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Euro-Asian Encounter in the Early Modern Period

SEPHIS – UNIVERSITY OF MALAYA

Published by the South-South Exchange Programme for Research on the History of Development (SEPHIS) and the History Department, University of Malaya. Amsterdam/Kuala Lumpur, 2003.

Printed by Vinlin Press Sdn Bhd, 56 1st Floor, Jalan Radin Anum 1, Bandar Baru Seri Petaling, 57000 Kuala Lumpur, Malaysia for Forum, 11 Jalan 11/4E, 46200 Petaling Jaya, Selangor, Malaysia.

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EURO-ASIAN ENCOUNTER IN THE EARLY MODERN PERIOD

The process of decolonization that the immediate post-World War II period witnessed brought to an end one of the most outstanding – if also the most shameful – characteristic features of the modern age. This was the domination of one people over another generally referred to as colonialism. In its economic dimension, colonialism assumed an extremely important role in determining the nature and the rate of economic growth both in the metropolitan as well as in the colonized world in the nineteenth and the first half of the twentieth century. This served to considerably widen the gap between the income levels and the standard of economic performance generally between the developed countries of the west on the one hand and the underdeveloped countries of the Third World viz. Asia, Africa and Latin America on the other. According to Angus Maddison, one hundred and fifty years ago, the gap in mean per capita share of gross domestic product between the richest and the poorest global regions, namely Western Europe and Africa, was probably three to one. Today this gap between a rich country such as Switzerland and a poor country such as Mozambique is a mind-boggling four hundred to one.[1] To what extent colonialism has or has not been directly or indirectly responsible for this state of affairs has been a subject of intense debate over the last half a century or so. This lecture is not about this debate although some of the issues raised by it will indeed be commented upon. What this lecture will seek to do is to analyse the relationship between Europe and Asia where many countries eventually became the victims of colonialism. The analysis will be confined to the early modern period viz. the period from the sixteenth to the eighteenth centuries. In the main, this period formed the backdrop to the phase of the formal colonial relationship between countries in the two continents, although as we shall see there were cases where monopsonistic and monopolistic privileges were sought and obtained by the Europeans in

1 David, S. Landes, *The Wealth and Poverty of Nations, Why Some Countries Are So Poor and Some So Rich*, New York, 1998, p. xx.

Asia and even formal territorial control established in parts of the continent during this early period. Though economic relationship was by no means the only vehicle of contact between the two continents, the lecture will be confined to this relationship.

ASIAN MARITIME TRADE IN THE PRE-EUROPEAN PERIOD

The history of economic contacts between Europe and Asia goes back into antiquity. Fairly regular commercial contacts are known to have flourished during the days of the Roman Empire. The precise strength and range of these contacts until about the early part of the second millennium A.D., however, remain somewhat obscure. But there can be very little doubt that the rise of long-distance Asian maritime trade stretching from Gombroon in the Persian Gulf to Nagasaki in Japan along what I have elsewhere described as the great arc of Asian trade had important implications for the value as well as the composition of the water-cum-land trade between west Asia and southern Europe via the Mediterranean. In Asian maritime trade, by far the longest distance was covered by the route that connected Aden to Canton. There is evidence to suggest that this route was in regular use at least from the seventh century. The principal group which had initiated trade on the route was the Persian merchants who had, however, been supplanted by and large by Arab merchants since about the ninth century. The principal stops on the way were either Cambay or Calicut on the Indian west coast and a port such as Palembang in Sumatra. It would seem that at some time during the twelfth century Chinese junks also began operating on this route in an important way. There is evidence that the Chinese merchants established commercial contacts with places such as Sri Lanka, Kollam on the Malabar coast and Hurmuz in the Persian Gulf. The Chinese participation in trade on this route would appear to have reached important levels by the early years of the fifteenth century. Between 1404 and 1433, a series of seven commercial-cum-naval expeditions was dispatched from China under the command of Admiral Cheng Ho. The first of these expeditions is believed to have consisted of as many as 62 ships and 28,000 men. The fourth voyage is reported to have reached Hurmuz and Aden, while those that followed claimed to have touched even the East African ports of Mogadishu and Malindi. But in 1433 the Chinese authorities abruptly withdrew from these ventures and, indeed, there is no record of these long-distance voyages having ever been resumed. In the meantime, the Arabs had also gradually pulled out of this long-distance route.

Whatever the reasons behind the Chinese and the Arab withdrawal from long-distance trade, it signalled a basic alteration in the organizational structure of Asian trade. The new structure was based on the segmentation of the great arc of Asian trade into three divisions – the Arabian Sea, the Bay of Bengal and the South China Sea. The ports of Cambay or Calicut and Malacca (founded at the beginning of the fifteenth century), which had until then served essentially as victualling and stopping points on the long route between west Asia and China, now became terminal ports. The role of these ports in providing a reasonably assured market in the goods brought in, as well as in making available those sought after by the visiting ships, besides offering facilities such as anchorage, ware-housing and banking, cannot be overemphasized. In the course of the fifteenth century, Malacca became a truly major centre of international exchange and a meeting point of traders from the East and the West. Increasingly, the participation of the Arab merchants became confined to the trade between west Asia and the west coast of India. This left the trade between the west and the east coasts of India on the one hand, and the eastern Indian Ocean region on the other, almost exclusively in the hands of Indians – the Gujaratis more than anyone else, but also the Chettis, the Chulias and other groups from the Coromandel coast, besides the Oriyas and the Bengalis. The participation of the Chinese merchants was now restricted by and large to controlling the trade between China and Malacca, while the Indonesian and the Malay merchants hardly seem to have ventured beyond the inter-island and the port-to-port trade in the Malay-Indonesian region. In sum, Indian merchants from different regions of the country constituted an important trading group operating in the Ocean.

It is true that the ships that left Cambay for Malacca each year included many owned and operated by Arab, Persian, Turkish and other merchants from west Asia, but all these groups together were overshadowed by the Gujaratis who controlled the bulk of the trade on the route. The goods that the Malacca-bound ships leaving Cambay carried were, in part, coloured woollen clothes and glassware from the Mediterranean, and items such as rose-water, opium, indigo and silver from west Asia. But a large part of the cargo would seem to have consisted of textiles manufactured in Gujarat – mainly of coarse cotton, though more expensive varieties including those manufactured from fine-quality cotton and silk also seem to have figured in the list. The cargo obtained in exchange at Malacca included Chinese goods such as silk and porcelain, Indonesian spices such as pepper, cloves, nutmeg and mace, besides woods and aromatics, and precious and non-precious metals such as Malayan tin. In addition to Malacca, the Gujarati ships from Cambay called at ports such as Aceh, Kedah, Tenasserim/Mergui and Pegu. The goods carried to these ports were broadly similar to those carried to Malacca: the goods brought back were largely of local origin, rather than cosmopolitan as in the case of Malacca. A part of the large conglomerate of goods brought to Cambay was obviously destined for consumption in Gujarat, as well as the large north Indian hinterland supplied by it. But a good proportion would seem to have been re-exported mainly to west Asia, the most important ports in the region at this time being Aden and Jeddah. The other important constituent of the cargo to west Asia was textiles manufactured in Gujarat. These were predominantly those manufactured from coarse cotton and intended for mass consumption, though superior varieties manufactured from fine cotton and silk also figured in the list. The route from Cambay to Aden would seem to have been dominated by the Arab, Persian and other west Asian merchants though the Gujarati merchants also operated on this route in an important way.

The Indonesian spices and other items imported from Cambay into Aden and other west Asian ports found their way in significant quantities, in addition to the markets of west Asia, to

Europe via the Mediterranean. The two routes used for the purpose were those via the Red Sea and the Persian Gulf. While the Red Sea route terminated at the Egyptian port of Alexandria on the southern coast of the Mediterranean and involved only a small stretch of overland transportation, the Persian Gulf route made use of the Tigris or the Euphrates rivers and a fair amount of caravan transportation across Iraq and the Syrian desert. Important among the Mediterranean destination ports on this route were Tripoli (of Syria) and Beirut. This traffic was handled exclusively by the west Asian merchants. At the Mediterranean ports, the goods were procured mainly by the merchants from Venice and Genoa. While both the Red Sea and the Persian Gulf routes had been in use since antiquity, the relative amount of traffic on either at any given point in time depended partly on political circumstances. While during the eighth and the ninth centuries the Persian Gulf route was the dominant one, the decline of the Abbasid caliphate and the rise of the Fatimids of Egypt tilted the balance from the eleventh century onward significantly in favour of the Red Sea route. This was also the period which witnessed a significant expansion in the volume of Euro-Asian trade. Evidence from the end of the fourteenth and the early years of the fifteenth century suggests that volume-wise the Alexandria trade was considerably larger than – nearly double on average – the one via Beirut. However, since the latter handled the expensive spices much more, the difference between the two ports was much smaller in terms of value.[2]

RISE OF AN EARLY MODERN WORLD ECONOMY

In a well-known passage in his *An Enquiry into the Nature and Causes of the Wealth of Nations*, Adam Smith, the father of modern economic science, argued that “the discovery of America and that of a passage to the East Indies by the Cape of Good Hope are the two greatest and most important events recorded in

2 C.H.H. Wake, “The changing pattern of Europe’s pepper and spice imports, ca. 1400-1700”, *The Journal of European Economic History*, vol. 8(2), 1979, pp. 364-9.

the history of mankind."[3] While there clearly is an element of exaggeration in this statement, it nevertheless underscores the critical role of the two events in the emergence of an early modern world economy. The three principal segments of this economy, namely Europe, the New World, and Asia effectively came together in an interactive fashion for the first time directly as a result of the great discoveries of the last decade of the fifteenth century. The New World was discovered for the first time. As for Asia, what the discovery of the all-water route via the Cape of Good Hope achieved was the overcoming of the transport-technology barrier to the growth of the Euro-Asian trade. The volume of this trade was no longer subject to the capacity constraint imposed by the availability of pack animals and river boats in the Middle East. It was indeed a critically important coincidence that the discovery of the Cape route and of the New World took place almost simultaneously. For without the enormous quantities of American silver reaching Europe through the sixteenth century, the enhanced trading opportunities between Europe and Asia opened up by the Cape route would essentially have been frustrated. Euro-Asian trade had traditionally been one involving the exchange of Asian luxury and other goods basically against European silver and, to a smaller extent, gold. The 'bullion for goods' pattern of trade was an outcome of the inability of Europe to supply goods that could be sold in Asia in reasonably large quantities at competitive terms. Europe at this time had an undoubted overall superiority over Asia in the field of scientific and technological knowledge, but not as yet the distinct cost advantage that came with the Industrial Revolution in the late eighteenth and nineteenth centuries. This put the Asian, and particularly the Indian producers, with their considerably lower labour costs and a much longer history of sophisticated skills in handicrafts of various kinds, in a position of advantage over their European counterparts in the production of a variety of manufactured goods. As a result, Europe really had no option but to pay for the Asian goods overwhelmingly in terms of precious metals.

3 Adam Smith, *An Enquiry into the Nature and Causes of the Wealth of Nations*, 1776, reprinted from the sixth edition, London, 1905, vol. 2, p. 139.

Ever since the fourteenth entry or so, the output of precious metals in Europe had by and large been stagnant raising fears of deflationary tendencies cropping up. This, coupled with the bullionist inhibitions regarding the export of precious metals, would almost certainly have created a situation where the non-availability of significant additional quantities of precious metals for export to the East would by and large have rendered the opportunities opened up by the availability of the Cape route quite redundant. It is in this context that one must appreciate the critical significance of the two great discoveries – that of the New World and of the Cape route to the East Indies – having taken place almost simultaneously. It is from this time onward that one can legitimately speak of the emergence of an early modern world economy embracing in an organic and interactive manner all three of its principal components, namely the New World, Europe, and Asia.

THE PORTUGUESE ESTADO DA INDIA

The spice monopoly

Since the Cape route had been discovered by the Portuguese, they immediately monopolized it and even got the Pope to legitimize the arrangement. Was their trade on this route a net addition to the Euro-Asian trade in spices and other goods or did it represent largely a diversion of the trade along the long-established water-cum-land route via the Mediterranean? There is very little doubt that in the early years of the sixteenth century the Portuguese policies were indeed instrumental in spelling almost a total disaster for the trade along the old route. The attempt at monopolizing the spice trade was unambiguous. It called for a total exclusion of Asian shipping from the Persian Gulf and the Red Sea: the instructions to Pedro Alvares Cabral, in charge of the first major commercial voyage to India that left Lisbon in March 1500, included the initiation of steps designed at blockading the passage to the Red Sea. The rest of the Asian trade would be regulated to exclude trade in spices. The instrument used to implement this policy was the cartaz, a safe-conduct that all Asian ships were obliged to carry on pain of seizure in the event of non-compliance.

The document obliged the Asian ship to call at a Portuguese-controlled port and, following the establishment of the Portuguese customs houses there, to pay customs duties before it proceeded on its voyage. Enemies of the Portuguese and banned goods such as spices were not to be carried. There is some evidence that an equivalent of the cartaz existed in the Asian seas before the arrival of the Portuguese, but there can be little doubt that the scale on which this restrictive measure was used by the Portuguese was unprecedented. The measure indeed represented an institutional constraint on the freedom of navigation on the high seas.

The policy of exclusion of the merchants from Calicut, Cambay and other ports on the west coast of India from the Red Sea and the Persian Gulf was highly successful. Hurmuz at the entrance to the Persian Gulf was captured in 1515: the failure to capture Aden was made up for by the dispatch each season from Goa of a fleet to lie off the entrance to the Red Sea, usually cruising between Aden and Bab-el-Mandeb and returning to Hurmuz in April. Raids on departing fleets at Calicut were common and the result was practically a ruination of the spice trade with the Persian Gulf and the Red Sea. It was reported as early as 1504 that the Venetian galleys calling there found no spices at either Alexandria or Beirut. Two years prior to that, concerned at the loss of the substantial revenues that the spice trade used to bring him, the Mamluk of Egypt had sought the good offices of the Pope to try and dissuade the Portuguese from choking the flow of spices through the Red Sea!

The dislocation in the spice trade, however, proved only temporary. By the second decade of the sixteenth century cracks had already begun to appear in the Portuguese system. A series of circumstanes combined to produce this result. A key element in the situation was the financial priorities and compulsions of the Estado da India. Given the rather precarious state of the finances of this body, it was imperative that no opportunity of taxing Asian shipping by making it call and pay duties at Portuguese controlled ports such as Malacca, Goa and Diu be missed. Hurmuz, taken in 1515, was one such strategically located port. Pepper and other spices passing through the port and destined for consumption within west Asia posed no problem: the choice between tax revenue and the cost of the infringement of the European monopoly arose only in respect of that part of the cargo which would eventually reach Venice or Genoa via Aleppo. The choice was made in favour of the tax revenue and, as Niels Steensgaard has suggested, between 1524 and 1543 an average of 90,000 xerafins was earned as customs duties per annum at Hurmuz. Steensgaard's characterization of the Portuguese enterprise as 'redistributive' in character has in part at its base such parasitical siphoning off of a part of the profits of Asian trade. Another circumstance that prompted the Portuguese to allow pepper shipments to pass Hurmuz was the desire to earn the goodwill of Persia against an increasingly aggressive Ottoman empire. Whatever the motivation, the Portuguese decision involved a diversion of the spice trade from the Aden-Cairo-Alexandria axis to the Basra-Baghdad-Aleppo axis.

But that diversion was strictly temporary, and from the late 1530s onward the Red Sea spice trade began to revive. After an initial vigorous and successful phase, the Portuguese blockade of the Bab-el-Mandeb became increasingly ineffective for a variety of reasons. For one thing, considerations of strategy as well as of economics often obliged the Porguguese authorities to issue a limited number of cartazes for the Red Sea ports. Thus, as early as 1515 Albuquerque found it necessary to grant the Samudri raja a certain number of cartazes for the merchants based at his port, enabling them to resume trade with Aden and Jeddah. On other occasions, a similar concession was extended to other puppet rulers. Important business associates such as Khwaja Shams-ud-din Gilani as well as merchants providing credit to the Estado had to be similarly accommodated. In some cases, such as in that of Gilani, trade in pepper was explicitly permitted, while in most others the understanding was that pepper would continue to be treated as a prohibited article. But for all practical purposes, the distinction made little difference and nearly all ships going to the region carried pepper legitimately or clandestinely. And then, of course, there was the trade in pepper carried on by various categories of the Portuguese in contravention of the official policy.

The network of this trade included the Red Sea and there was very little the Portuguese official machinery was able to do about it.

It needs to be emphasized that the Estado simply lacked the resources in men and ships to sustain an effective blockade of the Red Sea year after year. The only area in which the Portuguese were reasonably successful was in preventing ships from Malabar from going to the Red Sea. But shipping from Kanara and the Bay of Bengal continued to carry Indian pepper to the Red Sea from the late 1530s and the early 1540s onward, mainly through the agency of the Gujarat merchants. It seems that considering the expense and the poor rate of success, the Portuguese abandoned the Red Sea expeditions around 1569, clearing the way for a full-fledged revival of the Red Sea traffic in pepper. C.R. Boxer, who has traced this revival, is of the opinion that the volume of Aceh pepper reaching Jeddah at the end of the sixteenth century was larger than what the Portuguese were taking to Lisbon by the Cape route.[4]

The procurement of pepper

In keeping with the traditional composition of the Asian imports into Europe, the principal item sought by the Portuguese Crown in Asia was spices – overwhelmingly pepper – though some other goods were also procured. Throughout the sixteenth century, an overwhelming proportion of the pepper imported into Lisbon was procured on the southwest coast of India where the first purchases were made at Calicut on the Malabar coast where Vasco da Gama had landed. But relations with the *pardesi* merchants of the town as well as the samudri raja deteriorated fast. The conflict with the merchants had its origin mainly in the Portuguese insistence on being provided with pepper before the Red Sea merchants had been served. The Portuguese attack on a *sambuk* was retaliated by their factory being looted which, in turn, led to an attack on the port and a bombardment of the town in 1501 that lasted for two days. The era of peaceful trading which, occasional instances of

4 C.R. Boxer, 'A note on Portuguese reactions to the revival of the Red Sea spice trade and the rise of Atjeh, 1540-1600', *Journal of Southeast Asian History*, vol. 10(3), 1969, pp. 415-28.

violence notwithstanding, had been the norm in the Asian waters for centuries, had finally been shattered by the Portuguese. At any rate, it was found more expedient to shift the centre of pepper procurement to Cochin where the more cooperative Mappila and the Syrian Christian merchants were used as brokers and intermediaries. With the aid of the dependent raja of Cochin, the Portuguese tried to establish a monopoly in pepper there. But since the raja had no real control over the areas where pepper was grown or over the routes used for its transportation, the monopoly never really worked in any effective sense. At his own level, of course, the raja provided all help by giving protection to the river boats bringing pepper to Cochin, by guaranteeing loans raised by the Portuguese from private sources, as well as by providing loans himself.[5] The friendly relationship between the Estado and the Mappila merchants at Cochin, however, did not last very long. By the end of the third decade of the century, the merchants had declared a holy war – *jihad* – against the Estado. This hostility continued in one form or another into the seventeenth century.

The procurement of pepper in India was organized by the Estado while the sales in Europe were through contract sales based until the middle of the century at Antwerp and thereafter in Lisbon. The liquidity problems of the Portuguese Crown forced a major reorganization of the trade with Asia in 1564 when the first of a series of contracts giving over trade on the Cape route to private parties was concluded. The remaining part of the century witnessed a variety of experiments being carried out in an attempt to identify the optimal strategy that would ensure to the Crown maximum monopoly revenue without obliging it to be directly involved in the conduct of the trade with Asia. In 1570, the trade in pepper and other spices was opened to free competition, although the Crown also continued to participate in the trade itself and retained its monopoly on the export of precious metals to Asia. The Asian contract system was introduced in 1575. The

5 Jan Kieniewicz, 'The Portuguese factory and trade in pepper in Malabar during the sixteenth century', *The Indian Economic and Social History Review*, vol. 6(1), 1969, pp. 68-9.

first beneficiary of the new arrangement was the Augsburg merchant Konrad Rott and associates who included the Milanese merchant Giovanni Batista Rovalesca. Under this arrangement, Rott received intact the royal monopoly of the Cape route – the procurement of spices in Asia, their shipment to Europe, the provisioning of the carracks in Lisbon and Goa, and the distribution of pepper in Europe. Just before his death in 1580, dom Henrique renewed the Rott-Rovalesca contract for another five years. Each year, the contractors were supposed to purchase in India a total of 30,000 quintals of pepper – 15,000 on their own account and 15,000 on the Crown's account. The contractors were free to sell their half of the pepper as they chose; the Crown would also sell all of its 15,000 quintals (which cost it nothing) to the Rott-Rovalesca consortium at 32 cruzados per quintal. The consortium thus enjoyed exclusive European distribution of Portuguese pepper.[6] A sharp decline in the European price of pepper, however, forced Rott out of business. In February 1586, a new Asian contract was concluded for a period of six years with Rovalesca in association with Giraldo Paris. This group was required to supply to the Crown 30,000 quintals of pepper per annum at a price of 16 cruzados per quintal.[7] The Casa da India sold the pepper to the European contractors at prices negotiated each year in Lisbon. The contract system continued until 1598 when following the English and Dutch intervention in the seaborne spice trade, private enterprise was no longer willing to take up the pepper contracts. In any event, the experiment with the contract system had not been particularly satisfactory for either side. The syndicates were consistently unable to import the quantities specified in the contracts and never managed to make adequate profits. The bankruptcy of Rott has already been noted: his Milanese counterpart Rovalesca was also forced to follow suit.

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6 James C. Boyajian, *Portuguese Trade in Asia under the Habsburgs 1580-1640*, Baltimore and London, 1993, p. 20.

7 Hermann Kellenbenz, "Autour de 1600: le commerce du poivre des Fugger et le marche international du poivre", *Annales Economies-Societes-Civilisations*, vol. 11(1), 1956, pp. 1-28.

Redistributive enterprise?

Given the manner in which the Portuguese Crown dealt with the matter of the procurement, the transportation, and particularly the disposal of the Asian pepper in the European market, the Danish historian, Niels Steensgaard, characterized the Portuguese Euro-Asian pepper trade as a redistributive enterprise. As he so succinctly put it, "the Portuguese pepper monopoly was not a business but a custom house."[8] He had then gone on to contrast this with the productivity enhancing nature of the northern European companies' – particularly the Dutch East India Company's – trading operations between the two continents from the beginning of the seventeenth century onward. The success of the companies was based not upon government monopolies or the use of violence but on their ability to compete in the market. For by adopting specific policies in relation to stocks, pricing and the mode of the disposal of their goods, the companies made impressive gains in the transparency and the predictability of the markets in which they operated. This is essence constituted what Steensgaard described as the Asian Trade Revolution of the early seventeenth century. While certain key elements in Steensgaard's formulation continue to be valid, the overall characterisation of a redistributive enterprise for the entire Portuguese trading operations both between Europe and Asia as well as those within Asia is probably in need of revision. This is partly because the companies were not quite as devoid of the use of monopoly and violence as Steensgaard's model in a pure form would seem to imply. More importantly, we now know that the Portuguese enterprise was indeed very much more than a simple Euro-Asian trade in pepper, the commodity mainly responsible for the characterisation of the trade as redistributive in nature.

It is, therefore, important to keep the matter in perspective and not overstate the redistributive dimensions of the Portuguese Asian enterprise in its entirety. Pepper was indeed the raison d'etre of the Portuguese Euro-Asian trade in the beginning

8 Niels Steensgaard, *Carracks, Caravans, and Companies: The Structural Crisis in the European-Asian Trade in the Early 17th Century*, Copenhagen, 1973, p. 100.

accounting in the first two decades of the sixteenth century for as much as 95 percent of the total Asian cargo imported in physical terms and 85 percent in value terms.[9] However, the situation changed considerably from the 1580s onward with the physical share of pepper coming down to 68 percent during 1587-88, to 65 percent during 1600-03 with an increase to 69 percent during 1608-10.[10] More importantly, a recent study by James Boyajian suggests a dramatic decline in the proportion of pepper to total Portuguese imports over the period 1580-1640 to a mere 10 percent. According to him, by far the most important item of import during this period was cotton and silk textiles accounting for as much as 62 percent of the total value imported, followed by precious stones (14 percent) indigo (6 percent) and spices other than pepper (5 percent).[11] If pepper accounted for no more than 10 percent of the total imports from Asia, the redistributive dimension of the Portuguese Euro-Asian trade as viewed from the European end would assume a very different quantitative profile from that suggested by Niels Steensgaard. At the heart of Boyajian's analysis is his almost revolutionary revision of current orthodoxy in the matter of the relative role of the private Portuguese traders in the Euro-Asian *carreira* traded over the period. It has traditionally been conceded that the *carreira* ships did indeed carry on a regular basis a certain amount of private cargo under a variety of arrangements. The novelty of Boyajian's estimates consists in his view of the magnitude of the private cargoes carried abroad these ships overwhelmingly on the account of the New Christian merchants who were descendants of Iberian Jews forcibly converted to Christianity at the end of the fifteenth century. According to Boyajian, private cargoes accounted for an almost unbelievable

9 The physical estimates are based on Genevieve Bouchon, "L'inventaire de la cargaison rapportee de I'Inde en 1505", *Mare Luso Indicum*, Vol. III, Paris 1976, and *Navires et Cargaisons retour de I'Inde en 1518*, Paris, 1977. The value estimates are calculated from Magalhaes Godinho, *Os D'escobrimentos e a Economia Mundial, Lisbon, 1963-71*, Vol. III, p. 11.

10 Niels Steensgaard, "The return cargoes of the Carreira in the 16th and early 17th century" in Teotonio R. de Souza (ed.), *Indo-Portuguese History: Old Issues, New Questions*, New Delhi, 1985, p. 22.

11 James C. Boyajian, *Portuguese Trade in Asia*, Table 3, p. 44.

93 percent of the total value imported over the period 1580-1640 from Asia. Certain methodological problems with the Boyajian estimates do indeed raise questions about the precise extent of the private Portuguese merchants' trade between Europe and Asia. But there can be little doubt that the significant upward revision of the overall role of these merchants in Euro-Asian trade is in the right direction. This would considerably erode the redistributive dimension of the pepper trade at the European end.

Portuguese intra-Asian trade

What about the Asian end of the Portuguese trading operations as an element in the redistributive potential of these operations? We have already seen that the Estado da India's attempt at monopolizing the Indian Ocean spice trade was short-lived. In respect of the bulk of the remainder of the trading activity carried on by the Portuguese either on an official or on a private basis, there was no component of a redistributive enterprise whatever. The Estado itself engaged in a certain amount of trade within Asia, mainly in the Bay of Bengal with Malacca as the principal point of origin and termination of voyages. In the decade of 1511-20, the *Fazenda Real* (or royal treasury) carried out a number of exploratory commercial voyages and a whole series of crown routes (*carreiras*) was created. This was done in close cooperation with the Keling merchant community of Malacca, whose doyen at the time was one Nina Chatu. The cooperation often took the form of ventures undertaken jointly by the Crown and Nina Chatu. One such venture was the voyage of the *Sao Joao* which left Malacca for Martaban in Burma in August 1512, returning in May 1513. The same ship was then sent to Pulicat, again in partnership with Nina Chatu.[12] However, for a variety of reasons, the period over which the involvement of the Portuguese Crown as an entrepreneur in intra-Asian trade lasted was comparatively brief.

The phase of the Crown involvement in intra-Asian trade was followed from the second half of the sixteenth century onward

12 Sanjay Subrahmanyam, "The Coromandel-Malacca Trade in the 16th Century: A Study of its Evolving Structure", *Moyen Orient & Ocean Indian XVI-XIX*, vol. 3, 1986, pp. 55-80.

by a fairly intensive participation in this trade by private Portuguese traders, many of whom were at the same time employees of the Estado. Another major group of private traders participating in intra-Asian trade was that of the New Christian merchants, also using this channel to obtain a variety of Asian goods for transportation to Lisbon abroad the *carreira* ships as private cargo. A large number of the private traders operated on the basis of the so-called 'concession' system introduced in the 1550s. This system was essentially in the nature of a benefice conferred by the Crown mainly on the so-called *casado* merchants. A concession conferred on the grantee the right to make a voyage between two specified ports in the Indian Ocean and/or the China Sea. By the 1580s, the concession system had become a major component of the Portuguese trading network in Asia. Luis Thomaz has listed a total of 34 concession voyages in operation in the 1580s covering the China sea, the Indonesian archipelago, and the Bay of Bengal.[13] The New Christian merchants of Goa invested in both the *carreira da India* as well as in intra-Asian trade. Indeed, the profits from intra-Asian trade financed a good part of the cargo that the New Christian merchants put on the *carreira* ships at Goa for Lisbon on their private account. In the 1580, Goa's merchants, according to Boyajian, shipped about 250,000 cruzados in silver and other goods each year to Macao on the China-Japan carracks. In return, they extracted from Japan more than 500,000 cruzados of silver annually, much of which returned to Goa and Cochin as silk, musk and porcelain and gold coin, after yet another exchange in Macao.[14] A large part of this cargo eventually found its way to Lisbon. This particular trading strategy anticipated in an important manner what the Dutch East India Company did on a much more elaborate scale and with a much greater degree of intensity in the seventeenth century.

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13 Luis Filipe F.R. Thomaz, "The Portuguese in the seas of the Archipelago during the 16th Century", pp. 81-85. Originally published as "Les Portugais dans les mers de l', Archipel au XVI siecle", *Archipel, 18* (1979). Available in translation as *Trade and Shipping in the Southern Seas, Selected Readings from Archipel (18)*, 1979, Paris, 1984, pp. 75-91.

14 James C. Boyajian, *Portuguese Trade in Asia*, p. 84.

A reference to the trading activities of the Dutch East India Company, which we shall analyse in some detail below, also serves to remind one that in so far as the Dutch monopoly of finer spices involved a gross under-payment to the producers in the Spice Islands, the label of redistributive enterprise would apply as much to this segment of the Dutch Company business as it would to the pepper trade of the Portuguese Crown. Indeed, Steensgaard himself recognizes this when he says, "the Dutch East India Company was not a 'pure' type: it contained features in its constitution, in its structure and its policy, more reminiscent of a redistributive enterprise than of a business."[15] Again, the absence of the "use of violence" by the companies is a construct that poses problems. In its trade within Asia, the Dutch East India Company took extensive steps to obtain exclusive right in particular products and markets and minimize competition by indigenous merchants, making a judicious use of violence in the process.[16] The Company also made an optimal use of the pass system to keep Asian competitors out of the trade in monopoly products such as spices and regulate their trade in several others, such as Malayan tin. If some violation of the prescribed policies and procedures, say by the Indian traders, was tolerated, it was only because the cost of unlimited conflict in the form of possible disruptions to its trade in the Indian subcontinent would have been unacceptably high for the Company.[17]

If one goes beyond Steensgaard and defines the notion of "ability to compete" to include both belief and confidence in

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15 Niels Steensgaard, *Carracks, Caravans and Companies*, p. 141. A few pages earlier, Steensgaard writes, "One may therefore raise the question as to whether the Dutch East India Company ought not to be considered a redistributive enterprise using organized violence with a view to the acquisition of income" (p. 133).

16 As the Dutch historian, Hans van Santen, has put it, "Violence was a necessary part of the market strategy of the VOC", H.W. van Santen, "De Verenigde Oost-Indische Compagnie in Gujarat en Hindustan, 1620-1660," Ph.D. thesis, Leiden University, 1982, p. 208.

17 Om Prakash, "Asian trade and European impact: A study of the trade from Bengal 1630-1720," in Blair B. Kling and M.N. Pearson (eds.), *The Age of Partnership, Europeans in Asia Before Dominion*, Honolulu, 1979, pp. 43-70.

competitive trade, the sustained opposition of the English and the Dutch companies to the entry of rival European companies into Euro-Asian trade creates problems. The Dutch Company, for example, was clearly hostile to the first Danish expeditions of the 1610s and the early 1620s to India.[18] The VOC's action in seizing two of the Genoese East India Company's vessels in the Sunda Straits in April 1649 was a clear example of the use of force to keep a potential competitor out, though ostensibly the step was taken because the vessels were carrying Dutch crews and merchants.[19] Also, in the 1720s, the Dutch and the English companies successfully formed a coalition both in Europe as well as in Bengal to keep the newly formed Ostend Company out of the lucrative Bengal trade. It was basically the pressure by the two companies that led to the suspension and later the abolition of the Ostend Company. There, of course, was nothing they could do about the same set of merchants regrouping themselves under different nomenclatures. It is, therefore, imperative that the question of the differences between the policies followed by the Portuguese on the one hand, and by the Dutch and the English on the other, which certainly were by no means inconsiderable, be kept in perspective.

THE DUTCH AND THE ENGLISH EAST INDIA COMPANIES

Even though the Asian Trade Revolution of the early seventeenth century consisted in the English and the Dutch East India companies being different from the Portuguese Estado only in a limited way, there nevertheless was another kind of Asian Trade Revolution under way at precisely the same time. This revolution consisted in an enormous expansion in the volume and value of seaborne Euro-Asian trade as well as a major diversification in the composition of the goods imported into Europe as well as the

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18 Om Prakash (ed.), *The Dutch Factories in India, 1617-1623*, New Delhi, 1984, pp. 31-33, 35; Holden Furber, *Rival Empires of Trade in the Orient, 1600-1800*, Minneapolis, 1976, pp. 201-202; Sanjay Subrahmanyam, *The Political Economy of Commerce: Southern India, 1500-1650*, Cambridge, 1990, p. 282.

19 Sanjay Subrahmanyam, *The Political Economy of Commerce*, p. 293.

range of Asian sources where these goods were procured. A related development was the near-wiping out early in the seventeenth century of the water-cum-land route between the two continents that had been in use for centuries.

The Dutch East India was founded in 1602 by a charter granted by the States-General, the national administrative body of the Dutch Republic. The Euro-Asian trade carried on by the Portuguese was running into serious problems in the last quarter of the sixteenth century. This, coupled with the loss, in 1585, of Antwerp's position as the staple market for Asian goods in north-western Europe as a result of the blockade of the Scheldt, gave the merchants from the northern Netherlands a strong incentive to challenge the Portuguese monopoly of the Cape route and participate directly in the Euro-Asian spice trade. The first stage was the establishment in the 1590s of a number of so-called 'pre-companies', the most important of which was the one known as the 'Old Company'. It was on the account of this company that eight vessels were sent out to the East in 1598. The profit on the voyage was estimated at around 400 percent. Since the ships sent to the East on the individual account of different companies competed with each other fiercely, the inevitable result was an increase in the cost price of the pepper and other spices and a decline in their sale prices in the Netherlands. It was with a view to prevent such cutthroat competition that the various companies were merged together in March 1602 to form the United Dutch East India Company. The other major north-west European Company engaged in the Euro-Asian trade was the English East India Company. The great success attendant upon the venture of the Old Company of Amsterdam into the Euro-Asian trade had caused great consternation among the English merchants engaged in the spice trade from the Levant. The fear of the Dutch domination of the spice market in northwestern Europe thus served as the catalyst that led a group of London merchants to apply to the Crown for a monopoly charter for the East India trade. The request was granted and on 31 December 1600 was born the 'Company of Merchants of London trading into the East Indies'.

Initially, both the Dutch and the English concentrated on the procurement of pepper and other spices which, as in the sixteenth century, continued to account for an overwhelming proportion of the total Asian imports into Europe. But unlike, and indeed mainly because of, the Portuguese, the Dutch and the English procured their pepper in Indonesia rather than on the southwest coast of India. The result was a marked shift in the Asian loci of the Euro-Asian seaborne trade form India to the Indonesia archipelago. This was the Asian counterpart of the shift of the European loci of this trade from Lisbon to Amsterdam and London. It was nearly three quarters of a century before the Asian loci shifted back to India in response to the change in European fashions assigning an increasingly important role to textiles and raw silk in the Asian imports into Europe. In the case of the Dutch East India Company, for example, spices, including pepper, came down from an imposing 74 percent of the total imports in 1619-21 to 68 percent during 1648-50 and to a mere 23 percent during 1698-1700. On the other hand, textiles and raw silk went up from 16 percent in 1619-21 to an incredible 55 percent at the end of the seventeenth century. There was a decline thereafter, but in 1778-80 textiles and raw silk accounted for half of the total imports. Because of the smaller geographical range of the Asian operations of the English East India Company, goods procured in India accounted for an even greater proportion of the total Asian imports into England. At the end of the seventeenth century, this figure stood at as much as 95 percent and at 84 percent in 1738-40.[20]

The role of bullion

The central characteristic feature of Euro-Asian trade, namely the necessity for the Europeans to pay for the Asian goods overwhelmingly in precious metals, however, remained unchanged throughout the entire period between the sixteenth and the eighteenth centuries. This particular phenomenon has sometimes

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[20] J.R. Bruijn, F.S. Gaastra, and I. Schoffer, *Dutch Asiatic Shipping in the 17th and 18th Centuries*, The Hague, 1987, Vol. 1, Table 41, p. 192. Calculated from K.N. Chaudhuri, *The Trading World of Asia and the English East India Company, 1660-1760*, Cambridge, 1978, pp. 508-10.

been ascribed to the rigidity of consumer tastes in the East, which rendered the Asian markets for European goods extremely small and static. Alternatively, it has been suggested that the absorption of precious metals by India or China reflected the hoarding habits in these societies.[21] But as pointed out earlier, a more convincing explanation of this phenomenon is the inability of Europe to supply western products with a potential market in Asia at prices that would generate a large enough demand for them to provide the necessary revenue for the purchase of the Asian goods. The only major item Europe was in a position to provide to Asia was precious metals. The growth of the Euro-Asian trade, therefore, was critically dependent upon an increase in the availability of these metals. In this context, the working of the South American silver mines and the enormous import of American silver into Europe during the sixteenth and the early seventeenth centuries was a development of critical significance. Although the American silver initially arrived into Spain, a large part of it eventually found its way to Amsterdam, mainly via Hamburg. In fact, from the early years of the seventeenth century the Dutch were the undoubted masters of the European bullion trade and Amsterdam the leading world centre of the trade in precious metals.[22] It is an indication of the international standing of this city as a market for precious metals that the English East India Company also obtained a large part of its requirements of these metals in Amsterdam. An analysis of the Dutch and the English East India companies' exports to the East Indies over the seventeenth and the eighteenth centuries testifies to an unambiguous pattern where precious metals dominated the total exports throughout the period. An important implication of this 'bullion for goods' model of Euro-Asian trade was that as far as the Europeans were concerned, the profit from the trade was derived almost entirely from the sale of Asian goods in Europe rather than also from the sale of European goods in Asia.

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21 Rudolph C. Blitz, 'Mercantalist policies and the pattern of world trade, 1500-1750', *Journal of Economic History*, vol. 17, 1967, pp. 39-55.

22 J.G. van Dillen, 'Amsterdam als wereldmarkt der edele metalen in the 17de en 18de eeuw', *De Economist*, vol. 72, 1923, pp. 538-98, 717-30.

Dutch intra-Asian trade

If India was at the centre of the European trading companies' Euro-Asian trade, it was equally central to the extensive amount of trade the Europeans, both the corporate enterprises as well as private traders, carried on within Asia using the Indian Ocean-South China Sea trading network. The critical role played by India was as much a function of her capacity to provide cost-competitive manufactured goods – predominantly cotton and other textiles – in the case of the Europeans engaged in intra-Asian trade, as it had been traditionally in the case of the Indian and other Asian merchants similarly engaged in this trade. The principal European corporate enterprise engaged in intra-Asian trade in a substantial manner and as an integral part of its overall trading strategy, namely the Dutch East India Company, got involved to this trade in the first place in order to procure Indian coarse cotton textiles at source. These textiles were the principal medium of exchange throughout the Malay Indonesian archipelago and it was nearly impossible for the Company to obtain supplies of pepper and other spices except in exchange for these textiles. While these textiles could have been procured within the region at places such as Aceh, the acute business instinct of the Company took it, within a few years of its arrival in Asia, to their source, the Coromandel coast and Gujarat. The large and assured availability of highly cost-competitive textiles in India with a large demand both in Southeast Asia and West Asia was thus the starting point of the Dutch East India Company's involvement in intra-Asia trade, which eventually grew to a point where this branch of trade became of as much concern to the Company as its Euro-Asian trade. As early as 1612, Hendrik Brouwer, a future governor-general of the East Indies, had described the Coromandel coast as the "left arm of the Moluccas and the surrounding islands because without textiles that come from there, the trade in the Moluccas will be dead."[23]

The three principal elements in the Dutch strategy of participation in intra-Asian trade were Indian textiles and raw silk, Indonesian spices, and Japanese silver. The initial supply of

[23] J.E. Heeres (ed.), *Corpus-Diplomaticum Neerlando-Indicum*, The Hague, 1907, Vol. 1, p. 154.

investment funds brought in from Holland was invested first in Indian textiles, a large part of which was then sold against spices. While a part of the spices was sent home, the remainder constituted, together with the remaining Indian textiles, the basis of entry into a number of branches of trade within Asia. Among the most prized of these was the trade with Japan, where nearly half of the value of the goods sent consisted of Indian textiles and raw silk. As of 1639, when the 'closed country' era began in Japan, the Dutch East India Company was the only European entity permitted to operate in the country, giving the Company a significant differential advantage over its rivals. This advantage lay in the large amount of silver, a critical input for the Indian and several other trading areas, that the Japan trade provided. Given the large and persistent differential in the gold-silver bi-metallic ratio between the two countries, it was highly advantageous for the Company to convert a large part of the Japanese silver it procured into gold at Taiwan. The Chinese gold could then be invested profitably in the procurement of textiles on the Coromandel coast, where the basic currency unit in use was the gold pagoda. The point to emphasize is that, by about the middle of the 17^{th} century, the Dutch East India Company had become a major participant in intra-Asian trade with trading links all along the great arc of Asian trade. Indian textiles, raw silk, and later opium, which turned out to be a highly profitable item, sold in large quantities all over the Indonesian archipelago, were among the key commodities in the Dutch Company's framework of intra-Asian trade. Given the importance the Company attached to this trade, its employees were not allowed to engage in it on their individual account. That, however, did not prevent them from doing so on a fairly large scale on a clandestine basis. Indeed, in a high-value, low-bulk item such as opium which was ideal for contraband trade, the volume of the clandestine trade was often as large as that on the Company's own account.[24]

Turning next to the English East India Company and the private English traders, one finds that while the involvement of the Company in intra-Asian trade was negligible and confined

24 Om Prakash, *The Dutch East India Company and the Economy of Bengal, 1630-1720*, Princeton, 1985, pp. 15-23, 83-9.

essentially to the first half of the 17th century, private English traders based in India constituted by far the largest and the most enduring group of Europeans engaged in the trade of the Indian Ocean and the South China Sea. These traders operated from ports on both the east and the west coasts of India. Over the 17th and the early years of the 18th century, the Coromandel ports witnessed English trading activity on a much larger scale than did ports in Bengal. Masulipatnam was the principal port used on the Coromandel coast, but around the turn of the century more and more private English shipping moved on to Madras. In Bengal, the principal port was Hughli until it was replaced by Calcutta in the early years of the 18th century. In course of time, Calcutta emerged as the most important port of English private trade in India. On the west coast, English private trade began at Surat in the early years of the 17th century, but moved on to Bombay in the 18th century.

POLITICAL AND ECONOMIC ENVIRONMENT

What was the nature of the political and economic environment in which the European corporate groups and the private traders were obliged to function while carrying on their trading activities in Asia? In other words, if the range of alternative scenarios under which the Europeans functioned in different parts of Asia in the early modern period is conceptualized as a broad spectrum, where precisely would South Asia, for example, figure in that spectrum? One might begin by drawing attention to the fact that in the pre-European phase of the history of commercial exchange in the Indian Ocean-South China Sea complex, there was a well-established tradition of foreign merchants being welcome at the Asian ports, since they were perceived as providers of additional business to the local merchants and of additional income by way of customs duties etc. to the ruling authorities. The visiting as well as the resident foreign merchants were, by and large, left to manage their affairs themselves, including the arrangements they might make with their local counterparts, their business dealings in the market, and so on, without the administration unduly interfering in their decision-making processes. The Asian port at which such autonomy was allowed in the most unconstrained fashion was probably that of Malacca, which in the course of the 15th century had become a major centre of international exchange, and a meeting point of traders from the East and the West. Foreign merchants resident in, and operating from, the port could broadly be divided into four groups: (a) the Gujaratis, (b) other Indian merchant groups and merchants from Burma, (c) the merchants from Southeast Asia up to and including the Philippines, and (d) the merchants from East Asia, including the Chinese, the Japanese and the Okinawans. Each of these four groups was even allowed to have a *shahbandar* of its own, who managed the affairs of that particular community autonomously of the local authorities.

European naval superiority

To who extent was this scenario modified by the arrival of the Europeans in the Indian Ocean at the beginning of the 16th century? By far the most crucial element in the new situation was the armed superiority of European ships over their Asian counterparts. A glaring example of this disparity was provided in April 1612 when six English ships congregated off the Arabian coast and hijacked, in succession, fifteen passing Mughal ships from India, culminating in the capture of the great 1,000-ten vessel *Rahimi*, which belonged to the mother of the Mughal emperor. The prizes were taken to a nearby anchorage and plundered at will. It is true that the *Rahimi* was armed with some fifteen pieces of artillery and that the soldiers aboard her carried muskets, but these were merely anti-personnel weapons. Indian vessels, which often relied on rope and treenails to hold their planks in place, lacked the strength both to withstand heavy artillery bombardment from without, and to absorb the recoil of large ordinance firing from within.[25] The fact that the English could do this with impunity reflected not only the vulnerability of the Indian mercantile vessels but also the absence of a Mughal navy capable of retaliating

25 Geoffrey Parker, *The Military Revolution, Military Innovation and the Rise of the West, 1500-1800*, Cambridge, 1988, pp. 107-8.

against such high-handed action. The flotilla at Dhaka and the fleet maintained by the Sidis at Janjira near Bombay were clearly inadequate to support an offensive against European ships. It was indeed not without reason that in 1662, on being approached on behalf of the king of the Maldive islands to use his good offices to persuade Emperor Aurangzeb to impose a ban on English and Dutch shipping to the islands, the *faujdar* of Balasore pointed out that even if the emperor could be persuaded to oblige the king, he was in no position to do so since he was 'master only of land and not of the sea.'[26]

Dutch spice monopoly

In the 17th century, the Dutch and the English also took over the cartaz system from the Portuguese, though in a modified format and under the nomenclature of the 'pass' or the 'passport' system. It was, however, only the Dutch East India Company which, given its high stakes in intra-Asian trade, took the system with a certain amount of seriousness. The Verenigde Oostindische Compagnie (VOC) also followed the Portuguese precedent in attempting to monopolize both the Euro-Asian and the intra-Asian trade in spices. By the early 1620s, on the basis of agreements wrested from the authorities in many of the islands in the Moluccas, the Dutch had acquired effective monopsony rights in nutmeg and mace. The case of cloves was somewhat more complex. There was large scale smuggling between the producing areas and Makassar, enabling the English, among others, to obtain large quantities of this spice. Though from 1643 onwards the VOC had managed to reduce such smuggling, it was only after the conquest of Makassar in 1669 that the Dutch fully controlled the trade in cloves. Finally, as far as pepper – which was a substantially more important item of investment in the Indies than all the other spices put together – was concerned, inspite of the conclusion of exclusive agreements with a number of states in the region, the Company never acquired effective monopsony rights in the spice.

[26] Nationaal Archief (N.A.), Letter from the Dutch Director at Hughli to Batavia dated 26 October 1662, Verenigde Oostindische Compagnie, (VOC) 1240, f.1380vo.

The totality of the control achieved by the VOC in the case of spices other than pepper in the Euro-Asian trade is exemplified by the almost incredible fact that for the entire period between 1677 and 1744, the Company managed to sell cloves in Amsterdam at the fixed price of 75 stivers per Dutch pound.[27] A similar stranglehold was enjoyed by the Company in the intra-Asian trade in these spices. The fact that the Moluccas enjoyed world monopoly in the production of these spices, grown in particular islands covering a limited geographical space, which could be effectively policed, was the key to the success of the VOC in controlling the production and the trade in these items. By the same token, pepper, which was grown on the island of Sumatra over extensive tracts, could never be brought under the monopoly net, the formal monopsony agreements with several regional powers notwithstanding. For precisely the same reason, the Portuguese had an essentially similar experience with this spice on the south-west coast of India in the sixteenth century.

What did the Dutch spice monopoly entail for the Company on the one hand, and for the producers and the Asian traders dealing in them on the other? I have argued elsewhere that by increasing the rate of gross profit on these spices to incredibly high levels, often running to a thousand or more percent, the spice monopoly became a major element in the unquestioned domination of Euro-Asian trade by the Dutch through the 17th century. A similar domination was achieved in the intra-Asian trade by using the spice monopoly as a major entry device into many branches of the network. The unusually high profit was, of course, at the expense of the producers of these spices, as well as the Indonesian and other Asian traders who used to carry on a large-scale intra-Asian trade in them. This can be seen as institutionalized coercion by one group over another that had not been a feature of Asian trade in the pre-European phase. In terms of the placement in the spectrum discussed earlier, the situation in the Indonesian archipelago would indeed represent one end of the spectrum with a clear-cut and substantive differential advantage available to the VOC.

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27 Kristof Glamann, *Dutch-Asiatic Trade, 1620-1740*, Copenhagen/The Hague, 1958, p. 33.

Japan

Together with the spice monopoly, exclusive access to the bullion-providing Japan trade was the other principal circumstance behind the VOC's unprecedented success in penetrating the Indian Ocean-South China Sea trading network. But ironically, the conditions under which the Company was obliged to operate in Japan were diametrically opposite to those in the Indonesian archipelago, placing the Company, as it were, at the other end of the spectrum of conditions under which the European corporate enterprises functioned in Asia. In a coercion-based regime, if it was the VOC that resorted to coercion over the producing and the trading groups in the Indonesian archipelago, it was itself the victim of coercion at the hands of the political and the commercial establishment in Japan.

The beginnings of the rise of a non-market governed commercial regime in Japan can be traced to 1604 when, under a new arrangement termed the pancado, the Portuguese were obliged to sell their principal import into Japan, namely Chinese raw silk, at a price determined arbitrarily by a guild monopsony consisting of a group of merchants from the five imperial cities of Edo (Tokyo), Osaka, Kyoto, Sakai and Nagasaki. In 1631, when they protested against the arrangement, the Portuguese were told that they were free to leave the country. In 1633, they actually had to sell at prices lower than even the pancado price.[28] The same year the pancado arragement was extended to cover a part of the Chinese raw silk brought in by the Dutch East India Company as well. Following the promulgation, in June 1636, of the *sakoku* or the 'closed country' edict and the expulsion of the Portuguese in 1639 consequent on the suspected involvement of their Catholic missionaries in the Shimbara rebellion in 1637, the Dutch became the only European merchant group to be allowed to operate in Japan. In May 1641, they were ordered to move to the islet of Deshima, off the Nagasaki harbour, to which they were henceforth confined, besides being subjected to a range of commercial restrictions. These included a ban on the export of gold, the prescription of

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[28] George Bryan Souza, *The Survival of Empire: Portuguese Trade and Society in China and the South China Sea, 1630-1754*, Cambridge, 1986, p. 60.

days on which the Company could offer its goods for sale, until which time they had to be kept in sealed warehouses, and the extension of the pancado system to the entire lot of Chinese raw silk the Company imported into Japan. The 1672 introduction of the system of *shih shobai* which the Dutch translated as *taxatie-handel* (appraised trade), effectively extended the pancado system to all imports. On the basis of the samples collected from the Dutch factors, the different commodities imported were evaluated unilaterally by selected members of the Nagasaki Chamber of Commerce. This arrangement had an immediate and substantial adverse effect on the profitability of the trade, and in 1675 the Batavia Council wrote to the governor of Nagasaki that although the Company traded with 'all corners of the globe', it had 'never yet found a single other place where the purchaser fixed the price.'[29] The appeal that the 'appraised trade' system be rescinded, however, fell on deaf ears and the Dutch chief at Nagasaki, Martinus Ceaser, could do little but express his frustration as follows, 'But it seems that the Japanese have finally laid aside all sense of honour and decency whilst we perforce must dance to their piping in everything.'[30] The fact that the Japan trade was nevertheless of enormous value for the Company through the 17th century only serves to underscore the critical role that bullion played in the early-modern Asian trade.

India

What was the situation in India like which, as we have seen, was at the centre of the Europeans' trading activities. We have already noted that in the 16th century, the Portuguese managed to obtain monopsonistic privileges in the procurement of pepper on the Malabar coast. On the strength of the assistance provided to the raja of Cochin in throwing the Portuguese out, the Dutch East India Company inherited, in 1663, similar monopsonistic privi-

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29 Pieter van Dam, in F.W. Stapel *et al.* (ed.), *Beschryvinge van de Oost-Indische Compagnie*, The Hague, 1927-54, Book II, Part I, p. 454.

30 C.R. Boxer, 'Jan Compagnie in Japan 1672-74 or Anglo-Dutch Rivalry in Japan and Formosa', *Transactions of the Asian Society of Japan*, Second Series, 7 (1930), p. 170.

leges. But given identical problems of policing and enforcement, the situation was indeed comparable to that in Sumatra rather than that in the Molluccas.

Outside of the Malabar coast, however, the situation in India was very much in the mould of the Malacca model, characterized by the absence of coercion on either side. In terms of the spectrum of alternative scenarios, the placement of the Europeans operating in India would be right in the middle of the spectrum. In the subcontinent, the relationship between the ruling authorities and the different European groups was by and large an amicable one, based essentially on perceived mutual advantage. The authorities basically looked upon the European companies' trade in their area as a net addition with the attendant benefits that such growth of trade entailed for the economy. More immediately, the resultant increase in the customs revenue, which in the case of the Mughal empire accrued directly to the central treasury, and probably constituted a head of revenue in importance next only to land revenue, was an important consideration. An equally important consideration would seem to have been the 'bullion for goods' character of the Europeans' trade. The fact that the companies paid for the goods obtained in the subcontinent overwhelmingly in terms of precious metals made them probably the single-most important conduit for the import of these metals into the country. The domestic output of these metals being practically nil, their import, in reasonably large quantities, was critical, among other things, for the successful conduct of the subcontinent's monetary system. As a result, European requests for permission to trade and the establishment of factories were routinely granted by Mughal imperial authorities and by regional authorities in the Coromandel coast. The rate of customs duty that European companies were obliged to pay was ordinarily the same as that payable by the Indian and other Asian merchants operating from the region. Indeed, imperial administration often went a step further and exempted these companies from the payment of transit (rahdari) duties, giving them a differential advantage vis-à-vis their own nationals. It is another matter that local and the provincial authorities, whose income streams would have been adversely affected by such exemption, usually managed to ignore imperial orders and continued charging rahdari duties. Under this dispensation the companies operated in the market basically as yet another group of merchants availing no special privileges in their dealings with the Indian merchants or artisans. By the same token, they were at liberty to function in the system like any other merchant group, without restriction on the use of systematic infrastructures. Their factors and representatives were allowed to travel throughout the empire, buy and sell where they found it most profitable to do so, and deal with their Indian counterparts on terms strictly determined by the market.

Conflict resolution

The absence of coercion, however, did not preclude occasional conflict between Indian political authorities, on the one hand, and European trading companies, on the other. In such an event, both sides were concerned that the conflict did not escalate beyond a point. At work was, indeed, a rather finely tuned balance between unquestioned European maritime superiority as against their almost total vulnerability on land for a long time. Scholars such as Frederick C. Lane and, more recently, Niels Steensgaard have gone to the extent of arguing that 'the principal export of pre-industrial Europe to the rest of the world was violence'. While there is an element of truth in this formulation, it is imperative that it is not torn out of context. Violence on the sea was a weapon of the last resort to be used as sparingly as possible, for the simple reason that it was by no means a costless process. Ordinarily, both sides would first seek to resolve conflict and only in the event of a deadlock would either side resort to actual violence.

An example of a potential area of conflict between the authorities and the Dutch East India Company, given its large-scale participation in intra-Asian trade, was the violation of the Company's pass policy by the Indian merchants engaged in the Indian Ocean trade. The trouble the Company faced at Surat in 1648-9 is a case in point. Following the conquest of Malacca in 1641, and the subsequent conclusion of monopsony agreements with the principal tin producing regions in the Malay peninsula, the Company sought to restrict direct access for Indian vessels to the ‘tin ports’ north of Malacca, and get them to carry out all their trade at Malacca itself. This strategy, however, proved largely ineffective as long as these vessels had continuing free access to the Bay of Bengal port of Aceh on the northern tip of Sumatra. The extensive trade carried on by the Aceh merchants with Sumatran and Malayan ports made Aceh a large market for Indian textiles, as well as a major procurement point for items such as pepper and tin. Indeed, on the basis of the passes issued by the queen of Aceh, it was even possible for the Indian merchants to sail to the east Sumatran and west Malayan ports and carry on trade there. Particularly useful in this regard was the link to Perak, then a vassal state of Aceh and abundantly provided with tin. The implications of this for the VOC were quite severe. In 1646, no tin could be bought in the Malay peninsula and no pepper could be sold at Malacca. A full-scale response was evidently called for and on 3 July 1647, Batavia resolved that ‘the Moors of Surat, Coromandel, Bengal Pegu, etc. be prohibited from the trade both in Achin [Aceh] and in the tin quarters [of peninsular Malaya] on pain of seizure [of their vessels] as legitimate prize if they come there in the future’. Patrolling of the approaches to Aceh, as well as to ports such as Kedah, Perak and Johor was intensified. The factors in India were instructed not to issue passes for Aceh or any of the other ports declared out of bounds.[31]

Surat

The reaction to this severely restrictionist policy was sharp, at least at Surat. When passes for Aceh were refused, Mughal authorities banned the loading of Dutch ships at the port. That was not all: in April 1648, the local Dutch factory was stormed by a force of 150 men. One Dutchman was killed, two others wounded and goods worth f.27,000 plundered. The attackers were never identified, but it was a clear message signalling the displeasure of both the Mughal authorities as well as the local merchants. Johan Tack, the

[31] S. Arasaratnam, ‘Some notes on the Dutch in Malacca and the Indo-Malayan trade 1641-70’, *Journal of South East Asian History*, vol. X(3), 1969, pp. 480-90.

Company's man at Agra, sought the Court's intervention in the restitution of the plundered goods. With the help of one of the *umara* at the Court, Haqiqat Khan, who was generally favourably inclined to the Company, an audience with Shahjahan was obtained. The emperor promised to grant a farman directing the *mutasaddi* of Surat to compensate the Company for the plundered goods. But before the farman could be issued, a delegation of Surat merchants arrived at the Court. They could not prevent the grant of the farman, but ensured that it was a very different kind of document. All that the farman did was to say that the local authorities at Surat would do their best to trace the plundered goods. The factors saw no point in even bringing the document to the attention of the *mutasaddi*. The Company then decided to retaliate at sea. A fleet sent from Batavia for the purpose arrived too late in 1648 to attack the Indian ships returning from Mocha. But the following year, two Gujarati ships on their way back from Mocha and carrying a cargo worth more than one and a half million guilders were seized just outside Surat. Following negotiations between the Company, the local authorities, and some of the leading merchants of the city, the Company's two-fold demand for compensation for the plundered goods and a promise to stop the Surat ships' attempted voyages to Aceh, Perak, Kedah and Phuket, etc. was accepted. In return, the Company released the seized ships and the cargo to the lawful owners.[32]

Coromandel

The implications of the Company's pass policy during these years were somewhat less severe on the Coromandel coast. The problems there revolved mainly around the issue of the refusal of passes for the ships of the all-powerful noble, Mir Jumla. Following the seizure in 1647 of tin worth 2,000 rials off Perak, from a ship of the Mir because it did not carry a Dutch pass, the governor of Masulipatnam, a subordinate of Mir Jumla, asked for restitution. Peace was bought temporarily by a promise to do the needful and by agreeing to sell the entire stock of cloves in the Company's

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32 H.W. van Santen, *De Vernidge Oost-Indische Compagnie*, pp. 21-4.

warehouses in Coromandel together with a certain amount of copper to the Mir. But the tin had not been returned by 1651 leading to obstruction of the Company's textile trade in the region. It was only after Commissioner Dirck Steur went to see Mir Jumla that an agreement emerged. The Company reiterated its promise to return the tin, besides undertaking to buy its textiles, at specified places only, from the representatives of the Mir. But problems surfaced again following the seizure of one of Mir Jumla's ships, the *Nazareth*, off Malacca, for flying the Portuguese flag after the Dutch-Portuguese truce had ended. Matters came to a head in 1653 when Mir Jumla threatened to attack Fort Geldria unless the *Nazareth* and its cargo were released immediately and passes granted for the Portuguese controlled ports in Sri Lanka. It was then decided to meet a part of the Mir's claims in respect of the goods carried by the *Nazareth*. Besides, passes were to be issued to all subjects of Golconda for ports under the jurisdiction of the king of Kandi and for Aceh. The only stipulation made regarding the latter was that in the event of the blockade of the port by the Dutch, ships sailing for Aceh would agree to proceed to another destination approved by the Company. It was, however, only at the end of 1655 that compensation in respect of the *Nazareth* was paid. The Company also conceded the Mir's right to trade with Makassar, Bantam and Kedah, as well as to send goods to Malacca aboard the Company's ships. In return, Mir Jumla agreed not to send ships to Jaffanapatnam in view of the ongoing Dutch-Portuguese struggle there.[33]

ECONOMY-WIDE IMPLICATIONS OF EUROPEAN TRADE

Trade as an instrument of growth

It, however, bears repetition that the occasional areas and phases of conflict notwithstanding, the overall relationship between the European corporate enterprises on the one hand, and the Indian and other Asian authorities they were obliged to deal with on the

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[33] Tapan Raychaudhuri, *Jan Company in Coromandel, 1605-1690*, The Hague, 1962, pp. 48-51.

other, was essentially an amicable one based on a perception of mutual advantage.

What was the situation like at an economy-wide level? In other words, what implications did the Europeans' trade have for the economies of the countries/regions where this trade was carried on? In so far as a country is relatively more efficient in the production of export goods than in that of import goods, an increase in trade between nations is ordinarily to the advantage of both the trading partners, involving an increase in the value of the total output in each of the two economies. The 'gains from trade' tend to become much more substantial in special situations such as in the case of the Euro-Asian trade in the early modern period. This is because the decline in the domestic production of import-competing goods, which would usually accompany an increase in the output of export goods in an ordinary trade situation involving the exchange of goods against goods, would be avoided when the imports consisted not of goods but of precious metals (which in any case were not produced domestically in countries such as India). An increase in the output of export goods attendant upon an increase in trade would then involve a net increase in total output and income in the economy. This would be so irrespective of whether the imported precious metals are treated as a commodity import or as a mechanism for settling trade balances.

The increase in the output of export goods in the Indian subcontinent in response to the secularly rising demand for these goods by the Europeans would seem to have been achieved through a reallocation of resources, a fuller utilization of existing productive capacity and an increase over time in the capacity itself. A reallocation of resources in favour of the production of export goods such as raw silk and particular varieties of textiles would have been signalled, among other things, by a continuous rise in the prices of these goods in the markets where they were procured. Evidence regarding such a rise is available in plenty in the European company documentation. The available evidence also suggests both a fuller utilization of existing capacity as well as expansion thereof over time. In the case of textile manufacturing, for example, artisans engaged in the activity on a part-time basis seem to have increasingly found it worth their while to become full-time producers and to relocate themselves in the so-called aurungs – localized centres of manufacturing production, where the Europeans were increasingly concentrating their procurement through the intermediary merchants. Among the other factors of production required, land was clearly in abundant supply practically all over the subcontinent at this time. As far as the necessary capital resources needed for the production of new spindles, wheels and looms etc. was concerned, given the extremely small amounts involved, and the fact that the European companies were ever willing to advance the necessary sums, the availability of funds also is highly unlikely to have been a constraining factor. It need hardly be stressed that across a country of the size of the Indian subcontinent, there are likely to have been regional variations with regard to the degree of dynamism, flexibility and potential for continuing expansion in the scale of production that this scenario envisages. However, evidence available at least in respect of regions such as Bengal, which was by far the most important theatre of company activity on the subcontinent, would generally seem to confirm the presence of such attributes in ample measure.

In this scenario, the Europeans' trade would have become a vehicle for an expansion in income, output and employment in the subcontinent. As far as additional employment generated in the textile manufacturing sector as a result of European procurement is concerned, an exercise carried out in respect of the average annual procurement of textiles and raw silk in Bengal by the Dutch East India Company over the period 1678-1708 suggested that a total of 33,770 to 44,364 additional full-time jobs would have been created by the Company's procurement of these two items. If one extended the exercise to cover the English East India Company, but considered only the early years of the eighteenth century between 1709 and 1718, the number of additional jobs created was estimated at 86,967 to 111,151. The probable total size of the workforce in the textile manufacturing sector in the province of Bengal was estimated at one million. The full-time jobs associated with the Dutch Company's trade thus accounted for between 3.37 per cent and 4.43 per cent of the total workforce in the sector: the proportion went up to between 8.69 and 11.11 per cent when the trade of the Dutch and the English East India Companies was considered together.[34]

The fact that the rate of growth of the Europeans' demand for goods such as textiles and raw silk was almost always greater than the rate at which their output increased turned the market increasingly into a sellers' market. This was reflected in the growing bargaining strength of the merchants vis-à-vis the companies. For example, in 1709 a number of textile suppliers dealing with the Dutch Company in Bengal refused to accept fresh contracts unless the Company gave them an assurance that henceforth in the event of only a limited variation between the quality of the sample given out and that of the pieces actually supplied by them, there would be no deduction made from the price mutually agreed upon at the time of the contract. The suppliers even insisted upon a refund of the price deductions made on this count on textiles supplied during the preceding season. A similar distinct improvement would also seem to have taken place in the bargaining strength of the weavers vis-à-vis the textile suppliers ensuring that the 'gains from trade' indeed percolated all the way down. Writing in 1700, for example, the Dutch factors at Hughli made the following observation. "The merchants inform us (and on investigation we find that they are speaking the truth) that because of the large number of buyers in the weaving centres and the large sale of textiles, the weavers can no longer be coerced. They weave what is most profitable for them. If one does not accommodate oneself to this situation, then one is not able to procure very much and the supplies go to one's competitors."[35]

The monetary domain

Quite apart from the implications of European trade for real variables such as income, output and employment, there was an

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[34] This is based on a more detailed analysis carried out in Om Prakash, *The Dutch East India Company and the Economy of Bengal*, Ch. 8.

[35] N.A., Explanation by the Dutch factors of why the orders were not supplied in full, 1700, VOC, 1638, ff. 17-19, II Section.

important range of issues in the monetary domain which were affected by this trade. The import of large quantities of precious metals by the European companies into India on a continuing basis would have had certain consequences for the economy of the subcontinent. There is a considerable body of literature that assigns an important role to the imported American silver in shaping the growth of a number of European economies in the early modern period. According to Immanuel Wallerstein, for example, without the American silver, "Europe would have lacked the collective confidence to develop a capitalist system, wherein profit is based on various deferrals of realized value. This is *a fortiori* true given the system of a nonimperial world-economy which, for other reasons, was essential. Given this phenomenon of collective psychology, an integral element of the social structure of the time, bullion must be seen as an essential crop for a prospering world-economy."[36]

This is what made South America so valuable. In Wallerstein's words, "The production of gold and silver as a commodity made the Americas a peripheral area of the European world-economy in so far as this commodity was essential to the operation of this world-economy, and it was essential to the extent that it was used as money. In short, they [the Europeans] incorporated the Americas into their world-economy, primarily because they needed a solid currency base for an expanding capitalist system and secondarily to use the surplus in trade with Asia."[37]

But according to the proponents of this position, Asia was different. To quote Wallerstein once again, "At this epoch, the relationship of Europe and Asia might be summed up as the exchange of preciosities. The bullion flowed east to decorate the temples, palaces, and clothing of Asian aristrocratic classes and the jewels and spices flowed west. The accidents of cultural

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[36] Immanuel Wallerstein, *The Modern World-System: Capitalist Agriculture and the Origins of the European World-Economy in the Sixteenth Century*, New York, 1974, p. 46.

[37] Immanuel Wallerstein, *The Modern World-System II: Mercantilism and the Consolidation of the European World-Economy, 1600-1750*, New York, 1980, p. 109.

history (perhaps nothing more than physical scarcity determined these complementary preferences."[38]

Another western scholar, Rudolph Blitz, makes essentially a similar point: "In the Orient, much of the specie went promptly into hoards or was demonetized and became a commodity satisfying the oriental penchant for ornaments."[39] The otherness of Asia in this view thus derives essentially from the fact that while, in the case of Europe, the imported silver involved an accretion to the supply of money in the system, in Asia this valuable asset was frittered away by being used "for hoarding or jewelry?"[40]

There is reason to believe that such a clear-cut dichotomy between Europe and Asia is indeed quite untenable and does not conform to a wide body of evidence available to us. By far the most concrete of the effects associated with the import of American silver into Europe was the so-called 'price revolution' of the sixteenth century. A similar response is ruled out in the case of Asia for the simple reason that the first link in the chain, namely an increase in the supply of money, would not have come about in the Asian economies. But such a position is demonstrably false. In the case of Mughal India, for example, the treasure brought in by the European companies was intended for investment in Indian silk, textiles and other goods. In so far as foreign coins were not allowed to circulate locally, the very first step that would need to be taken by these companies in the matter of raising the necessary purchasing power would be the conversion of imported bullion and coins into Mughal Indian rupees. This could be done either through professional dealers in money known as *sarrafs* or by recourse to one of the imperial mints in the empire. In either event, there would be an automatic and correponding increase in the supply of money in the economy. It is, of course, perfectly possible that a part of the increased money supply might eventually have been hoarded or withdrawn from

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[38] Wallerstein, *The Modern World-System: Capitalist Agriculture*, p. 41.

[39] Rudolph C. Blitz, 'Mercantilist policies and the pattern of world trade', p. 40.

[40] J. Sperling, 'The international payments mechanisms in the seventeenth and eighteen centuries', *Economic History Review*, 2nd series, vol. 14(3), 1962. Quoted in Wallerstein, *The Modern World System II*, p. 109.

active circulation. But in the present state of our knowledge, it would probably be futile to surmise how significant or marginal this phenomenon might have been. Some observations could nevertheless be made in this behalf. In any society, hoarding of precious metals in the form of bullion or coins would be a function of the structure of asset preferences. Given the virtual absence of deposit banking facilities in India, hoarding on a reasonable scale can very well be interpreted as a perfectly legitimate and rational form of holding liquidity. The point is that the implied irrationality in the 'Oriental penchant for hoarding' kind of story might in fact never have been there except perhaps at the margin.

A growing supply of money in response to a continuing import of precious metals would presumably have had implications for the functioning of an Asian economy along lines not necessarily very different from those in Europe. In relation to late Ming China, this is what William Atwell has to say, "Japanese and Spanish-American silver may well have been the most significant factor in the vigorous economic expansion which occurred in China during the period in question. This is true not only because of its direct impact on the silk and porcelain industries, although this clearly was of great importance; but also because an increase in the country's stock of precious metals upon which economic growth and business confidence seem to have depended would have been determined almost entirely by how much silver entered the country through foreign trade."[41]

The situation is unlikely to have been different in Mughal India, where it would seem that the rising supply of money was leading to a significant acceleration in the process of monetization in the economy. The well-known growing monetization of the land-revenue demand during the period was clearly a part of this larger process. Another significant feature of the Mughal Indian economy was the rise of banking firms all over the empire dealing in extremely sophisticated instruments of credit. Many of these firms had enormous resources at their command. Probably the best known of these was the house of the Jagat Seths operating

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41 William S. Atwell, 'Notes on silver, foreign trade, and the late Ming economy', *Ching-Shih Wen-t'I*, vol. (3), 1977, p. 5.

from its headquarters at Murshidabad in Bengal. Along with its other activities, the firm organized the transfer of Delhi's share in the land revenues collected in the province. It need hardly be stressed that there was an important organic link between the rise in the money supply and the growth of the banking firms in the Mughal Indian economy.

What about the relationship between a rise in the money supply and the notional general price level in the economy? In other words, was there a counterpart in India to the European price revolution of the sixteenth century? A considerable body of work done over the past quarter of a century or so on the history of prices in different regions of India during the seventeenth and the first half of the eighteenth century has consistently negated the possibility of a general price rise (as opposed to a rise in the prices of goods procured by the Europeans). This includes my own earlier work on the price history of Bengal based mainly on the evidence available in the records of the Dutch East India Company. The evidence regarding movements in the prices of wage-goods such as rice, wheat, sugar and clarified butter, which I had argued could indeed be treated as proxies for movements in the notional general price level in the economy, suggested considerable fluctuations in the prices of these goods but no statistically significant upward or downward trend.[42]

How does one reconcile the phenomenon of a rise in the supply of money with the absence of a rise in the notional general price level? While no definitive answer is possible, we might consider the following. Together with looking at the supply of money, we ought also to look at the demand for it. We have already noted that the 'bullion for goods' character of the Euro-Asian trade in the early modern period turned the foreign trade sector into an instrument of growth with the savings, investment and production in the economy registering an increase. The rising supply of money

[42] Om Prakash, 'Precious metal flows, coinage and prices in India in the 17th and the early 18th century', in Eddy H.G. van Cauwenberghe (ed.), *Money, Coins, and Commerce: Essays in the Monetary History of Asia and Europe (from Antiquity to Modern Times)*, Leuven University Press, 1991, pp. 55-74. Reprinted in Om Prakash, *Precious Metals and Commerce: The Dutch East India Company in the Indian Ocean Trade*, Aldershot, 1994.

in the system would then have been absorbed by rising output, essentially obviating the need for the general price level necessarily to go up. This process would be further reinforced by the increasing monetization in the economy whereby monetized transactions as a proportion of total transactions in the economy would have gone up. Finally, over the fairly long period with which we are concerned, natural increases in population would also have necessitated a secular rise in output and transactions if the per-capita output and availability were not to go down. All these factors would tend to check a general rise in prices consequent upon an increase in the supply of money caused by an increased inflow of precious metals.

Certain deviations from the above scenario across both space and time must be noted. Across space, the above analysis will not be fully applicable to the Malabar coast, for example. The Portuguese had enjoyed special rights in pepper procurement in parts of the region until 1663 when they were thrown out of Cochin by the raja with the active assistance of the VOC. But then the VOC got its pound of flesh consisting, among other privileges, in a monopsony in the procurement of pepper in the area between Purakkad and Cranganur, and a monopoly in the sale of opium. Given the terrain, it was impossible to prevent large-scale smuggling by Indian merchants, which substantially limited the scope of the Dutch monopoly privileges. But even so, in respect of that part of the total marketed output of pepper that the Dutch East India Company procured, the price paid to the intermediary merchants, which eventually also determined the return reaching the producers, was lower, possible substantially lower, than what the free market forces of demand and supply would have dictated. The macro-economic implications of the European procurement would thus have been grossly vitiated.

THE EARLY COLONIAL PERIOD

Across time, the situation during the second half of the eighteenth century was very different from that in the preceding period. The death of the Mughal emperor Aurangzeb in 1707 was the symbolic beginning of the process of the collapse of the centralized Mughal empire, the rise of the so-called successor states in provinces such as Awadh, Hyderabad and Bengal, and eventually the takeover of large parts of the country by the English East India Company, beginning with Bengal, where it was officially recognized by the Mughal emperor as the diwan of the province in 1765. Aurangzeb was followed in quick succession by Bahadur Shah (1707-12), Jahandar Shah (1712-13), Farrukhsiyar (1713-19) and Muhammad Shah (1719-48). The Emperial fabric was subjected to serious strain during the early part of the century marked by disaffection of the Rajputs, growing militancy among the Sikhs and Jats in the north, and continuing Maratha insurgency in the south. Weakened central authority encouraged governors in several provinces to establish near-autonomous regional states only paying lip-service to the emperor's authority. The financial bankruptcy of the central government – dramatized by episodes such as Jahandar Shah's own troops remaining unpaid from the time of his accession – was further accentuated by the increasing irregularity and default in the receipt of the imperial government's share in the land revenues due from the newly emerging successor states.

The rapid deterioration in the state of law and order seriously affected the flows of long-distance overland trade within the empire. An important route that suffered particular damage was the one that connected the heartland of the empire to Gujarat. Caravans organized by private merchants, even though protected by hired guards, could no longer travel safely from Agra to Surat. In view of the problems faced in the procurement and the transportation of textiles and Bayana indigo from Agra to Surat, the VOC was obliged to close its factory at Agra in 1716. The cost of the bills of exchange between these two cities, which ordinarily used to be no more than 1 to 2 per cent, now shot up to as much as 12 per cent. In Surat, the imperial mint was shut down for several years and numerous dealers in money were reported to have gone bankrupt.[43]

[43] Ashin Das Gupta, *Indian Merchants and the Decline of Surat, 1700-1750*, Wiesbaden, 1979, p. 142; John F. Richards, *The Mughal Empire*, Vol. I.5 in the *New Cambridge History of India series*, Cambridge, 1993, pp. 278-9.

The nature and the extent of the dislocation described above should, however, be kept in perspective and care taken that its negative implications for the overall standard of economic performance are not overstated. Research done over the past two decades or so suggests the strong possibility of various sectors in the Indian economy continuing to perform well during the course of the century. In the words of Burton Stein, scholars maintaining this position "agree that the rural economy over most of the 18^{th} century India enjoyed substantial, if uneven, growth notwithstanding both the destructive wars culminating in those which won the subcontinent for the British, and the supposed political disorder in many areas. It is claimed that new, smaller states with efficient tax-gathering procedures replaced the Mughal military imperial order, that market networks proliferated and became to a degree interlinked, that a more prosperous agriculture came into being with increased commodity production as a result of rural investments by the revenue farmers of the time, that all of this was buoyed up by an ever-increasing level of international trade in which Indian artisans, merchants and especially bankers played key and lucrative roles, and that this phase of political economy obtained until the first quarter of the 19^{th} century."[44]

From the perspective of the European trading companies, the most crucial developments were those taking place in Bengal, by far the most important of the Asian trading regions, supplying at the turn of the eighteenth century as much as 40 per cent of the total Asian cargo that the Dutch and the English East India companies imported into Europe each year. It is vitally important to note that as far as this province was concerned, the situation over the greater part of the eighteenth century was not materially different from that in the heyday of the Mughal empire in the seventeenth. The man mainly responsible for this in the early part of the century was Murshid Quli Khan, who dominated the history of the province between 1701, when he was sent there as the imperial diwan with a specific brief to try and increase the flow of revenues due to the imperial government from the province,

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[44] Burton Stein, 'A decade of historical efflorescence', *South Asia Research*, Vol. 10(2), November 1990, pp. 132-3.

and his death in 1727. By scrupulously ensuring that the annual flow of the *khalisa* revenues to Delhi not only continued uninterrupted but in fact registered an increase over time, Murshid Quli succeeded in creating a mutually beneficial working partnership with the imperial government. In the domain of political stability and the state of law and order, the first four decades of the eighteenth century were certainly no worse than had been the case during the seventeenth. It is true that a certain amount of dislocation was caused in the early 1740s as a result of the Maratha incursions into the province. But that was essentially a temporary phase and things were by and large back to normal by the end of the decade. In brief, the picture of political confusion and unrest usually associated with the declining power of the Mughals in the first half of the eighteenth century is certainly not applicable to Bengal. In fact, the growing weakness of the centre, particularly in the wake of Nadir Shah's invasion during 1739-43, further strengthened regional polities, and successor states such as Bengal, Hyderabad and Awadh stopped paying their customary tribute to Delhi on a regular basis making larger resources available for internal deployment. The Europeans' trade from Bengal also registered a significant increase during the period. Thus of the rising total Dutch exports from Asia to Europe amounting to £19.24 million over the triennium 1738-40 as against £15 million during 1698-1700, the share of goods procured in the province had gone up to 47 per cent as against 41 per cent at the turn of the century. The corresponding figures in the case of the English East India Company were £23 million as against £13.79 million with the share of the Bengal goods being at the all-time peak of 66 per cent during 1738-40 as against 42 per cent during 1698-1700.

The second half of the eighteenth century witnessed a fundamental alteration in the nature of the Indo-European encounter. The takeover of Bengal by the English East India Company following the battle of Plassey in 1757 marked the inauguration of the colonial phase in this encounter. The nawab's army, though ten times the size of Clive's 2,000 sepoys and 900 Europeans, was routed providing the English Company its first foothold in the subcontinent. The formal acquisition of diwani rights in 1765 provided it with access to the province's revenues. These were used in part to strengthen further the Company's military strength. By 1782, the Company was able to maintain 115,000 men in India (90 per cent of them sepoys) enabling it to intervene effectively in other parts of the subcontinent such as the Deccan.

A part of the surplus from the Bengal revenues was also used to finance the procurement of goods for export to Europe. To that extent, these exports now became 'unrequited' involving a drain of resources from the country – a theme that has legitimately attracted a great deal of attention in the Indian nationalist historical writings of the nineteenth century. The bulk of the English Company exports during this period, however, were financed by the rupee receipts obtained by the Company locally against bills of exchange issued to English and other European private traders on London and other European capitals enabling these traders to transmit their Indian earnings home. Between the Bengal surplus revenues and the rupees receipts obtained against the bills of exchange, the Company found itself in a position to suspend altogether the import of treasure from home for nearly a quarter of a century. It was only in 1784 that these imports were resumed partly for investment in the procurement of export goods and partly to strengthen further the Company's military presence – a necessary prelude to the conquest of other parts of the subcontinent.

The altered situation held important consequences for the economy of the province. For one thing, the substantial reduction in the silver imports would seem to have been an important element behind the shortage of money that several contemporaries noted and commented upon. More importantly, there was a marked deterioration in the relative share in the total value of the output produced as far as the Bengali artisanal and the mercantile groups engaged in business with the English East India Company were concerned. This was a necessary corollary of the replacement of a market-determined relationship between the Company and these groups until about 1760 by a relationship marked by a clear-cut domination by the Company in the decades that followed. On the basis of its political muscle power, the Company now enforced unilaterally determined below-market terms on the producers of and the dealers in commodities such as textiles and opium. The blatant manner in which this was done, robbing in the process the producers and the merchants of a good part of what was legitimately due to them, would, in turn, have introduced distortions in the incentive structure in the domain of manufacturing and other production in the province. This, combined with the official Company and unofficial private English traders‘ monopolies in commodities such as salt and opium, is likely to have brought about a certain amount of decline in the value of the total output produced in the province, though in the present state of our knowledge it is not possible to indicate even broadly the extent of this decline.

There is a distinct possibility, however, that this decline was not altogether massive or irreversible and that the structure of both agricultural and non-agricultural production in the province continued to be marked by a reasonable degree of vitality and capacity to deliver. An important, though by no means conclusive, index suggesting this scenario is the continuing growth of both the Euro-Asian and the intra-Asian trade from the province. It is true that, under the pressure of the increasingly monopsonistic policies adopted by the English Company, the trade of the rival companies operating in the region was on the decline. Thus in the case of the VOC, although the overall value of its Asian exports to Europe between the trienniums of 1738-40 and 1778-80 went up from £19 million of £21 million, the average annual value of the Company‘s exports from Bengal came down from the all-time peak of £5 million in 1751-2 to a measly £1.32 million in 1784-5. But such a decline was much more than made up for by the English Company‘s own total exports to Europe going up from £23 million in 1738-40 to £25 million in 1758-60 and to an almost incredible figure of £69 million in 1777-9 giving us an annual average figure of £23 million. Bengal accounted for as much as half of this value. In intra-Asian trade, the decline in the Dutch Company exports as well as in those by the Indian merchants engaged in this trade was similarly much more than made up for by the spectacular rise in the English private merchants‘ trade with China.

CONCLUSION

The Euro-Asian, and more specifically the Indo-European, encounter over the three hundred-year period between 1500 and 1800 was a historical process with extremely significant and wide-ranging implications for both sides. Within the overall rubric of the desire to procure Indian goods, the precise motivation and mechanism behind the arrival of each of the European trading groups into the subcontinent was different. The Portuguese came basically for pepper, and throughout the sixteenth and the early part of the seventeenth century India provided an overwhelming bulk of the total pepper supplies reaching Lisbon. The Bay of Bengal figured prominently in the intra-Asian trading network of the Estado da India, and later also in the trading operations of the private Portuguese merchants both within Asia as well as between Asia and Europe. The Dutch East India Company, on the other hand, procured its pepper and other spices in the Indonesian archipelago and came to India looking mainly for the relatively inexpensive mass-consumption cotton textiles produced on the Coromandel coast, and to a smaller extent in Gujarat, with a view to using them as a medium of exchange to procure the Indonesian spices. This became the first link in a chain that eventually developed into a massive involvement in intra-Asian trade with other Indian commodities such as Bengal raw silk and opium also playing a critical role in the successful functioning of the complex network. In the last quarter of the seventeenth century, the fashion revolution in Europe put Indian textiles and raw silk at the head of the imports from Asia catapulting India into the position of being by far the most important supplier of goods for Europe. The key role of India in the Dutch East India Company's overall framework of trade continued well into the early years of the second half of the eighteenth century when the English East India Company, on the strength of its newly acquired special status in Bengal, overwhelmed the Dutch and forced them into reducing the scale of their operations in the subcontinent substantially. The French were late-comers on the scene having set up an East India Company only in 1664. In fact, it was only from the beginning of the second quarter of the eighteenth century onward that the French trade in the subcontinent became quantitatively significant. They were engaged in an almost continuous conflict with the English in south India, but like the Dutch were eventually unable to withstand the English hostility.

The English involvement in the trade of the subcontinent became significant only from the second quarter of the seventeenth century, after they had found it impossible to carry on profitable trade in the Indonesian archipelago due in part to the opposition by the Dutch. From this point on, India figured even more prominently in the total English exports to Europe than was the case with the Dutch. With the English Company's takeover of Bengal in the second half of the eighteenth century, India assumed an altogether new role for Britain. Bengal revenues provided an indirect subsidy to the British exchequer and the enormous opportunities – legal and clandestine – for private gain now available to the Company servants in their personal capacity created a whole new class of the new-rich 'nabobs' returning to England with fortunes unheard of before. It is, however, highly unlikely that these private fortunes constituted an element of any importance in the financing of the Industrial Revolution in Britain which was then getting under way.

As far as India was concerned, the substantial amount of trade carried on from her ports by the Europeans, both with Europe as well as with other parts of Asia, particularly from the early part of the seventeenth century onward, served to strengthen her status considerably as a premier trading and manufacturing nation in Asia. At the turn of the eighteenth century, India was probably the largest and the most cost-competitive textile-manufacturing country in the world. An increase in trade being beneficial for a country is an axiom: in India's case the 'bullion for goods' character of the European trade considerably enhanced its positive implications and indeed turned it into an important instrument of growth in the Indian economy. The gold and silver the Europeans imported from Europe and other Asian countries such as Japan led to a substantial increase in the supply of money in the country. The growing level of monetization in the economy, in turn, facilitated reform measures such as the growing conversion of the land revenue demand from kind into cash, which led to a further increase in market exchange and trade. The growing availability of precious metals in the system also helped the rise of banking firms, and generally became an important factor in facilitating the expansion of the Mughal empire.

By not involving a decline in the domestic output of import-competing goods, the 'bullion for goods' character of the European trade also implied that the positive implications of the growth in trade for the level of income, output and employment in the economy were considerably more substantial than would have been the case if this trade had been of the ordinary 'goods for goods' variety. In the agricultural sector, there was an increase in the acreage under cultivation, particularly in the case of high-value commercial crops such as cotton and opium. The increase in output and employment in the manufacturing sector was clearly on a scale that was not entirely insignificant. Job opportunities in several segments of the services sector such as that providing brokerage services would also have gone up. Besides, the fact that, on average, the rate of growth of the European demand for Indian goods such as textiles and raw silk was greater than the rate of growth of their supply, increasingly turned the market into a sellers' market. The fact that this involved not only an increase in the bargaining strength of the intermediary merchants vis-à-vis the Europeans but also a continuous improvement in the bargaining strength of the weavers vis-à-vis the intermediary merchants, implied that the benefits of the continuing rise in the level of output, income and employment were not confined to the intermediary groups but percolated all the way down to the weavers and the other constituents of the producing groups.

During the early colonial phase in the post-1760 period, this situation continued unaltered in many respects but underwent major modification in others. The composition of the trade with Europe remained unchanged, and except for the 'unrequited' part of the exports financed through the investment of the Bengal surplus revenues, the 'bullion for goods' character of the trade continued to be valid, though in a more restrictive and limited way. From the point of view of the English Company, the suspension of silver imports for a while and the financing of the exports mainly through the bills of exchange only meant that the payment in silver was now made in Europe rather than in India. But of course, this silver never reached India. Also, in so far as the relationship between the English East India Company on the one hand and the Indian intermediary merchants and producers on the other was no longer governed by the market but was dictated by the Company, a good part of the legitimate share of the producers and the merchants in the total output was now appropriated by the Company. As the Industrial Revolution began to mature in Britain, more fundamental changes followed. From the second quarter of the nineteenth century onward, India began to lose the European market for its textiles. Later in the century, the so-called colonial pattern of trade came into operation in a full-fledged manner and India was converted into an important market for textiles manufactured in Manchester and Lancashire.

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