UNIT 27 COLONIALISM AND TRADE: 1857-1947

Structure

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27.1 INTRODUCTION

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

The period 1857-1947 saw the consolidation and workings of formally established colonial rule in India. It was a period when the British Crown exercised direct control over a little over 60 per cent of land area in India maintained close control over the affairs of the Indian princely states. These years also saw the integration of India' economy to the imperatives of the world economy in which Britain held a dominant position. This directly fostered an extension of the market economy in India, which was increasingly integrated with the global economy, the nucleus of which lay in metropolitan Britain. India became a central pillar of the international trade economy, and accommodated in the process a large inflow of foreign capital. By 1914, three

quarters of total investment in business and industry in India came from overseas. The imperatives of the international economy generated major infra-structural changes within India, where the British rulers introduced a uniform system of weights and measures, currency and communications. How instrumental were these changes in generating economic growth? Or did these benefit the colonial regime only? How did colonial interests affect Indian interests? What was the impact of the drain of wealth that underpinned the colonial regime, where the government supervised a transfer of wealth from India to Britain in the form of profits of foreign business and government charges? These questions are germane to any discussion of India's performance under colonial rule and have long formed the subject matter of intense debate among nationalist, Marxist and revisionist historians who argue for an objective assessment of the colonial regime.

27.2 FOREIGN TRADE: TRENDS AND COMMODITY COMPOSITION

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

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

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

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

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

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

(thousands of rupees)

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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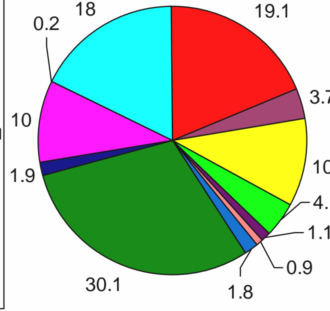
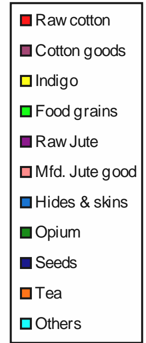
Exports from India: 1850-1
(in per cent)

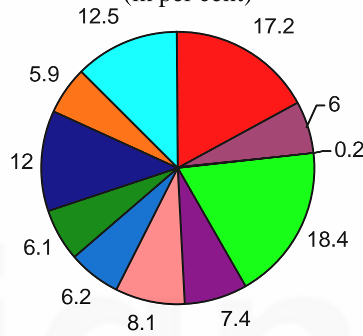


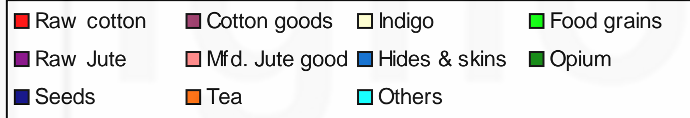
Exports from India: 1890-1
(in per cent)

12.6
16.5
5.5
9.5
9.3
3.1
9.2
4.7
19.5
2.5
7.6

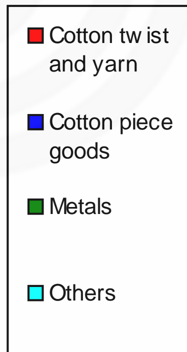


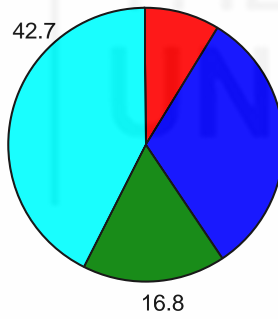
Exports from India: 1910-11
(in per cent)





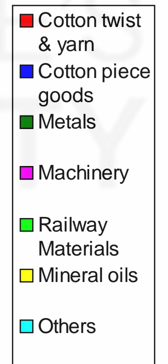
Imports from India: 1850-1
(in per cent)



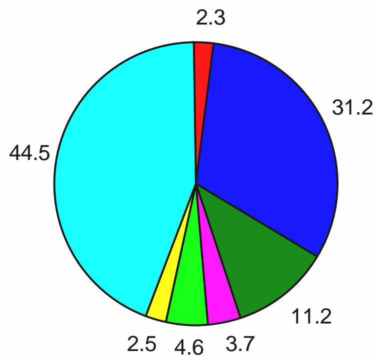


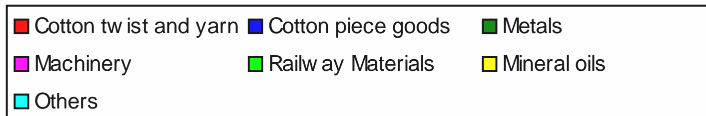
Imports from India: 1890-1
(in per cent)

5.2
37.7
3.3
4.5
3
8.4
37.9



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





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

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

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

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

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

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

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

the emergence of Japan as one of the most efficient producers of cheap cloth, the monopoly of Britain in the Indian market was definitely broken.

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

27.3 INTERNAL TRADING NETWORKS

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

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

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

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

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

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

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

The configurations of the Indian trading economy in the high noon of Imperialism were determined by the communication and transport revolution that accompanied colonial rule in the nineteenth century. Dramatic changes in shipping and transportation embodied by the railways and steam shipping fundamentally altered the organization and finance of Asian trade and gave Western capital mastery around the 1870s. The great liners swept the high seas displacing the sail ships and enforced a monopoly by the formation of rings among themselves, (also called Conferences) from about 1875. This was accompanied by telegraphic communications that provided the basic conditions for forwards trading on a large scale. The large European firms extended their grip over the commerce of the east, selling cargo several months ahead, did their import and export business on the principle of simultaneous operations. What

this meant was that as soon as a firm purchased produce in India, for a price fixed in rupees, it simultaneously sold its bill to an exchange bank, fixed the exchange in pounds, and engaged the freight with the shipping line. Three operations were necessary to fix the sterling price of produce ahead of delivery – the price of rupees, the rate of exchange and the rate of freight – all fixed simultaneously for a small margin. Under these altered circumstances, the Asian merchant consigning goods on a ship for whatever these might fetch at a port of call were over. Only large firms with a base in the metropolitan country, that is Britain could operate in such complex conditions. (Conferences were in essence monopoly rings to exclude all competitors by such means as rate wars and deferred rebates. Supported by government contracts for carrying mail, the P&O Company and the British Indian Steam Navigation Company grew into giants and dominated the coastal and overseas shipping of India. Formed in 1875, the P&O Company formed the first ring called the Calcutta Conference, with a few other steam ship lines of London, Glasgow and Liverpool to prevent all comers from entering their preserve. The system was extended to China in 1879.

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

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

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

from other areas and allowed them to draw credit for their business transactions. The system of interlocking commission agencies formed a network through which long distance trade and credit developed in the interior of the country into a dense web in course of the nineteenth century.

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

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

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

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

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

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

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

27.5 THREE MERCHANT COMMUNITIES: CHETTIARS, MARWARIS, SHIKARPURIS

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

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

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

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

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

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

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

The regular steamship service between Bombay and the Persian Gulf made Bombay the principal market from which the Arab countries and Iran purchased goods. The vitality of Gujarati merchant enterprise in Bombay had been consolidated through the nineteenth century, with the result that they were able to step in as critical intermediaries in the trade. With their strong position in Bombay, built up through family connections, they built up an extensive network for the distribution of goods in the Western Indian Ocean. The marketing network that they built up fell into three zones: the Persian Gulf, the Red Sea and the coastal stretch of Africa from Zanzibar to Mozambique. In the Persian Gulf, their main centre was Muscat, where a settled Indian community conducted an active trade with India in rice, grains, spices and coffee. As early as 1840, Muscat boasted of a strong Indian community (some 2000 Indian merchants). In the succeeding decades, this settlement became more

entrenched. Indents for Manchester goods were sent by the Muscat Gujaratis to their Bombay agents who placed the orders with the shipping forms in Bombay. The Bombay agents made payments against the bill of lading and then drew *hundis* on their Muscat correspondents at 21 days at a commission of 2 per cent. Bahrein and Kuwait were two subsidiary centres of Gujarati trade in the Persian Gulf. Shells and pearls were the principal items that entered this trade.

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

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

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

27.6 MERCHANTS' ORGANIZATIONS AND BUSINESS STRUCTURES

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

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

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

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

Among Gujarati businessmen as well as the Sind merchant networks, the business organization remained strongly centered round community ties. Markowitz mentions the workings of the *shah-gumastha* system in connection with the Shikarpuri merchants. Distinguishing it from the Chetty system where Markovits argues the

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

27.7 SUMMARY

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

The linkages between trade and early industrialization were important. The proceeds from opium and cotton speculation in Western India formed the capital base of both Gujarati bankers as well as Parsis who founded the first textile mills in Western India. One of the characteristics of trader-industrialists, especially the bazaar industrialists was the combination of bazaar transactions while expanding into the modern sector. Bazaar industrialization, according to Rajat Ray, remained strictly limited for it catered to the

domestic market primarily and here the poverty of the masses was a major constraint. The one way free trade policy which India was forced to adopt retarded the industrial development of India. The base of the industrial sector remained narrow and this meant that enormous technical and infra-structural constraints had to be overcome before industrialization could take off.

27.8 EXCERCISES

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

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

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

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

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

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

27.9 SUGGESTED READINGS

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M.A. History

List of Courses

Course Code.	Title of the Course	Credits
MHI-01	Ancient and Medieval Societies	8
MHI-02	Modern World	8
MHI-03	Historiography	8
MHI-04	Political Structures in India	8
MHI-05	History of Indian Economy	8
MHI-06	Evolution of Social Structures in India Through the Ages	8
MHI-07	Religious Thought and Belief in India	8
MHI-08	History of Ecology and Environment: India	8

MHI-05 History of Indian Economy

Block-wise Course Structure

Block-1	:	Historiography, Environment and Economy
Block 2	:	Emergence and Structure of Complex Economy
Block 3	:	Early Medieval Economy and Its Continuities
Block 4	:	Expansion and Growth of Medieval Economy-1
Block 5	:	Expansion and Growth of Medieval Economy-2
Block 6	:	Trade and Markets
Block 7	:	The Rural Economy
Block 8	:	Craft Production, Technological Change and Industrialization