UNIT 26 MERCHANTS AND MARKETS: 1757-1857

Structure

26.1 INTRODUCTION

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

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

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

26.2.1 Rurban Trade

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

26.2.2 Monetisation

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

26.2.3 Urban Centres, Market Places and Production

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

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

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

26.2.4 Merchant Shipping

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

26.2.5 Banias and *Sarrafs*

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

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

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

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

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

26.3 THE EIGHTEENTH CENTURY CRISIS AND THE PRELUDE TO COLONIALISM

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

26.3.1 The Crisis

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

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

26.3.2 Rise of European Private Trade

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

26.3.3 Decline of Indian Ports

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

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

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

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

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

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

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

26.4.1 Decline of Surat

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

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

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

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

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

26.4.2 The Case of Bengal

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

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

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

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

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

26.5 THE FINAL YEARS OF TRANSITION 1780-1800

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

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

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

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

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

26.6 THE FLOWERING OF THE COLONIAL ECONOMY 1800-1857

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

26.6.1 Private European Merchants

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

26.6.2 Pattern of Early Colonial Trade

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

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

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

26.6.3 Post 1813 Colonial Trade

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

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

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

Indian Merchants

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

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

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

Bengali Banyans

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

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

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

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

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

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

26.7 DEINDUSTRIALIZATION: THE DEBATE

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

26.8 SUMMARY

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

26.9 GLOSSARY

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

26.10 EXERCISES

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

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

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

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

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

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

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

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