *Iraq, 1900 to 1950. A Political, Social and Economic History* (Oxford, 1953), pp. 10–11, 28.

They imported other Indian goods as well and distributed them in inland Persian centres—Isfahan, Hamadan, Teheran and Tabriz. The Baghdad Jewish firms had branches and commission agencies in these places effecting sales with Persian dealers. The sales were facilitated by a banking network between Mesopotamia and Persia which made it possible for the Jewish firms to sell bills drawn on Persian merchants locally in Baghdad and thus realize the value of the sales before due date.[87] Simultaneously, the Jewish firms of Baghdad maintained agencies in London and Paris, ensuring them access to the nerve centres of the European trade with West Asia.[88]

Eventually one of the Jewish families from Baghdad, the Sassoons, penetrated into the highest circle of Western finance and trade—a circle from which the European banks and corporations generally succeeded in excluding Asians. As this is perhaps the solitary instance of a nineteenth-century Asian firm breaking into the charmed circle, the Sassoons deserve separate mention. Chief bankers in Baghdad in the eighteenth century, the family fled from the wrath of Daud Pasha to Bombay, where David Sassoon, the founder of the modern firm, set up his headquarters in 1832. He started an export-import business with Persia through the port of Bushire, and with his home town of Baghdad. He then entered into the expanding trade in opium and cotton with China. His son Elias set up an office in Shanghai, while the elder son, Abdullah, expanded connections in Baghdad. By 1855 the Sassoons were actively trading with Bushire, Baghdad and the ports on the Persian Gulf, and with Hongkong and Shanghai. In that year, they took the decisive step for the future by setting up an office in London. The new office made huge profits by supplying short-stapled Indian cottons to Lancashire's starved mills during the American Civil War. At the end of the Civil War, the firm cushioned itself from the collapse of cotton prices by expanding its exports of opium, and its sale of Manchester textiles in India, China and Japan. The Sassoons eventually set up a large complex of cotton mills in Bombay in the 1880s. The new mills thrived on exporting fabrics to the Persian Gulf as well as China and Japan.

The family business was divided in 1867 into two separate firms—David Sassoon & Company and E. D. Sassoon & Co.—both with headquarters in London and a long line of connections from England through Bombay to China and Japan and to the Persian Gulf. The

[87] *Government of India. Trade Mission to the Near East and Africa. Report* (Calcutta, 1928), pp. 7–12, 22, 51–7.
[88] Longrigg, *Iraq*, pp. 10–11.

Sassoons financed the Imperial Bank of Persia which was set up in 1889. Twenty years later they climbed to the apex of international finance by setting up the Eastern Bank (1909). The new exchange bank with headquarters in London and Bombay enabled them to expand their business in Baghdad, Singapore and the Far East. The Sassoons would not have been able to scale these dizzy heights had they not shifted their headquarters early to London. Thereby they attained access to the chief money market of the world. In the process, they became members of the imperial business class.[89]

The typical Asian firms in the colonial port cities of Bombay, Calcutta, Singapore, Hongkong and Shanghai had no access to the commodity markets and financial resources of London. Nor did they attempt to penetrate the European sphere of exchange banking and international trade. Their function within the new colonial trade order was to maintain the supply lines and marketing channels in the interior which enabled the European banks and corporations to sustain the export of produce to Europe and the distribution of foreign goods among the native population. At the same time, the vast amount of inland trade in China and India, much of which was between inland centres, and the expanding coastal trade of the Chinese and Indian merchant communities to the Archipelago and the Gulfs, gave the Asian business groups in the great colonial port cities a certain bargaining strength in their relations with the foreign corporations.

The comprador in nineteenth-century China is said to have symbolized the abject subjection of the Chinese mercantile system to the foreign firms in the treaty ports. But he also personified the formidable obstacles the latter encountered in penetrating the system. As late as 1921 an American trade Consul was impelled to observe: 'The foreign merchant never comes in contact with the real purchaser of the goods, partly because of the language difficulty and partly because of the strongly organized guild and compradore system of merchandising.'[90] When the treaty ports were opened, the European and American merchants had no way of judging the standing of individual merchants in the interior. They were compelled to deal through Chinese brokers in the ports of Shanghai, Foochow, Amoy and Tientsin. The white outsiders employed the brokers to handle the credit end of their business and gave them the responsibility of

[89] Stanley Jackson, *The Sassoons* (London, 1968), *passim.*
[90] Elridge, *Trading with Asia*, p. 112.

guaranteeing and enforcing payments on sales of foreign merchandise and of enforcing delivery of Chinese produce which the former had bought.[91] These men were known as compradors, but they were not the only class that mattered in the Chinese mercantile system: beyond them were the brokers, dealers and merchants operating in the interior, and over them all, manipulating the entire monetary system, the 'imperial' Shansi bankers of the north and the 'local' bankers who ran the 'money shops' in the south.

As Hao has pointed out, even before the foreign houses started employing the comprador, there was in China the purely native institution of licensed brokers called ya-hing who performed functions of brokerage for Chinese merchants; and before 1842 it was not uncommon for foreign houses to have business conducted through official ya-hing. The comprador differed from them only in the sense that he was contractually employed by the foreign firm, whereas the ya-hing was an independent commission agent strongly embedded in the native mercantile system. It is no accident that he once again became important when the comprador, who hung his hopes for success far too closely on the connection with foreigners, declined in the twentieth century.[92] But indeed, as Rutherford Alcock, the British minister in Peking, noted in 1867, the comprador himself was a merchant and commission agent in his own right, conducting independent operations,[93] besides purchasing tea and silk for his employer firm and handling its exchange transactions in taels and native bank paper. Chinese constituents used to pay foreign firms for imported goods in native bank order, and the comprador, who handled it for his employer firm, was himself not infrequently a partner in a native bank. In that sense he was an integral part of the Chinese mercantile system.[94]

The most important factor inhibiting the penetration of the foreign firms into the Chinese mercantile system was the monetary system of China. The foreign interests in the treaty ports could never unify it, and bring it under their own control. In this they failed signally to achieve what the British had done in India. They faced the strong combination of Chinese bankers, merchants and compradors against

[91] *Ibid.*

[92] Yen-Ping Hao, *The Comprador in Nineteenth Century China. Bridge between East and West* (Harvard, 1970), pp. 2, 63.

[93] *Ibid.*, p. 95.

[94] *Ibid.*, p. 42.

any currency reform that would remove the exchange barriers.[95] The decrepit Manchu government left the entire management of the currency to the automatic operations of the 'money shops'. As the Consul-General of Shanghai reported in a memorandum on the currency system in 1898, the government did not interfere at all in the issue of the silver ingot currency, known as taels, in which wholesale trade was carried on and government and native banking accounts were kept.[96] Private assay offices managed by the bankers cast the silver into oval ingots in the shape of shoes weighing 50 taels each, stamping each silver shoe with the name of the banker and the date of refining.[97] The volume of currency was thus the active stock of silver in China, added to or diminished by the mere fact of import or export, and untrammelled by the delay and expense of minting silver into government coins. An import of half a million ounces in bar silver could be converted into currency at a few hours' notice and at practically no cost.[98]

While for the Chinese merchants the silver ingot currency had the virtue of an automatic system, the regional variations in the basic unit of value—the tael—was a nightmare to the foreigners. The powerful body of Chinese bankers were the arbiters of the rates of exchange between the various taels. When making remittances to other places, they operated through the Tsaoping tael. To take an example, a banker effecting a remittance from Shanghai to Hankow would convert the Shanghai tael into the Tsaoping tael and thence into the Hankow tael. The Shanghai tael, on the other hand, was the standard of international exchange for the trade of North China and the Yangtze valley. All quotations in local currencies were reconversions from the rate for Shanghai currency. But for all dealings in foreign silver bar the exclusive standard, even in Shanghai, was the Canton standard (tael=579.85 grains)—a practice which originated when foreign trade was centred in Canton and which continued because foreign banks and merchants brought Cantonese as their first compradors and shroffs to the northern treaty ports. Because of the

[95] Morse, *Trade and Administration in China*, p. 169.

[96] C 9376, *Indian Currency Committee 1898, Index and Appendices to the Evidence Taken before the Committee Appointed to Inquire into the Indian Currency* (London, 1899), Appendix no. 50, Currency and Prices in China—Memorandum by George Jameson, Consul General in Shanghai, p. 94.

[97] *Ibid.*; Davis, *China*, vol. 2, p. 372.

[98] C.9376, *Index and Appendices* (see fn. 96), Appendix no. 50, Memorandum by George Jameson, Currency and Prices in China, p. 94.

complications arising from the varying values of different taels, and their fluctuating rates of exchange, the foreign merchant left all exchange operations to his comprador.[99]

Unable to master the Chinese monetary system, the foreign merchants developed a healthy respect for the elaborate system of native banking in China. They could see it render at a moment's notice the banking services familiar to them in Europe. Chinese bankers accepted money orders for delivery of silver, issued notes which were in general circulation and gave letters of credit which were readily encashed.[100] They received deposits from private individuals, either drawable at will in which case no interest was allowed, or subject to some days' notice before withdrawal of any portion, in which case the depositor would get interest not exceeding 12 per cent.[101] Davis found private notes, issued by bankers and merchants for mutual accommodation, extremely common in Foochow on the eve of the Second Opium War. The velocity of their circulation was evident from the endorsements of all those who had passed them on.[102]

With the expansion of imports and exports after the opening of the treaty ports, there was a clearer differentiation of the functions of the 'imperial' Shansi banks and the native 'local' banks. They parted more and more into non-competitive and complementary ranges of business: the Shansi banks of the north financed the long-distance trade and dealt with fund transfers for the imperial government; the native banks, on the other hand, concentrated on the local exchanges and local mercantile transactions in the Yangtze valley and on the South China coast. Shansi and Canton were like two opposite ends of the pole. The Shansi banks were strongly entrenched in Peking, Tientsin and all over the north and west of China while the native banks were more familiar in the treaty ports to the south. Not that the Shansi bankers had no operations in the south and east. As many as 5 of the 6 large banks in Foochow were Shansi banks in 1890. In Hankow, too, around this time, the Shansi bankers were engaged in issuing bills to finance the growing Russo-Chinese tea trade.[103] They fitted neatly into the new finance of the treaty ports by virtue of their ability to dispatch money from one province to another and from port

[99] Morse, *Trade and Administration in China*, pp. 158, 161.

[100] C.9222, *Indian Currency Committee 1898, Minutes of Evidence* Part II (London, 1899), evidence of John Matheson MacDonald of the firm of Matheson & Co., p. 217.

[101] Davis, *China*, vol. 2, p. 372.

[102] *Ibid.*, p. 373.

[103] Susan Jones, 'Finance in Ningpo,' p. 48; Mackenzie, *Realms of Silver*, pp. 76–7.

to port at the cheapest cost through their network of branches. As inter-provincial business increased in the nineteenth century, the Shansi banks left local banking to native banks and concentrated on inter-provincial business. The native banks in the south depended on the Shansi bankers for working capital. The Shansi banks therefore emerged as bankers' banks in addition to their established role as government banks.[104]

The close connection of the Shansi banks with the imperial government survived after the Opium War, and was strengthened by the Taiping rebellion. During the rebellion, the Shansi bankers earned exceptional profits from the handling of government funds, moving them from place to place for military operations.[105] Towards the end of the nineteenth century their influence began to decline due to the partial withdrawal of government patronage. About 1890 officials in the provinces began to set up banks for their own profit: these official banks received the government revenues formerly entrusted to the Shansi banks and the profits of the Shansi banks were further eaten into when postal money orders started between cities on the coast in 1898 and subsequently in the interior.[106] The official banks were primarily responsible for the reckless issue of notes that led to the collapse of paper credit during the 1911 revolution. All the Shansi banks and over half the native banks perished.[107] The Shansi banks, which had been closely identified with the Celestial Empire over the centuries, were not destined to survive its collapse.

The native banks were more organically linked with the flourishing trade of the treaty ports than the Shansi banks. The former replaced the latter as the most critical element in the Chinese monetary system when Shanghai emerged, in the last quarter of the nineteenth century, as the dominant money market of China.[108] The leading ch'ien chuang or native banks in late nineteenth-century China were owned by the Ningpo bankers of Shanghai. The traders and financiers of Ningpo had been migrating to Shanghai long before its opening as a treaty port—a process that gathered momentum with the phenomenal expansion of Shanghai as a treaty port dwarfing every other port on the China coast except Hongkong. The Ningpo businessmen in Shanghai,

[104] Wagel, *Chinese Currency and Banking*, pp. 156–7.
[105] Susan Jones, 'Finance in Ningpo,' 66–77.
[106] Wagel, *Chinese Currency and Banking*, pp. 163–6; Tamagna, *Banking and Finance in China*.
[107] Wagel, *Chinese Currency and Banking*, pp. 163–4, 171–8, 212.
[108] Tamagna, *Banking and Finance in China*, pp. 20–1.

having made their fortunes in the silk, sugar and tea business, put their surplus funds into money shops. Shanghai had an ancient Money Trade Guild, an occupational association that had long co-existed with the native place association of the Ningpo residents in Shanghai, called the Ningpo Guild. The Shanghai Money Trade Guild and the Ningpo Guild became tightly knit during the troubled times from the outbreak of the First Opium War to the end of the Taiping rebellion.[109]

The Fang lineage, which exercised an informal hegemony within the Ningpo Guild and the Shanghai Money Trade Association, had a comprador relationship with a foreign firm in the 1860s, trading Hu-chou silk and Shao-hsing green tea for foreign cloth which it sold in Hankow. The Fangs owned the three most powerful ch'ien chuang within the Shanghai Money Trade Guild: the An-K'ang Native Bank (1870), which conducted exchange transactions from Shanghai to Ningpo, Hangchow, Chia-hsing, Hu-chou, Chinkiang, Yangchow, Tung-chou and Nanking on behalf of a clientele drawn mainly from the cotton industry; the An-yü Native Bank (1879), catering mostly to silk merchants; and the Cheng-yü (1892), conducting exchange transactions from Shanghai to Ningpo, Soochow, Hangchow, Hu-chou, Nan-hsün and Hangkow for a diversified clientele of silk and tea traders and dealers in metals and imported goods.[110]

A formal financial link was established between the native money market and the foreign money market when the compradors introduced the chop loan in the 1860s—a short-term loan from the foreign corporations and the exchange banks to the ch'ien chuang by which means the latter invested the surplus funds of the foreign money market in much the same way as bill brokers in London managed call money from the banks.[111] The chop loans became an integral part of the native money market as they developed as inter-bank call loans with no security arrangement, used both among native banks and between foreign and native banks, to settle debit clearing positions and to meet payment of cheques and drafts drawn by other native banks and customers. Thus the chop loans, besides facilitating the flow of funds from the foreign to the native money market, increased the velocity within the latter sector.

The interest rate usually charged on the chop loans established itself as the prevailing rate in the native money market: in Shanghai it was fixed twice a day, at 8.30 a.m. and 12.30 p.m., at the meeting

[109] Susan Mann Jones, 'The Ningpo Pang and Financial Power in Shanghai,' pp. 73–81.

[110] *Ibid.*, pp. 84–5.

[111] Hao, *The Comprador in Nineteenth Century China*, p. 116.

of the Native Banks Clearing Association. The rate, which fluctuated from one season to another without much reference to the bank rate in the foreign money market, rose sharply when the native money market was tightened by the seasonal drain of funds in spring for the financing of tea and silk in central and southern China. There was a second occasion in the year when the rate rose again: this was in autumn for the financing of trade in cotton, rice and cereals in central, western and northern China.[112]

The native banks played a critical role in the development of foreign trade in China by means of the 'native order'. The most important among the negotiable instruments issued by the ch'ien chuang, it was something like a banker's cheque payable to bearer upon presentation on or after a fixed date at a specified bank. Native orders circulated like cash and were accepted almost unconditionally by the exchange banks. Through this instrument the native banks developed a sophisticated system of import financing, acting as intermediaries between the Chinese merchant and the foreign firm.[113]

Chinese dealers who imported foreign goods did not pay cash till they actually sold the goods in the interior: instead they put into the hands of the foreign supplier who sold the goods on credit an order from a native bank payable 5, 10 or 20 days afterwards, which he could encash at the native bank. The duration of native orders shortened between 1840 and 1900 as the foreign firms insisted on quicker payment. No native order which covered 20 days could survive this European pressure.[114] As the foreign firms selling goods to Chinese dealers insisted on native orders issued by ch'ien chuang, the hold of the native banks over the import trade tightened over time, especially in the boom following the Russo-Japanese war. As a result of several conferences, it was agreed that better control should be exercised by the native banks over the credit of the dealers, so that the latter became in effect the subservient tools of the money shops.[115]

The native banks enthusiastically supported the Chinese revolution of 1911. Though most of them perished in the collapse of paper credit that followed the revolution, the ones that weathered the crisis were sounder and were helped by the disappearance of the Shansi banks.[116]

112 Tamagna, *Banking and Finance in China*, pp. 65–6.
113 *Ibid.*, p. 76.
114 Wagel, *Chinese Currency and Banking*, pp. 183–5.
115 *Ibid.*, p. 206.
116 *Ibid.*, pp. 213–15; Susan Jones, 'The Ningpo Pang and Financial Power in Shanghai,' pp. 91–3.

Looking back on the crisis four years later, Wagel condemned the reckless issue of paper notes by the banks to raise capital without interest: 'At first the bank notes were a great success, at least in the ports and in the principal cities of the Empire. But, at no time in the history of the country did the farmers and the people in the remote parts of the interior ever look upon anything else but silver and copper as money. The notes, therefore, circulated only among merchants and people in the ports and cities.'[117] When the crisis erupted in 1911, all paper money issued by the money shops became mere scraps: people would look at nothing but silver.

The number of banks in 1914 was no more than one-third of those in 1910, but after the crisis was over, native banking stabilized as private issue of paper notes was stopped.[118] As a measure of industrialization commenced within the new Chinese republic, the native banks found fresh business opening up before them. The growing number of Chinese cotton mills depended on the money shops to raise their capital; and their increasing production was based on the growing demand for yarn by Chinese weavers, over whom the Chinese financiers and merchants had established control by the supply of yarn and long-distance marketing of the finished product.[119] As the influence of the exchange banks and the foreign corporations declined, the mercantile and credit network of the traditional money shops sustained the growth of a modern business and industrial structure under Chinese control.

To complete the sketch of the Chinese monetary system in the nineteenth and twentieth centuries, it is necessary to add that all through this period there persisted at the bottom of the system a level of credit organized on altogether different principles from those that regulated the business of the exchange banks in the treaty ports and of the Shansi banks and the ch'ien chuang in the interior and on the coast. This was credit for the people. Among them, as already noted, the system of paper credit did not obtain. Silver or copper was the only accepted standard of value. Davis noted in mid-nineteenth century China that below the respectable 'money shops' which maintained the system of commercial credit, there were innumerable pawn shops which served that vast section of the people whose private credit was not good. The 'inferior grade of pawnbrokers' allowed

[117] Wagel, *Chinese Currency and Banking*, p. 169.

[118] *Ibid.*, pp. 178, 213–15.

[119] Kang Chao, *The Development of Cotton Textiles Production in China* (Harvard, 1977), pp. 142–55, 168–217.

loans on pledges, the usual period for redemption of pawned goods being three years. At this level the rate of interest was uniformly high compared to the native money rate that prevailed among the bankers. The pawnbroker's rate of interest was a usurious, not a market rate. Therefore, it did not, like the native rate of money, fluctuate from day to day. The legal limit to the rate of interest was 3 per cent per mensem, and due to the general insecurity of loans, it remained high for ordinary people at any time of the year.[120]

To turn now to the Indian mercantile system in the high noon of British imperialism, there were striking parallels with the Chinese, as well as instructive differences. The British firms operated through the Banian in Calcutta and the guarantee broker in Bombay, who performed functions similar to the comprador in Shanghai. Distinct from the older class of brokers (dalals) and commission agents (arhatiyas) who served a wide native clientele of dealers and merchants (beparis) in the interior, the Banian or guarantee broker in the colonial port city often advanced money to the foreign house in which he was employed, and arranged to sell the goods imported by the house and to procure the items of export. Most important from the point of view of the foreign house, he guaranteed bills. Because of the uncertain credit of the interior merchants and dealers, the export-import firms found it safer to do business through this special class of agents who brought in orders, financing and guaranteeing them.[121]

Though their functional specialization marked them out from other native brokers and commission agents, the Banians were not a class apart, since some leading native banking houses with a widespread commission agency business served as guarantee brokers to foreign firms.[122] The dependence of the foreign export-import firms on the Banians, however, diminished perceptibly with the building of the railways in the interior, when firms like Ralli and Volkart set up a widespread upcountry network of branches buying cotton, wheat, oilseeds and jute either directly from dealers and farmers or through native banking and commission agency houses of established

[120] Davis, *China*, vol. 2, pp. 372–6

[121] Ruling of Justice C. J. Norman in Grant, Smith & Co. *vs.* Juggbundhu Shaw quoted in T. A. Pearson, *The Law of Agency in British India*, pp. 8–12; Emmet A. Chapman, *India as a Market for American Goods* (US Department of Commerce, 1925), p. 8.

[122] For example, the banking house of Tarachand Ghanshyamdas had the Burma Oil Agency under Shaw, Wallace & Co. Harry Townsend, *Shaw Wallace & Co., 1886–1947* (Calcutta), *passim.*

standing.[123] The establishment of supreme British control of the Indian monetary system meant that the Indian Banian, unlike the Chinese comprador, could not establish himself as the sole channel of dealings between the foreign house in the colonial port city and the upcountry merchants, brokers and bankers.

The most important class of businessmen in the inland trade of India were the bankers (shroffs) and commission agents (arhatiyas)—an inextricably intertwined class of merchant bankers and brokers who controlled the flows of produce and money in the mandis or market towns of the interior. The arhatiyas, as the British courts were quick to recognize, were distinct from the ordinary brokers on account of their more responsible position, for whereas the dalal or ordinary broker did not guarantee the payment of the price of goods sold through him, the arhatiya or commission agent, in consideration of his higher commission (arhat), guaranteed the bills or hundis through which trade transactions were conducted between buyer and seller.[124] The arhatiya, who served as the link between buyers and sellers in different places, gave a contract of guarantee, undertaking that delivery should, on due date, be taken or given at the price at which the order was accepted failing which he would be liable to pay the difference.[125] As Buchanan Hamilton observed in Patna at the beginning of the nineteenth century, the arhatiyas, who received goods from merchants at a distance and sold them on commission, took the responsibility for the purchaser, a role which they could sustain on account of their standing as men of property and credit, capable of financing the deal and guaranteeing the bill.[126]

The grain trade of the interior, which grew bigger with the advent of the railways, was conducted through the arhatiyas. They financed the smaller beparis who brought the grain to the market town. The arhatiyas maintained grain stores and speculated on the difference in grain prices between distant market towns.[127] The larger commission

[123] *Ralli Brothers Limited 1951* (n.p.); *Volkart Brothers 1851–1951 Centenary Souvenir* (n.d., n.p.), *passim.*

[124] Shakir Jan and Aulam Jan *v.* Ahmud Ullah, Sadar Diwani Adalat, 1 August 1806, in *The Indian Decisions (Old Series)*, ed. T. A. Venkataswamy Rao and T. S. Krishnaswamy Rao, vol. VI (Madras, 1912), p. 147.

[125] Bhagwandas Narondas *v.* Kanji Naronji, Bombay High Court (1906), F. Pollack and D. F. Mulla. *Indian Contract Act and Specific Relief Acts* (Bombay, 1919), pp. 702–3.

[126] Francis Buchanan, *An Account of the Districts of Bihar and Patna in 1811–1812* (Patna, n.d.), *passim.*

[127] William Hoey, *A Monograph on Trade and Manufacturers in Northern India* (Lucknow, 1880), pp. 59–63.

agency houses were bankers, acting for merchants from other areas and allowing them to draw credit for their business transactions.[128] 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 mesh in the course of the nineteenth century. A large banking firm with a network of branches (kothis) conducted business through commission agents in those places where it had no branches, and itself acted as commission agent for a wide clientele of merchants of different places.[129] Speculation in commodities, which began with opium and cotton futures and extended later on to grain futures, developed in the course of the nineteenth century through the network of commission agents and kothis that linked the market towns in the interior ever more closely to the port cities.[130]

Around the middle of the nineteenth century tightening British control altered the monetary system in India in a way that did not happen in China at all. In consequence, the position of the shroffs and their hundis within the economy of India changed fundamentally.[131] At the beginning of the century the British agency houses in the ports, confronted by the multiplicity of coins in the interior, traded perforce through bankers' hundis which enabled them to purchase goods in the coin of the production zone, the bankers issuing the hundis encashable in the right coin after deducting the service charge for changing the coin of the port into the coin of the interior.[132] The imposition of the uniform silver rupee with a fixed ratio to the British gold sovereign by Lord Bentinck in 1835—a measure that took effect through the greater part of India with the rapid extension of British dominions in the viceroyalty of Lord Dalhousie—freed the foreign houses in the ports from their dependence on the native shroffs. While the Chinese money shops continued, under the Ch'ing, to earn large profits from changing the various taels, the Indian banking houses lost that part of their business.

The organization of an official system of treasuries and coin chests in every British district around the same time deprived the bankers in the interior of their lucrative business of handling the revenues of

128 Sripati Roy, *Customs and Customary Law in British India* (Calcutta, 1911), p. 548.
129 Mr Buch's evidence from NWP trade, Report of the Indian Famine Commission, *PP*, 1881, vol. 71, part II, p. 457.
130 M. L. Barjatiya, *Bharat ka Vyaparik Itihas* (in Hindi, Indore, 1928), *passim.*
131 For an account of these changes in the native banking system, see Cooke, *Rise, Progress and Present Condition of Banking in India*, p. 13ff; Hoey, *Trade and Manufactures in Northern India*, p. 26; Jain, *Indigenous Banking*, pp. 23ff.
132 Cooke, *op.cit.*, pp. 81–2.

the state. Though they continued to enjoy the privileges of state banking in the princely states of Rajputana, Malwa, Gujarat and Hyderabad, the introduction of financial reforms on the British model towards the latter part of the nineteenth century (such as the establishment of government treasuries in place of banker's agencies by the great Baroda minister T. Madhava Rao in 1875), eventually contracted the revenue-handling business of the shroffs in this quarter, too.[133] In the meanwhile, the far-flung network of British district treasuries initiated a system of supply bills for the use of merchants. This, working in conjunction with the money orders encashable at every new post office in an extending postal system, ate into the remittance business of the hundi bankers at a time when in China the Shansi banks still had the cream of this business.[134] The disbanding of the native courts and native armies all over India—especially Punjab, Awadh and Tanjore following hard on the heels of the break-up of the Maratha confederacy and the diminishing need of the British for the financial services of the shroffs for military operations—contracted another crucial part of the older bankers' business.

Since the issue of paper notes was never a part of the Indian banking system, unlike the Chinese, and because the receiving of deposits was not a principal component of the business of the shroffs even before the joint stock banks started competing for deposits in the interior, the primary function of the bankers as it emerged in the 1860s was the issuing and discounting of hundis or bills of exchange.[135] Shorn of its former charges of coin changing and insurance, the hundi now became a pure trade bill, a means by which the bankers financed and facilitated the rapidly increasing flow of inland trade along the new railways. The growing volume of hundi traffic was realigned by the railways, Bombay and Calcutta emerging as the twin centres of the native banking network within the new imperial economy.[136]

[133] *Gazetteer of Baroda State* by Rao Bahadur G. H. Desai and A. B. Clarke, vol. 1 (Bombay, 1923), p. 327.

[134] *Amended Rules for Bills of Exchange with Additional Rules for Transfer Receipts, Letters of Credit and Cheques Prescribed by the Board of Audit* (Calcutta, 1861), pp. 5, 10.

[135] Cooke, *Rise, Progress and Present Condition of Banking in India*, p. 21.

[136] A huge traffic in hundies had sprung up between Bombay and Calcutta by the mid-1860s, assisted by the readiness with which the Presidency Banks of Bombay and Bengal discounted shroffs' paper. *PP*, 1868–69, vol. 15, Minutes of Evidence taken in England and Proceedings there before the Commissioners Appointed to Inquire into the Failure of the Bank of Bombay (London, 1869), evidence of James Blair, p. 232.

The prominent bankers of the eighteenth century—the old Surat, Banaras, Patna and Murshidabad shroffs—went into irreversible decline in the process, the biggest among them, the giant Banaras house of Manohardas, becoming paupers by the mid-nineteenth century. New Marwari, Gujarati, Multani and Nattukottai Chettiar bankers came to dominate the hundi traffic between the market towns on the railways, their strong community ties assisting widespread migrations that laid the basis of the new banking networks.[137] The speeding up of traffic through the railways reduced and standardized the duration of hundis, the length of which had varied greatly from place to place earlier in the century. Hundis drawn at 111 days' sight were quite common at one time; at the end of the century hundis were normally drawn at 45 to 63 days' sight, 51 days being typical in Calcutta.[138]

The shroffs in Bombay and Calcutta, as well as those in upcountry money markets like Ahmedabad and Delhi, had to reckon with the growing presence of European banks—such as the Presidency Banks, the exchange banks and the joint-stock banks—around the middle of the nineteenth century. The challenge, however, was also an opportunity, for the European banks found it profitable to employ their surplus funds in discounting the hundis of the shroffs, who for their part were glad of their access to the European money market in meeting the ever-increasing financial needs of the expanding inland trade, especially during the busy season when money was tight in the native money market. During the cotton boom of the American Civil War, the European banks made the discounting of shroffs' paper a principal part of their business, to conduct which they maintained closely guarded lists of shroffs with a credit rating against each. The shroffs were allowed to draw on the bank up to the amount stated in the credit rating, which was determined on the advice of brokers employed for that purpose by the bank.[139]

The link thus established between the bazaar and the banks was tenuous and until the inter-war period bazaar rates were not much

[137] *Report of the Bihar and Orissa Provincial Banking Business Committee 1929–30* (Patna, 1930), vol. 1, pp. 185–6; *PP*, 1863, vol. 45, Papers Relative to Certain Claims against the late Native Government of Oudh, p. 7.

[138] Sripati Roy, *Customs and Customary Law*, p. 541; Cooke, *op.cit*, pp. 82–3; *Capital*, 25 April 1898, 'Currency and Money Market in India'; C.9376, *Indian Currency Committee 1898*, no. 30, Memorandum on Discount Rates in India, p. 67.

[139] *PP*, 1868–69, vol. 15, evidence of James Blair cited above (fn. 136), p. 234. For reference to an even earlier list of shroffs held by the Bank of Western India in 1845, see James Douglas, *Glimpses of Old Bombay and Western India with other Papers* (London, 1900), pp. 21, 121.

affected by bank rates. There was no unified money market in India ruled by a single bank rate. On the contrary, the Indian money market, like the Chinese, consisted really of three sections governed by different rates: 1. the money employed in native banking and commerce; 2. the money employed in European commerce and banking; and 3. the metallic currency issued by the Government of India and partly kept in reserve in treasuries.[140] Whereas the money circulating in the first two sections consisted largely of paper, which sustained a system of mobile credit worked by negotiable instruments, the money in use among the masses of the population was metallic, no value being attached by ordinary people to paper. The usurious rates at which credit was available to the masses had no relation to the rates of mobile money at the command of the banks and the bazaar. The difference in the rates ruling these separate sections of money in use in India would be evident at a glance from the following contrasting rates ruling in the inland money market of Simla in 1875:[141]

1. Money lent on account to agriculturists: 12–18 per cent
2. Money lent on account to native traders: 6–12 per cent
3. Money lent on account by the Alliance Bank of Simla: 12 per cent

It will not fail to strike the careful reader that the rates of money lent by native bankers to native traders—i.e. the bazaar rates—ranged lower (6–12%) than the rate charged by the single European bank in Simla (12%). That this is not an isolated instance is clear from evidence rendered to the Currency Committee of 1898 during the exchange crisis arising from the fall of silver in relation to gold, which pushed up the interest rates of the exchange banks and the Presidency banks to much higher levels relatively to the rates ruling in the upcountry money markets. However, evidence of a contrary nature was not lacking either: and it was claimed by a correspondent of the European mercantile paper, *Capital*, that the rates at which shroffs lent to native merchants were a good 2 per cent above the bank rate during the busy season, for the simple reason that the shroffs borrowed money from the banks and lent it out at higher

[140] This classification occurs, in a slightly different form, in C.9376, Indian Currency Committee 1898, Appendix no. 30, Memorandum on Discount Rates in India by J. A. Anderson and H. M. Ross, p. 67.

[141] *Selections from the Records of the Government of the Punjab and Its Dependencies. New Series no. XII. Report on Current Rates of Interest on Loan Transactions in the Punjab* (Lahore, 1876), pp. 4–13.

rates.[142] However conflicting, the evidence is clear on one point: the bank rate and the bazaar rate followed their own laws of motion and the bazaar rate was by no means tied to the bank rate at the turn of the century. This state of things was to change after the merger of the Presidency banks as the Imperial Bank of India in 1921, and more especially after the creation of the Reserve Bank of India in 1935.[143] Till the end of the nineteenth century, however, the independent funds at the disposal of the native shroffs were so voluminous that they could often afford to underquote the bank rate.[144]

If the bank rate and the bazaar rate did not influence each other closely, they still ran parallel to a perceptible extent, both of them rising in the busy season and falling in the slack season. No such seasonal fluctuations were to be detected in the uniformly high rates at which the moneylenders lent grain or money to the peasants and artisans. The money rates were thus pulled apart not merely by the cleavage between the banks and the bazaar, but also by the distinction between the hundi bankers, who mobilized capital by means of negotiable instruments, and ordinary moneylenders, who lent out their own capital at usurious rates. Neither seasonal stringency nor slack season mattered in any way to the peasant and his mahajan ('great personage,' a term referring to the moneylender). Paradoxically, while many native banking houses found themselves in difficulty during the exchange crisis and monetary stringency of 1898, for smaller moneylenders it was business as usual[145]—in fact, better, on account of the famine that devastated large parts of the country.

The shroff or banker differed from the mahajan or moneylender in this essential respect: he belonged to a wider network of mobile paper credit which was supra-local in character and vulnerable to the wider national and international business cycles. Whereas the mahajan lent in hard cash in his own locality to enable the peasant to produce crops, the shroffs discounted bills of exchange to assist the movement of crops to distant markets. Certain migrant merchant communities,

[142] C. 9037, p. 548; C. 9376, p. 70.

[143] See rates given in *Banking and Monetary Statistics of India* (Reserve Bank of India, Bombay, 1954), especially Tables 1, 2, 3, 5 and 6, for the growing correspondence, most markedly during the depression of the 1930s, between the bank rate and the bazaar rate.

[144] This was the opinion of Allan Arthur, President of the Bengal Chamber of Commerce. C. 9037, p. 563. See also the evidence of S. H. Sleigh, Treasurer of the Bombay Presidency Bank, C. 9376, p. 70.

[145] Evidence of A. P. MacDonnell, C. 9037, pp. 694–700; evidence of W. H. Cheetham, C. 9222, p. 30.

distinguished by caste from the miscellaneous groups of local traders and moneylenders, were especially well-equipped to build networks of branches and correspondents for operating bills of exchange and moving credits and commodities over the long distance. Just as the Shansi merchant bankers migrated all over China and built up an imperial credit network, so did the Marwari merchant bankers migrate to every part of India and build the most extensive network of all the community credit networks operating in the inland exchanges of the country.

The two greatest Marwari banking firms of the nineteenth century—Tarachand Ghanshyamdas and Bansilal Abirchand—built their fortunes in opium and cotton respectively, to procure which they moved far into the interior of Central India, forming a great network of branches across the country and financing the delivery of produce in Calcutta and Bombay by means of long-distance hundi transactions. In the 1920s, the banking house of Bansilal Abirchand, with their headquarters in Nagpur, had at their command a sprawling network of thirty branches dispersed all over the Central Provinces, the Bombay, 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 by this time spawned an ever wider network all over India to help the distribution of Burma Oil.[146]

The well-organized indigenous money markets in nineteenth-century China and India provided a financial spring-board for the migration of Chinese and Indian capital to the Equator, a process that was to change the face of parts of Asia and Africa by the end of the nineteenth century. In a broader perspective, the process was part of the integrative operations of the capitalist world economy of the Suez era. As 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 barred from that sphere. But it found 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, which in turn increased the import of food crops into these areas. The Malay Peninsula and the islands of the Indonesian Archipelago became increasingly dependent on imports of rice

[146] Mohanlal Barjatiya, *Bharat ka Vyaparik Itihas*, *passim*; *Agarwal Jati ka Itihas* (Agarwal History Office, Bhanpura, Indore, 1937), pp. 78, 209–213.

from Thailand, Indo-China and Burma as large areas were turned over to the production of tin, rubber, oil and other valuable tropical products. The new trade pattern afforded to Chinese capital a large sphere of profitable activity in the two-way movements of rice and tropical products. Indian capital found similarly profitable outlets in financing the growth of tropical produce and slave trade in Zanzibar, and in exports of foodgrains and textiles to the coastal areas of Africa and Asia facing the Persian Gulf, the Red Sea and the Western Indian Ocean.

In their newly extended sphere of activity, the Chinese and Indian business groups had the advantage of strong community ties, which helped them extend the lines of maritime trade and credit beyond China and India. The Hokkien, Cantonese and Teochew communities were especially prominent among the enterprising Chinese migrants in Nanyang (Southern Ocean, as maritime Southeast Asia was known to the Chinese). The Gujarati Bania, Bhatia, Khoja and Memon communities, all hailing from the West Coast of India, found a similar sphere of profitable activity along the extended coast line of the Persian Gulf, the Red Sea and the Western Indian Ocean. So did the Nattukottai Chettiars of Tamil Nadu in Ceylon, Burma, the Malay Peninsula and Sumatra.

The tendency to regard Asian economic history as the mere appendage of imperial history has resulted in a lop-sided emphasis on the thrust of British capital in India, Dutch capital in Netherlands India and American and European capital in China, to the neglect of the Chinese thrust in Nanyang and of Indian business activity in the Afro-Asia sea-board facing the Indian Ocean. The rest of this essay seeks to illuminate these lesser known aspects of Asian trade and finance. To be more specific, it seeks to bring into focus the Chinese and Indian trade and credit networks in the British and Dutch possessions in Southeast Asia and Ceylon and in the Arab territories on the Muscat–Aden–Zanzibar axis.

Why were the indigenous races of the tropics unable to seize the opportunities offered by the opening up of the new international capitalist trading order of the nineteenth century, and how did the initiative in mobilizing mercantile credit beyond the restricted sphere of the European banks pass to the immigrant merchant communities from China and India? It is necessary to stress in this connection that neither the African tribesmen of the Swahili-Somali coast, nor the Burmese, nor the island races of the Archipelago—the Malays, the Javanese, the Dyaks of Borneo or the Bugis of Celebes—had any experience of handling money. Zanzibar Island and the mainland coast-line facing it had no historical tradition of the type of commerce mediated by money. But even in the Archipelago and Burma, as J. S. Furnivall noted at the time of the Great Depression, the general use of money developed no earlier than the nineteenth century. The contrast could not be sharper with China and India where money, as we have seen, had been the medium of commerce for centuries. Consequently, when the export of rice from Burma and a great variety of tropical produce from the Archipelago created a new trade in money, the business passed into the hands of the Nattukottai Chettiars in Burma, the Straits and North Sumatra, and the Chinese throughout the islands and river valleys of Nanyang.[147] Similarly the business in money arising from the export-oriented clove plantations in and around Zanzibar was monopolized by the enterprising Gujarati business communities even before colonial trade and finance extended its hold over the African coast.

The sudden monetization of the Equatorial belt of Asia and Africa in the nineteenth century created the essential opportunities for the Chinese and Indian business groups that had long experience of handling money. Massive movements of capital from the tropical northern latitudes of Asia (inhabited by these groups) transformed the face of the Equatorial belt. Without the coming of the global capitalist economy of the West, the transformation would not have taken place; but the part played by the extension of the bazaar to the Equator was no less critical. Together, Chinese and Indian capital made a contribution to tropical development as important as the services rendered by foreign capital.

III. Chinese Finance and Trade in Nanyang

New networks in Nanyang

A US consular report of the early twentieth century guiding American businessmen in the Straits divided the trade of the Dutch East Indies into two distinct groups: (a) the European trade in the white estate products of Java and Deli controlled by large Dutch interests, and (b) the Asian trade in the many miscellaneous gums and other trop-

[147] Furnivall, *Netherlands East Indies* (see fn. 38), paper III, *State and Money Lending*, p. 2.

ical produce of the Outer Possessions nearly all concentrated in the hands of Chinese financiers and traders whose entrepot was the British port of Singapore. 'It is this trade in Dutch East Indian products,' added the US trade consul, 'carried on by Chinese, that has built up Singapore into one of the greatest primary markets of the world.'[148]

Before the rise of Singapore as the centre of a dense web of Chinese finance and trade stretching out to every shore of the 'Southern Ocean' (Nanyang), there were several dispersed Chinese colonies in the area: (1) the long settled Chinese campongs of Batavia, Semarang and Surabaya in Java; (2) the gold mining Chinese republics (kongsis) of Sambas in West Borneo; (3) the kingdom of Achin in North Sumatra; (4) the settlements of the Riau Archipelago and the tin mining communities (kongsis) of the Banka-Billiton islands; and (5) the flourishing Chinese trading settlement in and around Bangkok.[149] These colonies had no natural centre in Nanyang, and were only tenuously connected to mainland China by visiting fleets of Chinese junks which set sail every year from Amoy and other ports to the north of Canton to get the tin, pepper, camphor, sandalwood, pearls, shells, ivory, gold dust, bird's nests, benjamin and the gums of the tropics.[150] The Singapore free port (1819) was designed by its founder, Stamford Raffles, as the natural commercial headquarters of the five 'large colonies of China' enumerated above; despite Dutch embargo, his design was quickly translated into reality by the Chinese and Bugis traders who systematically and successfully violated the restrictions put upon them by the monopoly-minded Dutch.[151] As hard-working Hokkiens from Amoy descended in a flood on Singapore under the fostering care of Raffles (he referred to them as 'the Amoi', the group most prominent among the early immigrants of Singapore),[152] the economic geography of the Archipelago was poised for a rapid transformation. The hitherto isolated Nanyang Chinese colonies began to receive an augmented stream of fresh colonists from the landing post at Singapore, and were drawn into a circle around it.

148 Elridge, *Trading with Asia*, p. 197.

149 Raffles' minute 'On the Administration of the Eastern Islands 1819' printed in appendix to Sophia Raffles, *Memoir* (see fn. 35).

150 Raffles to Minto, 10 June 1811, and Raffles to Ramsey, 8 January 1813, quoted in *Memoir*, pp. 84, 185–6; John Phipps, *A Practical Treatise on the China and Eastern Trade: Comprising the Commerce of Great Britain and India, Particularly Bengal and Singapore, with China and the Eastern Islands . . . Adapted to the use of Merchants, Commanders, Pursers and Others connected with the trade of China and India* (Calcutta, 1835), pp. 201–4.

151 Raffles minute 1819; Earl, *The Eastern Seas* (see fn. 39), pp. 23–4, 237.

152 Purcell, *Chinese in Southeast Asia*, p. 249.

The majority of those who landed at Singapore embarked shortly afterwards to proceed to the further outposts of the Archipelago: the tin mines in the Malay peninsula and the island of Banka; the pepper plantations of the Riau Archipelago; the Chinese gold mines in Pahang and Borneo, and so on.[153] The enterprise of the Chinese miners rapidly turned the whole island of Banka into 'an immense tin mine', the product of which was shipped via Singapore to the China market;[154] and the extensive plantations of pepper and gambier created by the Chinese in the Riau Archipelago also dispatched the greater part of their produce to Singapore.[155] Raffles' free port provided a conveniently located centre to which the annual junk fleets from China and the Chinese pedlars from the islands could assemble and do business within a more permanent and rational framework provided by a new class of towkays (heads of business) who set up permanent stores on the island.[156] The beginning of the process was noted by Raffles on 8 February 1825 when he wrote in delight to Dr Wallich that Tan Che Sang, a Canton-born Chinaman who had left his native city many years ago to set up an extensive business in the Straits, had built, along with three Britishers, a substantial warehouse in Singapore.[157] By 1848 there were said to be 9750 Chinese traders and owners of shops residing permanently on the island: 4700 Teochews, 3100 Hokkiens, 900 Malacca Chinese, 350 Macao Chinese, 600 Khe and 100 Hailam.[158]

John Phipps' practical guide to English traders (1835) divided the trade of Singapore into four principal branches: (1) the trade borne in European ships; (2) the trade carried on by junk fleets from China; (3) the trade of the Chinese merchants with Siam and Cochin-China; and (4) the trade of the native islanders of the Archipelago, especially the Buginese who sailed on prahus to Singapore.[159] The Chinese merchants of Singapore, who stood at the intersection of all four branches,

[153] Earl, *Eastern Seas*, pp. 365–7. A Chinese trader of Singapore wrote in 1848: 'The number of men that arrive in junks annually amounts to about 10,000. Some of these, after remaining in Singapore for a few days or months proceed to Rhio, Penang, Padang, Acheen, Java, Minto, Pahang, Malacca and other parts in the Archipelago'. Siah U Chin, 'The Chinese in Singapore,' *The Journal of the Indian Archipelago and Eastern Asia* (*JIAEA*), vol. II, 1848.

[154] Sophia Raffles, *Memoir*, p. 44.

[155] Earl, *Eastern Seas*, pp. 142–3.

[156] For an account see Wang Gungwu, *A Short History of the Nanyang Chinese* (Singapore, 1959).

[157] Letter quoted in Sophia Raffles, *Memoir*, p. 537.

[158] 'Notes on the Chinese in the Straits,' *JIAEA*, vol. IX, 1855.

[159] Phipps, *Practical Treatise*, p. 263.

formed an adroit partnership with the visiting Bugis mariners which steadily increased the volume of Singapore's trade with the Archipelago—a development reflected in the rapid rise of the number of Bugis prahus carrying cargoes of sarongs, gold dust, beeswax, birds' nests, agar-agar and other tropical produce of the Dutch Outer Possessions to Singapore.[160] Delivery was taken at the Boat Quay by Chinese traders with warehouses, who in turn supplied the requirements of the British firms trading to Europe[161] and the junk fleets from the South China ports.

The triangular trade between Singapore, China and the Dutch Outer Possessions was intersected by an Outer Possessions, Java, Singapore trade, in which also the Chinese traders stood at the intersection. The latter triangle constituted a sphere of operations altogether separate from the Dutch colonial reserve. The giant Dutch monopoly corporation, Nederlandsche Handel Maatschappij, which had a public monopoly of the produce of the government plantations in Java and of exports to Holland, operated in the trade between Java and Holland alone, and had no concern in the trade between Java and the Outer Possessions. Dutch ships seldom penetrated beyond Batavia in the early nineteenth century. The produce of the Outer Possessions was brought to Java in country ships:[162] gold dust and diamonds from Borneo, spices from the Moluccas, coffee and pepper from the Celebes and Sumatra, tin from Banka, tortoise-shell, beeswax and dye-woods from Timor and other islands to the eastward. In return, Java, the most intensively cultivated of all the islands of the tropics, supplied rice under Chinese enterprise.

Earl saw Chinese traders plying regularly between Semarang in Java and Sambas of West Borneo[163]—a run in which the Dutch had no interest themselves and no reason to interdict trade. The Chinese, Buginese and Arab traders engaged in the legitimate trade between the far-flung islands of Netherlands India were also the smugglers in the interdicted trade from the islands to Singapore. Furthermore, a

[160] G. F. Davidson, *Trade and Travel in the Far East, or Recollections of Twenty One Years Passed in Java, Singapore, Australia and China* (London, 1846), pp. 56–7; C. M. Turnbull, *The Straits Settlements 1826–67. Indian Presidency to Crown Colony* (Singapore, 1972), p. 164.

[161] The most prominent of these, according to a newspaper list of 1857, were Arbuthnot, Latham & Co., Ashton & Co., Borneo Company Limited, Crawford, Colvin & Co., and P & O Company. *Charles Burton Buckley, An Anectotal History of Old Times in Singapore* (Singapore, 1984, 1st edn, 1902), p. 647.

[162] Earl, *Eastern Seas*, pp. 24–5, 32–3.

[163] *Ibid.*, p. 224.

certain amount of legitimate direct trade between Java and Singapore, affording outlet to Chinese enterprise, supplemented the closely connected shipments of Java rice to the Outer Possessions and produce shipments from the Outer Possessions to Singapore. Earl saw Chinese merchants taking advantage of superior European ships to bring considerable amounts of goods from Java to Singapore.[164] By then, the commercial intercourse between the Singapore merchants and their correspondents had acquired enough stability to allow quite low rates of insurance on vessels: $1\frac{1}{4}$ per cent to Java, $1\frac{1}{4}$ per cent to Borneo, $1\frac{1}{4}$ per cent to China and a bit more to Manila.[165]

The trade at Singapore carried on by Chinese, Bugis and other mariners and merchants of the Archipelago appeared to Earl to be quite independent of the Europeans. The transactions between the various Asian groups constituted a self-contained world of commerce—one that the local British firms could not penetrate. The mariners from across the waters did not land their goods for sale. They held their markets on board the junks and prahus while at harbour. Earl saw Chinese traders from town go regularly to Boat Quay and purchase the goods in small quantities as and when needed. The value of each lot could be as small as four or five dollars.[166] The contrast could not be sharper with the manner in which business was done in the white quarter of Singapore. The same contrast—visible in the geography of the town—struck John Cameron visiting Singapore thirty years after Earl. The Commercial Square, with the telegraph office at the centre, and the banks occupying the four buildings fronting it, constituted the European business and financial headquarters. Along the Boat Quay, which was a crescent-shaped river bank on which a long range of warehouses stretched inshore for a quarter of a mile, only the warehouses at the mouth were in the possession of the Europeans: further up, Cameron found all the godowns to be Chinese property. At the back of the commercial square and the river front sprawled the chief business division of the native town—a narrow and crowded street with closely packed buildings on each side, their windows made of Chinese latticed woodwork.[167] Cameron commented:

Here, it is, at present, that three fourths of the entire shipping business of the island is effected, and from morning till night may be seen the landing

[164] *Ibid.*, p. 130.
[165] *Ibid.*, p. 317.
[166] *Ibid.*, p. 407.
[167] Cameron, *Our Tropical Possessions* (see fn. 40), pp. 55–6, 59–60.

of huge cases, casks and bales of British manufactures, as well as machinery and iron-work of all descriptions; and no sooner are the boats which bring them emptied, than they are filled up again with bales of gambier, bundles of rattans, tin, bags of pepper, and boxes of spices. It is, indeed, impossible to view these operations and not realize the fact that Singapore possesses a commerce and commercial importance altogether disproportioned to its size and population.[168]

British private enterprise could not have conducted these operations without the aid of Chinese businessmen. As the towkays mediated between the London-based firms in Singapore and the various Asian traders of the Archipelago, they had the upper hand in relations with the Bugis and other visitors. Logan's journal saw the matter from a white perspective in 1855:

The details of the great European trade of these settlements are managed almost exclusively by Chinese. The character and general habits of an European gentleman quite preclude him from dealing with the native traders who visit our ports, and who bring the produce of their several countries to exchange with articles of different climates found collected here. These traders—Malays, Bugghese, Chinese, Siamese, Cochin Chinese, Burmese, &c., have their own modes of conducting business, founded on a status of civilization very far below European models, and which Europeans cannot condescend to adopt. Here the Chinese step in as a middle class and conduct the business, apparently on their account, but in reality as a mere go between. But little superior in moral perception, the Chinese puts himself on a level with the native traders, takes them to his shop, supplies them with sirihs and other luxuries of a more questionable shape, and joins with them in their indulgences. Surrounding them with his numerous retainers, and studious to make their stay agreeable, he listens calmly for hours to senseless twaddle, the tiresome inanity of an exhausted temper, and succeeds in dealing with the native on terms far inferior to what could have been obtained from the European merchants.[169]

Besides the alleged Chinese capacity for suffering senseless twaddle, their ability to lie with a poker face was adduced as yet another reason why they should be able to extract better terms from the visiting Bugis mariner:

They [Bugis] are a shrewd race, but are no match for their Chinese competitors. On the arrival of a boat, her *nakoda* (or commander) lands with nearly every man on board; and he may be seen walking all over the place for a few days before making any bargain. They are a troublesome set to deal with, and require the exercise of more patience than a European of these parts generally possesses. They are, however, always received with a hearty

168 *Ibid.*, pp. 57–8.
169 'Notes on the Chinese in the Straits,' *JIAEA*, vol. IX, 1855.

welcome by the Chinese of the Island, who, inviting them to be seated, immediately hand round the siri-box (betel-nut, arica-leaf &c.) among them; and over this universal luxury, they will sit and talk on business matters for hours, during which time it may be fairly calculated that both host and guests tell a lie per minute, without betraying by their countenances the slightest consciousness of having been thus engaged. This strange sort of preliminary negotiation goes on, probably, for a week; at the end of which the passer-by may see the contents of the different boats entering the Chinese shops or stores.[170]

The Bugis and Arab mariners were prominent in the trade of the Archipelago till around the mid-1850s. Thereafter their prahus and dhows were overshadowed by the European-type square-rigged vessels employed by the Singapore Chinese on the runs to Java and Borneo.[171] Later on, the coming of the steamships completely eclipsed the Arab and Bugis traders, but not the Chinese. The rise of the class of towkays among the Singapore Chinese had meanwhile coalesced the far-flung Chinese networks in the Archipelago, so that J. Thompson reported in 1875: 'they are indispensable to us as they have established connections in all the islands to which our foreign commodities are carried.'[172] From Song Ong Siang's biographical sketches at the Singapore centenary, it becomes evident that not a few of the towkays were originally pedlars who had established such useful connections at the start of their career, making themselves indispensable to the Europeans by means of the permanent character they had succeeded in giving to their original peddling voyages.[173]

To take an instance, Ong Ewe Hai was a petty Hokkien pedlar who discerned a market for Singapore goods among the natives on a voyage to Sarawak. Credit, which was readily available in Singapore from the richer Chinese if a man was reckoned to be honest, enabled him on his return to get an assortment of goods with which he set up a business in Sarawak (1846). As he had no firm in Singapore to act as consignee, he sailed up and down in cramped prahus, bartering

[170] Davidson, *Trade and Travel*, pp. 56–7.

[171] Turnbull, *Straits Settlements*, pp. 169, 185; Wang Lin Ken, 'The Trade of Singapore 1819–1869', *Journal of the Malayan Branch of the Royal Asiatic Society*, vol. XXXIII, part 4 (December 1960), pp. 81–3.

[172] J. Thompson, *The Straits of Malacca, Indo-China and China or Ten Years of Travels, Adventures and Residence Abroad* (London 1875), p. 12.

[173] Song Ong Siang, *One Hundred years' History of the Singapore Chinese. Being a Chronological Record of the Contribution of the Chinese Community to the Development, Progress and Prosperity of Singapore; of Events and Incidents concerning the Whole or Sections of that community; and of the Lives, Pursuits and Public Service of Individual Members thereof from the Foundation of Singapore on 6th February 1819 to its Centenary on 6th February 1919* (London, 1923).

Singapore goods with the natives for Sarawak produce at one end, and peddling Sarawak produce on the spot at the other end. Ten years of shuttling back and forth as a pedlar enabled him to accumulate enough to set up an office in Singapore (1856), which was eventually incorporated as Ong Ewe Hai & Co. (1872), trading under the chop Soon Whatt (i.e. the Chinese double identity). The firm was so well established in Sarawak by the time of the First World War that it was then acting as the local agents for the Sarawak and Singapore Steamship Company. Its business consisted in exporting rice and European manufactured goods to Borneo and nearby islands, and bringing back cargoes of pepper, gambier, sago-flour, rattan and rubber. The founder's son, Ong Soon Tee, was President of the Chinese Produce Exchange and of the Sago Flour Association in Singapore.[174] There could be no clearer instance of a Chinese pedlar's haphazard run over a stretch of waters being eventually turned into a regulated two-way movement of funds and commodities within the rational framework of a capitalist firm trading from both ends.

As the Chinese financial and commercial network in Nanyang drew tighter around Singapore, a new development tautened it further, stretching it in the direction of mainland China. The First Opium War resulted in the establishment of a new free port by the English at Hongkong (1840), and the Second Opium War led to the simultaneous opening of several treaty ports on the China coast and the lifting of the Manchu ban on emigration to Nanyang (1860). Before the opening of China, the traffic from the China coast to Siam, Singapore and Batavia was subject to both legal and nautical limitations.[175] With the opening of the treaty ports, there was a flood of new migrations of labourers and merchants from China. Together with the greater ease of communications in the steamship-telegraph age, this sustained the growth of overseas Chinese enterprises amenable to home direction.[176] The earlier Chinese settlers, such as the Malacca-born Baba Chinese and the Peranakans of Java, lost their prominence to new Sinkheh or Totok groups with stronger connections at home and tighter community organizations. Among these new immigrant groups, the ones that established themselves in finance and the higher branches of trade were the Hokkiens from Amoy, the Cantonese from Canton and Hongkong, and the Teochews from Swatow.[177] Unlike the earlier

[174] *Ibid.*, pp. 171–3.
[175] Davis, *China*, p. 378.
[176] Wang, *History of Nanyang Chinese*, pp. 24–5.
[177] Purcell, *Chinese in Southeast Asia, passim.*

settlers who no longer had any ties with China, the newcomers possessed a home base, whether in British Hongkong, or in the foreign concession areas of treaty ports such as Shanghai, Tientsin or Foochow, or in their own native Canton, Swatow and Amoy. Under their initiative, Chinese business developed along a longer axis stretching from the entire arc of island settlements from Borneo to Achin, including the campongs of Semarang, Surabaya and Batavia, to Penang and Singapore in the Straits, and thence through Bangkok and Saigon to the China ports of Hongkong, Canton, Swatow, Amoy and Shanghai.

At the same time the business became more organized and assumed the shape of the inter-locking operations of big Chinese firms operating on the Java–Singapore–Siam–China axis.[178] At the core of this business lay a class of Singapore Chinese steamship owners, many of whom had earlier adopted the European-type square-rigged vessels. They did not compete with P & O and other Western liners steaming in deep waters to Europe, Australia, Japan, China and India, but they gradually acquired a large share in steamers plying between the Straits, the Dutch East Indies and the China ports. Among the new Chinese steamship concerns were Ong Ewe Hai & Co. (whose history has been sketched above), Wee Bin & Co. (subsequently absorbed into the big Ho Hong Steamship Company), Heap Eng Moh (subsequently taken over by the Semarang giant Oei Tiong Ham), and Tan Kim Tian & Co. (the first Singapore Chinese steamship concern, 1871). At the turn of the century, no less than 43 out of the 85 steamers arriving at Singapore were consigned to Chinese firms.[179]

Taking the nineteenth century as a whole, it is possible to distinguish two closely connected phases of Chinese economic activity in the Southern Ocean, one leading to the other and each constituting a distinct Asian contribution to tropical development. The primary phase in the activity of the Nanyang Chinese was the development of tropical produce saleable in the world markets. Chinese planters, miners and traders contributed no less substantially to the development than the Dutch and English companies: in fact, as the American trade consul reported from Singapore, they did more than any other group to develop the export trade in tropical produce.[180] Only one

[178] See the business directories of Arnold Wright (ed.), *Twentieth Century Impressions of British Malaya* and *Twentieth Century Impressions of Netherlands India*, both issued from London in 1908 and 1909 respectively.

[179] Song, *One Hundred Years of Singapore Chinese*, pp. 163–4, 349–50.

[180] Elridge, *Trading with Asia*, p. 197.

part of this primary Chinese activity in planting, mining and selling tropical products was directed to Europe, the other part being oriented to the China market.[181] The trade zone in the Archipelago dominated by Singapore—Palembang district, Riau Archipelago, West Borneo, Djambi and Indragiri—was a Nanyang Chinese zone that had developed independently of the Europe-oriented Dutch monopoly zone in Java.[182]

As Chinese enterprise in Nanyang created mines and plantations and concentrated large populations in the towns, this primary process opened up to Chinese capital a secondary field of investment in the traffic in labour and in shipments of rice. Practically the entire Chinese migration to the Straits and onwards to the islands was organized by Chinese financiers and shipowners, the cooly trade being extremely profitable to those engaged in it.[183] The growing number of labourers in the mines and plantations and the burgeoning population of Singapore induced a large demand for rice. There sprang up in Singapore a class of Teochew rice merchants, known as the Siam Traders, who owned the large rice mills in Bangkok.[184] Together with the rice millers of Saigon, who were also Chinese, they controlled the largest disposable amount of rice in this part of the world.

The most prominent Siam Trader in Singapore was Choy Tsz Yong, who arrived from China in the 1870s when the trade of the town was at its height. A Teochew from Kwangtung province in Southern China, he was known in his native Swatow as a big sugar merchant and commission agent with connections in Shanghai and Hankow. Leaving the management of these large interests in the hands of his brother, he migrated to Singapore (1874) in the wake of scores of Teochew merchants who had left Swatow to move into the vast new trade in rice shipments from Bangkok to Singapore under the description of Siam Traders. He brought with him substantial capital, which he invested in the import of China goods and in Siam rice. In 1908, he was the head of the Teochew clan, owning four rice mills in Siam engaged in pounding over 10 million dollars' worth of

[181] Conversely, China goods bulked more in Singapore than imports from British India. Cameron, *Our Tropical Possessions*, p. 183.

[182] On American consular reckoning, the risks in this trading zone were 'mostly Chinese whose reputations are usually beyond reproach'. Elridge, *Trading with Asia*, pp. 208–9.

[183] J. D. Vaughan, *The Manners and Customs of the Chinese in the Straits Settlement* (Singapore, 1879), p. 8.

[184] Wright, *Twentieth Century Impressions of British Malaya*, p. 726.

rice, half of which was brought to Singapore, the other half being exported to Hongkong.[185] The trade in Siam and Saigon rice was by now a closely inter-meshed inter-Asian Chinese business covering China, the Straits and the Archipelago. The line sustained such multi-branch firms as Handel Maatschappij Tjoe Tik (1885) of Surabaya, with a small line of steamers operating between its branches in Hongkong, Singapore, Shanghai and Bangkok at the turn of the century. Its business was chiefly exporting sugar from Java and importing rice from Siam and Saigon. One partner resided in Surabaya and the other in Singapore. The firm had a rice mill in Surabaya and another rice mill in China.[186]

As Nanyang Chinese firms linked up their interests with branches or correspondents in China and China financiers and shipowners extended branches into Nanyang, there sprang up a network of Chinese business conglomerations, worked by single firms or combination of firms, operating simultaneously in the Nanyang ports and the mother country through the closer commercial circuits defined by the foreign steamship companies, cable companies and exchange banks. An American businessman retired from China reminisced with regard to the new trade created between China, Siam, Singapore and Batavia by the superior technology and business methods of the West: 'Formerly this was all in the hands of foreigners, but as the Chinese grew to understand foreign methods, they took it for themselves, and why should they not? They were as clever as other merchants; they could get advances from the banks; they could use the telegraph, and above all they paid no commission or brokerage in China, which a foreigner must do.'[187] The ability of the Chinese financial and business magnates to operate through the modern business channels of the Suez era enabled them to leave the native traders of the Archipelago far behind, and eventually to compete with the foreigners on their own terms.

The two great Nanyang Chinese enterprises of the early twentieth century—the Ho Hong combine of Singapore and the Oei Tiong Ham enterprises of Semarang—broke into the European shipping and business world while retaining a firm foothold in the Chinese world of commerce. Neither group sprang from any sudden break

[185] *Ibid.*, p. 716.

[186] Wright, *Twentieth Century Impressions of Netherlands India*, p. 550.

[187] Quoted in Yen-Ping Hao, *The Comprador in Nineteenth Century China. Bridge between East and West* (Harvard, 1970), p. 117.

with past Chinese business development in the nineteenth century, but was on the contrary the result of continuous evolution. The Ho Hong enterprises grew out of the leading late nineteenth-century firm, Wee Bin & Co., Chop Hong Guan, merchants and shipowners, working under double identity in the established Chinese manner: i.e. the company dealt with the outsiders while the Chop dealt with other Chinese firms. The firm was wound up in 1911 and in its place the modern-style Ho Hong Company (formed earlier in 1904 by the Wee Bin chief, Lim Peng Siang) embarked on its amazing shipping, finance and industrial ventures: the Ho Hong Steamship Company, the Ho Hong Oil Mills, the Ho Hong Purboiled Rice Mill, the Ho Hong Portland Cement Works Ltd and the Ho Hong Bank. The Ho Hong Steamship Company intruded into spheres hitherto monopolized by the foreign steamship companies. The latter promptly unleashed a rate war. The Company sustained heavy losses but Lim Peng Siang's bold venture enabled thousands of labourers from China to emigrate to the Straits Settlements and the Dutch East Indies. The Ho Hong Bank, the first Chinese institution to enter the sphere of international banking, had worldwide connections embracing London, New York, Hongkong, Shanghai and other places.[188]

The no less impressive modern enterprise of Hung Chung-han, alias Oei Tiong Ham, the honorary Chinese Mayor of Semarang, grew out of the old Chinese firm, Handel Maastschappij 'Kian Gwan', founded around the middle of the nineteenth century by his father. By the beginning of the twentieth century the firm developed under his direction into the most successful sugar merchants in Netherlands India, owning several sugar plantations and sugar factories in Java (a sphere of enterprise which had long been a Dutch monopoly). The further expansion of the firm in the twentieth century led to his forming Heap Eng Moh Steamship Company, a giant shipping conglomerate operating between Singapore, Java and China, and the founding of a modern bank, N. V. Oei Tiong Ham.[189] Out of the nineteenth century group of towkays, there thus emerged a Nanyang Chinese capitalist class in the twentieth century, led by

[188] Song, *One Hundred Years of Singapore Chinese*, pp. 114–17, 353–6; Lim Chong-Yah, *Economic Development of Modern Malaya* (Kuala Lumpur, 1967), pp. 231–7.

[189] Wright, *Twentieth Century Impressions of Netherlands India*, pp. 546–8; Wright, *Twentieth Century Impressions of British Malaya*, p. 180; Song, *One Hundred Years of Singapore Chinese*, pp. 352–3; Leo Suryadinata, *Eminent Indonesian Chinese. Biographical Sketches* (Singapore, 1978), pp. 106–7.

shipping, finance and industrial magnates like Lim Peng Siang and Oei Tiong Ham. 'It is in fact,' observed the *London and China Express* in 1905, 'the Chinese who have "the money" in the colony.'[190]

Chinese finance and business organization

An estimate on the eve of the Pacific War covering Malaya, Netherlands India, Siam and Indo-China showed that capital in pre-war Southeast Asia, when it was not foreign, was nearly all Chinese.[191] Earlier evidence revealed the same pattern. Business directories of the Straits Settlements and the Dutch East Indies were drawn up by Arnold Wright at the beginning of the twentieth century. While recording in detail scores of Chinese partnership firms and companies, he found no Malay or Javanese firm worth mentioning. Further back in time, Cameron observed that Chinese and Indian business communities had mercantile establishments in the Straits vying closely with those of the Europeans; but though there were numerous Malay traders arriving throughout the year from all parts of the Archipelago, the Malay (Cameron used this as a generic category including such distinct races as the Bugis and Javanese) never rose to be more than 'a mere hawker.'[192] English private traders were well aware in the nineteenth century of the gulf that lay between 'the petty trader who collects the scattered produce of the interior' and 'the Chinese capitalist, who receives it from him, and disposes it again to more distant regions, situated on the rich and populous continents of China on the one hand, and of India on the other; and furnishing to Europe the means of an extensive commerce.'[193]

The advantage the Chinese enjoyed over the native traders of the Archipelago lay in their skill in handling credit operations on paper and in their ability to trade in partnership on the sort of 'large and combined plan' that Cameron found the Malays unable to operate.[194] The creation of stable Chinese partnership firms in permanent correspondence with one another, and financially integrated by the free movement of paper credit within the community, was a development

[190] Quoted in Song, *One Hundred Years of Singapore Chinese*, p. 374.
[191] Helmut G. Callis, *Foreign Capital in Southeast Asia* (New York, 1942), cited by Purcell, *Chinese in Southeast Asia*, pp. 127, 200, 282, 457.
[192] Cameron, *Our Tropical Possessions*, p. 135.
[193] Phipps, *Practical Treatise*, p. 318.
[194] Cameron, *Our Tropical Possessions*, pp. 165ff.

that coincided with the rise of Singapore to its pre-eminent position in the trade of the Southern Ocean. As noted before, there was no organized money market in Malayan waters before the rise of Singapore. In their dealings with the wild tribes of the interior, the Chinese had always resorted to barter—a method that continued well into the twentieth century. Moving singly or in pairs up the jungle, the Chinaman operating at the lowest level of the trade of the Archipelago would proceed 'to swindle every man jack of the bloodthirsty tribesmen of their stores of gum, wax, rubber, rattans and other articles of value', weighing them in on doctored scales in exchange for 'tobacco, knives, cotton cloth, looking-glasses, and beads of hardly any value at all,' seemingly oblivious of the danger that 'he might pay forfeit for his temerity with his head.'[195] But in dealings within the Chinese community or with the Europeans at the higher levels of trade, a system of paper credit, in its primitive form consisting of simple notes of hand (originally taken as security by the English merchants from Chinese dealers taking off whole cases or bales on loan to retail to natives),[196] took shape gradually as the hand note evolved as the typical Chinese promissory note, a negotiable instrument that came eventually to serve the same purpose as did the native order in China and the hundi in India.

The decisive step in this direction was taken in 1835 when the foreign business community in Singapore took a collective resolution in the Exchange Rooms 'That on making sales, if at a credit, promissory notes or acceptances shall be taken; and that in all cases, the payment of the same at the expiration of 3 days' grace, shall be strictly enforced.'[197] The English businessmen had in mind here the sales they made on credit to Chinese traders; it was resolved that in future such sales would be made on the security of promissory notes drawn at three to six months. Thus sprang up the extensive use of promissory notes in the trade between the European and the Chinese, and among the Chinese businessmen themselves. By 1864 the mutual exchange of promissory notes, endorsed over to one another, had enabled the Chinese to mobilize an impressive volume of credit within their own community, a fact reflected in the failure of one Chinese firm with liabilities of around 750,000 dollars in the trade crash of that

[195] Peter Blundell, *The City of Many Waters* (London, 1923), p. 126.

[196] Phipps, *Practical Guide*, pp. 23–4. The first mention of such handnotes is with reference to the ones English piecegoods merchants took from Chinese dealers as security during the English occupation of Java, i.e. before the birth of Singapore.

[197] Phipps, *Practical Guide*, pp. 23–4.

year.[198] The foreign exchange banks and Chetti bankers operating in Malayan waters still further swelled the volume of credit by discounting the Chinese promissory notes, but the bulk of these notes, which the Chetti and exchange banks found by experience to offer the best and safest of the local bills to finance, never came within the range of their discount business at all.[199] The Chinese world of finance was on the whole a self-contained world in which credits moved with remarkable ease through interlocking partnership arrangements little understood by the world outside.

It was noted by foreign economic experts that Chinese traders did not work individually or on their own account in British Malaya and Netherlands India, but were said to be in kongsi with one another—a partnership (or rather a large combine) which conducted business transactions on a joint basis, each member having an agreed-upon share in the profits.[200] The kongsi apparently derived from kung-so (association) back home in China, where guilds were habitually formed in any major town by merchants or bankers who had emigrated there from the same area of origin. Thus in Shanghai the bankers from Ningpo were organized in the Ssu-ming kung-so, and the merchants from Canton were for their part coalesced in the Kuang-chao kung-so.[201] The idea of the native place association was metamorphosed into the principle of mining and trading in association quite early in the Southern Ocean, where Earl discovered on a voyage to Sambas (1834) several self-administering republican communities (kung se) among the Chinese traders and gold miners on the west coast of Borneo.[202] These early republican kongsis did not acknowledge either the Dutch East India Company or the Emperor of China as their suzerain. But as the Dutch extended their sway, they brought the mining kongsis working the tin mines of Banka and Billiton under control by appointing the Kapitan-China.[203]

When Singapore rose to commercial eminence, kongsis sprang up there too. Many of these were registered societies with no commercial function, but we encounter one registered society in 1879, named Ghee Hok Society, which regulated rates of interest among the mem-

[198] Cameron, *Our Tropical Possessions*, p. 139.
[199] Mackenzie, *Realms of Silver*, pp. 105–6.
[200] V. Anstey, *Trade of the Indian Ocean*, (London, 1929), p. 140.
[201] Susan Jones, 'The Ningpo Pang,' and E. J. M. Rhoads, 'Merchant Associations in Canton 1895–1911', in Elvin and Skinner, *The Chinese City*, pp. 76–7, 103–4.
[202] Earl, *Eastern Seas*, pp. 286–7, 291–2.
[203] Wright, *Netherlands India*, p. 287.

bers.[204] The sentiment that lay behind the native place associations was 'a strong love of home, not a patriotic attachment to China generally, but a love of the province, the town, the very homestead from which they came.'[205] The sentiment sustained the growth of trade guilds and syndicates among the immigrant Chinese, which the native Malays, by the very nature of their diffuse society, could not hope to create or maintain.[206] By far the greatest of the new nineteenth century partnerships among the Nanyang Chinese were the opium syndicates that sprang up in the Straits in or around 1889: one such syndicate, the Penang opium and liquor farm (1907–1909), was formed by sixteen prominent Chinese businessmen. The syndicate, which paid the government 135,000 dollars a month, retailed the imported opium through no less than 145 licensed sub-farms.[207]

The basic principle of trading in partnership (kongsi) was the sharing of profits by the partners according to the amount put up by each of them. The most common use of the principle was the forming of multi-branch network firms with offices located in the key centres of the trade. Thus Bang Hong Hin, a Surabaya firm established in 1889, had branches in Amoy and Bagan Api Api. The business was organized in three offices with a partner residing at each centre: Tjan Tiauw Tjan, manager of the business at Surabaya; Lie Gim Sin, superintendent of the firm's interests in China; and Lim Liong Hwa, resident at Malong. The arrangement enabled the firm to reach an annual turnover of many millions of guilders in an import–export business consisting of exports of Java sugar and tobacco to China and the Straits, and imports of rice and China goods.[208] The partnerships were normally formed within the same community, but instances were not unknown of a Totok partner teaming up with a Malaccan Chinese.[209]

The Chinese partnership firms kept the dealings among themselves separate from the dealings with the non-Chinese firms by means of the chop, an individual seal belonging to each Chinese firm. It was

[204] Vaughan, *Manners and Customs of the Chinese*, pp. 98, 109, 113.

[205] Cameron, *Our Tropical Possessions*, p. 142.

[206] '. . . the Chinese,' wrote Raffles to Minto on 10 June 1811, 'from their peculiar language and manner, form a kind of separate society in every place where they settle, which gives them great advantage over every competitor in arranging monopolies of trade.' Quoted in *Memoir*, p. 73.

[207] Wright, *British Malaya*, pp. 154–60.

[208] Wright, *Netherlands India*, p. 448.

[209] Song, *One Hundred Years of Singapore Chinese*, pp. 170–1.

used to guarantee deals, raise credit, and conclude transactions with other partnership firms within the community of Chinese merchants. The chop was not used in dealings with the foreigners: for the latter purpose, the Chinese firms turned themselves into registered companies.[210] Some of the largest and oldest among the Chinese firms in Java and Singapore had double identities. Thus Merk-Kong Sing, a partnership firm of Semarang (founded in 1860) which traded in rice and sugar with branches at Surabaya, Singapore and Amoy, gave itself an additional identity by incorporating itself in 1899 as Handel Maatschappij The Ing Tjiang.[211] Chia, Tek See & Co., chop Guan Whatt, Singapore tea and salt merchants with branches in Dutch Borneo, Sinkawan, Sambas and Billiton, similarly grew out of an older partnership founded in 1842.[212]

An interesting glimpse of the working of partnership arrangements and the use of double identities in the inner world of Singapore Chinese commerce is afforded by the case of Heng Moh and An Chin Seng versus creditors in 1885.[213] The creditors sued two related firms, chop Heng Moh and chop An Chin Seng, after the failure of the former, with liabilities amounting to two hundred thousand dollars. Chop Heng Moh was a partnership between two families—the brothers Seow Cheng Lam and Seow Cheng Watt, and the young Ang Kee Guo and his mother. The firm was backed by a bigger concern formed by another partnership between the same two families—the young man's uncle Ang Kim Tee and the father of the Seow brothers, whose name was Seow Tiang Swee. The senior firm traded under double identities—Ang Kim Cheak & Co. in dealings with the European firms and chop An Chin Seng in dealings with other Chinese firms. Before the crash, the junior firm, finding it difficult to raise credit in the market, had applied for assistance to chop An Chin Seng and got it to stand as surety for many thousand dollars. When chop Heng Moh suspended payment, the creditors moved the court to make chop An Chin Seng partners collectively in the bankrupt firm, on the ground that the junior concern's chop or seal was being kept in the office of uncle Ang Kim Tee of the senior firm. The creditors advanced two further proofs for their contention: two delivery orders for rice that the juniors had bought from the shipping firm of Bun Hin bore the stamp of the uncle's chop, and the signature of Ang

210 *Ibid.*, pp. 217–18.
211 Wright, *Netherlands India*, pp. 509–12.
212 Song, *One Hundred Years of Singapore Chinese*, pp. 170–1.
213 For details, *ibid.*, pp. 217–18.

Kim Cheack & Co was found on a promissory note for $4000, drawn by the junior firm in favour of a creditor. The defendants explained in court that the stamping of the delivery orders for rice was due to Bun Hin's refusal to deliver the rice unless the orders were countersigned by uncle Ang Kim Tee. His argument that he had affixed the chop An Chin Seng to the delivery orders as guarantor and not as partner was accepted in court, and so the case was dismissed.

As the case shows, Chinese firms were in the habit of using the chop to guarantee deals among themselves, to raise credit for friends and relations, to endorse the promissory notes of weaker firms in order to enable them to obtain delivery on credit. The Chinese tycoons of Singapore mobilized vast resources within their community by a wide diffusion of credit deals which enabled the smaller Chinese to sail to the islands, peddle imported goods and bring back tropical produce. The profitability of such wide-ranging operations precluded the towkays from concentrating capital in loan and discount operations and from specializing as bankers. Nevertheless, they were not slow to take advantage of their inside knowledge to take the pick of the discount business for themselves. Barely had the exchange banks met the run on their reserves by the Chinese during the crash of 1864, when they found their discount business suddenly much reduced by the operations of a prominent Chinese firm which made skilful use of its knowledge of the bazaar to quote rates lower than what the banks could afford to offer.[214]

Financial operations with the more specific characteristics of the banking business first began among the Singapore Chinese in the sphere of remittance operations to the China ports. As the remittances to the China ports by the new Chinese immigrants to the Straits increased in volume, the profits of small remittance agents attracted the class of towkays, who increasingly cut into the business in the 1870s by setting up remittance shops. On the eve of the Opium War the business was in the hands of a class of agents, known as Seu Pe Ke, to be found on almost every visiting junk, coming from all the different parts of South China where the Straits Chinese immigrants had their homes. The remitter entrusted his money to the agent from his own part of the country, who received a commission of ten per cent for delivering the sum to the former's relatives in China. 'These persons', observed Siah U Chin in 1847, 'frequently for years pursue this business: not the least remarkable of the thousand-and-one modes

[214] Mackenzie, *Realms of Silver*, p. 108.

by which the ingenuity of the Chinese in making money develops itself: until they have realized sufficient to enable them to embark in more extensive pursuits.'[215]

After the opening of China, the remittance operations became gradually more organized. There sprang up a class of Singapore Chinese bankers, operating alongside the remittance agents, who delivered remittances to addresses in the remotest parts of Kwangtung and Fukien. In 1876 the government Post Office in Singapore sought to take over the business by issuing postal orders. The towkays instigated a riot in town: the Chinese, they explained to the Protector of the Chinese, 'like to do things in the Chinese fashion.'[216] The Post Office was forced to close down the money order system.[217] But while they set their face against any British innovations, the Chinese themselves reformed the system over the years by setting up regular money shops in place of the itinerant collectors who made periodic visits to their villages in China, carrying the savings of their fellow villagers. Before 1886 there were thousands of small agents, but no more than 70 Hokkien and Teochew money shops effecting remittances. A move was undertaken in that year to concentrate remittances through money shops capable of using modern exchange and telegraphic facilities. In the following years, the small agents gradually disappeared. The business was ultimately concentrated in the hands of about 250 Chinese remittance banks.[218]

Compared to the Shansi banks and the Ningpo ch'ien chuang, the Nanyang Chinese money shops had a narrower scope, since they did not issue paper notes, which was the preserve of the British exchange banks in the Straits Settlements and of the Java Bank in Netherlands India. The attempt of one Cantonese financier of Singapore to circulate his own paper notes did not get beyond the restricted circulation in his own plantations, and the notes retained full value only to himself.[219] Nor was there a distinct class of Straits Chinese bankers organized in guilds on the pattern of the Shansi and Ningpo associations. The Nanyang Chinese whom we encounter in the capacity of private bankers conducting remittance and discount operations in the later nineteenth century belonged to the Hokkien, Teochew and Cantonese

215 'Annual Remittances by Chinese Immigrants in Singapore to their Families in China,' *JIAEA*, vol. I, 1847, p. 35.

216 Song, *Singapore Chinese*, p. 187.

217 Vaughan, *Manners and Customs of the Chinese*, p. 10.

218 Song, *Singapore Chinese*, pp. 67–8.

219 Wright, *British Malaya*, p. 145.

communities, which had no tradition as banking communities back home in China, nor any record of specialized financial dealings like the Shansi and Ningpo communities. The towkays who pursued private banking in Singapore and Java did so as a side line amidst other profitable operations. Their financial operations were widely diffused and closely woven with trading ventures, but were all the same confined within the Chinese overseas community and were sharply distinct from the activities in the Dutch and British money markets. The Dutch and British financial interests, though perforce interacting with this separate world of Chinese finance and trade, were deeply suspicious of it.[220]

At the beginning of the twentieth century, Chinese businessmen extended their financial operations from private banking to modern joint-stock banking. Till then, the Chinese had been slow in adopting corporate limited liability and an American economist thought them to be lacking in 'the breadth and boldness of conception that would enable them to enter large enterprises as rivals of the Europeans'.[221] But as the new century advanced, there was a movement among the Chinese to covert their concerns into joint-stock companies and banks. The Cantonese financier who had earlier tried in vain to circulate his own paper notes, Wong Ah Fook, set up the first Chinese bank in Singapore. This was the Kwong Yik Bank, founded in 1903. A group of Teochew capitalists next set up the Sze Hai Tong Bank (1906), with branches in Bangkok and Hongkong.[222]

In the same year the Chinese businessmen, led by the millionaire opium farmer Thio Tiauw Siat, organized the Singapore Chinese Chamber of Commerce. This was followed by the foundation of three Chinese corporations of unprecedented size in Singapore—the Eastern United Assurance Corporation (the first Chinese insurance company, founded in 1913), the Chinese Commercial Bank (1912) and the Ho Hong Bank (1917). These corporations, with paid-up capitals aggregating 5 million dollars, marked a new era in the commercial life of Singapore.[223] The Chinese business community thus showed themselves to be quite capable of meeting the challenges of the twentieth century.

[220] Clive Day, *The Policy and Administration of the Dutch in Java* (London, 1904), p. 362.
[221] *Ibid.*, p. 361.
[222] Song, *Singapore Chinese*, pp. 353–6.
[223] *Ibid.*, p. 474.

IV. Overseas Indian Trade and Finance

The migration of British capital to India was paralleled by a more obscure development in the nineteenth century: movements of capital from the Chettinad tract in Madras to Colombo, Penang and Rangoon, and from the Gujarat coast to Aden, Muscat and Zanzibar. The foreign appropriation of the most lucrative areas of investment was assuredly the dominating fact of India's business history in the nineteenth century; but no history of the evolution of Indian business will be complete without taking note of the handsome profits reaped by the Nattukottai Chettiar firms in Ceylon, Burma and the Straits Settlements, and the Bania, Bhatia, Khoja and Memon firms in the Red Sea, the Persian Gulf and the Zanzibar coast. The outflow of Chetti capital to Southeast Asia on the one hand and of Gujarati capital to West Asia and East Africa on the other amounted to an inter-Asian capital flow second in importance only to the thrust of Chinese capital in Nanyang.

But there was a vital difference in the conditions of capital migration from China and India, arising from the fact that foreign capital enjoyed in the latter country a colonial monopoly it did not have in the former. The many millions of Indians who went to work in the British plantations in Mauritius, Trinidad, Fiji, etc., were transported in British ships and their migration was organized and financed by British capital, unlike Chinese migration under Chinese enterprise. In strong contrast with the integrated operations of Chinese capital and Chinese labour which transformed the Straits Settlements, Indian labour and capital movements remained separate.

As Vaughan noted in 1879, the Kling labourers and the Chetti capitalists were two entirely separate immigrant groups in the Straits. The Klings, natives of the Coromandel coast, were boatmen, hack syces and petty shopkeepers, and none of them ever rose to distinction as so many poor Chinese immigrants (Sinkhehs) did. Vaughan, who could not find a single wealthy Kling in the Straits, mentioned significantly that he was excluding from this category of Indian emigrants the 'Chittis', who were mere visitors, unlike so many Chinese tycoons who settled and prospered in the Straits. The Nattukottai Chettiars he saw in the Straits had 'the command of fabulous sums it is true, but they are not, as a rule, rich individually. They are generally agents of wealthy men at Madras; they have very little interest in the colony and hasten back again to their country as quick as they can.'[224]

[224] Vaughan, *Manners and Customs*, p. 3.

Unlike the Chinese, who took advantage of the Anglo-Dutch rivalry and Siamese independence to carve out a more self-sustained position for themselves in the Southern Ocean, the Nattukottai Chettiars followed into Ceylon, Burma and the Straits in the trail of British imperialism. Propelled forward by the British connection, the Nattukottai Chettiar ventures bore no relationship to the older Indian enterprise of Chetti merchants (not Nattukottai Chettiars) from the Coromandel coast in the heyday of Malacca and Achin. What enabled the Nattukottai Chettiars to expand was their system of agency, whereby trusted caste members were sent out as triennial agents to conduct loan operations in overseas British colonies.[225]

The overseas ventures of the nineteenth-century Gujarati merchant communities stood in a category by itself. Their thrust into the Persian Gulf, the Red Sea, Zanzibar Island and along the East Coast of Africa had much closer connections with the older Indian maritime enterprise in the heyday of Surat. The new Gujarati ventures of the nineteenth century were undertaken initially in partnership with the Arabs of Muscat and Zanzibar. Only at the later stage when they began their penetration into the mainland of Africa opposite Zanzibar Island did their association with British imperialism become more pronounced. Significantly, Gujarati enterprise in these areas had a less fragile character than Nattukottai Chettiar ventures in Ceylon and Southeast Asia. It was not, at any rate, undermined by the Great Depression of the 1930s and the coming of independence in the 1950s to the same extent.

Chettiar banking in Ceylon and Southeast Asia

In his Straits business directory of 1908, Wright observed: 'Associated with the banking system is the financial system maintained by the Chetties, who are an influential class of native merchants engaged in money-lending.'[226] He had the mistaken impression that 'the Chetty system' was a mere adjunct of the European banking system, a product of the latter's need for intermediaries in dealings with the Burmese and Chinese. Organized on principles quite distinct from the European banking system, the Nattukottai Chettiar firms relied for the

[225] Edgar Thurston, *Castes and Tribes of Southern India* (Madras, 1909), vol. V, pp. 254–7.

[226] Wright, *British Malaya*, p. 141.

greater part of their operations on their own capital, raising their deposits independently from the indigenous races in Burma and the Straits. Though the British connection opened to them a new field of investment in Southeast Asia, their success in this field must be attributed to their distinctive social and business organization. As in the case of the successful Nanyang Chinese, what counted here was the hereditary skill of the Nattukottai Chettiars in the handling of money which they had acquired in their native Chettinad, and their community organization which made it possible for them to run a long-distance network of interlocking financial partnerships more successfully than the indigenous races of Burma and Malaya.

The Nattukottai Chettiars in the Chettinad tract where they were historically settled (Ramnad district and Pudukottai State), were engaged in the early nineteenth century in heavy lendings to the Sivagangai and Ramnad zamindars on hundis and mortgages, and in marketing and financing by means of hundis the grains collected as rent in these two great landed estates; eventually the dynasty of A. L. Arunachalam Chettiar carved out of the interests of their landed patrons the large zamindari of Devakottai.[227] But as early as the 1830s, the Nattukottai Chettiars were attracted to Ceylon and the Straits, and subsequently—after the British annexation (1852)—to Lower Burma.[228] There, avoiding involvement in immovable assets, they rapidly built up their liquid resources by means of quick turnover of working capital. As the returns in these overseas territories were more attractive—10–12 per cent in Ceylon, 12–15 per cent in Burma and 15–18 per cent in Malaya compared to 8–9 per cent in Madras[229]—they gradually withdrew their capital from moneylending operations in the Tamil countryside to overseas credit operations in four district zones; (1) Burma; (2) the Federated Malay States and Straits Settlements, together with important neighbouring places such as Deli-Medan in Netherlands India, and Siam; (3) French Cochin China; and (4) Ceylon.[230]

There were other banking groups in South India—the wealthy Kammas in the delta tracts of the Telegu country, the rich Vaisya

[227] Pamela Gwynne Price, 'Resources and Rule in Zamindari South India 1802–1903: Sivagangai and Ramnad as Kingdoms under the Raj', Wisconsin University Ph.D. Thesis 1979, pp. 177–206.

[228] A. Savarinatha Pillai, 'Monograph on Nattukottai Chettis' Banking Business,' in *Madras Provincial Banking Enquiry Committee*, vol. III, *Written Evidence* (Madras, 1930), p. 1170.

[229] Christopher John Baker, *An Indian Rural Economy 1880–1955. The Tamilnad Countryside* (Delhi, 1984), p. 283.

[230] Pillai, 'Monograph', p. 1170.

bankers of Andhra such as the Mothays of Ellore and various Komati families in Rajamundy, Amalpur and Razole, and the Kalladaikurichi Brahmans of Tirunelveli district in the Tamil country to the south of Chettinad. But none of these groups attained the success of the Nattukottai Chettiars. A. Savarinatha Pillai, the Assistant Commissioner of Income Tax for the Southern Range, attributed the reason to the fact that the other groups did not have the communal unity and organization of the tightly-knit Nattukottai Chettiars.[231] The Nattukottai Chettiars called themselves Nagarathars because the community was divided into nine nagarams (townships) with a kovil (temple) at the head of every nagaram. Each temple levied a tax (pullivari) on every married couple (pulli) assigned to it. Among the members thus apportioned, the nagaram settled disputes out of court by arbitration. This was a tight structure that maintained severe clan discipline inside each nagaram. The design unified the whole by making each clan exogamous.[232]

The community structure provided a firm foundation to the commercial organization of the Nagarathars. They enjoyed distinct advantages over other communities because of their accounts, their partnership arrangements, their agencies and their communal mechanisms of bazaar rate determination. Their system of accountancy was the double entry system of book-keeping in which the Chetty boys were trained up from the age of eight. Sons of rich parents were apprenticed to learn business in firms that did not belong to the parents.[233] Chettiar firms were generally partnerships between relations, more usually through marriage than blood, because that posed problems of property ownership in the Hindu joint family. But the same Chettiar male could be partner in several firms, which gave rise to a system of interlocking partnerships across the four main zones of their overseas investments.[234] The branch establishment of a Chetty bank in the Tamil countryside was the simplest one could imagine: just an agent or accountant (kanakapillai) who was authorized during the banker's absence to make loans and recover debts, no security being taken from him as he was invariably a trusted caste member.[235] It was the institution of trusted agency that enabled the Nattukottai Chettiar bankers to extend their far-flung banking network into

[231] *Ibid.*

[232] *Ibid.*, pp. 1170–1; Thurston, *Castes and Tribes*, vol. V, pp. 260–3.

[233] Pillai, 'Monograph', p. 1171.

[234] *Report of the Burma Provincial Banking Enquiry Committee* (Rangoon, 1930), p. 204.

[235] S. Srinivasa Raghavaiyangar, *Memorandum on the Progress of the Madras Presidency during the last Forty Years of British Administration*, (Madras, 1893), p. cclxxiv.

Southeast Asia. An agent entered into the banker's service on a three-year contract, and before setting out to the foreign branch he received advances in salary—which was Rs 300 per month for Burma as contrasted with only Rs 100 for Madras. When he returned three years later he got a ten per cent share in the net profits if he was considered to have been industrious during his agency. Auditing of accounts was done triennially as annual audits were inconvenient for distant places like Burma. Control of the agent abroad during these three years was maintained by examination of weekly or monthly despatches of day book extracts and issue of instructions by correspondence. Six months before the expiry of the agency the new agent went out to act conjointly and to get trained up in the local business conditions. The agent then returned home, rendered accounts, took rest and got re-engagement either with his old employer or another banker, and in time he accumulated enough capital to start a bank of his own. In a sense, then, the banker–agent relationship was a particular form of creditor–borrower relationship in which the agent did business with the capital advanced by his patron until he had enough savings to set up in business on his own. Nattukottai Chettiars were thus to be found in business invariably in one of two capacities—either as partners banking on their own account or as agents of their caste fellows. They served only under their own caste, and never under any other caste, and traded in partnership only among themselves and never with outsiders.[236]

Between themselves the Chetti banks adopted the inter-bank system of accounting, but with non-Chettis—whether Burmans, Chinese or Tamilians in Madras—they adopted the cash basis, recording actual cash receipts and debiting actual disbursements. Among themselves the bankers credited each other with interest and debited interest at the end of each year after exchanging Vaddi Chittai, or memorandum of interest calculations accepted by both parties before adjustment was made in the books.[237] Interest rates for outsiders were higher and determined on an altogether different basis by specific individual transactions. The ruling rates within the Nattukottai Chettiar community separated it off from the rest of the commercial population. The Chetti inter-bank rates varied every month according to seasonal demand. In Karur town in the Kongunad tract of Tamil country, for instance, about 40 Nattukottai Chettiars would

[236] Thurston, *Castes and Tribes*, pp. 254–7, Pillai, 'Monograph', pp. 1171–2.
[237] *Ibid.*, p. 1171.

meet on the first of every month in their temple and resolve what rate should be adopted for the month by poring over the rates prevailing in the same month in the previous years.[238] The overseas Chettis had the same machinery for fixing the Nadappu rate, or the rate current among themselves, at the following centres: Rangoon, Penang, Singapore and Colombo. This was done every month at an assembly in the Nagaraviduthi, a special building constructed for the common use of the community, where each banker secretly intimated his figures to a chairman who took note of the figures, announced the average, and finally arrived at the rate by reference to the demand and supply for capital among the Chettis and the bank rate then prevailing.[239]

In addition to this, the Chettis held weekly meetings to determine the thavanai rate, or the rate of interest which they allowed on deposits taken from outsiders. The thavanai deposits, once made, could not be withdrawn before two months in Rangoon, and three, or six or sometimes even twelve months in the Straits and in Ceylon. The rate of interest was fixed weekly by the Chettis at Rangoon for transactions of the ensuing week, but in Penang and Singapore it was a matter of settlement by the parties concerned in each individual case. The depositor had the option not to recall his loan at the end of the period of rest (thavanai), and in that case compound interest was allowed on deposits at intervals of two months, three months or six months. Thavanai deposits were known to continue for years, and in Burma big Marwari merchants, Burmese dealers and Chinese businessmen deposited moneys on a large scale with the Chetti banks.[240]

The overseas expansion of Chettiar finance and banking started with Ceylon, where their initial business seems to have been supply of rice and piecegoods from India, pawnbroking and shopkeeping. These activities, which led on to banking subsequently, continued to be a principal component of their business in Ceylon till the early 1920s.[241] The development of Ceylonese plantations under English enterprise opened up the trade in money for the Nattukottai Chettiars in the 1830s. The latter were in a strong position to deal in money and exchange as they were already established in the trade of Ceylon. They had no competition from banks until 1841, when the Bank of Ceylon entered the field. Till then, English planters and businessmen

[238] Raghavaiyangar, *Memorandum*, p.cclxxiv.
[239] Pillai, 'Monograph', pp. 1179–80.
[240] *Ibid.*, pp. 1171, 1175, 1180.
[241] *Ibid.*, p. 1170; *Celyon Banking Commission*, vol. I, *Report* (Colombo, 1934), p. 41.

of Colombo were wholly dependent on the Nattukottai Chettiars for the exchange operations essential to run their planting enterprises. The planters, who obtained sterling bills on London for shipments of coffee, converted the bills into silver rupees, the current coin in Ceylon, through the agency of the Chetti bankers. The Chettis were the principal rupee merchants, shipping silver coin on native vessels for which they paid a shipping charge of two rupees per bag of 200 rupees brought over from India.

With the entry of the Oriental Bank upon the collapse of the Bank of Ceylon in 1847, the Chetti bankers gradually lost the exchange business, which consisted in setting off the sterling (gold) surplus earned by coffee shipments against the rupee (silver) deficit arising from the imports of rice and other goods from India. As the Oriental Bank and the Chartered Mercantile Bank came to monopolize the business by means of an agreement ending their rate-cutting war in 1854, the Chetti bankers in Ceylon became intermediaries between these exchange banks and the native Ceylonese borrowers.[242] The exchange banks made large advances to Chetti bankers for short periods, as much as Rs 20 million at peak points—at the 'Chetty rate', which was two or three per cent above the bank rate. The Chettis in turn lent out to the Ceylonese at a margin of around three per cent. Though the Ceylonese would sometimes call the Chetti financier a 'blood-sucker' and a 'shylock', they conceded upon serious examination 'the Chettiar's share in the building up of Ceylon, in the absence of which foreign penetration might have been greater and more serious.' The European businessmen had their own sources of finance but not the Ceylonese who naturally turned to the Chetti bankers. It was conceded that by moving capital to points of need the latter 'contributed in no small measure to the economic development of the island.'[243]

The initial entry of the Nattukottai Chettiars in Southeast Asia—subsequent to their Ceylon venture but eventually to be of much greater importance—was as traders in the Straits selling lungi cloth dyed on the Coromandel coast to the Malays.[244] The annexation of Lower Burma and the development of the rice of the Irrawaddy delta as a world market product opened up a new field for Chetti financial operations after 1852. In Burma, too, Chetti banks were sometimes

[242] Haraprasad Chattopadhyay, *Indians in Sri Lanka: a Historical Study* (Calcutta, 1979), pp. 149–52, 159; Mackenzie, *Realms of Silver*, p. 90.
[243] *Ceylon Banking Report*, pp. 28, 40, 44.
[244] Pillai, 'Monograph', p. 1170.

compared by native tribal cultivators to 'fiery dragons that parch every land that has the misfortune of coming under their creeping'. As a matter of fact the Chetti banks charged a lower rate of interest than the local Burmese lenders. Without the former's agricultural loans, concluded the Burma Provincial Banking Enquiry Committee, 'the internal and external trade of the country would break down and the rice crop could not even be produced'.[245] The rapid development of Burma rice as a cash crop after the opening of the Suez Canal was financed mainly by the Nattukottai Chettiar bankers. They brought down the rates of interest wherever they established themselves. For they could afford, on account of working on a larger scale over a wider area, to charge less than other lenders.[246] By the beginning of the twentieth century, the lending network of the Nattukottai Chettiar was within reach of most villages in Burma. At the time, it was highly centralized at Mogul Street in Rangoon, the nerve centre of the Chetti money market in Burma, which at this time functioned through 350 banking firms operating with a working capital of around 150 million rupees.[247] Mogul Street was connected closely with the four principal uncountry money markets—Mandalay, Bassein, Henzada and Moulmein—which acted as the main conduits for the movement of funds to the Chetti banking houses distributing loans for the rice crop in the interior.[248]

It is a sign of the organized shape Chetti banking business had acquired in Burma that we have a continuous record of the Nadappu rate in Mogul Street from 1895 to 1929. The Nattukottai Chettiar firms, it appears, succeeded in maintaining the rate among themselves at a level seldom higher than the bank rate and quite often lower; and on the eve of the Great Depression, their banking business had increased five times over what they had at the turn of the century—1650 firms operating with a working capital of 750 million rupees.[249] Their tight organization, which was evident in the manner in which they regulated relations with the banks, enhanced their credit. They were able to borrow about Rs 100 million from the banks. This was in addition to Rs 115 million which they mobilized as deposits and Rs 535 million which formed their own capital.[250] In a tight season,

[245] *Burma Banking Report*, vol. I, p. 190.
[246] *Ibid.*, p. 343.
[247] *Ibid.*, 213.
[248] *Ibid.*, vol. III, p. 499
[249] *Ibid.*, vol. I, p. 211–13, vol. II, pp. 170–2.
[250] *Ibid.*, vol. I, p. 211.

the Imperial Bank of India would from time to time communicate its willingness to make loans; the Nattukottai Chettiars would then join in groups to apply for loans on joint security and would divide the sum among themselves. The system of mutual signatures increased their credit but in times of crisis the failure of one Chetti firm tended to engulf others.[251]

On the eve of the Great Depression Mogul Street stood at the Centre of an international web of finance closely connected with the banking systems in Madras, Colombo, Penang, Singapore and Saigon: many large Chetti banks in Rangoon—no less than 295 out of 1650 firms in Burma—had branches in Madras and in these overseas territories.[252] This was the result of migration of Chettiar capital to new and more profitable areas of investment—an outflow that attained altogether new dimensions at the turn of the twentieth century. During the census operations in Madras in 1901, the free flow of Chettiar capital to Burma, the Straits Settlements, Ceylon and latterly also Saigon was noted, and the manner of it was described by the Census Commissioner in the following terms: 'As soon as he [the young Nattukottai Chettiar banking apprentice] has picked up business ways sufficiently, he begins life as agent of some other members of the caste, being perhaps entrusted with a lakh of rupees, often on no better security than an unstamped acknowledgement on a palmyra leaf, and sent off to Burma or Singapore to trade with it and invest it. A percentage of the profits of this undertaking, and savings from his own salary, form a nucleus which he in turn invests on his own account'.[253]

It was estimated that around 1896 the assets owned by the Nattukottai Chettiar community was worth Rs 10 crores; in 1929 this had increased, according to the Assistant Commissioner of Income Tax in the Southern Range of Madras Presidency, to Rs 80 crores.[254] But the total amount of liquid capital, borrowed and owned, lying at their command on the eve of the Great Depression, was considerably greater than this. The break-down for the five principal zones of Nattukottai Chettiar investment was estimated by the Burma Provincial Banking Enquiry Committee as follows: 1. Burma—75 crores; 2. Straits zone—25 crores; 3. Ceylon—14 crores; 4. Cochin-China—14

[251] Pillai, 'Monograph', p. 1179.
[252] *Burma Banking Report*, vol. III, p. 499; vol. I, p. 191.
[253] Quoted in Thurston, *Castes and Tribes*, vol. V, p. 250.
[254] Pillai, 'Monograph', p. 1174.

crores; 5. Madras zone—1 crore.[255] The Straits zone, which was next in importance to Burma, covered Penang, Singapore, the tobacco patch of Northern Sumatra, and Bangkok. Cochin-China was a more recent field of investment, where Chettiar activity started around the turn of the century, becoming more intense in the 1920s, when much capital flowed out of Rangoon to Saigon.[256]

The Straits zone figured somewhat earlier in overseas Nattukottai Chettiar activity than Burma. As Singapore thrust into prominence, the Nattukottai Chettiars turned from peddling Coromandel piecegoods in Malayan waters to large-scale financing of opium imports from India, which in turn led on to banking. The Chetti opium-financing and banking operations in the Straits were undertaken in close association with the exchange banks which opened up branches in Singapore—the Oriental Bank (1846), the Chartered Mercantile Bank (1854) and the Chartered Bank of India, Australia and China (1861). The Chetti opium importers formed an important channel through which the paper notes of the exchange banks circulated in the Straits. This made the banks dependent on the Chetti system in the matter of their standing and credit. In the trade depression of 1864, the Chettis decided not to accept the paper notes of the Chartered Bank of India, Australia and China and the Chartered Mercantile Bank. This caused a run on these banks by the Singapore traders. The Oriental Bank, whose credit remained high with the Chettis and the Chinese, encountered no such problem during the depression.

The subsequent progress of the Chartered Bank of India, Australia and China was largely in partnership with the Nattukottai Chettiars. These men re-established the credit of the Chartered Bank in Singapore by buying its paper freely in 1867. By 1872 the Bank had a large business in discounting acceptances drawn at two or three months' date by the Chettis on Chinese purchasers of opium. In Penang, too, a large business had sprung up in promissory notes drawn by Chinese traders on Chetti bankers. The rates were drawn on demand, but the Chettis and the Chinese arranged by word of mouth when they would fall due and the Chartered Bank accordingly discounted them for fixed periods of two, three or four months. The Nattukottai Chettiars were thus the crucial channel through which the circulation of

[255] *Burma Banking Report*, vol. I, p. 211

[256] *Ibid.*, p. 213.

Chinese promissory notes and the operations of the exchange banks were linked together in the financial world of Singapore and Penang. The Chettis, through whose hands most of the opium trade passed, took care to deal only with Chinese dealers of sound standing, thereby making the business of discounting opium bills quite safe for the exchange banks. By 1880 there was a large volume of interlinked financial transactions between the exchange banks, the Chetti bankers and the Chinese merchants. The nexus generated an ample flow of mobile credit in the Straits;[257] and as the exchange banks extended their operations to Deli, Medan, Bangkok and Saigon, so did the Nattukottai Chettiars.

As the Nattukottai Chettiars extended their operations to Rangoon, Penang, Singapore and Saigon, they conducted exchange transactions in all these centres, but not in competition with the exchange banks. In the early 1880s the Chartered Bank of India, Australia and China obtained a steadily increasing business in Penang by rupee sales on Rangoon and Calcutta in favour of the Nattukottai Chettiars, who had started moving funds to and fro between India, Burma and the Straits to take advantage of fluctuating rates of exchange. When the rate of exchange went low in the Straits (i.e. when it was possible to buy more dollars with the same number of rupees), the Chetti bankers drew on India and invested the proceeds in Penang and Singapore; if the rate for the dollar went high, they remitted to the rupee zone of Burma and India. These Chetti exchange operations were conducted in the main through the exchange banks and not independently, though there was a certain number of independent exchange operations by the Chettis through their 'adathis' in Madras.[258] The exchange banks operated mainly in the sterling area and as the Chetti transactions were entirely with India, the banks had no hesitation in facilitating these non-competitive exchange operations at an attractive commission. The Penang branch of the Chartered Bank allowed the Chettiars to purchase rupee drafts on credit for periods ranging from a fortnight to two months, charging interest from $9\frac{1}{2}$ to 11 per cent per annum, depending on the condition of the local money market. The Chettis were cautious operators and would sometimes watch a trend for six months before launching out.[259]

From the turn of the century, Saigon also came within the range of Chetti exchange operations, and not only the range but also the

[257] Mackenzie, *Realms of Silver*, pp. 105–10, 112.
[258] Pillai, 'Monograph', p. 1180.
[259] Mackenzie, *Realms of Silver*, pp. 112–13.

velocity of these transactions increased over time. Fluctuations in the rate between the dollar and the rupee now caused larger volumes of Chettiar money to flow more quickly in both directions. Whenever the dollar depreciated in value, the Chetti bankers rushed money from Madras and Rangoon to Penang, Singapore and Saigon, and when the dollar appreciated, the flow reversed at once.[260] On balance, however, the flow was steadily eastwards from Madras since the turn of the century, and from Rangoon to Saigon in the 1920s, until the Great Depression caused a cataclysmic rolling back of Nattukottai Chettiar funds and operations. By then, there was a move towards the conversion of the Chetti partnership firms into incorporated banks. In 1929 two Chetti partnerships working in Burma, Ceylon, the Straits and Saigon, which in fact represented the alternative combinations within one Nattukottai Chettiar family based on Kanadakatham in Chettinad, were converted into the Bank of Chettinad with a capital of Rs 30 million.[261] The times were not felicitous for the conversion of the private Chetti banks into joint-stocks banks; and the short-lived Bank of Chettinad betrayed its origin by carrying on trading and estate management. But two other banks which the Nattukottai Chettiars pioneered as joint-stock banks—the Indian Bank (1907) and the Indian Overseas Bank (1936)—formed a closely associated group which became a permanent component of the modern banking sector in India.[262]

Gujarati capital and the Western Indian Ocean

In the heyday of Surat at the turn of the eighteenth century, Bohra and Turkish shipping magnates and Bania hundi bankers had been engaged in large trading and financial transactions with the Persian Gulf and the Red Sea, with Mokha and Surat forming the axis of the commerce of three great empires—Mughal, Safavid and Ottoman. The precipitous decline of Surat and Mokha in course of the eighteenth century did not mean the abrupt end of the Gujarati connection with the Arabian and Persian Gulfs. There was a remarkable revival of Arab shipping under the leadership of the Sultan of Muscat towards the end of the eighteenth century despite fierce competition

[260] Pillai, 'Monograph', p. 1186.

[261] *Burma Banking Report*, p. 205; *Ceylon Banking Report*. p. 33.

[262] R.K. Seshadri, *A Swadeshi Bank from South India. A History of the Indian Banking 1907–1982* (Madras, 1982), *passim*.

from Dutch, French and British sailing ships; and the Gujarati merchants and bankers were closely associated with the Muscat-led Arab maritime enterprise in the Western Indian Ocean. At the beginning of the nineteenth century, the Arab–Gujarati partnership once again swept forward across the Western Indian Ocean, and as the Arab fleet of Muscat established its sway over the island of Zanzibar off the coast of Africa, the Gujaratis followed in the trail. Till 1860 Zanzibar remained a dependency of Muscat and both before and after this date the Gujaratis used the island as a springboard for slaving and trading operations on the Swahili speaking coast-line in partnership with the Arabs. In the Red Sea area the Gujaratis shifted their base from Mokha, shrivelled by Turkish tyranny, to Aden, which the British seized and made into a free port, and from there they carried on their older operations on the Somali coast with a new confidence. There was thus no abrupt break in Gujarati activity in the Western Indian Ocean in the transition from the eighteenth to the nineteenth century.

The explanation for this lies partly in the inherent strength of Gujarati banking and trade and its well-established connections in the Gulfs, and partly in the political configuration of the Western Indian Ocean, where no monopolistic colonial power could extend its sway on the pattern of the Dutch in Java. There was in fact no formal European empire in the area until the French and the British broke the Turkish suzerainty over the Arab territories during the First World War, seizing Syria and Lebanon and Palestine and Iraq as their reward for 'liberating' the Arabs. Till then the only areas under occupation in the Red Sea–Persian Gulf area were Djibouti under the French and Aden under the British. The Islamic world of the nineteenth century consisted of two large crumbling blocks—the Turkish empire and Iran. In addition, there was a patchwork of Arab principalities on the Red Sea and the Persian Gulf with a bridgehead at Zanzibar for the Arab penetration into the interior of Africa. On the mainland Islamic territories, Jewish bankers, Persian and Armenian merchants and Lebanese businessmen were the most important Asian mercantile groups. On the long and circuitous coast-line from Oman to Yemen and down to the Somali and Swahili stretches on the eastern seaboard of Africa, the Gujaratis and Arabs held sway, the former being the dominant financial partners by the middle of the nineteenth century. The renewed vigour of Gujarati enterprise over this widening surface was in a great measure derived from the new base of Bombay. Under the consolidated rule of the British, Bombay grew into a commercial and financial metropolis drawing in enterprising Gujarati and Sindhi merchant communities from points all along the west coast: Lohanas from Sind, Bhatias and Memons from Cutch, and Khojas, Bohras and Banias from Kathiawad and Gujarat. Operating from Bombay, these merchant communities sailed to far-off shores of the Western Indian Ocean. In the last quarter of the nineteenth century they established themselves in parts of the interior of East Africa. Here their commercial penetration preceded the English and German penetration: before the Germans created German East Africa (1885) and the British obtained Somaliland (1884), Kenya (1886) and Uganda (1895), the European trade with Africa necessarily had to be conducted through Indian intermediaries, and they were so well established by then that European penetration in the interior redounded to their advantage.

In terms of the area of operations, the organization and commodity composition, and the participating groups, the Gujarati trade of the Western Indian Ocean in the nineteenth century differed significantly from its older counterpart of the Surat–Mokha age despite the strongly marked lines of continuity from the one age to the other. To begin with the participating groups, the old Surat–Mokha trade was dominated by two indigenous Gujarati merchant communities: the Bohras and the Banias. When the trade collapsed, the Bohras, who owned the ships that carried the traffic, fell upon hard days. They were never again to regain the commercial prominence they had enjoyed in the days of the legendary Mulla Abdul Ghafur of Surat. The Banias, who had specialized in brokerage and banking, also faced severe difficulties, but they made a remarkable recovery with Bombay as their new base. From there they began conducting hundi operations on an ever larger scale.[263] At the same time, certain new Muslim and Hindu merchant communities, from further up the west coast, began to move down to Bombay and to carry their thrust forward to the Gulfs, Zanzibar and other points of the Indian Ocean. Among these were the Bhatias, the Khojas and the Cutchi Memons who came into prominence no earlier than the middle of the nineteenth century. In a case involving the Khojas and the Memons (1847), Sir Erskine Perry, Chief Justice of the Supreme Court of Bombay, found them in the subordinate branches of trade, but as a matter of fact

[263] Das Gupta, *Indian Merchants and the Decline of Surat, passim*; Subramanian, 'Capital and Crowd'; Douglas, *Glimpses*, p. 119.

they were poised to emerge from 'the obscurity' which, in Perry's eyes, still surrounded their condition.[264] In the succeeding years, the Memons established themselves in all the major ports of the Arabian Peninsula except Muscat, from where they were ousted by the Khojas. From the Arabian ports, they moved onwards to Mozambique, Zanzibar and the coastal belt of East Africa.[265] The Khojas, too, shot into sudden prominence: originally grain sellers, fuel pedlars, old embroiderymen and bricklayers, they went on to form merchant colonies in Muscat, Aden and Zanzibar,[266] and eventually became rich millowners in Bombay. Yet another merchant community which shot to prominence from around the mid-nineteenth century was the Hindu trading caste of Cutch, the Bhatias, whose broad caste views regarding sea voyage enabled them to settle freely along the Persian Gulf, the Red Sea and in Zanzibar; they, too, became rich millowners in Bombay.[267]

The commercial organization of some of these Gujarati merchant communities shows some striking parallels with that of the Nattukottai Chettiars and the Nanyang Chinese. Such parallels offer important clues as to why the Gujaratis were so successful in West Asia and Africa. The Khoja firms had an agency system similar to that of the Nattukottai Chettiars for the purpose of maintaining overseas branches. The agents were invariably Khojas, the community bond supplying the basis of trust in distant ventures involving large sums of money. At the same time the agency system was instrumental in the acquirement of skills, experience and connections which would eventually enable the agents to set up independent firms of their own. Khoja boys were trained up as apprentices in the overseas branches of the Khoja firms. They drew salaries of Rs. 200 or more, and in the responsible position of manager of a branch the young Khoja might draw as much as Rs. 2000.[268] These were generous salaries, comparing favourably with the salaries of the Nattukottai Chettiar agents at Natal who drew Rs 600 during their brief venture in business there at the turn of the twentieth century.[269]

[264] T. A. Venkataswamy Rao and T. S. Krishnaswamy Rao (ed.), *The Indian Decisions* (Old Series), vol. IV, *Supreme Court Reports* (Madras, 1912), pp. 707–23.

[265] R. V. Russell and Rai Bahadur Hiralal, *The Tribes and Castes of the Central Provinces of India*, (London, 1916), vol. II, p. 442.

[266] Gazetteer of the Bombay Presidency, vol. IX, part II (Bombay, 1899), pp. 36, 49.

[267] *Ibid.*, vol. IX, part I (Bombay, 1901), *passim*.

[268] *Bombay Presidency Gazetteer*, vol. IX, part II, p. 44.

[269] Thurston, *Castes and Tribes*, vol. V, p. 257.

The Cutchi Memons, who were as bold as the Khojas in their West Asian and African ventures, had a system of trading in small corporations or companies similar to the kongsis of the Nanyang Chinese. Their companies consisted of a small number of persons, either relations or friends, who each contributed some capital to the firm and shared in its profits accordingly on the same principle as the Chinese kongsis. Such a firm would typically have headquarters in Bombay and branches overseas and in the interior of India.

> Each member then acts as a correspondent and agent for all the others, and puts what business he can in their way. Many are also employed as assistants and servants in the shops, but at the end of the season, when they all return to their native Gujarat, the profits from the different shops are pooled and divided up among them in varying proportions. By this method they obtain all the advantages which are recognised as attaching to co-operative trading.[270]

The Khojas, the Cutchi Memons, the Bhatias, were all new to the trade of the Western Indian Ocean; the commodities which they distributed and procured were not those of the older international trade of Surat and Mokha in the eighteenth century. Silver and coffee were the crucial imports from Mokha to Surat around 1800; in return the Gujarati shipowners and merchants carried to the Gulfs the coarse and fine fabrics woven by the weavers of Surat, as well as some amount of grain.[271] The flow of silver from the Gulfs dried up as the nineteenth century progressed; and the exports of Gujarati handloom products collapsed with the invasion of English mill-made goods from Manchester. But the new overseas Gujarati firms with their widespread network of branches proved an excellent distribution agency for the British, European and American goods flowing in increasingly greater quantities to the Western Indian Ocean via the Cape of Good Hope and subsequently through the Suez Canal. At the same time the overseas Gujarati firms were actively engaged in obtaining cloves and cottons from Africa, the latter for supply to Bombay mills and handloom weavers. Eventually they proved the natural agency for the distribution of Bombay mill-made piecegoods in West Asia and Africa.[272]

The geographical area of their operations altered considerably in the course of the switchover to the trade in the new commodities.

270 Russell and Hiralal, *Tribes and Castes*, vol. II, pp. 440–1.

271 Das Gupta, *Indian Merchants and the Decline of Surat, passim.*

272 For a comprehensive survey of the new Gujarati trade in the Western Indian Ocean in its fully developed form in the twentieth century, see *Government of India, Trade Mission to the Near East and Africa. Report* (Calcutta, 1928).

The process began with a fairly dramatic shift of trade from Mokha to Aden in the Red Sea. A parallel development in the Persian Gulf was the rise of Muscat as an important centre of Gujarati trade and capital. The Muscat connection facilitated the migration of new Gujarati capital to Zanzibar Island around the middle of the nineteenth century, and that in turn opened the way to the entry of Gujarati capital in the interior of East Africa and its movement down the coast as far south as Portuguese Mozambique. Two distinct areas of Gujarati trading activity along the coast of Africa—from the Zanzibar bridgehead along the Swahili coast and from the Aden bridgehead along the Somali coast—gradually extended so far as to link up with each other by the beginning of the twentieth century. Gujarati capital thus emerged as an important factor in the coastal economy of Africa from the Red Sea to Mozambique and gradually penetrated down the Nile Valley as far as Khartoum and up the Equatorial Lakes as far as Kampala.

At the beginning of the nineteenth century, Mokha was still a port of some importance in the Red Sea, though no longer the centre of the old Ottoman–Safavid–Mughal trade. An active traffic, necessitating the residence of over 3000 'Banians'[273] and a great number of other Indians, Persians, Armenians and Jews, continued till around 1839. In that year Aden became a British port and it soon drew away the trade of Mokha. With the precipitate decline of its trade, Mokha plunged into catastrophic depopulation. Around mid-century, its 'ruined houses and deserted streets' presented a 'picture of hopeless desolation' to any traveller whom chance might direct to that melancholy scene.[274] Aden was not in any sense a successor to the glittering imperial trade that had once flourished at Mokha. That was long dead. But the active trade of the Red Sea, a local traffic that seasonally drew into its orbit the African tribesmen from the opposite coast, found its way to Aden.

At its foundation, Aden had a population of about 20,000 souls, of whom less than 5000 were Arabs: the rest were Hindus, Parsees, Indian Muslims, Africans, Jews and Europeans.[275] The Hindus,

[273] Presumably Gujarati Banias. Bhatias from Cutch and Lohanas from Sind—also Hindu Bania castes—were not yet so active in the long-distance sea-faring trade.

[274] *Selections from the Records of the Bombay Government. New Series no. XLIX. A History of Arabia Felix or Yemen Including an Account of the British Settlement of Aden*, by Captain R. L. Playfair (Bombay, 1859), p. 22.

[275] Aden's population in 1839: Arabs—4812; Indian Muslims—2557; African Muslims—3627; Hindus—5611; Parsees 61; Jews—1244; Christians (Europeans)—1129; Miscellaneous—1659; Total—20,738. *Ibid.*, p. 14.

who outnumbered the Arabs, belonged to two classes: the sepoys and workmen who served the British, and the 'Banians'. The latter were 'wealthy and respectable merchants', who had 'for centuries monopolized a great part of the African trade.'[276] The Africans they traded with were nomadic, pastoral Somalis who brought sheep, cattle, ponies, hide, etc. from the interior to the annuual fairs on the Somali coast and then sailed on small craft to Aden.[277] Of the Indian Muslims, two-thirds were pilgrims to Mecca who settled in Aden; the rest were Bohra and Memon merchants, sepoys and domestic servants.[278] From the early days of Aden, the Gujarati Banias, Bohras, and Memons formed the most important groups in its commerce, long before it was raised to the position of a strategic international port-of-call by the opening of the Suez Canal.

The chief article sold by the Gujarati merchants to the African and Arab tribesmen was cloth—of a great variety. The lungis and woven scarves imported into Aden in its early days were manufactured by Indian handloom weavers whose products attained great popularity with the help of the excellent distribution services offered by the Gujarati traders. The Manchester firms cut into this business by imitating the Indian products. But for Manchester goods, too, the Gujarati wholesale cloth merchants in Aden offered the least costly and most efficient distribution network. They emerged, even before the opening of the Suez Canal, as the natural agency through which manufactured goods of Western origin were distributed—a business that expanded vastly after the steamships from Europe and America began to move through the Suez Canal to Aden. The distribution network of the Gujarati merchants was subsequently used by the Japanese firms as well. Eventually, the Bombay mills used the same agency to push their products in the Red Sea zone at the cost of their Western competitors. The Gujarati merchants in Aden were ready to offer their services to all comers willing to pay. But when the Indian Trade Mission to the Near East and Africa visited the port in 1928, they were moved by patriotic feeling to promise their active assistance in increasing India's share of the trade. This was not a matter of small importance in the subsequent export drive of the Bombay mills, for the piece goods and yarns trade of Aden was almost wholly in the hands of three or four rich Indian merchants who maintained offices in Bombay and branch offices in Djibouti and other Red Sea ports.

[276] *Ibid.*, p. 16.
[277] *Ibid.*, p. 14.
[278] *Ibid.*

They imported printed Khangars, Madras shawls, printed and woven handkerchiefs, woven lungis, prints and chintz, and distributed these Indian-made products in the southern Red Sea ports, portions of Arabia, Abyssinia and East Africa from Dijbouti as far as Mombasa.[279]

In the Persian Gulf, where there was no British port like Aden, the Gujarati merchants of the early nineteenth century found a new centre at Muscat, whose Imam for a time ruled the Western Indian Ocean with his poweful fleet, sweeping all traffic into his dhows as far down as Zanzibar. There were Bania colonies in Muscat, Sharjah, Bahrein and Kuwait, competing on more than equal terms with the Jewish and Armenian merchants for the trade of the Persian Gulf.[280] Banians of the Persian Gulf carried on their trade to Bombay and the west coast of India as far down as Malabar in ships owned by the Arab powers of Muscat and Bahrein. 'They are patient and enduring, and have little or no expenses,' observed Captain G. B. Brucks during the tour of investigation of the navigation of the Persian Gulf. 'They are brokers to most of the Arab merchants, and generally agents to any European ship that trades to this place' (Muscat).[281] There were 2000 Banians settled in Muscat, when Brucks visited the port in 1835; they were carrying on a thriving trade in importing Indian handloom products, British mill-made piecegoods, timber, rice, ghee and cotton. In Sharjah he found an older colony of Banians long settled in the place—pearl merchants, goldsmiths, cloth and grain dealers—who had adopted Arab dress. On the island of Bahrein, about a hundred Banians settled in the principal port of Munama were carrying on a flourishing business of importing rice, sugar, pepper, iron, lead, timber and cloth from India. They were also engaged in exporting pearls and dates for the consumption of the Indian aristocracy.[282]

The patron of the overseas Gujarati Banias was the Imam of Muscat, himself a great merchant and owner of a fleet. He kept a force of formidable Baluch mercenaries and ruled the archipelago with his dhows. Brucks found that some of the Banians had 'great influence with the Imam, who finds it greatly to his interest, and

[279] *Trade Mission to the Near East and Africa*, pp. 123–5.

[280] *Memoir Descriptive of the Navigation of the Gulf of Persia* by Captain G. B. Brucks (1829) (see fn 53), pp. 631ff. Brucks does not mention a Bania colony in Kuwait. Possibly this sprang up subsequently.

[281] *Ibid.*, p. 631.

[282] *Ibid.*, pp. 544, 566–69, 631.

the benefit of his revenues, to give them every encouragement.'[283] The Imam derived his revenues from the customs and inland dues of Muscat, from taxes levied in Zanzibar Island, and from the slave trade connected with Zanzibar. The customs of Muscat, a distributive centre importing considerable quantities of rice, timber, pepper and cardamoms from Bangalore and Malabar, were all farmed out to the Banians. The amount paid to the Imam by the Banian who farmed the customs in 1827 was 188,000 German crowns.[284]

The Imam had arranged that his sons would inherit Zanzibar, and his near relations, Muscat.[285] When the partition took place, the Gujaratis were already established in Zanzibar, and were closely connected with the slave trade he had expanded into the most profitable of his concerns. With Zanzibar as their base, the Gujarati Muslims and Banians built up and silently monopolized an extensive trade along the coast of Africa between 1820 and 1870.[286] Backed by them, the Arab slave dealers of Zanzibar supplied muskets to the tribal chiefs in the interior, and obtained in return the black prisoners captured in tribal wars. The Banians confined themselves to financing the operations and supplying the guns on credit, but the Cutchi Muslims in addition took a certain proportion of the slaves for smuggling into India, and themselves imported girls from India into the dominions of the Imam of Zanzibar. From the Banians and Cutchi Muslims, the Arab slave dealers obtained on credit, not merely the fire-arms for the slaving operations, but also the typical goods used for barter in the interior—cloth, beads, copper vessels, brass ware and other articles—which they exchanged for slaves with black slave hunters and tribal chiefs. Having sold the slaves, the Arabs paid back the loans to their Gujarati financiers out of the profits of sale, either in cash or in tropical produce.[287]

The financing of the Imam's slaving operations gave the Gujaratis the influence they needed to build up the growing legitimate trade of Zanzibar. That in turn led to a substantial increase in the revenues derived by the Imam from customs duties levied on foreign imports and exports, and by farming these revenues the Banians still further

283 *Ibid.*, p. 631.
284 *Ibid.*, pp. 632–3.
285 *Ibid.*, p. 633.
286 Haraprasad Chattopadhyay, *Indians in Africa. A Socio-Economic Study* (Calcutta, 1970), pp. 384ff.
287 *Ibid.*, pp. 387–9.

consolidated their political alliance with the rulers. In 1860 the customs of the Zanzibar dominions were farmed out to one Banian banker for 196,000 German crowns, which formed practically the whole of the public revenue of the Imam.[288] By this time European exports and imports, funneled through the Gujarati firms, formed a substantial component of the foreign trade of Zanzibar. The first Gujarati firms which formed the trade settlement in Zanzibar were, however, engaged, as in Muscat and Aden, in importing Indian-made cotton cloth. The dyed cloths, lungis and turbans, turned out by weavers and dyers in and around Surat, were popular among the black tribes.[289] As the market for foreign cloth expanded on the East African coast, European vessels began to visit Zanzibar, supplying mill-made cloths, hardware, coarse crockery and beads on six months' credit to the Gujarati firms and taking back cargoes of gum copal, ivory and animal skins collected from the interior.[290]

Around the middle of the nineteenth century a new market-oriented Afro-Asian society was in the process of formation in Zanzibar Island and it was beginning to spread to the Swahili-speaking mainland coast opposite the Island. Dependent in a large measure on supplies from and to the visiting European ships, the new market society consisted of several elements—the Arab ruling circle, the Gujarati trading settlement, the mixed race of the offspring of the Arab men and African women, and the native African tribes. An early account of the society by the English Consul of Zanzibar shows that the town had a population of around 60,000 in 1860. The chief people were the Arab landed proprietors who formed a sort of aristocracy, owning the large plantations and numerous slaves. Indians residing in the Zanzibar territories numbered five to six thousand, but the consul reported that the number was increasing every year. According to his information, they consisted mostly of Banians from Cutch (i.e. Bhatias) and Jamnagar, and Khojas and Bohras from Cutch, Surat and Bombay. The Banians were established in considerable number in the towns and villages on the mainland coast opposite Zanzibar Island, and at Mozambique, Eboo and other Portuguese settlements. The Khojas and Bohras had settlements on the west coast of Madagascar and in the French colonies of Nossi Beh and Mayotta. The

288 *Selections from the Records of the Bombay Government. New Series no. 59. Report on the Zanzibar Dominions* (Byculla, 1861), by Lt Col C. P. Rigby (Consul), dated 1 July 1860, p. 19.

289 *Ibid.*, p. 22; Chattopadhyay, *Indians in Africa*, p. 384.

290 *Ibid.*

Consul observed that the Banians never brought their families or females from India and always looked forward to a return to their own country after having acquired a competence. The Khojas and Bohras, by contrast, brought their wives and children, and they became permanent settlers. A new quarter of the town, entirely inhabited by these 'thrifty and industrious' Muslim traders, had sprung up recently, and was increasingly rapidly. Every bugalow from Cutch normally brought a number of Khoja families as settlers.[291]

As there were no Jews and Armenians in Zanzibar and only a dozen Persians, the trade gravitated naturally to the Gujaratis.[292] Rigby, the Consul at Zanzibar, saw that nearly all the shops in the bazaars were kept by them, and that almost all the foreign trade of the port passed through their hands. The Arabs were no match for the Gujaratis, a fact which he attributed to the former's indolence and want of honesty and fair dealing.

The Arabs of Zanzibar, although the ruling race, are generally very dirty, ignorant and bigoted. The soft climate, added to the custom of keeping so many slaves and black concubines, has destroyed all the rough virtues attributed to Arabs, viz. manliness of character, energy and personal courage. Foreign trade has of late years introduced amongst them a taste for luxuries . . . but with the love of finery and luxury they have also inbibed a passion for spirituous liquors, and the consumption is rapidly increasing. They are inveterate liars, and so dishonest as traders that most of the foreign merchants avoid dealings with them, and in consequence all the trade of the port is passing into the hands of natives of India. A good deal of the landed property is also mortgaged to them.[293]

Apparently, the tighter community organization of the Khojas and the Banias enabled them to maintain a superior level of credit and business reliability which, as in the case of the Chinese in Nanyang, enabled them to monopolize all transactions with the visiting European and American ships in the period before the opening of the Suez Canal. Added to this was their double entry book-keeping, their superior methods of accounting and finance, and their skill in handling financial instruments, which the Arabs did not possess. The rich Gujarati merchants had dhows, weighing from 300 to 500 tons, carrying goods between Zanzibar and the mainland coast.[294] They were in an excellent position to supply return cargoes for ships calling from

291 Rigby, *Zanzibar Dominions*, pp. 4–5.
292 *Ibid.*, p. 5.
293 *Ibid.*, p. 8.
294 Chattopadhyay, *Indians in Africa*, pp. 386–7.

Europe and America. In addition, they had a large market in India for the goods procured from the island and the mainland, which enabled them to carry on an Afro-Asian trade independently of colonial trade channels. Zanzibar was the chief market in the world for ivory, gum copal and cloves. The Gujaratis supplied these items to both the foreign and Indian markets. They obtained ivory brought from the interior in exchange for American cotton goods, Venetian beads and brass ware. Gum copal was dug from earth a few miles inland from the coast of Africa by native tribesmen, and the Banians purchased it from them. Cloves were planted at this time on the islands of Zanzibar and Pemba, and the Banians who financed the Arab plantations had an assured supply of cloves which they supplied to India. The chief articles of import which they set off against the exported tropical produce were American and English cotton goods, Indian dyed cloths, cotton lungis and turbans, Muscat silk, Venetian beads, brass ware, muskets, gunpowder and a variety of food products from India, such as rice, wheat, jowari and ghee.[295]

Bartle Frere's mission to Zanzibar to suppress the slave trade in 1873 affords a close glimpse of Gujarati financial and trading activity in Africa immediately after the opening of the Suez Canal. He estimated Indian capital invested in Zanzibar Island alone at not less than £1,600,000. But Gujarati operations had by then stretched much further into the mainland. The Gujarati firms in Zanzibar had Arab and Swahili representatives spread all along the coast of the mainland, and throughout the coast-line opposite the island all banking and mercantile business passed through Indian hands. 'Hardly a loan', reported Frere, 'can be negotiated, a mortgage effected or a bill encashed without Indian agency; not an import cargo can be distributed nor an export cargo collected of which almost every bale does not go through Indian hands. The Europeans, Americans, Arabs and Swahilis may trade and profit but only as an occasional link in the chain between producer and customer of whom the Indian trader is the one inevitable and most important link of all.'[296] The leading Gujarati banking firm in Zanzibar at this time had £434,000 invested in loans and mortgages in East Africa, financing the Sultan of Zanzibar and the Arab and African slave dealers in Zanzibar and the interior of Africa.[297]

[295] Rigby, *Zanzibar Dominions*, pp. 21–2.
[296] Quoted in Chattopadhyay, *Indians in Africa*, pp. 384–6.
[297] *Ibid.*, p. 386.

Despite their heavy financial involvement in the slave trade, the Gujarati bankers and merchants cooperated actively, to Frere's delight and surprise, in the suppression of the traffic. He explained the reason in the following terms: 'They see clearly that, whilst it is an open question, all other trade must suffer and that the full development of the unrivalled commercial capabilities of the coast must be indefinitely postponed.'[298] Under energetic British measures backed by the cooperation of the Gujarati merchants, the slave traffic died out entirely by the end of the nineteenth century, and the Gujaratis were more than compensated for the loss of this investment by the great expansion of legitimate trade further inland. The opening of the railways from Mombasa to Uganda provided the great opportunity for the Gujarati merchants, who seized it with both hands to build up an expanding trade in coffee, tea, pyretheum, sisal, cloves, cottons and other tropical produce.[299] In Zanzibar Island they achieved a concentration of their investment in cloves and financed the entire growth of the clove trade from the later nineteenth century to the Great Depression. By the 1920s ownership of many of the clove plantations passed from the Arabs to the Gujaratis; who obtained them both as a speculative investment and as a means of recovering advances against supply of cloves.[300]

In the early part of the twentieth century, the changed character of Gujarati overseas trade, which gradually assumed a recognizably modern shape after the opening of the Suez Canal, could not have failed to strike any ancient mariner who had plied dhows between Surat, Muscat, Aden and Zanzibar in the 1860s. His attention would certainly have been drawn to two new developments: the dominance of the great steamship liners of Europe and America in the carriage trade of the Western Indian Ocean and the mass marketing of mill-made cloth by the settled Gujarati traders in certain well-marked zones. These were interrelated features, sustaining each other through the simultaneous growth of the carriage trade and the cloth trade. As in the Eastern Archipelago, Arab mariners and merchants were overshadowed in course of the modern transformation. Settled Gujarati traders, able to operate their mercantile and financial networks in the new context, assumed a more critical role in the coastal economy of the Persian Gulf, the Red Sea and East Africa.

298 Quoted in *ibid.*, p. 389.
299 *Ibid.*, pp. 387–9.
300 *Ibid.*, pp. 396–401.

The dhows owned by the Arabs and Gujaratis did not by any means disappear: right up to the beginning of the twentieth century native sailing craft still plied between the west coast of India, Muscat and the east coast of Africa as far down as Zanzibar.[301] But gradually the vessels were confined to coastal runs. At the beginning of the twentieth century, the steamships of the British Indian Steam Navigation Company commanded the great oceanic runs between the west coast of India, the ports of the Islamic world and the east coast of Africa. The Arab merchants, whose strength in the Western Indian Ocean depended on their numerous fleets of dhows, were reduced to insignificance by the changes in navigation in the 1870s and 1880s. The Gujaratis, by contrast, relied on their financial and marketing skills, which were at a premium in the context of international trade in the age of the steamships, and were able to make up their temporary losses in shipping by the quick expansion of the cloth trade. If anything, they gained in the long run from the weekly passenger and cargo service of the BISN between Bombay and Muscat. The BISN established a practical monopoly over the run from Bombay to the Persian Gulf,[302] sweeping the dhows from the high seas. But it did help expand the volume of trade considerably, and the Gujaratis were the natural beneficiaries.

The regular steamship service between Bombay and the Persian Gulf made Bombay the principal market from which the Arab countries and Iran purchased goods, and the Gujaratis with their strong position in Bombay and their settlements on the Persian Gulf and the Red Sea were the inevitable intermediaries in this trade.[303] The BISN also provided a fortnightly service between Durban and Bombay, calling at Laurenço Marques, Beira, Dar-es-Salaam, Zanzibar and Mombasa, which helped tighten the Gujarati connection between Bombay and the east coast of Africa.[304] Furthermore, the Gujaratis did not altogether withdraw from shipping; they still plied native craft from Zanzibar as far as the port of Mozambique which served an extensive but sparsely populated hinterland.[305]

[301] *PP, 1905*, vol. 85, Trade with the Muscat Region. Report on the condition and prospects of British trade in Oman, Bahrein and Arab Ports in the Persian Gulf by H. W. MacLean, c.d. 2281, p. 735.

[302] *Ibid.*, p. 737; Government of India Ministry of Commerce, *Report of the Indian Trade Delegation to the Middle East* (New Delhi, 1948), p. 5.

[303] *Trade Mission to the Near East and Africa*, p. 7.

[304] Ibid., p. 196.

[305] Ibid., p. 182.

The marketing network the Gujaratis built up in the nineteenth century fell into three distinct zones—the Persian Gulf, the Red Sea and the coastal stretch of Africa from Zanzibar to Mozambique. Their main centre on the Persian Gulf was Muscat, where a settled Indian community of about 1100 still conducted around 1900 an active trade with India in rice, grains, spices and coffee. No less than four-fifths of Muscat's trade was with India and it was in the hands of Gujarati merchants with partners or agents located in Bombay. Indents for Manchester piecegoods and other goods were sent by the Muscat Gujaratis to their Bombay agents who placed the orders with the shipping firms in Bombay. The Bombay agents made payment against the bill of lading and then drew hundis on their Muscat correspondents at 21 days at a commission of around 2 per cent.[306] Bahrein and Kuwait, which supplied the Indian market with pearls and shells, were two subsidiary centres of Gujarati trade in the Persian Gulf. Bahrein was visited in the pearl fishing season by pearl dealers from India who freighted it to Bombay by the BISN mail steamer.[307] In Kuwait, too, practically all trade was with Bombay: its pearls and shells were disposed of to Bombay through Bahrein. Rice from India fed all three ports.[308] In Muscat, Bahrein and Kuwait's trade with the Arab interior, the Maria Theresa dollar was the main currency. Specie operations in this coin were worked by the Gujaratis through Bombay. Transactions with the Bedouins inland were based on the dollar, but the rupee was in general use in the islands and ports of the Persian Gulf. The pearl dealers imported large quantities of dollars and rupees from India to these ports during the fishing season, the coins filtering back to India in payment for imported commodities.[309] Gujarati bankers and merchants were an important financial group in the Persian Gulf region and worked the monetary exchanges between the Bedouin tribes, the ports on the Gulf and the city of Bombay.

On the Red Sea, Aden, dominated by the Gujarati merchants, was at the centre of a vast distributing network. Its imports of piecegoods and yarns were much bigger than the consumption of its immediate neighbourhood, and its trade zone stretched far beyond the British settlement. Its total imports were about equal in size to the imports

[306] *PP*, Trade with Muscat Region, p. 735
[307] Ibid, p. 737.
[308] Ibid, p. 738–9.
[309] Ibid, pp. 735, 738.

for the vast territories of Kenya, Uganda, Tanganyika and Zanzibar combined. About three or four large Indian firms of Aden, with offices in Bombay and branch offices in Djibouti and other Red Sea ports, controlled the entire import of yarns and piecegoods. From Aden as their centre the Gujarati wholesale dealers distributed cotton goods of Western origin, as well as Japanese and Indian piecegoods, on the other side of the Red Sea. As time went on, liners from England, Germany, France and Italy sought to cut into the business by calling directly at the subsidiary distribution centres—especially the ports of Djibouti, Mogadisho and Massowa on the African coast. But so far as the distribution of goods of Indian and Japanese origin is concerned, Aden remained the one entrepot for the southern Red Sea ports, for the Arabian peninsula, and for the coast of Africa from Djibouti as far down as Mombasa. Gujarati traders were active in pushing the products of Indian handloom weavers, especially lungis and woven sarees, in the Red Sea zone. They distributed mill-made goods with equal facility when Manchester mills, having adroitly imitated the Indian handloom products, pushed the imitation goods into Aden. With the same catholicity they extended their services for the distribution of the products of Japanese and Bombay cotton mills. Bombay derived a distinct advantage from the presence of the Gujarati traders in the principal cloth mart of the Red Sea: it helped her push coloured, printed and dyed goods into Aden and its trade zone.[310]

The Gujarati trade zone centred on Zanzibar extended to Mozambique in the south and gradually extended north as far up as Kampala. As the slave trade died out, there was an increasing concentration by the Gujarati merchants upon import of piecegoods, rice, wheat and flour from India, and export of cotton, cloves and ivory to India.[311] The typical Gujarati firm in Zanzibar would have an office in Bombay, importing piecegoods from there and shipping cloves in return. The Bombay office, having purchased piecegoods from a local piecegoods merchant on cash against documents basis, would ship the goods to the Zanzibar office on credit, and the Zanzibar office instead of making cash payment to Bombay, would utilize the proceeds of sale for purchase of cloves for the Bombay market. The Zanzibar Indian firms also dealt in Manchester goods, buying direct from Manchester or London and on a c.i.f. basis and 60 to 90 days'

[310] *Trade Mission to the Near East and Africa*, pp. 122–5.

[311] *Report on the Work of the Indian Trade Commissioner in East Africa for the Year 1922*, by C. G. Leftwich (Delhi, 1923). pp. 3, 8.

credit. As for Japanese goods, the Zanzibar firms seldom dealt direct with Osaka or Kobe, purchases being usually made through their branch offices in Bombay which followed exactly the same procedure regarding payment as in the case of Indian goods. In Zanzibar, the Gujarati importing and wholesale firms passed on the imported goods—Indian, British and Japanese—to Indian retailers who formed a network in the country. Credit to the extent of 90 to 120 days was readily extended in these secondary transactions—a nexus so dominated by Gujarati capital that the foreign firms made no attempt in Zanzibar to obtain direct access to the markets.[312]

As the twentieth century advanced, the importance of Zanzibar Island as a centre of Gujarati trade and finance diminished. The focus now fell upon the advance of the Gujarati networks into the mainland. This happened especially after the First World War when many Gujarati piecegoods importers migrated from Zanzibar to the mainland ports of Mombasa, Dar-es-Salaam and Tanga, or set up branch offices there.[313] Eventually the Gujarati trading network moved upcountry as far as Kampala, where a number of wholesale Gujarati merchants buying cotton and selling piecegoods set up their head offices. There was a fairly large community of Gujarati merchants in Mombasa dealing in cotton piecegoods with English, Dutch, German and Japanese importing firms. The English firms booked orders with the Gujarati merchants on the basis of c.i.f. at 90 days' sight, while the Dutch and German firms which solicited orders were obliged to give the Gujaratis longer and more liberal credit of 90 to 120 days. The Japanese piecegoods were initially marketed entirely through the medium of Gujarati merchants in Bombay who maintained branch offices in Mombasa, but the Japan Cotton Trading Company, along with the Dutch Twentsche Overseas Trading Company, managed eventually to bypass the Gujarati wholesalers to some extent and to do a certain amount of direct trade. But the retail trade in piecegoods bought by Africans throughout Tanganyka, Kenya and Uganda remained entirely in the hands of the Gujaratis. The Gujarati retailer—known as the 'Duka Walla'—supplied the Africans with piecegoods, blankets and other commodities and acted as a collecting agent for the produce of the natives.[314]

A smaller centre of Gujarati trade further south of Zanzibar, but connected closely with it, was Mozambique in Portuguese East

[312] *Trade Mission to the Near East and Africa*, pp. 172–3.
[313] *Ibid.*, p. 155.
[314] *Ibid.*, p. 174.

Africa. The port of Mozambique, which served an extensive and sparsely populated hinterland, had a settled Gujarati merchant community engaged in importing piecegoods and ready-made suits of clothing from India. The returns were made in exports of cashew nuts. The Gujarati merchants, who monopolized the piecegoods traffic here as in Zanzibar, drew the bulk of their supplies from Bombay. They purchased Japanese and Indian piecegoods from Bombay through branch offices or representatives located there. In addition, they obtained piecegoods from travelling representatives of English, Dutch and German firms in Mombasa and Dar-es-Salaam, the terms being 60 to 90 days of delivery against acceptance. Temporary shortages of Indian and foreign goods were met from Zanzibar, and the Gujarati merchants regularly plied native craft from Zanzibar to Mozambique.[315]

To take an over-all view of the Gujarati commercial diaspora in the Western Indian Ocean in the nineteenth century, it is evident that its basis lay in the cheap and efficient marketing of machine-made piecegoods through a widespread network, and in superior methods of financing trade in areas where Western financial institutions could not or would not operate. The Gujarati traders and financiers commanded the trade of three distinct areas which they controlled through well-established centres—the East African coast through Zanzibar and Mozambique, the Red Sea through Aden and the Persian Gulf through Muscat, roughly in that order of importance. The home base from which they extended these operations was the British port city of Bombay but the area of their operations comprised both colonial territories and native African and Arab principalities which had not been consolidated under any exclusive colonial power—a factor which left plenty of scope for private Gujarati initiative in undeveloped areas with no sophisticated networks of indigenous trade and finance.

V. Conclusion

The old inter-Asian trading and banking system of the Indian Ocean was fractured by the imperial expansion of the European powers in the nineteenth century. The world of Asian merchant bankers that reassembled under the colonial aegis was descended in some respects

[315] *Ibid.*, pp. 182, 188–9.

from the earlier maritime world of the Indian Ocean. But it was no longer the same. The groups involved in the trade, the items of trade, the routes of traffic, were all strongly affected by the European colonial supremacy. The European capital flowing in via the Cape and then the Suez depended on the financial and marketing services provided by certain mobile merchant communities of Asia. The Chinese, Indian and Jewish communities providing these services were able to consolidate their position in key spheres of the trade of Asia and Africa. Their advantage lay in long experience of the handling of money at a time when many local communities, especially those of Southeast Asia and Africa, were still engaged in systems of barter.

The credit transfer mechanisms and trading techniques of the above-mentioned communities were sufficiently sophisticated to adjust to the new conditions created by imperialism in the Indian Ocean. Their trading and financial network, though geared in many respects to serving the Western banks and corporations, constituted a distinct world known as the bazaar. A long time was to elapse before they felt the need to adopt the Western forms of business. Their financial system, despite being subordinate to the global capitalist economy of the West, was autonomous in its own demarcated sphere. Its survival and growth exerted a strong influence on the economic formation of the societies that ringed the Indian Ocean. In this manner, the bazaar became a critical element in the Asian social formations of the nineteenth century.

The rise of the distinct new formation in history known as the bazaar has unmistakable implications for the Western economic and sociological theories of Oriental society described at the start. The once popular idea of the dual economy in nineteenth-century Asia blinded a whole generation of Western scholars to the intermediate sector of long-distance Asian credit and trade distinct from both the enclaved Western capitalist sector and the world of peasants and pedlars. The evidence of a distinct world of Asian credit and trade could not of course be entirely ignored. But there was a tendency on the part of a succession of Western scholars to simplify its character—to label and docket it as the 'bazaar' without grasping the complex significance of the term, and then to dismiss it as a world of pedlars. To equate the bazaar as a series of person-to-person retail transactions is to fly against the known facts of Chinese and Indian commerce at home and abroad. The bazaar was a far more sophisticated entity than that—one that the so-called capitalist world economy of the West found it advantageous to accommodate. Certainly, this was no instance of gesellschaft triumphing over gemeinschaft. On the contrary, what took place was an encounter between a global system of credit and trade centred on Europe and an Indian Ocean financial nexus dealing in negotiable credit instruments on principles that had evolved independently of those of the Western banks.

The result of this immensely complex encounter was the emergence of a three-tier economy in the Indian Ocean societies of the nineteenth century. By conceiving them as a type of dual society, J. H. Boeke missed out the central characteristic of their constitution. This was the distinction between three separate economic spheres arranged one below the other, each with a different credit organization and monetary structure. At one end of the pole, there was the Western business and financial sector, lubricated by bank paper and financed at the bank rate. At the other end of the pole, there was the subsistence economy of the millions of peasants, artisans and pedlars, operating on metallic currency rather than paper credit. The latter sector was financed by moneylenders, grain dealers and pawnbrokers, at high and inflexible rates of interest. In between there lay an intermediate sector, which the controller of Currency in British India designated officially as the bazaar. The term was implied in a sense different from that of some latter-day sociologists. It did not refer to peddling and petty credit transactions,[316] which would fall properly within the sphere of subsistence agriculture.

The bazaar of the Islamic world, India and China (but the term was not prevalent in the last named country) operated on paper credit. This enabled the bazaar bankers to effect the credit transfers required for long-distance trade with accustomed facility. The rate at which such trade was financed was known as the bazaar rate. It varied from season to season like the bank rate, but was distinct from it, and could in certain seasons be lower than the latter. In any case, the bank and bazaar rates were both lower than the rates at which pawnbrokers in China and moneylenders in India made credit available to peasants, artisans and pedlars. Like the banks, the bazaar issued trade credit through negotiable instruments and not merely through person-to-person fixed loans.

The transition from fixed book credits and unregistered loans to the world of mobile credit operating through negotiable instruments

[316] That is the sense in which Clifford Geertz has used it. The notion has been refuted by the progress of empirical historical research. See, in particular, C. A. Bayly, *Rulers, Townsmen and Bazaars*. This pioneering work has done much to dispel simplified notions of the bazaar in the academic world.

had happened in Asia before the coming of the Europeans. When the Western banks intruded on the Asian business scene, they had to come to terms with organized groups of Chinese, Indian and Jewish bankers who possessed long-distance credit networks spanning several countries. In the confrontation and accommodation between the two gesellschaften, the one of European origin dictated the terms by virtue of its universality, political power and higher technology. But as the other one, which was of Asian origin, adapted successfully to the new international trade of the era of the steamship and the electrical telegraph, the way was open to it to penetrate, in the long run, the uppermost of the three tiers in which the colonial economy of Asia was arranged. Out of the pulsating world of the bazaar, there emerged ultimately a modern Asian business and industrial class. Today, they hold sway in Hong Kong and Singapore, Calcutta and Bombay. The three-tier colonial economy of Asia has been replaced by one integrated under their sway.

In that long-term perspective, the imposition of the hegemony of Western capital and the disruption of the older Indian Ocean economy constitutes a process much more complex than is to be comprehended in terms of a unidimensional history of the expansion of 'the capitalist world economy.' The modern Asian enterprises of the twentieth century have grown continuously out of the subordinate 'native' trading and banking groups of the age of European domination, and the latter in turn are rooted in the context of Asian maritime and monetary activities going back to a dim past. It would be wrong to dismiss the process as the bastard outgrowth of imported Western capitalism. Not many among the promoters of the great twentieth-century Asian corporate undertakings were 'compradors' in the political propagandist's sense of the term, implying abject dependence. More often they were private bankers, wholesale merchants and commission agents who had been independently engaged in mobilizing and employing capital through time-tested Asian techniques and channels, which not only proved perfectly capable of yielding large returns in the new colonial context, but which the Western corporations found sophisticated enough to utilize for their own operations on terms profitable both to themselves and to their Asian associates.

The higher tier the European corporations occupied to the exclusion of the Asian firms undoubtedly implied the latter's relegation to a subordinate stratum of the colonial business world, identified in official documents as the bazaar. But at the same time, the emergence of the bazaar implied the reassemblage of a pan-Asian financial and business nexus operating both within and outside the global capitalist economy centred on London and Amsterdam. While dependent upon the so-called capitalist world economy, the Chinese and Indian business nexus stretching outwards to the Singapore–Zanzibar equatorial belt constituted a distinct international system that never lost its identity in the larger dominant world system of the West. The migration of European capital to the tropics was matched by the migration of Asian capital from the upper to the lower latitudes. These were related processes: the colonial expansion of the international capitalist economy of Europe and the rise of the new pan-Asian economic formation dubbed the bazaar.

From the twin process arose the economy of nineteenth-century Asia and Africa. Arranged in three tiers, it consisted of the superimposed European capitalism, the intermediate bazaar nexus, and the sub-stratum of peasant, pedlar and pawnbroker. Among the most significant dimensions of the expansion of the capitalist world economy was the springing forth of a new bazaar economy that assisted, restricted and reshaped that expansion. If the history of the nineteenth-century international economy teaches us anything, it is that there are wheels within wheels.[317]

[317] I am indebted deeply to: Ashin Das Gupta, Rhoads Murphy, Amiya Kumar Bagchi, Dilip Basu, Sugata Bose, Charles Coppel, and Sekhar Bandopādhyay.

[Footnotes]

[48] **Capital and Crowd in a Declining Asian Port City: The Anglo-Bania Order and the Surat Riots of 1795**
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