

*Tirthankar Roy*

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## Trading Firms in Colonial India

The aim of this article is to develop a general narrative of the firms that led the growth of trade in nineteenth-century India, and thus to supply a missing piece in modern Indian business history. The trading firms had several features in common with trading firms globally, especially, a high degree of mobility, institutional adaptation, and occasionally, diversification into banking and manufacturing. But certain aspects of the process were specific to the regions where they operated, such as differences between the ports and the interior trading orders, between cities, and between expatriate and indigenous firms. The article reconsiders these features.

Colonial India (1757–1947) witnessed a dramatic growth in long-distance trade. Shipping tonnage handled at Bombay, Madras, and Calcutta increased from one hundred thousand tons to over six million tons between 1798 and 1914. Between 1860 and 1914, the railways cheapened the cost of cargo movement from inland to the seaports. The carrying capacity of the bullock caravans in peninsular India, the only pre-railway mode of long-distance cargo transport in the region, has been estimated at about ten thousand tons c. 1800.<sup>1</sup> A century later, goods carried by the main South Indian railway companies amounted to over five million tons. If we add the Great Indian Peninsular railway, which connected Bombay with the western part of the Deccan plateau, the figure would rise to eight million tons.

Such scale of commercialization could hardly be achieved without a reorganization of trade, a process that S. D. Chapman calls in the British context “diversification and redeployment of merchant

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<sup>1</sup>Tirthankar Roy, *India in the World Economy from Antiquity to the Present* (Cambridge, U.K., 2012), 9.

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© 2014 The President and Fellows of Harvard College. ISSN 0007-6805; 2044-768X (Web).

capital.”<sup>2</sup> Business historians underscore several aspects of the process. One of these was the emergence of multinational trading houses.<sup>3</sup> Another was the adoption of formal legal identity by trading firms, allowing them to make fuller use of the commercial laws that held sway over the wide geographical space ruled over by the European Empires. The combination of family proprietorship and corporate identity also enabled some of the trading houses to use flexible strategies, conserve limited managerial resources, and mitigate the transaction costs that remote management entailed. By sharing business and personal ties and a liberal economic ideology, the mid-nineteenth-century multinational merchant firms resembled an emergent social class.<sup>4</sup> Yet another dimension of the story was industrialization, especially in Asia, where a subset of the trading firms moved into manufacturing.

The narrative has been told from the vantage point of British, American, or Japanese capitalism.<sup>5</sup> In the context of India, the usual examples are the expatriate businesses that were big in scale, lasted long, and were foresighted enough to preserve their papers. On the other hand, the role of indigenous capitalists, who were already established in the commerce of the region, remains insufficiently studied, among other reasons because most did not leave archival data. Furthermore, business history scholarship on India does not supply an account of merchant capital distinct from that of industrialization. Major works and anthologies recognize the importance of the Indian merchant in pre-colonial India, but fall short of an interpretive history of the merchant in colonial India.<sup>6</sup> There are only two exceptions to this statement. Rajat Ray makes the useful point that indigenous trading-cum-banking firms (the “bazaar”) occupied an “intermediate space” between European capital serving overseas trade and the Indian peasant.<sup>7</sup> However, this

<sup>2</sup> S. D. Chapman, “British-Based Investment Groups before 1914,” *Economic History Review* 38, no. 2 (1985): 230–47.

<sup>3</sup> Geoffrey Jones, *Merchants to Multinationals: British Trading Companies in the Nineteenth and Twentieth Centuries* (Oxford, 2000); Geoffrey Jones and Judith Wale, “Merchants as Business Groups: British Trading Companies in Asia before 1945,” *Business History Review* 72, no. 3 (1998): 367–408.

<sup>4</sup> Charles A. Jones, *International Business in the Nineteenth Century: The Rise and Fall of a Cosmopolitan Bourgeoisie* (New York, 1987).

<sup>5</sup> On Japan, see Kozo Yamamura, “General Trading Companies in Japan: Their Origin and Growth,” in *Japanese Industrialization and Its Social Consequences*, ed. Hugh Patrick and Larry Meissner (Berkeley, 1976), 161–200.

<sup>6</sup> D. R. Gadgil, *Origins of the Modern Indian Business Class* (Poona, 1959); Dwijendra Tripathi, *The Oxford History of Indian Business* (Delhi, 2004); Medha M. Kudaisya, ed., *The Oxford India Anthology of Business History* (New Delhi, 2011). A new series in business history published by Penguin India since 2012 has produced a few useful works on merchant communities and regions, but it is yet to address the colonial period fully.

<sup>7</sup> Rajat Ray, “Asian Capital in the Age of European Domination: The Rise of the Bazaar, 1800–1914,” *Modern Asian Studies* 29, no. 3 (1995): 449–554 and “The Bazaar: Changing

formulation reduces the Indian traders to no more than middlemen and makes the cleavage between overseas trade and overland trade a product of “European domination”—these are questionable premises. Another exception is Claude Markovits, whose work on mobile Indian groups underscores “the ability of South Asian merchants to maintain significant areas of independent international operations throughout the period of European economic and political domination.”<sup>8</sup> But Markovits is mainly concerned with aspects of mobility, and neither author offers a narrative that integrates domestic and foreign trades.

How does the story of diversification of trading capital change if we bring in the indigenous actors? One of the two aims of the article is to answer this question. I suggest that the raw material allows us to infer that the Indian merchants who joined in the new trades shared three characteristics with the global firms—mobility, institutional adaptation, and a willingness to make a cautious entry into manufacturing. Indian firms controlled many of the internal and overland trades feeding into the seaports; some firms had relocated themselves from points of riverborne and caravan trades to the railway termini. The larger among these moved from family control towards partnership or corporate form, especially in the case of the mills established by them. More radical forms of relocation can be found among groups of capitalists who went from their bases in Sind, Gujarat (especially Cutch or Kachchh), or Chettinad (South India) towards Russia, Africa, Holland, Burma, and Japan to form diaspora networks doing export and export finance.<sup>9</sup>

But inside India, there remained a difference between the two domains of commercial enterprise, indigenous and expatriate. A second aim of the article is to explain the difference. If Indian traders dominated the movement of goods over land, expatriate enterprise was more or less confined to the ports. Further, specialization was associated with an institutional difference. The firm as a legal entity registered as partnership or the joint-stock company was more common among European merchants, and frequently involved participation of non-kin professionals, whereas among “the old-established merchants in India, partnership has been strictly limited to members of the same family.”<sup>10</sup> Yet another difference emerged between the principal port cities in the

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Structural Characteristics of the Indigenous Section of the Indian Economy before and after the Great Depression,” *Indian Economic and Social History Review* 25, no. 3 (1988):265–318.

<sup>8</sup> Claude Markovits, “Structure and Agency in the World of Asian Commerce during the Era of European Colonial Domination (c. 1750–1950),” *Journal of the Economic and Social History of the Orient* 50, no. 2/3 (2007): 106–23 and *The Global World of Indian Merchants, 1750–1947: Traders of Sind from Bukhara to Panama* (Cambridge, U.K., 2008).

<sup>9</sup> Markovits, *Global World of Indian Merchants*.

<sup>10</sup> Somerset Playne, *Southern India: Its History, People, Commerce, and Industrial Resources* (London, 1914–15), 661.



Figure 1. India Political Divisions, 1940. Source: Courtesy of Tirthankar Roy.

pattern of enterprise, Bombay having relatively more Indian enterprise in commerce and industry, whereas Calcutta remained mainly European.

Historians recognize that this split in the Indian business world between the bazaar firms and the expatriate firms merits attention. There are several reasons for this. In an older view, the split signified a hierarchy between trading orders; the expatriates represented the “ascendancy” or dominance of foreign capital in Indian trade.<sup>11</sup> But this view overstates their control and overlooks the constrained nature of their business in India.<sup>12</sup> Another reason is the divergence that

<sup>11</sup> Rajat Ray, ed., *Entrepreneurship and Industry in India, 1800–1947* (Delhi, 1992), 13–30; also G. Balachandran, ed., *India and the World Economy, 1850–1950* (New Delhi, 2003), 10, 35.

<sup>12</sup> B. R. Tomlinson, “British Business in India, 1860–1970,” in *British Business in Asia since 1860*, ed. R. P. T. Davenport-Hines and Geoffrey Jones (Cambridge, U.K., 2003), 92–116.

occurred in the mid-twentieth century. In the late-interwar period, the Indian firms supported the nationalist movement and the expatriates did not. Through this turmoil, the Indian firms gained in economic and political power, and the expatriate firms declined and changed ownership.<sup>13</sup>

Even if its significance is understood, the origins of the dualism have not been sufficiently explained. Analysts have explained alternatively that Indians and Europeans moved in different spheres as an effect of information asymmetry or of racist and restrictive strategies adopted by the Europeans. The original statement of the information asymmetry thesis emphasized the comparative advantage of the Indians in knowing the countryside and of the Europeans in knowing the world market, to conclude that “where knowledge is imperfect and is distributed differently among groups, the reactions to any economic situation will be varied.”<sup>14</sup> A different view emphasizes barriers to entry into the European spheres of business, maintained by means of clannish control over joint-stock banking in Calcutta.<sup>15</sup> Neither information distribution nor clan sympathy supplies a sufficient account of the dualism, however. Information asymmetry begs the question why the Indians or the expatriates failed to overcome the information barrier in as long as a century. Segregation was hardly the result of a one-sided prejudice. Calcutta’s Marwaris were just as determined to shut out the Scots from their inner circles as were the Scots with respect to the Marwaris. There were two guilds at work here. But why these guilds emerged in the first place remains unanswered.

The survey on which this article is based suggests, on the one hand, that the dualism is overdrawn and there were areas of convergence as well, and on the other, that the persistence of a difference had owed to the conditions of the money market. Inland trade and export trade imposed different kinds of demand upon credit transactions, in turn leading to segmentation between the two spheres. A realistic model of differentiation needs to distinguish between indigenous and expatriate firms, because they enjoyed different types of comparative advantage,

<sup>13</sup> B. R. Tomlinson, “The Political Economy of the Raj: The Decline of Colonialism,” *Journal of Economic History* 42, no. 1 (1982): 133–37; Omkar Goswami, “Then Came the Marwaris: Some Aspects of the Changes in the Pattern of Industrial Control in Eastern India,” *Indian Economic and Social History Review* 22, no. 2 (1985): 225–49; Maria Misra, *Business, Race and Politics in British India* (Oxford, 1998).

<sup>14</sup> Morris D. Morris, “South Asian Entrepreneurship and the Rashomon Effect, 1800–1947,” *Explorations in Economic History* 16, no. 4 (1979): 341–61. For another version of the view, see Bishnupriya Gupta, “Discrimination or Social Networks? Industrial Investment in Colonial India,” *Competitive Advantage in the Global Economy (CAGE) Working Paper No. 110*, 2013.

<sup>15</sup> A. K. Bagchi, *The Evolution of the State Bank of India: The Era of the Presidency Banks, 1876–1920* (New Delhi, 1997).

as well as between agricultural trade and port-based export trade, because conditions of the money market differed between these spheres. Among these four categories, crossovers were becoming more common in the interwar period than they were before. The concluding section of the article develops the hypothesis more fully. The next three sections deal with Indian and European commercial enterprise.

### Indian Merchants

From ancient times until early in the Second Millennium CE, two very different capitalist traditions had evolved in India. One of these formed along the coasts, lived on overseas trade, and usually operated from small coastal states. The other one formed in the land-locked interior, served overland trade, supplied luxury consumption articles to the urban elite, and took part in moving the taxes that sustained vast empires. The empires emerged in the fertile plains of the Ganges and the Indus, and lived on land taxes. These states understood the value of the seaboard, but could not easily take control of that zone. There were few roads and road-building was costly because of the uplands, the forests, and numerous rivers.

The rise of the Indo-Islamic empires and the spread of their power from the Indus-Ganges plains to the south (the Deccan Plateau), the east (Bengal), and the west (Gujarat) between 1400 and 1600 led to a limited convergence between these worlds. The land-based states established a foothold on the coast, notably, in Surat in Gujarat, Masulipatnam in the southeastern coast, and Hooghly in Bengal. As these points became business hubs protected by powerful states, they attracted the European East India Companies. All of them pursued their primary aim by means of diplomacy, but the English (later British) East India Company changed the rules of the game by acquiring three port cities of its own.

These three cities were strategic enough to attract trade and mercantile capital away from Surat, Masulipatnam, and Hooghly from the late eighteenth century, when the inland states became engaged in debilitating warfare. The major inland trading points such as Delhi, Agra, Lahore, and Multan lost more than a million people to emigration between 1800 and 1850, whereas the gain of Bombay, Calcutta, and Madras was of the same order of magnitude. Some of the richer agricultural zones, such as Awadh or Rohilkhand, suffered attrition and loss of control over trade routes. The commercial classes resident in the cities of the Indus-Ganges plains did not all disappear, and made their presence felt after the opening of the railways, but political and economic power had temporarily shifted from the land to the sea.

The Indian merchants who lived through this transformation remain an enigmatic group. The merchant is a prominent figure in the narratives of Mughal India. Historians recognize that merchants and bankers were important actors in the Mughal imperial economic system, that their support sustained the Empire, and that shifting mercantile loyalties delivered political power in one region to the British.<sup>16</sup> And yet, for firms so important to the economy and polity of interior India, we know hardly any names of prominent merchants. The few names that are familiar to the historian are names of bankers rather than traders, and these names are familiar because these individuals did business with the Company.<sup>17</sup> In the 1600s, the agent was often recruited from political or military classes, but later, they were recruited from groups already established as merchants in the regions of operation so that the accounts left about them also provide glimpses of the mercantile society along the coast. But these are no more than snapshots.

Perhaps we hear so little about individuals and firms because individuals and firms were embedded in families and communities. Assets tended to be jointly held in large patrilineal extended families, and several such families were connected through transactions in assets, information, apprentices, and managers, and not least, marriage ties. The identity of the firm was submerged in that of the community, and the head of the enterprise was less an entrepreneur or an owner than a trustee of jointly held wealth. Exceptions to this rule did exist. One example occurred in Surat, the most cosmopolitan and global trading city on the Indian shores. Here, associational ties did form and were no less visible than personal ties. But even in Surat, political crisis and disputes could push merchants to rally behind their communities.<sup>18</sup> The practice of incorporation of joint-stock firms was unknown. Commercial law surely existed, but was so enmeshed with personal conduct and relationships that it was invisible to outsiders. There was no known court of law where merchants belonging to different ethnic groups could routinely settle their disputes.

The situation altered in the late eighteenth century. Change came from three sides. First, the British East India Company's own trading monopoly had been a target of criticism from almost the start of the enterprise; as the criticism reached a peak and the Company established itself as a military-political force in India, its commercial interests went

<sup>16</sup> Discussions in Tirthankar Roy, *An Economic History of Early Modern India* (London, 2013); Lakshmi Subramanian, *History of India, 1707–1857* (Hyderabad, 2012).

<sup>17</sup> See Tripathi, *Oxford History*, for a useful discussion. Most names of firms appearing in this account belonged to bankers.

<sup>18</sup> Ashin Dasgupta, *Indian Merchants and the Decline of Surat, c. 1700–1750* (Wiesbaden, 1979).

into retreat, and it had to yield ground to the free merchants and country merchants. Second, migration of Indians into Bombay and Calcutta led the way to unorthodox partnerships cutting across ethnic and communal boundaries. By 1800, therefore, conditions were ripe for Indo-European partnership firms to grow in the port cities. And third, with the decline of the Company's main business in Indian cotton textiles, the commodity composition changed, and a slow penetration of the agricultural interior by coastal capitalists began. In the first half of the nineteenth century, Indo-European firms based in Bombay, Calcutta, and Madras exported cotton, wheat, indigo, rice, and opium that came from the interior plains and the uplands. After 1860, the integration of land with the sea became more firmly established due to railways, steamships, the electric telegraph, the Suez Canal, and new laws. From then onward, we begin to hear about individual enterprise more systematically.

The pattern of mercantile enterprise differed between Bombay and Calcutta, and in both cities, between the periods 1800–1860 and 1860–1940. In the first phase, trade was composed of a few goods procured from regions within easy access from the port city—Malwa opium and Khandesh cotton in Bombay, and Bihar opium and Bengal indigo in Calcutta. The big firms of this era were dependent on one of these commodities. By contrast, in the second stage, the range of commodities had diversified, and commodities (such as wheat or cotton) were procured from greater distances. The big merchant firms of this era dealt in a more diversified basket of goods. While this was a feature common to both cities, Bombay and Calcutta had a divergent history in the first phase. Indigenous merchants in Bombay tended to be bigger firms than their counterparts in Calcutta, more prominent in Asian maritime trade. The difference stemmed from the particular trajectory that Parsi entrepreneurs had charted in the former city. The key to their success was shipping.

The hub of indigenous commercial tradition was first Surat, then Bombay. On the Gujarat littoral, a number of communities, especially traders from Cutch, had been prominent and remained prominent in the Arabian Sea trade in the nineteenth century.<sup>19</sup> Studies of early modern India, however, concentrate on Surat, especially the “ship-owning merchants” and the brokers or agents of the Company operating from there.<sup>20</sup> Some of the shipowners did not survive the simultaneous decline of the Persian, Ottoman, and Mughal empires. But shipping as a business carried on, largely under the leadership of the Parsi merchants.

<sup>19</sup> Chhaya Goswami, *The Call of the Sea: Kachchhi Traders in Muscat and Zanzibar, c. 1800–1880* (Hyderabad, 2011).

<sup>20</sup> Ashin Dasgupta, “The Maritime Merchant and Indian History,” *South Asia* 7, no. 1 (1984): 27–33; Om Prakash, “The Indian Maritime Merchant, 1500–1800,” *Journal of the Economic and Social History of the Orient* 47, no. 3 (2004): 435–57.

The Parsis who had migrated from Surat to Bombay and were originally carpenters by profession took over ship repair and shipbuilding in partnership with the Company, took a controlling stake in the important coastal trade in Malabar teak, moved into coastal shipping, and eventually joined the Indo-Chinese trade in Malwa opium.<sup>21</sup>

The Parsis had other resources that suited them to urban trade in particular. Being literate and multilingual (a number of Parsi merchants could speak Portuguese and French), they were prominent in government service, as clerks in European business firms and as assistants in attorney offices. As a community they thus had fingers in a number of skilled services connected with commerce. Another distinction of the community was a more individualistic succession law than the ones that prevailed in Hindu and Muslim merchant groups. A joint outcome of these qualities was that the nouveau-riche Parsi families became owners of large chunks of urban property by 1850.<sup>22</sup>

The first Parsi residents of Bombay were probably grocers for the town, also engaged in the useful side business of procuring safe and good quality liquor for the city. In the eighteenth century, one set of families, the Wadias, developed shipping, and three others, engaged in commerce, reached Burma, China, Mauritius, and Aden. They set a pattern that was to become the hallmark of Parsi enterprise in the nineteenth century. Their names were Banaji, Modi, and Readymoney. Among the leading Parsi merchants of the nineteenth century, Jamsetjee Jejeebhoy started as assistant in a firm selling opium in China, and when he established himself in the trade, he gave business contracts to a number of relations and friends. He also formed a partnership with a Gujarati Hindu and a Muslim merchant. These interethnic partnerships did not always work well, but they set a trend.<sup>23</sup> For example, Dinshaw Manockjee Petit was first an assistant and later partner to a European. His father was a broker in a European firm. Jamsetji Tata served his apprenticeship as a merchant in China opium.

In Calcutta, by contrast, shipping was less developed. There was no known Bengali enterprise in shipping and Asian trade. In the nineteenth century, indigenous merchants worked as procurers of goods and sometimes as agents in credit contracts in firms set up by the free merchants. Three significant partnership firms emerged from the collaborations that were at work: Carr Tagore, Oswald Seal, and Rustomji Turner. Others such as Ramdulal Dey acquired wealth as brokers, in this case for

<sup>21</sup> Ashok Desai, "The Origins of Parsi Enterprise," *Indian Economic and Social History Review* 5, no. 4 (1968): 307–17.

<sup>22</sup> H. G. Briggs, *The Parsis, or Modern Zerdusthians* (Edinburgh, 1852).

<sup>23</sup> Asiya Siddiqi, "The Business World of Jamsetjee Jejeebhoy," *Indian Economic Social History Review* 19, no. 3–4 (1982): 301–24.

American merchants. The commercial crises of the 1830s and 1840s (see the next section) either ended these firms or made them irrelevant. Possibly the only example of an indigenous trading firm from the indigo-opium phase that survived into the twentieth century was Prawnkissen Law.

Bengali regional historians sometimes fret over the fact that the Bengali merchants did not do as well in Calcutta as their counterparts in Bombay and blame the British presence in Calcutta for the Bengali lack of success. In fact, if the European element is taken out, the northern part of the Bay of Bengal had never been as large a trading zone as the northern Konkan. The Arabian Sea trade connected powerful and wealthy empires; the Bay of Bengal trade did not. The Parsis partly inherited and partly intruded in this stronger, wealthier maritime tradition and ended up connecting Aden with Canton in their own ships, a sweep that would not have been conceivable for a Bengali of the time. Because of Parsi advances in coastal shipping, Indian merchants from Bombay and Surat retained control over the Arabian Sea. The Parsi diaspora of Aden and Gujarati merchants in Mozambique, Musquat, and East Africa signify this wider reach of the western littoral. Thanks to the Arabian Sea and shipping, Bombay emerged from the Company era as an Indian city.

This lead, however, was short-lived. The steamship and redirection of India trade from Asia to Britain after 1860 ended it. In the next stage of Bombay's history, finance and the Gujarati merchants were to play bigger roles than indigenous shipping and the Parsi merchants. The entry into the second phase was a dramatic event, in which stockbroking and the name of one Jain trader figure prominently.

It appears that by 1850, the joint-stock principle was becoming popular. We can guess this popularity from the presence of six stockbrokers in the city who had credit with the Bank of Bombay. Gujarati Hindu and Jain individuals dominated the stockbroking business. The cotton famine (1861–65) helped the cotton trade expand, of course, but its major and lasting effect fell on financial transactions. In 1860, there were sixty share-brokers in the city, and their leader was a suave thirty-year-old Jain named Premchand Roychand. Before the boom, Roychand was a cotton shipper, with interests in opium and gold, and partner of Ritchie Steuart & Co. His role as a broker to the Liverpool merchant Steuart meant that he was to “guarantee the firm against any losses which it may incur in its advances on cotton and other shipments to a variety of dealers.” And this he could do because of his intimate knowledge of “the financial position of almost all the large wealthy traders in cotton and opium.”<sup>24</sup> At the height of the cotton famine, this resourceful

<sup>24</sup> D. E. Wacha, *Premchand Roychand: His Early Life And Career* (Bombay, 1913), 41.

trader acquired another role, to procure advance information on Liverpool prices. This he did by sending out small boats into the coastal waters when a Liverpool ship was due in the harbor. The British partner would often supply privileged information to the ship captain that would, via the boat people, reach the warehouse of the cotton-trading firm a day before it reached everyone else.<sup>25</sup> The stock-broking business was connected to another trend. Following the pattern of many emerging market booms, Premchand Roychand and a large number of other traders employed their profits to sponsor banks and real estate projects. At the peak of the cotton famine, there were two hundred individuals recognized as brokers, and Roychand ruled the financial market like a king. A word from Roychand was a guarantee of quality in the new enterprise. When the price of cotton started falling, the financial and real estate crash led the trading and broking world of Bombay to bankruptcy.

The bounce back in Bombay was quick. It was evident that the financial system had acquired certain strengths through the speculative episodes. When the business picked up again, the brokers had a new instrument to transact in: mill shares. In the 1870s more than three hundred sharebrokers met at a fixed place, where the stock exchange stands now.<sup>26</sup> Capital moved from cotton trade into mills on a large scale—thanks in part to this mediation; the connection with Liverpool, which supplied machines and foremen; and the connection with China, where cotton yarn was sold. Some of the firms investing in mills had been merchants who survived the crisis. Others were engaged in the China trade in a different capacity from the pre-1850 generations. Cowasji Davar built his first mill on profits from cotton export, like nearly every mill in the 1860s and the 1870s.

The Bohra firm of Currimbhai Ebrahim, on the other hand, had started as cotton yarn exporters to China. Continued participation in Asian trade renewed Bombay's links with West Asian and East African ports. The Parsi firm known as Adenwalla, of which the most famous member was Hormusji Dinshaw, illustrates this continuity. The firm traded in the Arab peninsula and East Africa, "besides being bankers, naval agents, shipowners, managing agents for mills and steamship companies such as the Bombay Persia Steam Navigation Co., British India Steam Navigation Co. and other British, Italian, Dutch and Norwegian Shipping Companies."<sup>27</sup>

<sup>25</sup> *Ibid.*, 44–45.

<sup>26</sup> *Report of the Bombay Stock Exchange Enquiry Committee* (Bombay, 1924), 3.

<sup>27</sup> A. N. Joshi, *Life and Times of Sir Hormusjee C. Dinshaw* (Bombay, 1939), 71.

From the last quarter of the nineteenth century until the Great Depression, exports from India consisted of primary commodities (wheat, rice, cotton, jute, wool, oilseeds, semiprocessed hides, and skins) and the largest import, cotton textiles. In both cases, European firms dominated the overseas operations. But the Europeans did not dominate the channels that brought these goods from the interior to the ports, despite having branches in the interior of India. In the twentieth century, two new trends emerged that further reduced the importance of the European trading firm. First, the range of consumer goods imported from Britain expanded to include such new articles as sewing machines, processed food, and bicycles.<sup>28</sup> The local agent was sometimes recruited from the established Indian mercantile groups—the most famous agent of Singer sewing machines was a Bombay Parsi merchant—but the agent performed a more entrepreneurial, more advertising-oriented service than in the other trades. From the 1930s, the growing interest of Indian consumers in household tools and cosmetics drew a new form of foreign investment to the region—the multinational manufacturer, such as Unilever or the Imperial Chemical Industries. These enterprises also strengthened retail-marketing networks in the cities, but that development does not form a major focus of this article.

The second factor that reduced European presence in trade was the increased Japanese presence in Bombay and Calcutta. The first Japanese trading firms, like the Mitsui-affiliated cotton trader Toyo Menka, entered in the 1890s. Recent scholarship on Japanese trade in South Asia has underscored several factors behind the very rapid growth in its scale in the next thirty years.<sup>29</sup> These were competitive shipping, efficient information exchange between Bombay and Osaka, partnership with Indian businesses (Tata in Bombay and Andrew Yule in Calcutta were among the partners), and the role of Indian merchants in Kobe, Singapore, and Hong Kong in conducting the import trade from Japan.<sup>30</sup> The Indo-Japan trade story, therefore, shows how trade with regions in Asia and Africa prepared Indian merchants to settle overseas.

<sup>28</sup> David Arnold, "Global Goods and Local Usages: The Small World of the Indian Sewing Machine, 1875–1952," *Journal of Global History* 6, no. 3 (2011): 407–29. Also Andrew Godley, "Selling the Sewing Machine around the World," *Enterprise & Society* 7, no. 3 (2006): 266–314.

<sup>29</sup> Between 1883 and 1928, total trade of India with Asia increased much faster than trade of India with the West. See Kaoru Sugihara, "Japan as an Engine of the Asian International Economy, c. 1880–1936," *Japan Forum* 2, no. 1 (1990): 127–45.

<sup>30</sup> Naoto Kagotani, "Up-Country Purchase Activities of Indian Raw Cotton by Toyo Menka's Bombay Branch, 1896–1935," in *Commercial Networks in Modern Asia*, ed. S. Sugiyama and Linda Grove (Richmond, 2001). William D. Wray, "Nodes in the Global Webs of Japanese Shipping," *Business History* 47, no. 1 (2005): 1–22; Hiroshi Shimizu, "The Indian Merchants of Kobe and Japan's Trade Expansion into Southeast Asia before the Asian-Pacific War," *Japan Forum* 17, no. 1 (2010): 25–48.

A spillover effect of the collaborations between trading firms was collaborative industrial ventures, such as Toyo Podar in cotton and a cluster of match manufacturing factories.<sup>31</sup> The India-Japan trading networks were sufficiently large and yet sufficiently distant from the Europe-India ones to suggest the hypothesis that they represented an emergent Asian economic alignment.<sup>32</sup>

Grain trade, as the largest and oldest of these segments, should be described more fully. How was grain procured for export? We must consider how commodities were traded in the domestic market circuits, for the two inland systems, one feeding Indian towns and another feeding the ports, were not distinct. Unfortunately, little information on inland trading systems before the very end of the 1920s is available. But some of the 1920s documentation that reflects on history helps reconstruct patterns of change. My descriptive data come from Punjab, United Provinces, Central India, and Bihar, practically all in northern India. No matter where we look, there were two major players in local grain trade, the commission agent and the buyer's agent, and a third minor player, the local landlord-cum-moneylender. The commission agent rented a space in a market or a warehouse and sold in bulk to the buyer at the best possible rate for the farmer. The company agent went into the village to contract purchases with the farmer. At the third level, landlords, shopkeepers, and professional retail bankers lent money to cultivators and accepted repayment in grain that they sold to the other two actors. In the remote cotton areas of Khandesh or western Deccan, for example, neither the big commission agency nor the buyer agency had much penetration, and both actors waited for the crop to come to the more accessible bazaars, brought there by small-scale itinerant traders.<sup>33</sup> Such itinerants, including the peasants themselves, traded other crops as well.

The first two groups operated from towns that had railway stations and banks. These two assets made it possible for merchants to transport grain by rail, to use the railway receipt or invoice to draw bills of exchange known as *hundi* from an indigenous banker based in Bombay, Calcutta, or Madras, and to cash that bill in the bank. The merchants and their agents owned carts, grain pits, and warehouses, and sometimes successfully persuaded the bank to open cash credit accounts for them on the security of the crop. Europeans were absent from the local transaction sphere completely, but they did occasionally figure in

<sup>31</sup> Takashi Oishi, "Indo-Japan Cooperative Ventures in Match Manufacturing in India: Muslim Merchant Networks in and beyond the Bengal Bay Region, 1900–1930," *International Journal of Asian Studies* 1, no. 1 (2004): 49–85.

<sup>32</sup> Sugihara, "Japan as an Engine."

<sup>33</sup> M. L. Dantwala, *Marketing of Raw Cotton in India* (Calcutta, 1937), 31–32.

the railway town, both as company agents and as commission agents. Several examples could be found in Punjab and the Krishna-Godavari delta, where long-distance grain trade had grown very large, and in the jute markets of the Bengal delta.<sup>34</sup>

Until independence in 1947, there was little evidence of forward trade in grain. A merchant settled in the country had very limited access to export price information. Local production centers did not have telegraph offices until the mid-twentieth century. Trade publications were of no use to the local growers who did not read English. Therefore, commission agency or an auction type of sale prevailed, as it had done from a long time before European ascendancy in the export business. The difference was that much of the bulk business now took place near the railway station, which suggests how critical a role the railway played not only in reducing transportation costs but also enabling the local actors to gain access to capital as well as to information.<sup>35</sup>

Particularly, I wish to stress three institutional features of the inland commodity trade. First, the buyer's agent, despite being sponsored by wealthy European firms, did not carry much weight in the countryside. Second, we know of these merchants by their community names rather than the names of firms. The Marwaris dominated the jute trade, Muslim and Eurasian merchants the leather trade, and Hindu Bania groups the grain trade, even though commission agencies with major European firms sometimes enabled a few individuals or families to acquire a reputation distinct from that attached to the community. Some of the future Marwari industrialists of Calcutta had acquired such a reputation in the late nineteenth century.<sup>36</sup> And third, a study of local trade cannot separate itself from a study of local credit. In the exceptional cases where a local merchant firm was mentioned by name, the mention happened because it was a banker as well.

The buying agencies of firms like Ralli, Volkart, or Toyo Menka had the backing of foreign firms and joint-stock banks. But their agents could not go very far without the help of the commission agents. In the nineteenth century, the Ralli Brothers tried to buy wheat and oilseeds directly from cultivators and bullock caravan runners in the western Gangetic

<sup>34</sup> For example, Owen Roberts of Lahore, interview in Punjab Provincial Banking Enquiry Committee, *Report of the Punjab Provincial Banking Enquiry Committee, 1929–30*, vol. 2 (Calcutta, 1930), 994–96; and Innes & Co. of Kakinada, a partnership between an Indian and a European, started c. 1870 as exporter of jute, rice, oilseeds, and jaggery. The firm also owned rice mills. Indian Industrial Commission, *Minutes of Evidence Taken before the Indian Industrial Commission, 1916–18*, vol. 3 (London, 1918), 88.

<sup>35</sup> William Roberts and O. T. Faulkner, *A Textbook of Punjab Agriculture* (Lahore, 1921).

<sup>36</sup> Thomas A. Timberg, "Three Types of the Marwari Firm," *Indian Economic Social History Review* 10, no. 1 (1973): 3–36.

plains, but switched to commission agents in the interwar period.<sup>37</sup> Their limited access to the production site reflected two advantages the local commodity traders possessed over them. One was transportation. The latter owned carts or knew where to hire them. But more than that, they were better tuned to the credit needs of farmers.

Unlike in the ports, the inland trade was highly seasonal in nature. During the sowing and harvest seasons of the main crop, interest rates rose to very high levels. In the slack season, there was money to spare and put to credit. There were no big firms in the interior and very few bank branches. The inland grain merchant, therefore, was also a banker.<sup>38</sup> Research on the Provincial Banking Enquiry Committee (1929–30) yielded hundreds of references to the link between the grain trade and moneylending. The banking side of the business ran on an intricate network of personal connections. The big merchants did not lend to the peasants directly. Instead they supplied money to a group of commission agents who traveled between the countryside and the town. These merchants in turn gave money to traders settled in the cultivating area. They, in turn, lent to the peasants. These concentric circles of credit relations reduced the risks of lending for the big merchant, for while no one lent on security, no one lent without intimate knowledge of the client.<sup>39</sup>

Informal credit ruled this world not because formal credit was scarce. Rather, information problems restricted both the supply and the demand for bank credit for commodity trade. Even when the biggest bank of the time, the Imperial Bank, had a branch operating in the town, the big merchants did not borrow from the bank. In a town in eastern Bihar, they did not do so because they did not like secured credit. The Bank's practice of advancing against produce "[gave] too much publicity" to the transaction; the security of grain stocks did not satisfy the banks either, for "in bulk storage there [was] great danger of fraud as regards quantity and quality."<sup>40</sup> There were no licensed warehouses. The Bank would not accept the handwritten notes offered in evidence of grain stock available as collateral, nor would they lend in the

<sup>37</sup> United Provinces Provincial Banking Enquiry Committee, *Report of the United Provinces Provincial Banking Enquiry Committee, 1929–30*, vol. 2, *Evidence* (Calcutta, 1930), 3.

<sup>38</sup> "Very many firms add banking to their main business, mainly for employing their funds in the slack season." H. Sinha, *Early European Banking in India with Some Reflections on Present Conditions* (London, 1927), 244.

<sup>39</sup> Messrs. Khialiram Kedarnath, grain and oil merchants, Lachman Sahu Gopal Sahu, grain dealers, Gopi Sahu Munshi Sahu, grain merchant, and Seth Jhunjhunwala, banker, grain merchant and cloth dealer, Bihar and Orissa Provincial Banking Enquiry Committee, *Report of the Bihar and Orissa Provincial Banking Enquiry Committee, 1929–30*, vol. 1 (Patna, 1930), 21.

<sup>40</sup> *Ibid.*, 89. The practice of bank advances against grain stores varied between regions.

absence of audited balance sheets. The information asymmetry in this case led the banks to introduce a tiered structure of trade credit (first class, second class, etc.), but this system did not work well outside Calcutta. It was impossible for the manager transferred from Calcutta to be sure who was second class and who was first class in Bhagalpur bazaar.

In the cotton trade in western India, the first buyers of the crop were often small-time traveling merchants or commission agents rather than salaried agents of the mills or the exporting firms. Bombay agents picked up this cotton assembled in the larger market connected by rail. In jute trade, too, we see the same features—European exporters and mills had local agents, but these agents or brokers bought goods from local trading firms rather than from the cultivators. Banks did not lend to the business directly because they were unable or unwilling to accept raw jute for hypothecation.<sup>41</sup>

Despite the autonomy of the grain trade system in the inland town, there was a tendency for the formal and the informal to converge in the interwar period. The fields of convergence were finance and processing of commodities. Tired of dealing with “frauds,” some Bombay firms set up cotton gins in the countryside. In tanned hides, a similar flow of capital from outside was present on a small scale. Another bigger field was joint-stock banking, which experienced a boom in the interior towns. In the evidence just cited, one Marwari mercantile firm and part-time banker, the firm of Debi Prashad (started in banking 1840), was a full-fledged banker in 1920. The business drew in deposit accounts not only from the rich Indian residents, but also from the European community of the town. It still retained its separate identity from the European banks, being financed mainly out of the capital of the joint family.<sup>42</sup> In the western Gangetic plain, local merchant-bankers contributed capital to newly set up indigenous joint-stock banks.<sup>43</sup> These bottom-up banks more readily accepted the mortgage of produce, which partly replaced the business of unsecured loans, also known as “the hand-note system” of moneylending.<sup>44</sup>

Shortly after World War I, a far-reaching instance of convergence between export and inland trades, which revealed the power that liquid wealth carried, occurred in Calcutta. Early in the twentieth century, the Marwaris, who had originally migrated from Rajputana

<sup>41</sup> Indian Central Jute Committee, *Report on the Marketing and Transport of Jute in India* (Calcutta, 1940), 117.

<sup>42</sup> Bihar and Orissa Provincial Banking Enquiry Committee (1929–1930), *Interviews and Enquiries*, vol. 3 (Patna, 1930), 158–9.

<sup>43</sup> *Report of the United Provinces Provincial Banking Enquiry Committee, 1929–30*, 83.

<sup>44</sup> Sinha, *Early European Banking*, 244.

and had been engaged in the raw jute trade for some time, entered the gunny export business. They did not do so as regular export firms, but as speculative sellers. That is, they would buy small lots of coarse heavy jute fabric from the mills and hold stocks or sell forward to the shippers. The significant feature of the business was their willingness “to furnish ample cash security for any business contracted; consequently, the mills had no hesitation in dealing with them.”<sup>45</sup> The business might have remained an opportunistic one but for World War I, when huge profits were available from the existing stocks. The rise of forward market rates encouraged some export firms to join in the forward trade, and fears arose that the Marwari firms would be able to corner the entire jute trade. Although the trade stabilized after the war, the balance of financial power had shifted. During the Depression, some Indian mills started in jute, and some European mills borrowed money from Marwari merchant-bankers. In one view, the new relationship opened doors to Marwari merchants to manage, and eventually own, jute mills.<sup>46</sup>

A different kind of convergence occurred in hides and skins. By contrast with the other commodities, hides and skins were necessarily processed in the locality, and therefore built strong ties between the local merchants and the tannery owner. Indeed, the two classes were often indistinct. From the last quarter of the nineteenth century, hides and skins emerged as a major exportable commodity. At the peak of the trade, just before World War I, 100,000 tons of hides and skins left India. Thereafter, the trade was redirected to the domestic market. Tanned and cured hides formed a rather curious product. Like grain, it came from the countryside. But unlike grain, Indian or naturalized Indian firms dominated the export trade. The managing agencies of Calcutta had marginal interest in the trade, possibly because hides were reexported and not destined for the British market alone. Apparently, the Hindu trader also had an aversion to hides. Muslims, Parsis, Eurasians, and the Chinese, therefore, came to dominate the tanning trade.

As in every other trade, all merchants needed to advance money on a large scale. In the 1890s, the Khoja or Muslim merchant was “to the Mochi [leather-worker] what the Bania [rural merchant-moneylender in this case] [was] to the agriculturist.”<sup>47</sup> That is, they were mainly financiers. Sometimes they lent money to tanneries. When debts were left unpaid, the Khoja trader turned manufacturer. On the other hand, a

<sup>45</sup> *Report on the Marketing and Transport of Jute*, 89.

<sup>46</sup> Goswami, “Then Came the Marwaris.”

<sup>47</sup> A 1906 government report cited in Tirthankar Roy, *Traditional Industry in the Economy of Colonial India* (Cambridge, U.K., 1999) where a fuller range of source citations on the hide merchant can be found.

certain number of the tanneries, and especially the European and Eurasian ones, arose out of demand for leather from large local users, such as the army, the mills, or the transport industry. A young man in his twenties, G. A. Chambers, was an assistant in one of the Madras tanneries, when in 1903 he began trading on his own account. Shortly after, he rented a tannery at Pallavaram to start chrome tanning. The largest Madras firm, the Chrome Leather Co., evolved from this venture, its growth owing to a partnership with the great Madras house and coach-makers Simpsons, who needed chrome leather for upholstery. As in Bombay, the firm also supplied cotton-mill spare parts.<sup>48</sup>

In a pattern reminiscent of jute, in Kanpur, Europeans owned big saddle and harness factories, whereas Muslim traders supplied them with hides.<sup>49</sup> A. H. Creet, an Armenian born in Persia, set up one of the best known and early private tanneries in the city. Creet, who migrated to India in 1874, was first a jeweler in Lucknow, then a dealer in leather, and finally proprietor of the Cawnpore Tannery in 1896. A decade later, a partnership between William Stork and two Muslim hide merchants of Delhi and Kanpur bought the factory. Some of the most successful Muslim tanners in Kanpur—including the firms of H. M. Halim, Abdul Gafoor, M. A. Wasay, and H. Nabi Baksh—accumulated capital through the agency of the European tanneries, or as agents of the many German trading firms (Schroeder Smidt, Cohen and Fuchs, Wuttow Guttman) prominent in the trade through Calcutta. The exit of the Germans during World War I led the Muslim merchants to consolidate trade and to enter manufacture. In Bombay in the late nineteenth century, Bohras and Memons, the Muslim trading castes, owned tanneries and controlled a considerable part of the export trade.

When moving from Indian enterprise to European enterprise the two port cities, Bombay and Calcutta, change position. European capital was more prominent in the formal business institutions of Calcutta than in Bombay, even though the majority of the firms in both cities were Indian in origin.

### European Merchants: Trade to Manufacturing

If we look only at legally registered firms, Calcutta was a European city. An approximate measure of the relative share of the Indian and European communities in the formal businesses of Calcutta would be the shareholding in the Bank of Bengal. In 1904, the

<sup>48</sup> Based on Playne, *Southern India*, 145–6, 213, 688, 701–3; and *Indian Leather Trades and Industries Year-Book* (Madras, 1967).

<sup>49</sup> Somerset Playne, *The Bombay Presidency, the United Provinces, the Punjab, etc.: Their History, People, Commerce and Natural Resources* (London, 1917–20).

proportions were 84 and 16 percent between Europeans and Indians respectively.<sup>50</sup> As in Bombay, the history of organized trading in Calcutta shows an early monocommodity period and a later general-merchandise period; the point of transition was 1860. A larger and steadier inflow of British capital accompanied the diversification of the second era.

Private European trading firms in Calcutta started with the “agency houses.”<sup>51</sup> They either occupied spaces vacated by the East India Company or engaged in businesses sponsored by the Company. Some of them were branches or representatives of trading firms established in Britain, and some were set up by former Company employees who had completed indenture. From this pool, which drew in Scottish, Welsh, English, German, and French capitalists, some traders moved inland and set up indigo-processing factories. Others remained in Calcutta and conducted three major functions connected with indigo: shipping, financing, and insurance. The majority of these free merchants and their offshoots went out of business during the indigo speculations of the 1830s and the 1840s. The most famous case of boom and bust was Paxton, Cockerell, Trail, later Palmer & Co. The son of William Palmer, a Company officer and a contemporary of the first Governor General Warren Hastings, established the firm. Palmer was a partnership between the brothers George and John Horsley Palmer, and their main business was indigo trade.<sup>52</sup>

Analysis of the causes of contagious bankruptcy between 1833 and 1846 must distinguish between two independent factors—volatility in indigo prices and management of the banking and financial interests of the trading firms. The market for indigo was in Manchester; merchants in Calcutta caught the big movements in price late, sometimes with disastrous results. The intercontinental telegraph removed the problem, and subsequently trading firms engaged in indigo were not known to suffer as much as before. But it was really the diversification of these traders into banks, and consequent upon this, insider lending and the overreliance of the banks on the indigo trade itself, that caused the crisis to spread. Calcutta trading firms invariably turned into banks; the bigger the firm, the closer the relationship. Two episodes of crash, 1833 and 1846–47, both illustrate how dangerous the integration of trade and finance was. In the first phase, a loss of its financial

<sup>50</sup> G. P. Symes Scutt, *The History of the Bank of Bengal: An Epitome of a Hundred Years of Banking in India* (Calcutta, 1904), 104.

<sup>51</sup> Amales Tripathi, *Trade and Finance in the Bengal Presidency, 1793–1833*, 2nd ed. (Calcutta, 1979).

<sup>52</sup> Anthony Webster, “An Early Global Business in a Colonial Context: The Strategies, Management, and Failure of John Palmer and Company, 1780–1830,” *Enterprise & Society* 6, no. 1 (2005): 98–133.

business brought down Palmer & Co. In the second phase, the failure of the Union Bank (1829–47), an Indo-European partnership, was especially damaging.<sup>53</sup>

The indigo crisis of 1846–47 was a watershed. It killed at once two models of expatriate enterprise that had gained acceptability in the 1830s and 1840s. In one model, the trader had a partner, who was the European owner of a factory located deep in the countryside that processed an agricultural commodity for export. The model became acceptable partly because it simplified agency issues between the trader and the producer, and partly because, in cotton especially, it was believed to be an answer to quality and productivity problems. The rural manufacturer was not necessarily a planter in the American style, but was expected to contract with peasants who had established property rights on the land. The so-called “Blue Mutiny” (1859–60), an uprising of the indigo farmers, revealed that the manufacturer did not have adequate legal means to enforce these contracts, whereas their use of political power to do so embarrassed the state.<sup>54</sup> The second model that died with the end of indigo was the merchant-owned bank with an undiversified base.

Long before this crisis, business directories and guides meant to inform the European entrepreneur strongly discouraged doing business in the countryside. The Blue Mutiny was only a reminder. The risk of losing money advanced to local producers and sellers was a serious problem. The boatmen “abscond soon after the receipt of the money in advance;” “the villainy” of the peasant “may occasion a total loss to the manufacturer.” There was more. “One of the most embarrassing circumstances to commerce in the upper provinces is the want of a common standard of Weights and Measures.”<sup>55</sup> The chaos continued long into the ascendancy of official metrology. Documents of the Company courts working in the three ports in the mid- to late eighteenth century hint at another potential problem of doing business in the country. These courts were crucial in overseeing succession and inheritance of mercantile property, because a considerable number of mercantile disputes concerned succession. It is easy to imagine that a business in the interior would not receive a similar order of, if any, legal redress because the courts and the scope of English law was restricted to the ports.<sup>56</sup> Long

<sup>53</sup> Blair B. Kling, *Partner in Empire: Dwarkanath Tagore and the Age of Enterprise in Eastern India* (Calcutta, 1981).

<sup>54</sup> Tirthankar Roy, “Indigo and Law in Colonial India,” *Economic History Review* 64, no. 1 (2011): 60–75.

<sup>55</sup> James Purves, *The East India Merchant, or, A Guide to the Commerce and Manufactures of Bengal and the Upper Provinces* (Calcutta, 1819), 4, 17, 21.

<sup>56</sup> Madras Record Office, *Mayor's Court Minutes, 1745–46* (Madras, 1937), 102, 124, 227.

after British rule had extended into North India, an inconclusive debate occurred in the Law Commission (c. 1840) over whether commercial disputes in the interior should be settled with reference to the “Law Merchant,” which would demand of Indian judges a thorough training in English common law, or to local custom, which was neither coded nor known to anybody in the judicial system.<sup>57</sup> In effect, there were no commercial *lex loci* outside the port city. The message was clear—leave inland trade to Indians.

After the Indian Mutiny of 1857 ended and Crown rule began in 1858, different foreign firms started to enter Calcutta. These are best described as born-industrial, or ones that became industrial after a relatively short career in trade. In several senses, the British Empire spawned these enterprises. Unlike in the first half of the nineteenth century, in the second half, the possibilities for moving capital and labor had expanded, thanks to faster transportation, a uniform legal framework, and the use of one official language within the British Empire. The Empire thus encouraged factor-market integration. It also increased the scope of public-private partnership and indirectly led to greater associational activity. One of the effects of this transformation was the separation of banking from trading and of trading from manufacturing. This diversification of risk was a key impetus to the industrialization drive.

The born-industrial and the short-trading-career firms require no more than a quick mention. Andrew Yule in tea, jute, and coal; McLeod or McLeod Russell in tea; Balmer Lawrie in engineering and coal; Octavius Steel in tea, coal, railways, and limestone; Williamson Magor in tea and inland navigation; Macneill and Barry (except a partner Kilburn, and his predecessor C. E. Schoen, who had been engaged in trade for a length of time) in tea and jute—were examples of entrants into the business world of Calcutta who did not originate in Asian trade. These were large firms. Business historians have focused on this end of the size distribution. Such bias can be justified on three grounds. First, big business is believed to have played a role in sustaining the Empire itself. Second, manufacturing firms left more archival resources behind. And third, industrialization has often been seen, questionably, as the apogee of commercialization.

Of the short-career traders turning industrial, the most famous example is the Bird Brothers. The early history of Bird illustrates how important the government had become to some of the trading firms of the Empire era. Samuel Bird, who started one of the largest managing

<sup>57</sup> Indian Law Commission, *Copies of the Special Reports of the Indian Law Commissioners* (London, 1847), 702, 662.

agency firms of nineteenth-century Calcutta, supplied indentured labor to government construction projects.<sup>58</sup> Among early side businesses of the firm were railway contracts for loading and unloading goods between boats and trains; a government contract to unload grain from ships in Calcutta; and a bullock caravan train between Darjeeling, a European settlement, and Sahibganj, a railway junction. Some of its original businesses, such as the labor contract, the railway contract, and the bullock caravans, were in decline in the 1870s, and Bird needed to reinvent itself. In two major steps taken in 1874 and 1875, the Birds acquired Oriental Jute Company's assets, took over the McAllister managing agency, and also took over a coal mine, coincidentally from the same McAllister.

The entry of Bird happened when banking was still limited, capital markets non-existent, and laws not clearly set out. They were not the only firm that made the move from commerce to industry by taking over the assets of an earlier generation entrepreneur. But even that did not save them from financial trouble. Though a great deal of the background to these moves remains unknown, it would seem that the Birds were helped in these projects by their few friends in Calcutta, who included the family of Ernest Cable, later head of the firm, and the Dignams of Orr; Dignam being the leading business solicitors of Calcutta. In a little over ten years, Bird had changed from a trading firm to a manufacturing firm, but the changeover was not complete. Their contract labor business continued, and a number of large government construction projects came their way.

Indigo agency was the source of prosperity for Kilburn, a Calcutta concern that turned industrial. In 1842, the first partners, C. E. Schoen and E. D. Kilburn, set up a commission agency in silk and switched to indigo soon after. Its survival through the worst years of indigo probably was owed to an early diversification into cloth, rice, and jute. Cloth came from Liverpool, rice was sent to Australia, and jute went from Bengal to Dundee. By 1900, Kilburn was a managing agent for a number of tea estates. McLeod was another partnership engaged in jute agency with Dundee before they established a string of jute mills (1907–12). Shaw Wallace imported Manchester piece goods, cement, metals, and paper and exported hides and skins and raw cotton. Walter Duncan, who started the partnership that was to become Duncan Brothers, a name in tea plantations and jute mills, was originally a tea and jute exporter (after a short stint as an employee of the Bank of Bengal). In the 1830s, Robert Mackenzie, partner of William Mackinnon after 1847, was a piece-goods trader in Ghazipur. Between 1847 and 1856, their

<sup>58</sup> Godfrey Harrison, *Bird and Company of Calcutta* (Calcutta, 1964).

partnership (Mackenzie died in a shipwreck in 1852) was still engaged in merchandising when Mackinnon started the British India Steam Navigation company.<sup>59</sup> Offbeat cases of traders turning industrialists include T. A. Martin of Messrs. Walsh, Lovett & Co., a Birmingham firm that dealt in metals and construction material in South America, who opened a branch in Calcutta (1874). Later in the nineteenth century, Martin formed a partnership with R. N. Mukherjee to set up the largest engineering firm in Eastern India.

Outside Calcutta, we are more likely to meet industrial firms with long careers in trade, because the Bombay and Madras free merchants escaped the indigo crisis. In Bombay, the Forbes country merchant firm started c. 1800 was a long survivor. Charles Forbes began in China trade and shipping and developed a wide range of partnerships with Parsi shippers and merchants. Forbes also contributed to a singular development, lending money to the government. The first major loan made out by Forbes & Co. and Bruce, Fawcett & Co. in 1813 is believed to have started a public debt market in western India. The East India Company had taken loans before from Indian bankers, the Trawadi Arjunji Nathji of Surat the most famous among the Company's creditors. Arjunji Nathji financed the Arabian Sea trade in the late eighteenth century when he shrewdly switched to being the Company's banker. In a period of warfare, such moves had political implications. By contrast, the loans made out by a group of merchants were less political in intent. In the second half of the century, some of the largest European firms in Bombay—such as the three firms Greaves, Brady, and Killick—did not originate in trade or industry, but in the enterprise of skilled mechanics. They were more akin to the Martins of Calcutta. Around 1880, an American trading firm, Stearns Hobart & Co., entered Bombay's history as the first company to propose a mass urban-transit system (horse-drawn tram). This proposal was the foundation of the Bombay Electric Supply and Transport Company, which now runs Bombay's buses.<sup>60</sup>

In South India, famous long-term survivors were Parry, Finlay, and Binny. Thomas Parry was a general merchant with significant interest in indigo and leather, shipping and banking. He was as famous for business acumen as for his stormy relationship with the Company establishment.<sup>61</sup> Later generations of the firm moved into sugar and coffee

<sup>59</sup> J. Forbes Munro, *Maritime Enterprise and Empire: Sir William Mackinnon and His Business Network, 1823–1893* (Woodbridge, 2003).

<sup>60</sup> On the subsequent history of the firm, see William J. Hausman, Peter Hertner, and Mira Wilkins, *Global Electrification: Multinational Enterprise and International Finance in the History of Light and Power, 1878–2007* (Cambridge, U.K., 2008), 108.

<sup>61</sup> G. H. Hodgson, *Thomas Parry: Free Merchant, Madras, 1768–1824* (Madras, 1938).

production and trade. Kirkman Finlay, son of eighteenth-century Scottish textile merchant James Finlay, developed an export market for his goods in Africa, Europe, the Levant, and eventually America. Late in his life, the Finlays firm opened a branch in Bombay to sell Manchester cotton yarn in India, and in the 1830s started buying cotton from India. In the 1870s, they set up jute mills in Calcutta and moved into the export of Indian tea to Europe. By 1900, Finlays owned the major area under tea cultivation in the Anaimalai and the Nilgiri mountains, consolidated under four companies listed in London.<sup>62</sup>

At the end of the eighteenth century, John Binny was a private merchant, who changed occupations from seafaring to trading in Madras. His firm maintained the maritime connection and, later in the nineteenth century, took the form of a handling agency on behalf of British India Steam Navigation and the Madras Port Trust. Binny & Co. owned boats and barges, took part in coast-to-coast trade, and expanded into caravan trade, as Bird had done in north Bihar. However, by 1900, their main business was serving as the managing agency of textile mills and banking. McDowell, a former servant of the East India Company, on completing his indenture, set up a wine-merchant business in Madras in 1825. Later partners moved into blending spirits, then to blending tobacco, and processing and manufacturing these two products. McDowell is now the most famous brand among indigenous whiskies in India.

There was considerable diversity among the traders who did not join industry at all. Three main types should be distinguished: commodity exporters, produce brokers, and manufactured goods exporters.

#### European Merchants: Commodity Exporters, Tea Brokers, and Craft Traders

Salomon Volkart, who hailed from a business family in Zurich, was established in Italy as a commodity trader when the partnership with his younger brother started simultaneously in Winterthur and Bombay in 1851. In the same year, Pantia Ralli set up an operation in Calcutta. Volkart cited turbulent times in Italy as a reason for diversification. But he also understood that cotton was a promising line to enter, just as Ralli seemed to shift the axis of his wheat trade away from Odessa and the Mediterranean towards India. Through buying agencies, cotton presses, and gins established in cotton-growing districts, Volkart and Ralli each established business empires in India.<sup>63</sup> In a

<sup>62</sup> See Jones and Wale, "Merchants as Business Groups," for a study of James Finlay.

<sup>63</sup> George Reinhart, *Volkart Brothers: In Commemoration of the Seventy-Fifth Anniversary of the Foundation* (Winterthur, 1926); Christof Dejung, "Bridges to the East: European

similar way, in the 1840s, the Wallace family entered the India trade in Burma. Their Bombay Burmah Trading Corporation supplied Burma teak to the Indian railways.<sup>64</sup>

Grain for export came mainly from the Gangetic plains and cotton from certain districts in the Deccan. In South India, the Godavari-Krishna coast had the old seaport Masulipatnam and a large rice and tobacco export business. When the East India Company acquired the seaport in the eighteenth century, more European capital flowed into the area. In the rest of the peninsula, local produce, led by coffee and hides, entered commodity trade. Although Madras was the main hub, a cluster of smaller ports, Tuticorin, Cochin, Calicut, and Kakinada, also had a well-entrenched commodity trading system. The three elements of the system were branch offices of European mercantile firms, shipping agencies, and branches of joint-stock banks; and in rare cases, backward integration into factories and plantations. The mercantile firms included Ralli Brothers and Volkart Brothers, and a string of local firms: Gordon Woodroffe, Ripley & Co., Best & Co., Peirce Leslie, and Harrisons and Crosfield.

In Kakinada, two European shipping-line agents (Simson & Co. and Hall, Wilson) owned rice mills and salt factories. Barry & Co. processed tobacco near Guntur for export to Burma.<sup>65</sup> Gordon Woodroffe imported piece goods, yarn, metals, sugar, and kerosene oil; exported coir; and served as shipping agents and marine insurance agents. The South Indian Export Company of Madras, a partnership originally between a DeClermont and a Donner, started as importers of coal from Bengal, but diversified into hides and skins exports. Aspinwall & Co. had started in Madras as exporters of groundnut kernels c. 1870, a business that Best & Co. took over in 1879. A. V. Best Dunlop and John McLintock set up a partnership that was one of the largest exporters of hides and skins from Madras. On the Malabar coast, Peirce Leslie (1859) and Harrisons Crosfield (1911) were prominent in the trade and manufacture of a range of local products (rubber, coffee, tea, cashews, coir, and tiles); the former was also a shipping agent.<sup>66</sup>

The “produce brokers” were rather more akin to the commission agent in grain trade, except that they also advised the buyer on the

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Merchants and Business Practices in India and China,” in *Commerce and Culture: Nineteenth-Century Business Elites*, ed. Robert Lee, (Farnham, 2011), 93–116.

<sup>64</sup> A. C. Pointon, *The Bombay Burmah Trading Corp. Ltd., 1863–1963* (Southampton, 1964).

<sup>65</sup> F. R. Hemingway, *Madras District Gazetteers: Godavari* (Madras, 1915), 115.

<sup>66</sup> W. K. M. Langley, *Century in Malabar: The History of Peirce Leslie and Co., Ltd., 1862–1962* (Madras, 1962); Geoffrey Jones and Judith Wale, “Diversification Strategies of British Trading Companies: Harrisons & Crosfield, c. 1900–c. 1980,” *Business History* 41, no. 2 (1999): 69–101.

quality of the goods sold. The term “broker” in Indian business history has been used in two distinct meanings, as an agent of a trading or manufacturing firm and as an auction coordinator. The tea broker today is an auctioneer and a tea taster. Within a few years after the Company’s China monopoly ended (1833), tea auctions began in London and Liverpool. London’s Mincing Lane was the main site of the auctions and housed a number of brokerage firms. These firms procured tea from the plantation companies as well as counterpart broker firms in Calcutta. For example, Thomas Cumberledge & Moss, later Thomas Cumberledge & Inskipp, a London broker, appears in the historical accounts of two Indian firms, J. Thomas, the premier broker of Calcutta, and Warren, a tea planter group of Assam.

Robert Thomas, a Welshman, born c. 1808, came to Calcutta in 1833.<sup>67</sup> He formed a series of “produce broking partnerships” with other European traders. His major interest was indigo, but he also did business in sugar, saltpeter, Manchester cloth, silk, coal, and bullion. Thomas almost certainly suffered in the indigo crisis, but seemed to reorganize in the 1860s and 1870s. By general agreement between planters and traders, two broking firms subsequently came to control the indigo trade: Thomas & Co. was one, and William Moran & Co., later Carritt-Moran, was another.

From some of the circulars issued jointly by the two firms, most probably the produce brokers of Calcutta were not agents of a principal—whether buyers or the planters. They were not traders themselves. They were organizers of produce auctions on behalf of the planters and a guarantor of quality and fair packaging to the buyers. They were a spoke in the wheel of commerce. The auction trade, first in indigo and then in tea, continued until the mid-twentieth century, so that we have surviving oral history accounts. The indigo trading season started in November when planters sent samples to the Calcutta warehouse of the firm. Warehouses then filled up, and between December and mid-January several auctions were held every week. The auction process started at 6 a.m. (best time for ascertaining color) when the buyers would follow the auctioneer from one warehouse to another, stopping on the way for breakfast with brandy on the firm’s account. Buyers were the agents of foreign import firms. By February, the season was over.

Robert Thomas died in 1865, leaving the company in the charge of his nephew John Phillips Thomas and possibly partners recruited from the Calcutta indigo trade. During his lifetime, Robert’s son Charles had worked briefly for the company before returning to London, though

<sup>67</sup>The following description of the firm is based on Dipak Roy, *A Hundred and Twenty-Five Years: The Story of J. Thomas and Company* (Calcutta, c. 1976).

Charles's son and grandson served in Calcutta. In 1866, the firm went bankrupt and restarted as J. Thomas & Company, the name it retains today. The reason for bankruptcy reveals a fundamental problem that beset commodity trade in the presence of a weak banking system. The brokers borrowed short at 3 to 4 percent to lend long (commission on sale was 7 percent); the loans they made out to the planters were tied to the cultivation cycle. A short-term problem in a bank would lead to a call in of trade credit and to a major financial crisis for its clients. There were clear parallels here between later and earlier banking crises. This is what happened between J. Thomas and the bank Agra and Masterman's in 1866, and the crisis came from the failure of Agra's creditors, the London bankers Overend and Gurney.

A few years before Robert's death, the firm had sold its first consignment of tea through the agency of Mackenzie Lyall, a Calcutta broking firm specializing in tea. The partnership suggests that agreements between specialist produce brokers might have enabled the switch between commodities, even though the historian of the firm, a former director, remarked, there is "[n]othing . . . your dedicated broker dislikes more than having to split his commission."<sup>68</sup> For a trading firm, whose reputation was built not upon the quantity of sale but the quality of the product sold, switching between commodities was conceivable. Be that as it may, the first tea auctions appear to have been cases of opportunism, for it was not before the late 1870s that tea became the main business of the firm. The diversification occurred at a time when Assam plantations had been expanding rapidly. At the turn of the twentieth century, the firm took over the business of G. W. Hope & Co., gunny brokers. They sold tea and jute goods on the same principle as indigo, by auction to agents of foreign buyers. The fifteen years before World War I saw great profits, and these profits continued during the war in both commodities. The broker firms had enough financial power to hypothecate new tea companies. The broker would advance the company large sums of money on the promise of an exclusive contract to sell all their produce with the firm.<sup>69</sup>

The war and postwar years changed the pattern of collaboration within the Calcutta trading world. Until then, J. Thomas was one among many members of the Calcutta Jute Fabric Brokers' Association. The jute industry and its trade had grown so rapidly that brokers could no longer keep in touch with individual producers of jute goods. A team of "underbrokers" achieved this connection; with one or two exceptions,

<sup>68</sup> *Ibid.*, 15.

<sup>69</sup> Stephanie Jones, *Merchants of the Raj: British Managing Agency Houses in Calcutta Yesterday and Today* (Basingstoke, 1992), 72–74.

they belonged to the Marwari community. Taking advantage of information asymmetry that was rife in the jute trade, some of the underbrokers started trading on their own. The brokers' association was powerless to stem this trend. Further on, as Indian investment in jute mills began to increase, formal and informal ties between the mill owners and the erstwhile underbrokers began to form. The European mills rallied behind the general brokers and sought government help to protect their own control over the business, but were losing ground rapidly in the post-Depression world. Although jute remained in the firm's staple activities long after the turmoil, the business of broking had suffered a blow.

J. Thomas, among many examples of Calcutta firms discussed above, survives today. Its office building takes its name from the locality: Neel-haat House or the indigo-market house. Three particular elements of the firm's post-1947 history are relevant to its continuity. First, in response to changes in company law, the firm became a private limited company. Second, it gradually gave up its jute business. And third, the European partners, who ran the firm or were managers long after 1947, left in 1972. Until 1963, J. Thomas had a Thomas as head, though it had never been a typical family firm. The smaller scale and private shareholding surely protected the firm from the takeovers that other Indo-European firms of Calcutta had by then suffered, whereas its roots in the commodities markets also allowed it to "Indianize" more successfully than some of the other European firms.

A comparable case of long continuity occurs in a rather different context. In the interwar period, European and American firms led a growing export trade in highly skilled craft manufactures. In some respects, their business styles recall the direct contract with producers that was the hallmark of the free merchant era. In the 1920s, Madras handkerchiefs and woolen pile carpets were two exports in which foreign firms had a noticeable presence.<sup>70</sup> In other more local goods, such as Lucknow or Punjab embroidery and inlaid metalwork, European traders were known to exist. All of them were interested in export, a line of work that their Indian counterparts did not pursue. And significantly, many of them found that having an office in Calcutta or Madras was not a big help; they needed to locate in the small towns where carpets, metals, and textiles were manufactured, maintaining contact with the producers in order to monitor the quality of the goods. In the 1920s, two European firms, Beardsell and Brunnschweiler, dominated the Madras

<sup>70</sup> Tirthankar Roy, "Madras Handkerchiefs in the Interwar Period," *Indian Economic and Social History Review* 39, nos. 2-3 (2002): 285-300 and Roy, *Traditional Industry*; and notes from personal field trips to the Madras handkerchief and carpet manufacturing regions in 1994, 1996, and 2012.

handkerchiefs export trade from the southeastern coast to West Africa. In North India, a number of European firms had carpets made on contract by master artisans. C. M. Hadow, started in 1888, operated from Srinagar in Kashmir. German Otto Weylandt, possibly the biggest buyer of carpet in Agra, was a multinational firm that owned factories in Punjab and West Asia around 1900.<sup>71</sup> On the Coromandel coast, the famous Madras export firm Arbuthnot made Eluru carpets on contract.

These European firms were among the few that settled inland. In Mirzapur, a town near Benares, the European capitalist heritage (like the tea broker of Calcutta) continues to the present day. From before the nineteenth century, villagers in this area had woven carpets, probably of cotton rather than woolen pile. Mirzapur's location—near a big market (Benares), a center of wool production (Kanpur), and on the main east-west trunk road—made it suitable for trade. It is not known exactly when the European traders moved in; the pioneer was reportedly an indigo factor of the area. Around 1880, there were two firms based here, E. Hill and Tellery. Both firms invested money in loom sheds, arranged to hire expert designers and dyers from Kashmir and Punjab, and invited master artisans to execute contracts in the factory. The work had shifted to woolen-knotted carpet, which is what the foreign market wanted. According to one account, they set up factories because “the weavers [we]re not sufficiently reliable to be trusted to weave in their own houses.” In turn, the master artisans liked the arrangement because “the European firms [could] pay better wages, and give greater continuity of work.”<sup>72</sup> In 1932, partnerships between F. H. Oakley, F. H. Bowden, and a Taylor, already engaged in buying carpets for export, merged to set up the third European firm, Obeetee Private Limited. Early proceedings show that the three firms resorted to both loom-shed and contract purchases, that there was keen competition between them for good quality work, occasional poaching of skilled artisans, constant anxiety over quality control, and growing fear of artisan-entrepreneurs.

Soon after independence, E. Hill Indianized and closed down; possibly in the 1960s, Tellery Indianized and carries on today as a shadow of its former self. But Obeetee did not change management, weathered numerous adversities, and is now possibly the largest and most reputed exporter of Indian carpets to western markets. Surviving the 1950s was a challenge. The firm needed to move from the uncertain trade-credit arrangements with its wool supplier, the Kanpur managing agency British India Corporation, to dealing with a proper bank, and it also set up stable marketing tie-ups with retailers and warehouses in

<sup>71</sup> *Royal Commission on Labour in India*, vol. 2, pt. 2 (London, 1931), 89–90.

<sup>72</sup> *Ibid.*, 89.

North America and Germany. The takeover of British India Corporation by an Indian entrepreneur, whose criminal conduct with respect to the company led to a jail sentence, did not help the firm at all. Unusually, the firm's Welsh owner stayed on in India, and a stable partnership emerged between Indian and foreign shareholders. This continuity helped the firm meet financial and marketing challenges. Today, the business model of Obeetee would not look dissimilar to what the East India Company followed two hundred years ago, a central warehouse and office that contracts out orders to artisans located in several villages nearby. The difference is that there are no brokers and agents in between, and the warehouse today not only stores carpets, but runs an elaborate system of quality control that centralizes processing, packaging, testing, dyeing, and design development.<sup>73</sup>

### Conclusion

Based on the narrative above, I wish to advance four generalizations. One of the organizing concepts for this article is globalization, which provides a historical context to almost all of the examples cited in the article. Nineteenth-century India witnessed globalization not only in the sense economic historians use the term, that is, an enormous increase in trade, migration, and investment, but also in the sense social theorists use it, a readiness to resettle, relocate, and change one's circumstances by joining cross-cultural transactions.<sup>74</sup> In both these senses, between 1860 and 1940, India took part in the globalization process. One influential strand in Indian economic history has read that participation with reference to a single leading structural process, imperialism or the incorporation of India into a Europe-centered world system.<sup>75</sup> Other strands suggest a less hierarchical conception of globalization, one in which Indian and European firms transacted from positions of mutual advantage, transactions were significant and growing between India and non-

<sup>73</sup> W. J. Oakley, "History of Obeetee Private Limited," mimeo, 1980, and field notes, Sept. 2012.

<sup>74</sup> See Kevin H. O'Rourke and Jeffrey G. Williamson, *Globalization and History: The Evolution of a Nineteenth-Century Atlantic Economy* (Cambridge, Mass., 1999); Anthony Giddens, *The Consequences of Modernity* (Stanford, 1990); Roland Robertson, "Mapping the Global Condition: Globalization as the Central Concept," *Theory, Culture, and Society* 7, no. 1 (1990): 15–30.

<sup>75</sup> On "incorporation" of India after 1750, see Immanuel Wallerstein, "The Incorporation of the Indian Subcontinent into the Capitalist World-Economy," *Economic and Political Weekly* 21, no. 4 (1986): 28–39. Indigenous merchant groups, in another account, could carry on by having "survived the onslaught of foreign conquest or [managing] to carve out a niche for themselves as collaborators of the metropolitan power." A. K. Bagchi, "Colonialism and the Nature of 'Capitalist' Enterprise in India," *Economic and Political Weekly* 23, no. 31 (1988): 38–50.

European regions, Indian merchants resettled abroad, local conditions shaped the nature of hybrid business firms, and most important of all, the firm, the business group, and the community retained the capacity to make significant change in their conditions and modes of operation.<sup>76</sup> This article suggests the need to explore further this plural understanding of globalization.

If globalization is one of the organizing concepts for the article, another is systematic difference in business organization. Despite ample mobility among the merchant groups, the commercial world remained segmented in respect to participants and institutions. Foreigners were concentrated in port cities, organizing foreign trade, and indigenous groups dominated interior towns, organizing overland trade in grain, cotton, and hides. Indian firms relied more on family ties than did the Europeans, who tended to recruit more nonfamily partners. The segmentation was neither absolute nor fixed forever. There were many examples of convergence. To some extent, railways bridged the gap between the land and the sea. Interior merchants were migrating to the seaports, and some expatriate firms went inland. Carpets, cotton gins, grain trade, and tannery furnish examples of the latter. Nevertheless, between the two spheres of trade, market transactions were more common than partnerships. Furthermore, the segmentation made European traders much more diverse than we may imagine. Managing agents in twentieth-century Calcutta, especially the class that I have called born-industrial, were far removed from rice-mill owners operating in Coromandel or carpet exporters in Mirzapur. The difference between them was not only one of scale but also in the drive to engage in local society and with other traders.

The third proposition concerns the sources of differentiation in business organization. In explaining these, we can make fruitful use of transaction and information cost concepts, which have found useful applications in the history of multinational firms in particular.<sup>77</sup> Expatriate firms tended to use formal partnerships more often than did Indian firms. The expatriates were short of personnel with whom they could communicate and whom they could trust; therefore, they needed, more than the Indians did, to make unorthodox choices about managers. The prevalence of family or community among the Indians was not just a survival of tradition. Community ties were at times reinvented (as with the Marwaris of Calcutta) to achieve trust and cohesion among mobile merchants. The institutional difference derived from another major

<sup>76</sup> See also Christof Dejung and Niels P. Petersson, eds., *The Foundations of Worldwide Economic Integration: Power, Institutions, and Global Markets, 1850–1930* (Cambridge, U.K., 2013).

<sup>77</sup> Jones, *Merchants to Multinationals*, ch. 1.

type of transaction cost, the risk of credit default. Money was exceedingly scarce in India, interest rates were many times the average for comparable loans in Europe, and the market was segmented by variable default risks. In port cities, the money market was well developed in the twentieth century; there were many joint-stock banks; capital transactions were market based. The banks and prospective shareholders required their clients to be firms of a standard legal type rather than being kinship groups or the legal fiction of the “Hindu undivided family.” Joining the money market, therefore, required the trading firm to acquire a degree of formal identity. Information flowed through more public channels. In overland trade, by contrast, there were very few banks, and those that did exist would not lend to the peasants. In 1929, an inland banker of Bihar charged 9 to 12 percent for loans to a relative, 18 percent for loans to a merchant, 24 percent for loans to a landlord, and 38 percent for loans to a peasant.<sup>78</sup> Traders, in this world, needed to become lenders, credit was integrated in sale transactions, and in order to keep defaults and contract failure in check, merchant-bankers preferred to deal with people they knew personally. Here the community and joint family ruled unchallenged.<sup>79</sup>

Fourth, this reading of commercialization in colonial India helps us rethink developments after 1947. Foreign enterprise in trading more or less withdrew from India in the next thirty years. The retreat is seen as a sign of the foreigners’ failure to adapt. One recent study, for example, reads the decline as a failure of the European managing agencies to change their preference for racial exclusivity in top management.<sup>80</sup> This explanation, while correct, overlooks the fact that the failure to adapt to the economic climate of independent India was a general one and led to the sale, closure, and exit of many foreign trading firms and quite a few domestic firms as well. A more likely explanation is that the retreat reflected a change in the very context of commercial enterprise, especially the end of globalization and the deliberate withdrawal of India from the world market.

The Great Depression had already weakened many export firms in India. The Partition of India in 1947 was a further blow to many groups. Supplies of raw materials for jute and paper industries, procured from what became East Pakistan (later Bangladesh), stopped. Shipping lines could not ply between Pakistan and India. For river steamers in Bengal, the new border was disastrous. Only the tea traders and producers came out somewhat unscathed. But even such a shock as this would

<sup>78</sup> Ibid., on Allahabad, 320.

<sup>79</sup> Dejung, “Bridges to the East,” explains the reliance on agents with reference to costs of credit operations in an analysis of Volkart’s operations in China.

<sup>80</sup> Misra, *Business and Politics*.

not explain why the majority of the foreign firms decided that the “easy days were over” and the time had come to “abandon the fight and return home.”<sup>81</sup> In the next fifteen to twenty years, Europeans sold their firms or lost control of them, Indianized management too quickly for comfort, and stopped growing. It is a well-known fact that the European business groups in India were satisfied with a small controlling stake in the manufacturing firms while retaining control over them by means of the managing-agency contract, interlocked directorships, and debt transactions.<sup>82</sup> In shareholding pattern, therefore, there had always been Indian participation. After 1947, this feature induced predatory takeover attempts.

The biggest adverse factor was government policy. According to the testimony of many insiders, the mass departure of expatriates owed to the barely restrained hostility of the Indian state to the old-style foreign firms.<sup>83</sup> Attitudes apart, the obstacle was the Indian government’s decision to undermine the three planks that had sustained commercial accumulation thus far, namely, commodity export, global firms, and private banking-cum-moneylending. In the new tariff regime, investment costs sharply increased in businesses that relied on imported equipment, including tea. Exports suffered in jute and tea. The trade-GDP ratio in 1970 had fallen to a third of what it was in 1920. Foreign firms were squeezed from two ends; they lost their foothold in export trade, whereas they never had a foothold in inland trade. The government partially nationalized commodity trade and practically banned commodity export in the private sector. The government nationalized banks in 1969 and progressively restricted foreign investment; exchange control and high taxes drove many multinationals away, and state-backed cooperatives replaced private rural lending. In the new ideological setup, every episode of inflation demonized commodity traders and moneylenders.

By 1970, much of the institutional and ideological foundation of the old trading order had withered away. True, at the same time, the government had also succeeded in initiating industrialization, avoided major food crises thanks to its hold on the grain trade, and sharply raised investment and economic growth rates. Critics point out, however, that all this was funded by the taxpayer’s money rather than commercial profits, involved waste and inefficiency, and slowed down capital accumulation in commodity trade. In this context, the survival of

<sup>81</sup> Jones, *Merchants of the Raj*, 156, 100.

<sup>82</sup> Jones, *Merchants to Multinationals*, on “Business Groups.”

<sup>83</sup> Jones, *Merchants of the Raj*.

colonial-era trading firms, two of which I describe, was a truly rare phenomenon.

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