Rise and Fall of the British East India Company

Formation and Organization

The British East India Company was formed to share in the East Indian spice trade. This trade had been a near monopoly of Spain and Portugal until the Dutch moved into the region in the 1600s; after which they maintained the same control by trying to keep out other nations. The British were relative latecomers to the East Indies trade; the first British pilot to sail to India via the Cape of Good Hope (near the southern tip of South Africa), did so in 1582—almost a century after Vasco da Gama made the journey for Portugal.

One thing that motivated the British to trade in the East, was seeing the immense wealth of the ships that made the trip there, and back. In 1593, a captured Portuguese ship was hauled into a British port —1,500 tons burden, 700 men and 36 brass canon. This was the largest vessel that had ever been seen in Britain, her hull full of eastern cargo: gold, spices, calicos, silks, pearls, porcelain, and ivory.

The East India Company (EIC) was incorporated by royal charter in 1600. The charter granted a monopoly of all English trade in all lands washed by the Indian Ocean (from the southern tip of Africa, to Indonesia in the South Pacific). Unauthorized (British) interlopers were liable to forfeiture of ships and cargo. The company was managed by a governor and 24 directors chosen from its stockholders.

As its trade with the East grew, the EIC became the largest employer in London, with its own dockyards in London along the Thames River,[1] as well as warehouses, foundries, rope works, sawmills, and even slaughterhouses where cattle were butchered to feed the EIC's growing fleet of East Indiamen. The company went on to create large profits on this trade. After the Act of Union in 1707, it became Britain's single most successful business.

[1] The BEIC decided to build and dock its own ships, instead of leasing them from others. Initially, this change of policy proved profitable as the first ships cost the Company about £10 per ton instead of the £45 per ton that it had been paying to have ships built for it. However, the situation changed as the Deptford yard came to be expensive to run. However, during the 1650s, the Company changed its policy and went back to renting ships, instead of building them; but most of the ships it leased were built at the same shipyards that it had opened up earlier.

Thomas Mun, one of the directors of the EIC, writing in 1621, stated that these first ships enjoyed profits of 132 percent, although this doesn't take into account that most voyages took 30 months to complete, and the cargoes were generally sold to merchants on terms of credit for another 18-24 months. It could be several years before an investor saw his money. Mun said that they had sent seventy-nine ships to India; of which thirty-four had come home safely and richly laden, and twenty others had been lost, either due to shipwreck or capture by the Dutch.

Considering the long route (around the African Cape) that the EIC had to take in reaching India, it was surprising that they made as much money as they did. But other factors outweighed this disadvantage. First, owing to their legally sanctioned monopoly status in England, they had substantial control on the British market. Second, by buying directly at the source, they were able to eliminate the considerable mark-up that Indian goods enjoyed en route to Europe. Thirdly, they were able to develop new markets for Indian goods in Africa, and in the Americas.

Activities and Trade in the East

The first voyage left in February 1601, and like all the early voyages it was intended for Indonesia, for pepper and fine spices. The four ships had a horrendous journey. They were becalmed at the Equator. By the time the ships, which left with 500 men on board, got to the tip of South Africa, 100 of them had already died. They made a couple of landfalls for provisions, including Madagascar, and then their first Asian port was at the tip of Sumatra (at the western tip of Indonesia). Eventually they reach Bantam (a city on the large Indonesian island of Java) in 1602, and leave behind a small group of merchants and assistants.

The Company's ships first arrived in India, at the port of Surat, in 1608. In 1615, Thomas Roe reached the court of the Mughal Emperor, as the emissary of King James I, and gained for the British the right to establish a factory at Surat.[2] Gradually the British eclipsed the Portuguese and over the years they saw a massive expansion of their trading operations in India. Numerous trading posts were established along the east and west coasts of India, and considerable English communities developed around the three main towns of Calcutta, Bombay, and Madras, with each of these three roughly equidistant from each other, along the coast of the Indian Ocean.

In 1611 its first factories were established in India in the provinces of Madras and Bombay. The British Company's defeat of the Portuguese in a skirmish off the coast of India (1612) won them trading concessions from the Mughal Empire. The company settled down to a trade in cotton and silk piece goods, indigo, and saltpeter, with spices from South India. It extended its activities to the Persian Gulf, Southeast Asia, and East Asia.

[2] The term *factory* in this context means a warehouse, usually on an island just off the coast, where ships from European countries could dock, and load and unload their cargoes. The job of the *factor* was to find buyers for what the ships would bring in, and suppliers for what the ships wanted to cart back to Europe (and have it waiting if possible in the factory, so the ship wouldn't have to waste time sailing around the country trying to find buyers or sellers).

Although the Spanish and Portuguese controlled the East Indies trade in the 1500s, the Dutch took it over from them in the 1600s. The Dutch were every bit as jealous about preserving these trade goods for themselves as the Spaniards and Portuguese were. The British were virtually excluded from the Dutch East Indies (Indonesia) after the Amboina Massacre in 1623. That year, the Dutch Governor beheaded ten Englishmen, another ten Japanese mercenaries and a Portuguese merchant, at Amboyna on a charge of conspiring to seize the fort. Not able to defend itself against the Dutch, the company conceded that region to them, and focused instead on what must have been considered a consolation prize, India.

Products Imported from the East Indies

The three major products that the EIC brought back from India were pepper, clothing, and tea.

Pepper

Pepper was the most important single commodity of the Company's trade for most of the 1600s. Pepper was considered a bulk item. Because it was much more common than other spices, its price was cheaper, and a merchant needed to ship a lot more of it, to make the same amount of money as shipping other spices back to Europe (cloves were 8 times as expensive by volume). As it was, however, India was the source of the vast majority of black pepper, and so the EIC contented itself with importing this to Britain. The quantities imported were enormous (for instance more than 3,175 tonnes in 1677) and much of what was sold in London was re-exported to markets as far away as Poland, Russia and the Ottoman Empire. Although profit margins were small, the sheer volume of the trade provided large profits for the EIC.

Cloth

At the beginning of its formation, the East India Company planned on purchasing spices and other luxury items from the east, and selling them in Britain and other European nations. In exchange, the British intended to sell their own goods back east, in particular, a thick clothing called broadcloth. Unfortunately, the Indian cotton clothing was cheaper; it was also lighter and much more suitable for the hot Indian climate. And so there was very little demand for the heavier British clothing there. Indeed, the EIC started importing Indian clothing into England.

Once the first cargoes of cloth reached England demand at home grew rapidly—as early as 1620 50,000 pieces of painted and printed cotton cloth were brought in, while as late as the 1750s Indian textiles accounted for 60 percent of the total value of the Company's sales in London (although this percentage declined, as power looms in Britain soon overtook Indian clothing).

The formidable competition that Indian clothing offered both to traditional woolen manufactures and to England's growing silk-weaving industry caused serious agitation in the 1690s. The Company's raw silk imports from Persia and elsewhere had fed the looms of Huguenot refugees from France who settled mainly in the Spitalfields area of London and at Canterbury. The arrival of Chinese-type silk textiles from Tonkin and then mainland China was seen as such a threat that rioting weavers attacked East India House in January 1697. In 1697, a report issued by the British Commissioners of Trade and Plantations recommended measures to be taken against the British East India Company regarding the export of bullion to India. The Commissioners also urged protection of domestic cloth industries from Indian textiles.

Consequently, in April 1700, the Parliament passed an act prohibiting the use or wearing of various types of Indian textiles (finished silks, and painted or dyed cotton [calicoes] cloths. Plain (those not dyed) calicoes were still allowed in, and could be finished and sold at home; Indian muslins (a finely-woven cloth that was more expensive) were also allowed free access. Prohibitions on cotton goods then remained in force until the repeal of the Act in 1774. The Company's immediate response was to concentrate upon re-export (selling the Indian cloth to other countries). Indian clothing, however, remained popular and a large percentage of EIC imports during the 1700s.

Tea

In 1664, the EIC ordered its first shipment of tea--a hundred pounds (50 kg) from Bantam, followed by regular orders for small quantities throughout the 1670s. Demand boomed once the Company had access to Canton, and when British clothing manufactures began to catch up to the quality of Indian cloth in the late 1700s, tea accounted for more than 60 percent of imports from India. In 1713 the Company imported 97,070 kgs; in 1813 the total was almost 14,515,200 kgs, and customs duty on tea was providing 10 percent of the British government's annual revenues.

Porcelain

Along with tea, the Company also began to import massive quantities of porcelain. In terms of value and share of the total trade it was not of any great significance. It was, however, a useful commodity. Porcelain was cheap, it could be sold for a modest profit and, above all, it provided additional ballast for the chests of tea in the ships. In 1730 alone the Company brought in over 517,000 pieces, a figure that was maintained throughout the century.

Volume of Trade and Opposition at Home

At first glance, the volume of trade channeled through the EIC grew impressively. Mun gave the average annual export of British-made goods and services to the East Indies in the first 20 years of its operations, as £22,000. In 1681, Josiah Child, an EIC governor, said these exports were now in the range of £60,000-70,000 yearly. From 1715 to 1724, they averaged £92,000 a year; from 1734 to 1748, they annually averaged £172,000. From 1771 to 1773, the value of British goods exported annually was just under £490,000. In the early years of the 1800s up to 1814, it was in the £800,000-1,000,000 range.[3]

But let's look at these figures again—not from the standpoint of a rise of £22,000 a year in the early 1600s, to almost £500,000 in the late 1700s, but from a standpoint of expectations. The British expected the EIC to export even more British products than the EIC managed to do. Looking at the size of the Indian and Chinese economies of that time, it is easy to see why.

[3] The total value of all EIC exports to India and China was much greater than this. In addition to British-made products, the EIC also brought silver (usually, significantly more than the value of British goods—for example, from 1715 to 1724, the value of silver exports annually was £518,000; from 1741 to 1748, it was £548,000) and products made in other European countries.

In the 1700s, the economies of China, India, and Europe were roughly speaking, on par with each other (as opposed to the modern era, in which Europe has a GDP of 14 trillion USD; the US, 11 trillion; China, 8 trillion; and India, 4). Modern calculations reckon that in 1700, the Chinese and Indian economies were each eight to nine times larger than the British economy. And so one can image the disappointment of many Britons, at the small size of their East Indies trade after a full century of sending ships to the wealthy Orient and back—with an overall world trade worth 6.5 million pounds in 1704, the British were exporting to these two eastern regions, British goods worth only 175,000 pounds a year. By the 1770s, they were exporting to the American colonies alone, over 6 million pounds a year. You can see why some Britons were unhappy with exporting less than £500,000 to India and China at the same time—they were expecting more business from the East Indies. Not only were the British disappointed that the immense wealth of India and China wasn't flowing into their island; they were also disturbed by the large outflow of silver to those eastern regions, from Britain. If the British couldn't convince the Indians to accept their goods in exchange, the British had to pay for the eastern goods with silver.[4]

[4] Silver was the preferred precious metal that the EIC used in its eastern trade, as it was valued more highly (relative to gold) in the East than in the west. This provided the British with a slight discount, that they would not have enjoyed had they used gold to pay for their goods.

Competition from other British traders

Distrust of the EIC and its monopoly on eastern trade was one reason why the British government continually drew up charters with other merchants, to also trade in the Far East. A general pattern developed in the history of the EIC. A group of private (non-EIC) traders would trade in the East Indies; then they would get a charter from the either Parliament or the Crown. Finally, the EIC would assimilate them, getting Parliament to extend the EIC charter for another 20 years or so (for a nice loan to the government, of course). The British government was ok with this, as it gave them an opportunity to squeeze the EIC for loans.

Charles I, in 1635, granted a charter to Sir William Courten and others, authorizing them to trade with those parts of India with which the company had not established any regular intercourse with.[5] The two companies eventually merged, and this united company had its charter renewed by Cromwell in 1657, which Charles II confirmed in 1661. In 1662, the English East India Company made financial contributions to the Crown of 10,000 pounds and again in 1667, of 50,000 pounds.

In 1694, the House of Commons voted "that all the subjects of England had an equal right to trade to the East Indies unless prohibited by act of Parliament." This was fortunate for the British government, as the EIC balked at loaning them 2 million pounds in 1698. The new merchants were formed into a new company as they coughed up money for the loan. But in 1702, the two were joined together. The united company then advanced to the government an additional £1,200,000 without interest. In exchange, the government renewed the charter until 1726. In 1730, the charter was renewed until 1766, although the EIC had to lower the interest on the remaining debt from by one percent, and contributed another £200,000 to the government as well. In 1743, they loaned the government another £1,000,000 at 3% interest, and the government prolonged the charter until 1783.

When the charter was prolonged again in 1793 (until 1814), a new proviso was inserted—respect for the rights of non-company traders, who were now allowed to carry their goods on EIC ships, although not much independent trade was done through this window of opportunity.[6]

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[5] The justification of this was, by the crown, that "the East India company had neglected to establish fortified factories, or seats of trade, to which the king's subjects could resort with safety; that they had consulted their own interests only, without any regard to the king's revenue; and in general that they had broken the condition on which their charter and exclusive privileges had been granted to them." (Rymer, Thomas. *Foedera*, vol. 20, pl 146)

[6] The EIC was obligated to provide 3,000 tons of shipping (the equivalent of 5-7 medium-sized ships at that time) annually for their benefit. For this benefit, the EIC could charge £5 a ton to India, and £15 a ton going back home (these were peacetime prices; the board in London could raise those rates in time of war). But in a letter to the EIC, Lord Melville, in 1812, said that these provisions were inadequate, and didn't provide any benefit to the private traders, but created a big expense upon the company.

When the charter was renewed again, in 1813, the EIC monopoly on Indian trade was at last revoked. Private individuals were allowed to trade with the three presidencies of Calcutta, Madras, and Bombay, and the port of Penang (a small island off the coast of Malaysia). The change in British trade was remarkable. The value of British merchandise that was exported to Britain was, in 1814, £870,177; in 1819, it was £3,052,741. Since 1814, when trade in India was opened, contemporaries estimated that cotton clothing exports to India increased by a factor of 4 or 5. Indeed, by the mid-1830s, that export total of 3 million pounds had more than doubled, to £7.3 million (for the year 1834-35). The lesson of the harsh effect on trade that monopolies have, was not lost on the British.

Regulating the East India Company

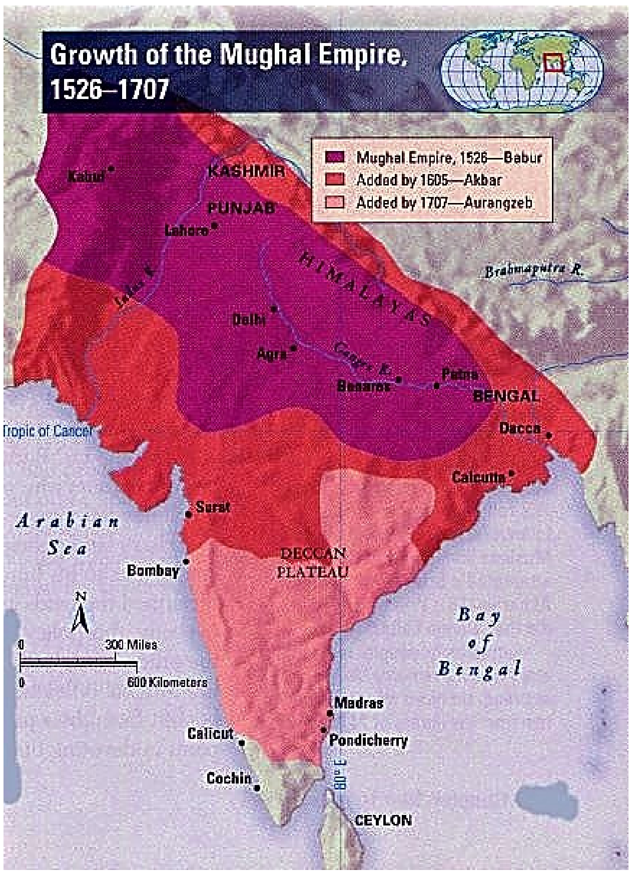
From the 1760s onward, the government of Britain pulled the reins of the EIC more and more, in an attempt to root out corruption and abuse of power. In 1767 a committee of the House of Commons investigated the EIC's recent conduct of a military campaign in India, led by Robert Clive, in which it defeated a Mughal force and got control of an entire province, Bengal. Clive received £234,000, and the EIC in total, over £1,200,000, to place a puppet on the throne at Bengal. In the end, however, the issue was "settled" by the company agreeing to pay £400,000 a year to the government. However, in 1772, it told the government that not only could it not afford to pay the money, but it asked for a loan of £1,400,000!

In a direct repudiation of the actions of Clive et al., the Regulating Act of 1773 prohibited any person in the civil or military establishments of any kind, from receiving any gift, reward, or financial advantage at all, from the Indians. It also created a court, and sent out the justices to India. This Act also raised the governor of Bengal, the wealthiest and busiest of the EIC's outposts, to the rank of governor-general over all EIC-controlled India, and provided that his nomination, though made by a court of directors, should in the future be subject to the approval of the crown; in conjunction with a council of four leaders (appointed by the Crown). A supreme court in India was established, to which the judges were appointed by the crown, and sent out to India.

William Pitt's India Act (1784) established government control of political policy through a regulatory board responsible to Parliament. It imposed a body of six commissioners above the Company Directors in London, known as the Board of Control, consisting of the Chancellor of the Exchequer and a Secretary of State for India, together with four councilors appointed by the crown. In 1813 the company's monopoly of the Indian trade was abolished, and, under the 1833 charter act, it lost its China trade monopoly. The company continued its administrative functions until the Sepoy Rebellion (1857-1859). In 1858, by the Act for the Better Government of India, the Crown assumed all governmental responsibilities held by the company, and its 24,000-man military force was incorporated into the British army. The company was dissolved on January 1, 1874, when the East India Stock Dividend Redemption Act came into effect.

Militant Mercantilism from 1750s Onward

At the start of the 1700s, the East India Company's presence in India was for the most part limited to occupying trading outposts along the coast—the three major cities of Bombay, Madras, and Calcutta.[7] But by the end of the century, the Company was militarily dominant over South India and rapidly extending northward.



Conditions in India were certainly changing. The Mughal empire was in the process of disintegrating, and the process would not prove a peaceful one for India. The Mughals were the descendants of Turkish-Mongol Islamic immigrants who over-ran and conquered modern Afghanistan, Pakistan, and northern India. The Mughals (from the Perisan word for "Mongol") created an empire that ruled India from the 1500s to the 1700s. They had a large army, and taxed the peasants anywhere from 1/3 to 1/2 of the crop production to the point where many were fleeing the lands they traditionally farmed, taking refuge on the estates of large land-owners, and would not work unless forced to. Finally, with a large body of cavalry and an even larger body of camp followers who would plunder the areas after getting defeated by the Mughals, Mughal society was based on continued conquest (in order to provide loot for the immense armed forces) and expansion. Eventually the more southern kingdoms, both Muslim and Hindu alike, pulled away and fought campaigns against them. By the 1750s, the Mughal Empire was in a state of collapse. Provinces in the middle of the Mughal empire, stretching from the Indus river valley in the west, to Calcutta (Bengal) in the east, broke away from any effective Mughal control. Other regions were also struggling to break away.

The Mughals, threatened by the British fortifying Calcutta, attacked them. The Mughals took the city in 1756, although the British recaptured it later that same year. The EIC forces went on to defeat the Mughals at the battle of Plassey in 1757, and at Buxar in 1764. The French were drawn into the fighting by backing a rival claimant to the throne of the Carnatic province of

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[7] These three port cities are called "Presidencies," because British governors called "Presidents" were sent out to govern those three cities. They remained the three ports through which all of Britain's imports from and exports to India, went through.

India (along the south-eastern coastline), which ended in their loss to the British (and the British claimant) at the battle at Arcot (1751). During the Seven Years' War, the French lost several battles, the most decisive one being at Pondicherry (1761). After that, especially because they lost the war, they no longer maintained a strong presence in India, although they maintained minor outposts there until 1954.

A new development took place in EIC relations with India after the battle at Buxar in 1764. The next year, the Mughal emperor signed a treaty with the EIC allowing it to govern the state of Bengal, provided that the EIC forwarded to him his traditional share of tax revenues. And so *a trading company was now responsible for the civil, judicial and revenue administration of India's richest province, with some 20 million inhabitants*. The arrangements made in Bengal (giving the EIC direct administrative control over a region, instead of simply a convenient commercial and military relationship with the Indian ruler) provided the centerpiece of the last century of the EIC: it became a political body ruling much of India, and the expenses of its wars to retain and extend its power drove the company into bankruptcy as well as alienated both Indians and Britons back home.

Throughout the next century, the EIC continued to annex territory after territory (typically upon the death of an Indian prince, or the failure of one to continue paying money to the EIC for the maintenance of an army to support him) until the entire region was controlled by the EIC. One process that can explain why a merchant trading concern decided to get in the government business is that well before the victory at Plassey and subsequent annexation of Bengal, EIC merchants found themselves attacked and plundered by Mughal rulers and armies, as well as their rebel counterparts. Additionally, they found that regional governors in India refused to let the EIC take their goods through those regions without additional fees paid—regardless of what treaty the EIC had signed with the Mughal emperors. An expansion of British power in India seemed to be the solution to both of these problems.

As it was, the taxes that the EIC collected in India, at least in the 46 years from 1792 to 1838, gave the EIC a net profit of only £700,000 a year, on average. This surplus is pure net—it takes into account land and customs collected in India, as well as gross expenditures deducted (including interest on debts owed to Britain, as well as pay for all soldiers, British or Indian). This figure would be only a fraction of the British imports of Indian goods, which grew from £11 million to £137 million, from the 1830s to the early 1900s. So one can't really say that Britain taxed India to pay for its Indian imports. However, the control Britain exercised over the country allowed it to maintain a mercantilist system that allowed Britain to profit immensely from India's raw materials, as well as make India pay the entire bill for this system (the money that built the canals and railroads[8] was loaned to India, and paid back with interest).

The annexation of native states, religious resistance to British reforms, and the plight of the Indian peasantry all contributed to the Mutiny of 1857, also known as the Sepoy Mutiny. This

[8] By 1880 there were 9,000 miles of railroad track operational, and by 1935, 43,000 miles. India itself is some 1,900 miles long (from north to south)—meaning that by 1880, the British had laid railway track equivalent to going all the way down India, 4 times; and by 1935, the track could have gone down India 22 times.

was a particularly bloodthirsty rebellion in which Indian rebels butchered women and children in cold blood, and the British retaliated by placing Indian captives in front of canons--and firing them. The British eventually regained control, although the year it ended, 1858, the British government decided to dissolve the EIC and run India itself. In addition to mismanagement of a large province of the British empire, to the point that the natives initiated a vicious rebellion, the company itself, constantly drawn into wars, was deeply in debt.

The effect of British mercantilism on India can be seen in the following statistic, which details the effects of two centuries of EIC mercantilist policies on India. In the year 1903-04, Britain exported £21 million of metal products, along with a net export of £23 million of precious metals (mainly silver). It imported from India, only £330,000 of metal products (you can see that India's role in the trade was to supply the raw materials, and Britain, the manufactured goods). At the same time, Britain imported from India, £24.4 million worth of raw cotton, and exported to India, £28.3 million pounds of cotton clothing (the corresponding numbers of raw cotton to India, and cotton clothing to Britain: £50,000 of raw cotton and £1.63 million of cotton clothing). Because India was occupied by a foreign power, it had gone from being an exporter of cotton clothing (a manufactured good), threatening to put English factories out of business, to a supplier of raw materials for those same English factories. Of course, as a producer of raw materials, there was some money to be made, but Britain got the much better deal by far.

As imperial regimes in India go, the East India Company has gotten a bad reputation. By some sort of historical amnesia, many have forgotten (or never bothered to look up) the outrages committed by earlier conquests[9] that incited many Indians to wage wars of liberation before the British took over. Nor is the EIC exclusively to blame for India's poverty, as the basis of its wealth in the 1600s—sales of hand-made clothing and pepper—could not have kept it wealthy in the 1900s, as European factories overtook the domestically produced Indian clothing sales, and mass cultivation of spices lowered their prices considerably. In other words, had the British never set foot in India, both of these factors would have still kept it poor, unless it had industrialized like western nations did. Having said that, observing India's recent history and all it endured, as European countries engaged on a mad quest for access to products that was being denied to them, it certainly is inviting, imagining a world of free trade, where nations don't bully each other, in order to be able to buy things they need.

[9] Ibn Butata, a 14th century Islamic scholar who traveled extensively, from Morocco to India—a kind of Islamic Marco Polo--said that the term "Hindu Kush," for the mountain range in Afghanistan bordering India, got its name from all the Hindus who died as they were taken into slavery by their Muslim conquerors.