

# **Asia and Global Capitalist Development; the Role of Indian Business Communities, with Special Reference to Sri Lanka**

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## **Abstract**

Economic transformation in Asia under the intervention of European colonial expansion is a popular theme in the academic discourse on global capitalist development. Eurocentric theory, both Liberal and Marxist, on development of capitalism on a global scale has been intensively refuted and debated about. The current academic discourse on the subject recognizes the interaction of multi-centered economic processes over several centuries paving the way for global capitalist development. In this process, the specific nature of the contributions of India and China has received considerable academic attention. In the case of India, its merchant capital had been operating in South and Southeast Asia, in the Persian Gulf, Red Sea areas and East Africa over several centuries. At the time of the advent of Western capitalism, Indian mercantile operation had brought about significant economic changes in this vast geographical area. It was in this background that the interaction between European and Indian merchant capitalist operations takes place in the 18<sup>th</sup> century. In this process Indian business communities performed specific roles and made a significant contribution to the development of capitalism in the region in the 19<sup>th</sup> century in collaboration and competition with European colonialism. Sri Lanka presents a typical arena of this broad transformation process. Sri Lanka was in the Asian merchant capital network and Indians played an intermediary role in the economy for centuries. When Sri Lanka underwent rapid economic change under the

British colonial intervention in the late 19<sup>th</sup> and early 20<sup>th</sup> centuries, Indians played a noteworthy role to make colonial initiatives practicable, as in most parts of South East Asia. The aim of this study is to analyze the debate on economic transformation in Asia examining the involvement of various Indian business communities during the colonial intervention in the Sri Lankan economy, and to assess their contribution towards its transformation. The principle problem addressed in this research is the specific role played by various Indian business communities in the economic transformation in Sri Lanka under the colonial intervention. The research tries to assess the importance of their roles in the incorporation of indigenous society into colonial capitalist production processes. This research will utilize information and data obtained from primary archival materials in Sri Lanka and India and statistical records of colonial governments. The research will also involve a search for private collections of documents of such families.

**Keywords:** Capitalism, Colonialism, Economic transformation, Indian business communities, Merchant capital

### **Introduction**

Eurocentric theory of development of capitalism on a global scale, both Liberal and Marxist, has been intensively debated about and refuted. The current academic discourse on the subject recognizes the interaction of multi-centred economic processes over several centuries paving the way for global capitalist development. In this process, the specific nature of the contributions of India and China, has received considerable academic attention.

Over several centuries Indian merchant capital had been operating in South and Southeast Asia, the Persian Gulf and Red Sea areas. At the time of the advent of Western mercantile capitalism, Indian mercantile operations had brought about significant economic changes in this vast

geographical area. It was in this background that European and Indian merchant capitalist operations interacted in the 18<sup>th</sup> century with the Indian merchant communities performing specific roles and contributing significantly toward the development of capitalism in the region in collaboration and competition with European colonialism. (Bayly, 1990: 27-39; Washbrook, 1990: 40-84; Mukherjee, 2014: 463)

European historians invented the Eurocentric theory of economic development in the 19<sup>th</sup> century for the legitimation of colonialism and as an expression of their notion of Orientalism that placed Asia at the bottom of the civilizational ladder.<sup>1</sup> (Mukherjee, 2014: 452) The theory was used extensively to justify the European conquest and exploitation of Asian societies. Andre Gunder Frank on the other hand, argues that Europe depended on the wealth of Asia and drained it for centuries under their colonial domination;

*..... early modern Europe was neither more important in the world economy nor more advanced in any way than other regions of the world.*

*..... the very search for "hegemony" in the early modern world economy or system is misplaced. Europe was certainly not central to the world economy before 1800. Europe was not hegemonic structurally, nor functionally, nor in terms of economic weight, or of production, technology or productivity, nor in per capita consumption, nor in any way in its development of allegedly more advanced "capitalist" institutions. (Gunder Frank, 1998: 5)*

He proceeds to argue that Asia and China formed the center of the world economy before 1800.

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<sup>1</sup> Fernand Braudel became the dominant ideologist of the Annales School of Historiography in the 1950s and 1960s. Euro-centric theory of capitalist development on world scale became a favorite subject of academic debate after Fernand Braudel's works - *The Mediterranean and the Mediterranean World in the Age of Philip II* in 1949 and *Civilization and Capitalism* in 1967. His argument of euro-centric world-system of socio-economic and political developments from 15<sup>th</sup> century had a strong influence on later writings.

*If any regions were predominant in the world economy before 1800, they were in Asia. If any economy had a "central" position and role in the world economy and its possible hierarchy of "centers," it was China. (Gunder Frank, 1998: 5)*

*The two major regions that were most "central" to the world economy were India and China. That centrality rested primarily on their outstanding absolute and relative productivity in manufactures. (Gunder Frank, 1998: 127)*

*In all these respects, the economies of Asia were far more "advanced," and its Chinese Ming/Qing, Indian Mughal, and even Persian Safavid and Turkish Ottoman empires carded much greater political and even military weight than any or all of Europe. (Gunder Frank, 1998: 5)*

Depending on the predominant position of Asia in the world economy, Europe benefitted from Asian commodity production, markets and trade. As Gunder Frank concludes,

*Europe climbed up on the back of Asia, then stood on Asian shoulders temporarily. (Gunder Frank, 1998: 5)*

*Europe was still dependent on Asia during early modern times, before the nineteenth-century invention and propagation of the "Eurocentric idea". (Gunder Frank, 1998: 8)*

Gunder Frank further observes that,

*...European high regard for Asia did not really change until the nineteenth century, after the inception of European industrialization and colonialism, which then profoundly altered European perceptions and pronouncements, including their historiography and social science. .... in fact we can consider that around the beginning of the sixteenth century the principal civilizations of Asia had attained a level of technical and economic development superior to that of Europe. (Gunder Frank, 1998: 11-12)*

### **Predominant Role of Asia**

Based on the strength of its commercial activities in the Afro-Eurasian region, Asia consistently dominated the world economy for nearly three centuries until about 1800 (Gunder Frank, 1998: 53-54). From the 15<sup>th</sup> century Asian commerce started to integrate with that of the Western hemisphere as Europe used the wealth acquired from the American colonies to broaden its commercial relations with Asia. *European maritime expansion, particularly the integration of America into the western commercial system, acted as a powerful force drawing together the countries of the Indian Ocean and parts of the African continent.* (Chaudhuri, 1985: 208-209; Mukherjee, 2014: 453,458-459). This process was facilitated by parallel Asian developments in the pattern of long-distance trade enabling the large-scale flow of American silver as liquid capital into the Asian trade. (Chaudhuri, 1985:62) As the demand for Asian commodities in Europe rapidly increased there were significant changes in the internal mode of production in Asia. All this illustrated that Asia was in a process of capitalist development at the time of the European colonial intervention.<sup>2</sup> As David Washbrook argues,

*..., it would seem that the emergence of capitalism - or at least of strongly capitalistic features including the connection of the processes reproducing political power to the logic of the marketplace - pre-dated South Asia's 'incorporation', which Wallerstine sees taking place in 1750, and had origins outside the Euro-centred world system, as well as inside them.* (Washbrook, 1990: 60)

In the pre-colonial Asian merchant capitalist circulation system; India and China were Ocean related centres. (Hamashita, 1994: 91-107; Gunder Frank, 1998: 111-117,126-130) *Merchant capital, [...] had a*

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<sup>2</sup>Unlike in Asia the capitalist development of Europe was a long term process of slow capital formation and accumulation for centuries. It commenced about 12<sup>th</sup> century and reached the level of industrial capitalism with the Industrial Revolution. But, the capitalist development in Asia reached in decades with the collaboration of existing economic developments of Asia and the colonial impact.

*long history in the region, and there is evidence of secular growth trends going back to the twelfth century.* (Washbrook, 1990: 72) This system revealed its own form of merchant capital formation, within its capital circulation, exchange and accumulation. East Asia and South East Asia, present South Asian geographical area, East Africa and Persian Gulf and Red Sea regions became peripheries of these centres. This was a supplementary development as the existing agricultural system of the area and the surplus were brought to the market. But, means of production, labour, land, financial capital etc., were not directly focused on trade as it happened in Europe.<sup>3</sup>

At the time the Europeans incorporated the above mentioned regions into the world capitalist circuit in the course of the 19<sup>th</sup> century these economies were already at various levels of their development processes.

*Prior to 'incorporation', regions such as South Asia are seen to have existed under world empires where, following the .... stereotype, economies and trade were 'administered' by lineage communities and /or state elites, and administration which subordinated the logic of competitive market exchange to those reproducing community and state power.* (Washbrook, 1990: 59)

For example, under the Mughals, by the seventeenth century,

*[...] developments in the state and the economy were [...] beginning to create socio-political formations more deeply rooted in the marketplace. There was an expansion of trade and commercial production, an enhancement in the political position of commercially-engaged groups and most, centrally, a closer relationship between command of commercial wealth and ability to reproduce political power.* (Washbrook, 1990: 60)

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<sup>3</sup> *This effected many and continuous changes inside South Asian society, changes which revealed complex processes of relationship between economy, social structure, ideology and state system. For the purposes of Modernity, or perhaps contemporary history, however, the 17<sup>th</sup> century seems to have been decisive. As we have seen, there are many signs that a conjecture between different forms of military organization and expanded commercial opportunities was setting up the structures of a new kind of state.* (Washbrook, 1990: 72)

There is a clear picture of the market playing a prominent role in most of these economies as they were integrated with long-distance trade and capital movements. Money transferred in the form of a credit network within the trading network. However, at the time of European intervention, the development of capitalism in its wider and deeper sense was yet to take place in Asia.

### **Pre-colonial Economies of Asia**

If we go back to the pre-colonial period of the above mentioned regions, two significant elements in their economies need to be considered in a new perspective. Firstly, the existing mode of production in this vast geographical area has to be considered not as a single unit but as individual economies. Therefore, the production process, surplus appropriation and the exchange system in each locality need to be explored and redefined. Secondly, it is necessary to identify individuals or groups who handled the surplus and engaged in trade and commerce of these economies. This information will help in the proper understanding of both the transformation of these economies in the colonial period and the actual roles played by European and indigenous actors in this process.

Pre-colonial economies in Asia<sup>4</sup> functioned in a widely expanded international trading network operating geographically in a large area interconnecting present Central Asia, the Middle East, and Eastern Africa. This network linked the European subcontinent to Asia and extended up to the Russian territory. (Ray, 1995: 472-474; Bayly, 1990: 36) At the same time this network penetrated various interior economies of the mentioned regions deeply. Pre-colonial economies of independent kingdoms or political units of these regions were fostered by prosperous and vigorous trade since at least the 10<sup>th</sup> century. The production and exchange systems of these economies and the trading network patterns made their own form of capital accumulation in the region as well as in each economy. (Ray, 1995: 456,458)

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<sup>4</sup> India, Southeast Asia, China and other East Asian territories.

The well-organized trading network in Asia necessarily developed ... *a more advanced circuit of capital which translates values into relative prices and economic surplus into money or productive capital.* (Chaudhuri, 1985: 203) As a whole ... *the most important consideration was the ability of a local economy to create a surplus over and above the subsistence demand and to maintain this level of productivity over a sufficiently long period of time.* (Chaudhuri, 1985: 182) Local economies in Asia integrated into this wider system of economic exchange based on capital and its accumulation on a large scale. The most important fact was that the system of transferring capital within the trading network has been shaped for centuries by a well-organized banking system. Inland economies were connected to the long-distance trade through this credit system and trading network. For centuries the banking system was handled by indigenous banking communities with expertise in monetary transmission.

Since the different areas in the above mentioned two regions were at different levels of their economic development, capital as well as skills of trading and financial management flowed from pooling areas to deficient areas. Many Indian and Chinese communities with such capabilities flourished in areas where they were deficient. This was particularly evident in the role played by the Chinese in the East Indies and the Indians in East Africa and South East Asia. These communities, over a long period, were attracted to areas which were deficient in such skills and experiences. As Rajat Kanta Ray observes, their roles were similar to those of Italian bankers in Europe during the Renaissance period.

*Within China and India, [...] the skills of banking and accountancy were confined to certain specialized merchant communities operating through widespread community networks. The banking skills of these hereditary Chinese and Indian business communities, and of the Jews and Armenians of the Islamic World, had long reached the level of development comparable to that of the Italian Renaissance bankers.* (Ray, 1995: 454)

Besides, Asia as a whole was able to maintain a favourable balance of trade at the time, especially with Europe. Compared to Asia, Europe had a huge ...*balance of trade deficit with all other regions except with America and Africa. ... the Europeans were able to receive African and especially American bullion without giving much in return and much of that they provided as intermediaries in their re-export of Asian goods.* (Gunder Frank, 1998: 74)<sup>5</sup> Each area in Asia was able to maintain a favourable balance of trade in its own way. There were a number of commercial and financial operations at various levels within the maritime trading network and bullion flowed within these channels. American silver flowed in to India and China through this complex network. (Chaudhuri, 1985: 62,185-188; Bayly, 1990:35) *The economy of China, along with that of India, needed a constant injection of monetary liquidity to keep up its rate of economic expansion.* (Chaudhuri, 1985: 76)

There was also a sufficient balance of commodity production and exchange within various areas in Asia which enabled commercial complementarity among them. This was the rationale behind the expansion of the trading network in the vast geographic area of Asia for centuries. Asia produced a wide variety of commodities ranging from food products, spices, manufactured goods, industrial raw materials, aromatics, medicinal plants, cotton textiles, silk, glass, porcelain, metal ware, precious stones, to horses and many others. These articles were exchanged between specialized areas in the production of commodities and deficient regions through maritime and caravan trade. *Moreover, many regions around the Indian Ocean supplemented their food production with imports from areas of high agricultural surplus.* For example, in the Red Sea and the Persian Gulf, *entire communities depended on food imports from Egypt and India for their daily survival.* (Chaudhuri, 1985: 203-204) *Some of the coastal and inland areas of the*

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<sup>5</sup> *For a hundred years the wealth of America had flowed into Europe. The gold and silver mines of Central and South America had enriched the maritime peoples of the Atlantic coast. North American colonies of England and Holland had increased the prosperity of the mother countries.* (Panikkar, 1959: 52)

*Middle East, India and China also specialized in the manufacture of industrial products, e.g. Indian textiles. For centuries India was the supplier of cotton textile in the system of commodity exchange within the region. (Mukherjee, 2014: 458,464; Chaudhuri, 1985: 182-185,193-194)*

With these interlocking production and exchange centres, Asia *evolved a sophisticated economic system which could support long-distance trade and the apparatus of the state.* (Chaudhuri, 1985:207) Local economies were fully integrated into a structure of distant economic exchange, both as producers and as consumers, depending on the market mechanism. (Chaudhuri, 1985: 207-208) Each region of Asia's geographical location developed its own natural crossroads and meeting points for world trade. There was commodity trade from and to all directions, maritime and inland, overland and riverine, which were trans-shipped from many cities in Asia westwards to Africa, West Asia, Europe, and from there across the Atlantic to the Caribbean and the Americas. Caravan traders were intermediaries between two segments of the trans-continental trade of Eurasia. The overland and maritime trade was more complementary than competitive. (Gunder Frank, 1998: 74-123; Bayly, 1990: 32)

Asian trade was organized and functioned at various levels, from village level to trans-continental level. It varied from inland caravan cities of Central Asia and urban bazaars of Indian inland trade centres to large scale maritime trade emporia. Great circuit of emporia commerce was controlled by cities such as Malacca, Cambay, Aden, Calicut and Canton. These cities interlocked with number of port cities with networks of local monetary institutions and banking and insurance services, shipping arrangements and other essential commercial and legal services. (Chaudhuri, 1985: 182-183,188-190,196-197) Trans-continental level exchanges occurred mostly of specialized products of each region. These commodities traveled from China, South East Asia, or India to the Eastern and Western Mediterranean markets through a series of commercial emporia. (Chaudhuri, 1985: 189)

The other aspect of this commercial network was the presence of well-organized bodies of private traders, trade guilds and organizations with their associates functioning in their networks covering a large geographical area.<sup>6</sup> There were innumerable indigenous merchant and banking communities which sprung up independently from specific historical developments of the two regions. They specialized in banking skills as well as in long distance trade and businesses associated with these economies. Their activities ranged from production, transport and shipping, wholesale and retail to credit and banking. With their skills in marine and overland trading, and handling money and other business techniques they played varied roles. They linked regional supply centres with market areas in various locations in the trading network and as intermediaries of independent kingdoms they penetrated into indigenous economies. Chaudhuri explains,

*The commodities of the Indian Ocean were sold in three types of markets and were handled by several different classes of trader. The great commercial emporia of Asia had their counterparts in the immensely rich resident merchant families, comparable to territorial nobility. These merchants, towns and cities were multi-functional, dealing in a wide range of goods and spreading the financial risks in a dozen difficult directions. Below this typology there were markets and traders who were still large but specialized in particular goods and commercial services. At the bottom of the scale the urban bazaars and weekly country fairs supplied goods to the consumers at the retail level; these markets were supplemented by the business carried on by pedlars. Long-distance maritime trade included small traders whose individual transactions were no greater than those of local pedlars. The role of this group is difficult to measure in terms of market shares. The small traders accompanied the annual fleet of ships which set out from the ports*

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<sup>6</sup> E.g., market centres or towns like Anuradhapura, Polonnaruwa and Padaviya in Sri Lanka functioned for centuries in the network of South Indian private traders. See K. Indrapala, 'South Indian Mercantile Communities in Ceylon, circa 950-1250', *The Ceylon Journal of Historical and Social Studies*, New Series, 1.2, July-Decem. 1971, pp.101-113.

*of India or China, carrying their wares in numerous packs and baskets. Those goods were sold from their shoulders in Malacca, Bantam, or Batavia, causing profound irritation to the larger shippers. The pedlars obviously undercut the great merchants on many items of export. However, it is doubtful if their activities were ever more than marginal to the main volume and direction of seaborne trade. (Chaudhuri, 1985: 202.)*

The picture that emerges from all these details makes it most appropriate to apply the term 'free trade' to the commercial pattern of the precolonial Asian region. Numerous indigenous trading communities with various skills, specializations and trading diasporas interacted freely for centuries in many parts of Asia. Number of traders who arrived mainly from empires of Ottoman, Persian Safavid, Chinese were active in trade zones from Mediterranean to China. They included Mamluk traders from Egypt and Syria, Armenians and Africans; Persians from all over Persia; Gobi traders and Jews as well as Baghdadi Jewish merchant capitalists; traders from Anatolia, Abyssinia and Zanzibar; Arabs from Arabia, Jidda and Yemen; Armenians from Armenia; and Turks from Turkestan. They were joined by Indian traders from various parts of India such as Bengal, Bijapur, Malabar, Vijayanagara, Gulbarga, Gujarat, and Cambay. In addition, even merchants from places like Java, Siam, Tenasserim, in Southeast Asia and from Aden, Socotra and the Maldives actively participated in this trade. (Gunder Frank, 1998: 75-104; Chaudhuri, 1995: 20,189; Bose, 2006: 72-75) *The rise of Gujarati capitalists occurred in partnership with the Arabs from the turn of the nineteenth century and preceded the European penetration of Africa. (Bose, 2006: 75)*

### **Asian Trade; its Interaction with Western Colonialism**

This pattern of Asian economies and trade underwent a rapid and crucial transformation during a few decades under the restructuring process brought about by Western colonialism. In this process both Asia and the Europe played collaborative roles. The colonial impact however did not pave the way for the development of industrial capitalism in Asia but resulted in a colonial mode of production which failed to create a

reproductive process with continuous investments. European investors did not attempt to develop new technologies in the colonies or to introduce those technologies that were operating in European economies in order to reduce costs of production and increase profit margins. Instead they increased their margin of profit by using various mechanisms such as compulsory or cheap labour, monopolies etc. and expatriated the surplus to the colonial centre without reinvesting in the respective peripheral colonial economies. (Alavi, 1982) The ultimate result was the development of underdeveloped economic structures in Asia in contradistinction to those in Europe.

The late pre-colonial and early colonial period of the Asian subcontinent however proved to be a creative one with its own dynamism. Flexible and adaptable pre-colonial Asian political and commercial cultures were appropriated by colonial initiatives between 1750 and 1820. In India this period of economic symbiosis created links of mutual economic interdependence with the alliance between Indian capitalists and entrepreneurs and the East India Company. (Bayly, 1990: 29, 34-35, 37-39) This period is called *the honeymoon period of British and Indian capital* by David Washbrook (Washbrook, 1990: 55). *Even though the later 18<sup>th</sup> century, the company was bankrolled by Indian capital.* (Washbrook, 1990: 59) This period marked on the one hand the dependence of the Company on Indian capital, and on the other the tendency of Indian capital to expand into spheres of production and trading under the economic policies of the Company. (Washbrook, 1990: 55-56) It was this interaction between the capital of the Western colonial centres and indigenous capital that was responsible for the capitalist development in Asia. As David Washbrook argues,

*.....very little of South Asia's capitalist development resulted from the investment of core capital seeking to survive and /or profit from the wage-productivity squeeze. (Washbrook, 1990: 47) Western sources supplied only a limited proportion of this and directly penetrated the interior economy no deeper than the ports and major railhead towns. Indigenous capital was primarily*

*responsible for the commercial development of peasant petty-commodity production. Indeed, apart from infrastructural investments in the railways, South Asia never was, and still has not become, a major field for the investment of core capital,.....*  
(Washbrook, 1990: 47-48)

During the three decades from the 1820s the Company state established *the dominance of British trade and financial capital over India* and reduced Indian capital *to a subordinate role in the new colonial structure.* (Washbrook, 1990: 56) *The South Asian economy at the end of the 19<sup>th</sup> century was distinguished, above the level of peasant production, principally by its elaborate merchant and banking systems and by a few luxury-producing handicraft industries, both of which could be seen as leftovers from the Indian Ocean world economy of the past.* (Washbrook, 1990: 55)<sup>7</sup> Though the Europeans played a significant role in the socio-economic transformation of these areas, the initiatives came primarily from indigenous communities. (Gunarathne, 2011: introduction)

The Indian and Chinese economies were rapidly expanding at the time of the advent of Europeans and they penetrated other economies of the Asian region at an unprecedented scale. But with the European intervention the historic economic role of the Chinese and the Indians in Asia underwent significant change. While the Chinese role came to be confined to East Asia and South East Asia, Indian commercial operations continued to spread out from present South Asian geographical area to most of South East Asian territories. Their role expanded even in the regions of East Africa, and the Persian Gulf and Red Sea area. (Bose,

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<sup>7</sup> *Moreover, subordination to British industrial capitalism did not entirely sap the energy of Indian indigenous capital. From the position, in which it was placed, that capital found new and profitable roles for itself, carrying the products of the industrial revolution deep into the bazaars not only of South Asia but of the Eastern colonial world and promoting the commercialization of peasant production. As early as the 1870s, it also began to pioneer a revival of Indian manufacture, handicraft and later industrial goods. In Southern India, the handloom-weaving industry, thriving on expanded South East Asian trade, was even larger in 1900 than it had been in 1800. And by the 1930s indigenous capital began to sustain the growth of modern industry.* (Washbrook, 1990: 56-57)

2006: 72,78-87) With the arrival of the Europeans in to the Indian Ocean, Western seaborne trade grew fast and they introduced new economic institutions to Asia. (Chaudhuri, 1985: 207) In response, the Indians as well as the Chinese came to play new roles in the rising economies of these regions.

Accordingly, the expansion of colonialism in the 18<sup>th</sup> and 19<sup>th</sup> centuries changed the pattern of operation of the trans-Asian mercantile and financial networks. The inland trade and inter-Asian commerce came to be increasingly associated with the European-dominated international networks. These large international networks, created by European business ventures were able to displace Asian capital from many of its traditional preserves. Adjusting to the new situation Asian financial and mercantile interests were however, able to expand their sphere of operations and profits. They also came to depend on the new institutional framework created by international capital. While established interests of Asians were adjusting to the new situation a number of new businesses were emerging utilizing newly opened avenues. Therefore, many of the Asian bankers and merchants were able to preserve for themselves a lucrative sphere of operations independent of European capital. The Asian business structure became considerably more complex and Asian mercantile groups began to play an intermediary role under the new situation. (Ray, 1995: 464-465)

When the above mentioned regions were brought under the world capitalist expansion their economies started to expand and generated new avenues for the varied expertise of existing merchant communities particularly in the less monetized and less commercially developed societies in their need to fit into the new world economic system. The Asians readily filled the gap between European and indigenous sectors in commercial credit operations as intermediaries in spheres of subsistence agriculture and small scale trading. (Ray, 1995: 453-455; Gunarathne, 2011)

As already mentioned, in the early period of colonial expansion banking facilities for European traders were provided by the indigenous banking systems. In the second half of the nineteenth century with the introduction of 'exchange banks' European banking system expanded its operation and linked Asia into the European business world concentrating on import and export trade and with relevant changes in the communication network. Although the European banking network with its rapid developments gradually replaced the leading Asian bankers in relation to European commercial concerns, it could not oust them entirely from the regional banking network. With the expansion of European banking, indigenous banking system in fact readjusted to the European monetary network, shifting its focus onto local money markets. (Ray, 1995: 478-479) This transformation fitted well with the European monetary requirements as a bridge between Western capitalism and Asian economies. Therefore, under these circumstances one can argue that the foundations of the capitalist development of the above mentioned regions already existed at the time of European capital intervention. European capital merely reformed or restructured and accelerated this existing system.

Until the imperial communications revolution of the mid-nineteenth century, European colonial powers did not attempt to control Asian trade systematically. This gave the Asian traders sufficient time and freedom to expand their activities through their old channels. (Ray, 1995: 471) The expansion of European capital under the hegemony of European powers in the initial stages began to change the pattern of Asian trade in collaboration with European capital. In this collaboration indigenous bankers and merchants became the agents of European overseas capital expansion. Some groups were able to exploit the imperial connection to expand their own mercantile and financial operations. Accordingly, internal Asian trade and banking operations in the 18<sup>th</sup> and 19<sup>th</sup> centuries continued to remain in the hands of native traders and bankers. When in the latter part of the 19<sup>th</sup> century the European colonial authorities slowly and gradually reorganized the economies of their Asian colonies, European commercial network started to penetrate the internal trade of

these economies. Until then European merchant and financial operations were confined to port cities and depended largely on the indigenous banking network for their transactions. (Ray, 1995: 454-457)

The main reason for the restriction of European business operations to those limited areas was the nature of the inland markets in Asia. Asian economies were highly sensitive to seasonal variations in production which gave internal money markets its specific character. Fluctuating prices based on seasonal variations caused a high degree of instability in commercial transactions in the Asian region. Therefore, fluctuations in rates of exchange or in internal money rates did not give sufficient assurance of profits to foreign investors. Therefore, they kept away from risky investments as they were not familiar with these conditions. Europeans were unable to understand or control these conditions and found it easier to deal with the existing indigenous financial machinery. Therefore, the role of indigenous merchants and their participation in linking the domestic market into the European hegemonic international market became an essential part in keeping international trade functional. (Ray, 1995: 479-481)

Developments in the communication system and Western banking network created a favourable environment for European capital expansion in Asia. As a result, European banking and merchant companies and navigation companies were able to create a large international commercial network in Asia with imperial expansion in the late 19<sup>th</sup> century.

*It altered fundamentally the organization and finance of Asian trade and at length gave Western capital an assured mastery around the 1870s. Together, the Suez Canal, steamships, railways, telegraph and the exchange banks represented a giant forward movement of Europe into Asia, altering the very conditions in which the Asian business communities would henceforward function.* (Ray, 1995: 476)

In some sense, it dislocated many spheres of traditional Asian capital operations. But in another angle, it opened multiple opportunities for Asian financial and mercantile interests to expand their operations. Although the Asians were dependent on the institutional framework created by European capital, they were able to act independently in certain capacities. They expanded more independently in areas left alone by Europeans and penetrated more deeply than ever into inland economies. (Ray, 1995: 454,464-466)

The extension of European communication network into the Indian Ocean altered the conditions in which the trans-Asian mercantile and financial networks operated. To some extent, it disturbed the indigenous network and even replaced it. In the oceanic trade; indigenous network was replaced by steam navigation operating from high seas to coastal lines. Indigenous merchants tried to keep their monopoly in some areas but not very successfully. *Telegraphic communication altered the whole character of transactions in produce from the East, sales of imported manufactures from the West, and monetary, exchange and bullion transactions.* (Ray, 1995: 477) On the other hand extension of telegraph cable lines even to the African subcontinent benefited Indian traders who were extending their businesses in the region at the time. But on the whole the *altered technological conditions of international trade had finally decisively turned the balance against the Asian merchant and in favour of the European corporation.* (Ray, 1995: 478)

There were two significant developments with these changes. Capture of the commanding heights by the Europeans did not, of course, mean the occupation of the lower reaches of the economy; and the Western financial institutions were not uniformly effective in remolding the money markets in Asia in accordance with the requirements of Europe and America. (Ray, 1995: 479)

### **The Sri Lankan Scenario**

Sri Lanka presents a microcosmic picture of Asian commercial and financial network and its transformation under European colonialism.

The country was in the periphery of the Asian merchant capital network but well within the Indian sphere of influence. Though the Sri Lankan market played a limited role, it interlinked with long-distance trade and credit networks through Indian merchant communities. In recorded history of Sri Lanka there appears to have been a lack of indigenous business communities with expertise in long-distance trade and financial skills (Indrapala, 1971: 102-105). This gap was filled by various Indian merchant communities. Thus, for centuries, Indian merchant communities played a dominant intermediary role in the Sri Lankan economy.

Certain essential elements of a commercial economy were already developed in Sri Lanka by the time of European arrival in the early 16<sup>th</sup> century. At least from the 13<sup>th</sup> century onwards there were several trading ports along the coastal belt of the country serving as centres of import export trade as well as points of entry of inland trade. Port towns of varied sizes in the coastal belt from Puttalam to Hambantota were developing as urban commercial centres with a resident population engaged in various services necessary for commercial activity. Ship building and repairing as well as basic industries such as timber and coir which were directly connected with the seaborne trade were available in these port towns. These towns also served as supply centres for a wide variety of essential consumer items for the peripheral society. These items brought to the island by Indian merchants were distributed internally by peddlers. Various business groups of Indian origin<sup>8</sup> were located in these centres maintaining their store houses of items of both external and internal trade. For centuries all these activities facilitated the penetration of their capital in numerous functional capacities throughout the island. (Gunarathne, 2011: chap. 2.1)

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<sup>8</sup> These included a large element of Tamil and Muslim merchants from Malabar and Coromandel coasts; Chettiar and other Hindu castes and the Roman Catholic Paravars, known as Bharathas in Sri Lanka; Chulia Muslim merchants of Coromandel; Mappila Muslim traders from the Malabar Coast; Gujarati and Bengali traders; Chinese and merchants from various southeastern trading ports in few numbers. (Gunarathne, 2011: 23-26)

There were organizations of South Indian merchant communities such as trade guilds with large numbers of associate bodies engaged in trade and commerce from China to the Persian Gulf. Such organizations were active in the interior market town of the island between 10<sup>th</sup> to the 12<sup>th</sup> centuries. (Indrapala, 1971: 102-105) Their role gradually changed with the interference of the Portuguese and the Dutch from the 16<sup>th</sup> century onwards in the Sri Lankan markets. They however adapted to the changing conditions of the local economy as well as Indian Ocean trade under the mercantilist regulations introduced by the Europeans. Sometimes these merchant communities had to face violent opposition of Europeans who were determined to eliminate local trading communities from the Indian Ocean trade. While the Europeans were unable to expel them, the Indians managed to emerge as the inevitable collaborators in European commercial expansion. It is important to note that limited but new avenues opened for them under the early European colonial supremacy. Exploiting the situation, they were able to become important commercial allies of the Portuguese as well as the Dutch in the Indian Ocean region. Their skills in cash transactions and having sufficient liquid capital for investment in trade not only helped them to venture into new areas but also enabled them to penetrate deeper into the indigenous society that was increasingly subjected to cash exactions under European colonial policies. (Gunarathne, 2011: 29-35)

As already mentioned, Indians maintained a large trading network incorporating many geographical areas with Sri Lanka as a one of the major locations. As intermediaries the Indians handled the island's trade maintaining well-coordinated links between inland and foreign trade. They accumulated the surplus of the agrarian economy via numerous peddler traders and it was transported by caravans to various trading ports for export. They also functioned as the internal distributors of local produce from surplus to scarce areas and as purveyors of essential items such as textiles, rice and other articles of food to the indigenous society through their trading network. The Muslim traders in particular, from the Maldives, the Malabar and Coromandel coasts and from Bengal maintained good collaborative relations with the Dutch Company

keeping this trade mutually beneficial for both parties. On behalf of the Dutch Company these merchants shipped out items such as areca nuts and elephants and shipped in the much-needed rice, other food provisions as well as textiles to the island. (Gunaratne, 2011: 30-31)

The new avenues of profit making that opened for the Indians in early colonial times were few in numbers but very vital at that time. Both the Portuguese and the Dutch followed a kind of indirect rule in the island as it was the general pattern in Asia in the era of mercantilist expansion of European powers. During the early stages the native administrative system continued to operate under the colonial superstructure. But the nature of this indirect rule depended on the interests of the two partners. With their predatory forms of colonial exploitation of the indigenous society, the relationship between the two partners often became confrontational due to the competition over the resources. (Schrikker, 2007: 41-45) Under the Dutch rule the *Company was continually trying to find ways to undermine the power of the native headmen, while at the same time it heavily depended on this group of people for the colonial administration.* (Schrikker, 2007: 48) *The second part of the eighteenth century witnessed a changing balance of power to the advantage of the Company.* (Schrikker, 2007: 40)

In the pre-colonial system, tax collection was mainly a responsibility of local officials. Although, initially, the Portuguese and the Dutch had to depend on local headman as their knowledge and cooperation were essential for tax collection, these rulers however tried to limit their dependency on them by progressively taking away this function from them. During the course of the 18<sup>th</sup> century all taxes came to be farmed out to the highest bidders.<sup>9</sup> This change opened new opportunities for locals as well as migrant Indians who had substantial capital to invest. Accordingly, most of the tax farmers happened to be either indigenous chiefs, Muslims or Chettiars. (Schrikker, 2007: 50; Dewasiri, 2008: 144-

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<sup>9</sup> The VOC administration in Sri Lanka was farmed out all collecting of taxes for highest bidders to undermine the local officials' power. (Schrikker, 2007: 35,50).

145) The Dutch Company even employed Muslims to provide subordinate services such as *shroffs*, money tellers and interpreters. (Goonewardena, 1986: 203) With the entry of Muslims, Chettians and other Indians into the sphere of taxation, they gained access to peasant society and thereby the ability to exert some control over their economic life. These tax farmers, as the middlemen in the tax collecting process, were able to make quick profits by holding a part of the revenue for themselves. Exploiting this access to peasant society they became peddlers in essential articles such as cloth, salt and dried fish and bartered them with areca nuts and a variety of peasant produce. Thus, while these Chettian and Muslim peddler traders linked the peasant producers with distant markets, some of them settled down in the villages and even performed customary services connected with the village economy. (Dewasiri, 2008: 144-145; Dewaraja, 1986: 211-234)

European colonialism also opened a vibrant land market in the maritime areas enabling businessmen of Indian origin to emerge as large-scale landowners. Under the Dutch administration the new land owning class was composed of the native officials who served them as collaborators and the Muslim, Chettian and Paravar communities. The others were mainly officials of the Company and free-Burghers. In addition to paddy lands they acquired lands suitable for coconut cultivation and opened plantations as the export market for coconut products rapidly improved. The Dutch administration gave every encouragement for landowners to cultivate coconuts. In the same way there was a large demand for areca nuts in the export markets of which a large volume was exported. (Dewasiri, 2008: 84,90,93,170-172; de Silva, 1995: 52) Indian communities benefited from these new opportunities for accumulation of wealth and upward social mobility. Though the Dutch took some measures to control their activities in their areas, the Muslims were able to hold a considerable volume of land including coconut plantations and paddy lands. (Dewasiri, 2008: 145,170-172; Goonewardena, 1986: 198-201)

With these developments the Chettiars, Paravars, Malabars, and Muslims, though outside the traditional caste hierarchy of Sri Lankan society, become numerically as well as socio-economically significant communities in the maritime areas of the Island. Some communities such as Chettiars and Paravars integrated into the society with their marriage ties with some caste groups such as *Goyigama* and *Karava*. (Dewasiri, 2008: 185-187,201-202)<sup>10</sup> With their economic dynamism in coastal areas under different colonial regimes, these communities were able to play a vital role as traders, tax and liquor renters and landowners. Their close connection with the peasant society for a long period of time became particularly advantageous when the economy underwent a transformation in the 19<sup>th</sup> century under British rule.

### **Economic Transformation under British Colonial Rule**

Sri Lanka underwent rapid economic change under the British colonial domination enabling various migrant Indian communities to play a substantial role and make colonial initiatives practicable as it happened in most South East Asian Countries, e.g., Burma, Malay Peninsula, French Indochina or Cochin China, Thailand, the Dutch East Indies and the US colony of the Philippines. In Sri Lanka these Indian communities successfully adjusted their past roles in the pre-British economy to fit into the emerging colonial economy. Their role was essentially as facilitators in the penetration of colonial mechanisms of exploitation the existing subsistence economy and in enabling newly emergent local entrepreneurs to fit into the circuit of colonial European capital. Their involvement and contribution made colonial economic penetration more pervasive. (Gunarathne, 2011: introduction & chap.2.1; Bose, 13, 26-28)

The economy of Sri Lanka changed radically particularly with the expansion of plantation agriculture under the British colonial rule after the 1850s. Under this transformation Sri Lankan economy was integrated into world economy and a new mode of capital formation took place with

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<sup>10</sup> *Goyigama* - socio-economically powerful caste in the Sri Lankan society and *Karava* caste was economically more dynamic.

the direct involvement of the colonial state. Export oriented agricultural products in the plantation system became the dominant sector of the economy. It created a large volume of import and export trade paving the way for rapid market expansion. (Gunarathne, 2011: introduction)

Though the British as colonial masters took the initiative steps for this transformation, the economic structure that evolved was based on the involvements of three different groups of investors. Their mutual dependence and collaborative economic behaviour made the transformation practicable. The plantations, as the key sector of the economy with its import and export trade, were handled mainly by Europeans. They engaged in large scale export trade, processing, insurance, shipping and banking at the top level of the economy. Indigenous entrepreneurs, forming the second group, was small in numbers and occupied a marginal position with their investments limited largely to subsidiary industries and ancillary services of the plantation sector, coconut and graphite industries. The third group was formed by various business communities of Indian origin who functioned between the above two and served the needs of both. (Gunarathne, 2011: chap.4)

The major problem of indigenous investors was the scarcity of capital. Capital accumulation of the pre-colonial economy based on subsistence agriculture was very limited, and trade and commerce, both internal and external, were handled by various merchant communities of Indian origin. While trade and commerce were gaining importance under the early European rulers, indigenous society lacked the expertise to take advantage of it. In addition, the low level of capital accumulation was the main reason for their inability to derive full benefits from the new avenues opened by British colonial economic initiatives. They were unable to enter the main stream of economic completion with foreign investors. On the other hand, with their experience as intermediaries in the Sri Lankan economy for a long period of time, Indian merchant groups were able to exploit the situation without competition from indigenous groups. Accordingly, the Indians exploited every opportunity opened by the plantation economy almost unobstructed while at the same

time their roles in the indigenous peasant economy expanded in keeping with its rapid commercialization. (Gunarathne, 2011: chap.4)

There were two broad categories among the Indian business communities operating in Sri Lanka; those domiciled in the island for a long period engaging in trade, commerce and various other economic activities. These communities with their previous connections with the peasant society continued to engage themselves at the lower levels of the economy. Their role and the social space they occupied were different from the new comers who were attracted by the plantation economy under the British. The new comers were directly associated with the upper levels as purveyors of special needs of the plantation economy.

Inevitably their roles became critically important for the working of colonial economy both at the level of the colonial masters and the colonized society in Sri Lanka. Indian business communities were attracted to the plantation economy at an unprecedented scale and their function and operations can be identified in three major spheres. Firstly, they functioned as facilitators of the establishment and expansion of the plantation economy by collaborating with European entrepreneurs as reliable suppliers of necessary services for the management of plantations. The plantation sector totally depended on the large scale Indian migrant labour supply. As labour migration increased annually, Indian traders became the main suppliers of clothes, rice and other food items for migrant the Indian labour population in the plantations and those employed in processing and shipping export produce. They dominated this trade line using their trading and shipping network that connected the main cities of India and Southeast Asia. (Gunarathne, 2011: 108-129)

Another important area of their operations was banking and money lending. The plantation economy in Sri Lanka generated an unprecedented demand for capital and credit as in many other Asian colonial economies under the British. The pioneering entrepreneurs of the

Sri Lankan society were attracted to these economic opportunities but were handicapped by the lack of capital and difficulties of obtaining credit. The European banking system established in the mid-19<sup>th</sup> century, according to colonial banking regulations, was strictly limited to providing capital requirements of European enterprises in the colonies and was not inclined to meet the credit demand of indigenous society. This banking system therefore, did not play a direct role in financing indigenous economic enterprises and in the marketing of local produce. Indigenous societies were therefore, confronted with the serious problem of capital scarcity and with the difficulty of obtaining institutional credit in order to benefit from the expanding colonial economies. Therefore, as in the case of other Asian economies, the influx of the Indian capital to Sri Lanka was inevitable. These Indian communities integrated the Sri Lankan enterprises into the circuits of colonial European capital. (Gunarathne, 2011: 86-88)

Accordingly, the financial market of the colonial economy in Sri Lanka was divided in to two parts. The European financial market, directly handled by the established European banking system supplied capital directly through European channels to European export trade. The indigenous or native money market, handled mainly by Chettiars and few other money lenders, provided credit facilities for indigenous enterprises and the rural economy. Capital came in to the indigenous money market as short-term loans either from Chettiars' own funds or borrowed by Chettiars from both European exchange banks and Indian Banks. As in the case of many other Asian colonies it is significant that the collaborative and complementary role of European and Indian banks and Chettiars facilitated the necessary capital flow for the functioning of the colonial economy. The collaborative and complementary function of Chettiar capital was not limited to one area of the colonial economy. Direct European capital flow was confined to the European plantation sector and associated foreign trade at the upper level of the economy and it was the Chettiar finances that linked this sector to the lower levels of the society. (Gunarathne, 2011: chap. 4.1)

At the beginning the Nattukkottai Chettiars acted as bankers providing capital and money exchange services for pioneering European planters and traders. These operations ended with the introduction of European commercial banks in the middle of the 19<sup>th</sup> century. These Chettiars then transformed into the emerging indigenous entrepreneurial class. Until Sri Lankan banks were opened around the middle of the 20<sup>th</sup> century, indigenous business operations were financed by well-organized Chettiar credit and financial organizations based in major commercial centres in India. The Chettiars on their part established themselves all over the island and transacted every kind of business where they could make profits. They lent money for trade, for production, as well as consumption on varying terms of repayment and on varying conditions of security. (Gunarathne, 2011: 86-107)

Indigenous spheres of investments expanded rapidly specially after the First World War. According to the Ceylon Banking Commission of 1934, *90 per cent of the total acreage under coconut, 55 per cent of rubber and 20 per cent of the tea acreage was under indigenous ownership and control. There were also increasing numbers in the internal retail and wholesale business, transport and other similar activities.* (Kannangara, 1960: 92) They all required credit facilities. On account of the restrictive and discriminatory policies of the foreign exchange banks, indigenous businessmen in various fields depended on Chettiar money lending firms.

Arrack renting, graphite mining and coconut planting and related industries were the main avenues of investment of the pioneer Sri Lankan entrepreneurs. As the plantation economy expanded rapidly, the liquor industry and retail trade emerged as the most significant source of local accumulation in the 19<sup>th</sup> century. Some Colombo Chettiar families were involved in the arrack industry as renters even before the advent of the British. While a few of them continued their links in arrack trade, financing liquor rents became one of their profitable ventures in the 19<sup>th</sup> century for the Sri Lankans arrack industry was a very profitable business and was entirely owned and run by indigenous entrepreneurs. But they

had to rely on Chettiar money lenders because they could not obtain capital from banks for initial security deposits insisted by the colonial state. (Ceylon Banking Commission Vol.2, 1934: 396-397; Jayawardena, 2000: 49,77-80,86,126-127; Jayasekera, 1970: 191)

As an example, in 1924 there were a total of 18 taverns within the Colombo Municipality alone. In the 1924-1927 period, including all expenditure for 9 taverns the cost was Rs.3, 540,942.56 (3.5 million). The gross receipts for the period amounted to Rs.3, 837,420.14 (3.8 million) and the gross income amounted to Rs.296, 477.56, the net income for the 3 years being Rs.200, 000. The amount invested on capital account was Rs.140, 000. The casual loans for the period of three years 1924-1929 amounted to Rs.186, 000 and the interest paid during the period of three years was Rs.64, 632.50. This interest was paid to Sea Street Chettiars at 15 per cent per annum. (Ceylon Banking Commission Vol.2, 1934: 396)

The rapid expansion of graphite mining from 1869 to 1918 was a result of the growth of the steel industry in Europe and America and development of the armament production. During the First World War period the demand for graphite sharply increased giving windfall profits to local entrepreneurs and exporters. Except a few European firms that engaged in export, the graphite mining and trade was mostly in the hands of Sri Lankans. Because of the stability of the industry indigenous miners could get some financial assistance from banks through the *shroff*. But in the case of small scale mining, operations were financed only by Chettiar firms. (Ceylon Banking Commission Vol.2, 1934: 207,395; Casinader, 1974a: 7, 1974b: 6)

The Chettiars also undertook financing plantations of both Europeans and non-Europeans alike. Most of the Sri Lankan planters, both large and small scale, had to depend on short-term money raised by mortgaging their properties at usurious rates of interests to the Chettiars. As they were constantly repaying from the income both principal and interest on the loans, they were always faced with shortage of working capital. Most of the commercial crops in Sri Lanka required long periods of maturity

for their economic benefits. Therefore, for the working capital requirements investors had to borrow money constantly. As a result, most of these planters were in chronic indebtedness to Chettiar moneylenders. (Ceylon Banking Commission Vol.2, 1934: 64, 67, 145-146, 206-207, 356, 367)

The Sri Lankan share of the coconut industry was generally reckoned as about 95 per cent. A considerable section of these coconut plantations has been opened up with the aid of borrowed capital from Chettians by way of mortgages and loans. (Ceylon Banking Commission Vol.2, 1934: 165) According to the evidence before the Ceylon Banking Commission in Puttalam, *the bulk of these estates are in the hands of Nattu Kottai Chettians. Some of these mortgages date back for very many years. There are some estates which we have never known to be free of encumbrances. These mortgages usually go on with the same firm of Chettians. Notes and bonds are periodically renewed.* (Ceylon Banking Commission Vol.2, 1934: 457) These mortgaged assets were sold up for recovering their debts, or purchased by Chettians themselves. *It [was] estimated that about 60 per cent of coconut land owned by the Sri Lankans was under mortgage and that more than 75 per cent of the Sri Lankan landowners were in debt.* (Ceylon Banking Commission Vol.1, 1934: 35) Nearly 1/3 of the coconut lands, around 500,000 acres in extent, both mortgaged and in unsecured debt had been purchased by Chettians against their claims. The indebtedness in the coconut industry was estimated to be between 50-75 per cent. (Ceylon Banking Commission Vol.1, 1934: 169-170)

About 55 per cent of rubber plantations were in the hands of the Sri Lankans. Even large Sri Lankan rubber estates experienced financial difficulties and depended on Chettiar credit. The few Sri Lankans who opened up tea plantations had to supplement their own capital with funds raised by mortgaging their properties to Chettians at 18-20 per cent interest. (Ceylon Banking Commission Vol.1, 1934: 192; Vol.2, 1934: 409,426)

The evidence of the Natukottai Chettiars Association to the Ceylon Banking Commission in 1934 claimed that they possessed mortgaged assets amounting to about Rs.20 million. Of this sum about Rs.5 million was in urban property, 12.5 million in coconut property and the balance in tea and rubber plantations. (Ceylon Banking Commission Vol.2, 1934: 488)

In Sri Lanka the development of industries suffered heavily as a result of lack of capital and the burden of high interest charged by Chettiars. The desiccated coconut industry represented a very important sector of local investment. It raised 6  $\frac{3}{4}$  million rupees (Rs.6,746,623) by exporting 789,850 cwt. in 1933. Owing to the shrinkage in financial assistance the industry under a heavy burden of credit was compelled to seek the assistance of the Chettiars. The banks afforded practically no credit facilities even to oil millers who operated well equipped mills. In the undeveloped economy of Sri Lanka there were several subsidiary industries. Except a few European-owned factories most of these local industries suffered due to the lack of banking facilities. The soap industry, acetic acid and several bi-products from coconut shell charcoal were some of them. In all these small industries 75 per cent of credit was raised from the Chettiars. (Ceylon Banking Commission Vol.2, 1934: 60,306,447)

In distant rural areas the Chettiars financed petty traders, middlemen and local producers. The internal trade and the movement of produce within the island were in the hands of petty traders financed by the Chettiars. In the case of local produce export agencies came up at the point of delivery at warehouses. Chettiars procured mortgages of stocks of produce at this point reserving the right of selling them as they chose. (Ceylon Banking Commission Vol.2, 1934: 89,112)

Both wholesale and retail trade of the Island heavily depended on Chettiar credit sources. Most of the retailers, having no capital of their own and without adequate security to offer exchange banks, were compelled to borrow money from Chettiar and other moneylenders to

finance their undertakings. *The import trade with India was conducted primarily by Indian nationals and was financed by the Indian banking community of Chettiars. The Colombo Pettah import trade was almost totally financed by the Chettiars.* (Corea, 1937:5) The Chettiars became the main financial sources of traders even in distant commercial centres like Jaffna, Batticaloa and Trincomalee. (Ceylon Banking Commission Vol.1, 1934: 50-51,191; Vol.2, 1934: 101,127,176,244)

The principal productions of the Jaffna peninsula were tobacco and paddy. The market for tobacco was primarily in India and Travancore was the major centre of export. For tobacco cultivators the available credit source was mainly the Chettiars. The exporters of tobacco were also financed by the Chettiar moneylenders. (Ceylon Banking Commission Vol.2, 1934: 466,469-470)

Whatever benefits derived by the indigenous population at the village level from the expanding import export economy came to be channeled through the Indian intermediaries. With the expansion of plantation economy there was a degree of monetization of the peasant economy. Muslims and Chettiars who were living among villages and having potential of grabbing the advantages of the emerging markets became the main source of capital for the peasant economy. As money lenders they fulfilled cash or capital requirements of the villagers. Apart from their role as intermediaries between the plantation economy and the village economy they channeled peasant produce to the export market and, at the same time, supplied imported commodities to the village market. As far as the mass Sri Lankan population was concerned, with all these developments the role of Indian merchant communities in Sri Lanka underwent a radical transformation; from one of mutual benefit in the precolonial economy to one of multiple forms of exploitation under colonialism. Especially, with the expansion of plantations over the central highlands, peasant economy gradually faced severe land shortage. Apart from the peasants even the migrant Indian labour communities in the plantations came under the mercy of Chettiar moneylenders who enjoyed

the privilege of entering the estates. (Gunarathne, 2017: 36; Fernando, 1982: 23; Gunarathne, 2011: chap. 4.1)

The period 1860-1925 was on the whole, the peak period of Chettiar businesses. Between the 1870's and 1916 there was nearly a fivefold increase in the number of Chettiar firms in Sri Lanka, from 150 to 700. Of the 700 as many as 50 per cent were engaged in money lending while the remainder were in a variety of trades. The total number of Chettiar firms increased from 700 in 1916 to well over 800 by 1925. Around 1900 their businesses were small; but in the latter years they practically emerged as financial magnates mostly out of the fortunes they made from usurious lending to Sri Lankan entrepreneurs. In Negombo district for instance; a centre of coconut plantations and related industries, there were about 100 Chettiar firms in 1934. About 20 or 30 of these were branches of Colombo firms but the rest were independent. The total of credit provided by Negombo Chettiars was said to have been between 15-20 lakhs of rupees. In the entire island on a rough calculation in 1933, there were 556 Chettiar firms and about a 100 Chettiar pawn brokers and their investment was about Rs.40 lakhs. (Gunarathne, 2011: 102-107; Mahadevan, 1975: 112-113) *According to the estimate of the Ceylon Banking Commission the working capital employed by the Chettiars in their businesses prior to the onset of the Depression was approximately Rs.150 million. (Mahadevan, 1975: 121) The excess of their investments then over their own capital, viz., Rs. 65 million, was obtained by borrowing Rs. 40 million from friends and relatives in India and Rs. 25 million from local banks. (Ceylon Banking Commission Vol.1, 1934: 42)*

Apart from their own banking activities the Chettiars performed an intermediary role between the indigenous entrepreneur and the foreign banks which were unprepared to take security risk by lending to indigenous entrepreneurs. The risks that these banks refused to take on advances to the indigenous entrepreneurs were passed on to the hands of Chettiars. (Gunarathne, 2011: 90-93)

From this point of view, established banks the Chettiar system operated satisfactorily till about 1925 when a number of leading Chettiar firms failed. The lending activities of the Chettiars, however, shrank rapidly after 1929 with heavy losses incurred due to the Depression and a combination of other circumstances. The breakdown of the Chettiar system and its ultimate consequences were disastrous to the general economy of Sri Lanka. The failure of Chettiar firms due to this chain reaction was a principal cause of the Depression in Sri Lanka. (Ceylon Banking Commission Vol.2, 1934: 316; Gunarathne, 2011: 103-107)

Apart from the Chettiars, there were various business communities of Indian origin engaged in import export trade. Gradually, they ventured to acquire estates as planters of tea, rubber and coconut in the plantation economy. At the end of the first half of the 20<sup>th</sup> century there were considerable numbers of planters of Indian origin as individuals and representing leading Indian business organizations. They belonged to various Indians communities and they held a considerable number of acres compared with the indigenous and European estate holders. (Gunarathne, 2011: 129-141)

### **Conclusion**

Universalized merchant capitalism that developed for centuries in the Asian and African regions was gradually aborted by the intervention of Western colonialism. Under colonial administrative and bureaucratic frameworks, economies in these regions transformed into subordinate economies, serving the capitalist centre of Western Europe. These developments rapidly accelerated especially after the Industrial Revolution. In this process economic transformation and the capitalist development in Asian region became a collaborative achievement with complementary roles played by both European and Asian capital. The European initiatives created the foundation for the indigenous operations. Capitalist classes that emerged in these colonial societies played a subsidiary role serving metropolitan economies. For example, subordinate capitalists of various colonies of the British Empire became

suppliers of raw materials and primary goods for British industries. In the British colonies of Asia extensive new markets were created generating unprecedented demand for capital and credit, as in many other parts of the world where colonial economies expanded. But indigenous societies were confronted on the one hand with the serious problem of capital scarcity and on the other hand with the difficulty of obtaining institutional credit from western banking sources in order to benefit from these expanding colonial economies.

The pioneering entrepreneurs in the Sri Lankan society were attracted to these economic opportunities but were handicapped by the lack of capital and difficulties of obtaining credit. In this situation, the influx of Indian capital to Sri Lanka was inevitable from the early 19<sup>th</sup> century as in the case of other Asian economies such as in Malaya and Burma under British colonial rule. Therefore, as in many other areas of the Asian region the contribution of Indians was vital in the developments of the Sri Lankan economy. While their role in pre-colonial economy in Sri Lanka changed with the expansion of European colonialism, their business operations facilitated the functioning of the colonial economy and even supplemented it. Large investment avenues were created by western colonialism and the Indians were able to flourish expanding their networks connecting Asian region to East Africa and Australia. In the case of Sri Lanka while playing an essential role in the functioning of the colonial economy, the Chettiar operations in particular contributed to the processes of capital formation and the emergence of an indigenous capitalist class. Thus the economic transformation and the capitalist development of the Sri Lankan society in the 19<sup>th</sup> and 20<sup>th</sup> centuries was the outcome of the collaborative and complementary roles of primarily Chettiar and European capital operations.

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