Chettiar Finance in Colonial Asia

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Zusammenfassung. Dieser Beitrag untersucht die Organisationsstruktur von Finanznetzwerken der Chettiar Geldverleiher im kolonialen Asien, die sich von ihrer Heimat Südindien bis nach Ostafrika, Mauritius, Ceylon, Burma, Indochina, Malaya, Singapore und Sumatra erstreckten. Der Autor diskutiert die Fallstudie in bezug zu der theoretischen Fragestellung, inwieweit die auf Familien und Partnerschaften gegründete Organisationsstruktur der Chettiarfirmen spezifisch asiatisch und auf Handel und Finanzwesen beschränkt, nicht aber für ein Engagement als Industrieunternehmer geeignet ist.

Abstract. This contribution analyses the organisational structure of Chettiar financial networks in colonial Asia extending from East Africa and Mauritius to Ceylon and Southeast Asia (Burma, Indochina, Malaysia, Singapore, Sumatra). The rich material is discussed on the theoretical background how far organisational structures of the Chettiar firms (family and partnership firms) are specifically Indian and were an adaptation to commerce and finance, however, unsuitable for a transformation into industrial enterprises and modern businesses.

Introduction

In his recent CAS publication on Asian Capitalists in the European Mirror Mario Rutten (1994) characterised the assumption of a number of scholars on a specific capitalist nature of Asian enterprise and economic environment. They named South Asian capitalism “commercially oriented”, “merchant capitalist”, or “financier industrialist”, among other notions. The implicit assumption behind these terms is that the European path of capitalist development is the real one, while the Asian path is somehow a dead end or, at least, has been hampered by specific cultural factors. A main argument in these approaches is that

“South (...) Asian capitalists are a specific type of capitalists because they display a commercial orientation and follow a business strategy characterized by diversification of economic interests.” (Rutten 1994: 4)
I shall begin with a brief review of Western concepts of entrepreneurship, which are largely variations of Max Weber's thoughts. Thomas Timberg (1978: 14–8) provided a useful summary of these concepts: The discussion of entrepreneurs places them at the opposite end of traditional businessmen. Schumpeter (1990: 412–4) broadly defined entrepreneurs simply as people doing new things or doing existing things in a new way. Gerschenkron (1966) maintained that one distinguishing feature is the planning horizon of the two categories. The former has a long-term planning horizon, while the latter is directed towards a quick speculative profit. Furthermore, entrepreneurship is a specialised career with continuous specialised training for one's lifetime, while the traditional businessman confines his education, if any, to book-keeping. Hoselitz (1963) and Geertz (1963) argued that bureaucrats find it easier than merchants to become industrial entrepreneurs because of their capacity for planning. The on-the-job-training in particular merchant communities has been well-described by various travel reports and scholars and, as will be shown, also fits the Chettiar. Thomas Timberg summarised his perspective on entrepreneurship as follows:

"In particular it would seem that the possession of a matrix of commercial interaction, a network of contacts adapted to commerce, is a major qualification for business success. From his network a businessman can get the capital, intelligence, collaboration, and personal accommodation which he needs to be successful." (Timberg 1978: 28)

Broadening the perspective to the world, the Europe-biased, dualistic concept of traditional businessmen versus (modern) entrepreneurs was transplanted to other regions. The argument of modernisation theory was that in underdeveloped economies firms are usually organised according to kinship and family lines, and that capital is often raised for such firms through kinfolk and friends. Such so-called backward organisation was considered to prevent the economy from realising its full potential. For India scholars argued that with the emergence of Western-type joint-stock companies during the late colonial period these soon came to supersede the traditional Indian businesses because of their greater capital basis, while non-Western merchants and financiers continued their traditional organisational forms, family businesses and partnership firms with a capital basis that sufficed for the financing and making of commerce but not industries.

In economics a change of perspective occurred with New Institutional Economics. This neoclassical specification interprets economic institutions as being an adaptation

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1 Max Weber (1950) and his school consider specific ideological and psychological climates that facilitate entrepreneurship, and which in turn promote development per se, in contrast to Marxists who assume that entrepreneurs are by-products of the process of development. Weber assumed a particular rationality of entrepreneurs, found in the Protestant Ethic. It includes the positive value of hard work, thrift, saving and re-investment. However, he emphasised that this climate among the entrepreneurs is insufficient on its own, but that it had to be found in the whole society.
to the circumstances to solve the particular economic problems. The organisation around family and kinfolk was now considered as a solution to difficult problems in a particular type of society and economy: to organise economic matters in an undifferentiated and socially constrained economy. By contrast, modern developments such as social enforcement of private contracts are considered to reduce the importance of identity or to depersonalise exchange and finance (Ben-Porath 1980: 13). Supporters of New Institutional Economics (e.g. Williamson 1986) take the perspective that higher, more efficient, organisational forms replace lower, less efficient ones. However, this view leads to the same conclusion. Businesses that are based on personal relations are characteristic of less modern, less differentiated and less developed economies.

Before I discuss the Chettiar, indigenous financial agents in colonial Asia, I would like to comment on the distinction between moneylenders and indigenous bankers in Indian literature. The latter term should be interpreted as an abbreviation of "indigenous-style banker", as used by Timberg and Aiyar (1980) to distinguish their mode of operation form Western banks, or more precisely, an abridgment of indigenously developed or non-Western banker. A clear-cut legal definition of moneylenders and non-Western bankers does not exist, and for some time scholars applied various opposing definitions. In 1971 the Study Group on Indigenous Bankers (hereafter SGIB) provided the following working definition, which came to be a guideline:

"The primary distinction between the moneylender and the indigenous banker is that while the former lends his own funds, the latter acts as a financial intermediary by accepting deposits or availing of bank credit; in other words the indigenous banking system is truly a financial intermediary in the sense that its ability to purvey funds is largely dependent on the resources it is able to mobilise. Another distinguishing feature is that transactions of moneylenders are conducted in cash while those of the indigenous banker are based on dealings in short-term credit instruments for financing the production and distribution of goods and services. The definition of indigenous banker adopted for this study covers those individuals and firms who accept deposits or rely on bank credit for the conduct of their business and are close to or on the periphery of the organised money markets and are professional dealers in short-term credit instruments (hundis) for financing the production and distribution of goods and services." (SGIB 1971: 9)

Summarising the distinction between moneylenders and indigenous-style bankers, I suggest refraining from an analytical distinction and applying these categories as descriptive ones only, with an understanding that a continuum exists ranging from the small-scale village moneylender to the large-scale urban moneylender and indigenous-style banker, and that it is sometimes difficult to categorise one credit agent as a banker, and another agent as a large-scale town moneylender.
The Nattukottai Chettiar

The Chettiar are a Tamil-speaking South Indian caste originating from Chettinad in Madras State. The Nattukottai Chettiar are the financial agents among them. Scholars assume that the growth of Chettiar business coincided with the expansion of the British colonial economy and titled the Chettiar “camp followers of the British” or “parasites” (see Pavadarayan 1986: 76ff.). In contrast to other indigenous-style bankers such as Gujaratis or Marwaris who had their heydays in late medieval India as merchant bankers, revenue farmers and financiers of the emperors and experienced a set-back under British colonial rule (see Schrader 1994a, b), their rise is closely associated with the expansion of the British colonial system beyond India. As Sandhu (1969: 77) argued, the shift of political power in Southeast Asia from indigenous to colonial rule provided better political and legal protection of business and attracted not only foreigners like the Chettiar, but Chinese traders too.

Like many other indigenous-style bankers the Chettiar had already been engaged in long-distance trade for centuries (Arasaratnam 1972) and I argue that their networking in both trade and finance is representative for a number of trading communities.² It will be shown that, by the eighteenth century, some individual Chettiar started credit-extending operations in Chettinad, Ceylon and Calcutta. From the 1870s onward, their overseas activities experienced sudden and phenomenal growth as a response to a heavy increase of primary-sector production for the world-market. Since their main field of overseas finance was cultivation, scholars titled them “moneylenders”. According to Andrus (1947), however, the Chettiar themselves preferred the term “banker”. I agree with Andrus, because they developed the most elaborate financial network of all Indian, and perhaps Asian indigenous-style financiers.

From the head-offices of the wealthy Chettiar firms in the Madras Presidency, Chettiar agents established an agency system, opening branches in Calcutta, Ceylon, Burma, Malaya, South Vietnam, Sumatra, or even Mauritius and East Africa. Other less wealthy Chettiar opened head offices in these countries and set up branches in the countryside. Business operations in East Africa and Bengal were eventually halted because profits were not high enough (Krishnan 1959: 30).

Reports and research on the Chettiar community have largely confined themselves to Burma, South India, Ceylon, and Malaya. Two colonial reports are available on Chettiar activity on Sumatra (Westenenk 1922; Schoold 1926). Only recently, some scholars (Pavadarayan 1986; Evers and Pavadarayan 1985, 1993; Evers, Pavadarayan and Schrader 1994) focused on the Chettiar in Singapore. Few scholars, however, placed their activity in the broader economic framework of colonial Asia. I therefore

² For the historical perspective on cross-national trade, see Curtain (1984).
provide a comprehensive review of the Chettiar network to identify shifts in their business and relate them to general economic and structural change.

The terms “Chetti” or “Chetty” (sg.), “Chettiar” or “Chettyar” (pl.), were used in the older literature in a very undifferentiated way. Pointing at their place of origin (Chettinad) they became a functional category, a synonym for “trader” and “moneylender” (Thurston 1909). Following Rudner (1989: 428), the Chettiar built their commercial organisation on the basis of a complex network of interdependent family business firms many of whom formed partnership firms later. In addition to credit provision, many firms accepted deposits at least from other Chettiar, traded in bills of exchange (hundis) and other financial instruments or transferred loan-able capital to branch offices and other banks. Inter-lending among different Chettiar firms was common. Every firm which had unemployed capital offered call money to other firms, whereby country borders did not set any limits to such financial transactions. Furthermore, long-term deposits of the Chettiar in other Chettiar firms were also commonplace. The Chettiar network allowed them to keep the money in circulation.

Rudner (1989: 432–4) analysed the various types of credits, financial transaction methods and accounting techniques used in great detail. Here it will suffice to emphasise the split interest rates between inter-Chettiar transactions and those with non-Chettiar. The “nadappu interest rate” (walking deposit rate), a short-term financial transaction among Chettiar, served as a benchmark for other interest rates, comparable to the prime lending rate of the central state bank. The split interest rates supported network formation among the Chettiar who pooled their individual assets for transactions with foreigners and could easily overcome shortages in individual finance.

Property and other financial assets belonged to the joint-family and were administered by its head. The adathis of large firms resided in South India, whereas the business in Southeast Asia was carried out by agents. As a rule these agents never belonged to the extended family of the owner of the firm, and in general, even sons of wealthy Chettiar bankers had to do apprenticeships in other Chettiar firms before they took over their fathers’ firms or entered partnership agreements. A successful boy made a career starting as accountant, then cashier after four or five years and becoming an assistant or subagent in an out-station after another three or four years. Between the age of 22 and 25 he would obtain a position as an agent. He then received a certain stock of capital, a fixed salary depending on the range of his activity, and a certain profit share, in addition to food, clothing, house rent and the passage from and to India. For the provision of the starting capital, a contract was made between agent and patron, a rough translation of which reads:

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3 The undifferentiated link of place of origin with occupational category is also common for other indigenous-style bankers such as the Marwaris from Marwar, the Gujaratis from Gujarat or the Multanis from Multan (see Schrader 1994b).
“(date)
I – (name of agent) – declare to have made the following agreement with (name of patron). I declare to go to (place), (name of firm), and agree to work for three years for 600 poe virahan or 2,100 Madras rupees. With the arrival in (place) I will receive 2,100 rupees for two years in advance and the rest of 700 rupees after three years. Within three years I shall act according to instructions given to me and on expiration I shall deliver all books and accounts to you and in return will be handed over this debt obligation.” (translated by Westenenk 1922: 6, 7 into Dutch)

Rudner (1985, 1989: 428) characterised the Chettiar financial system in the following way. The firms were tied together by relationships of territory, descent, marriage and common cult membership – a caste-based financial system. On the other hand, the Western-style and Chettiar financial systems shared two essential elements: they used networks of individual banks to directly or indirectly invest their funds in each other’s firms, and these networks supported special institutions to accumulate and distribute capital reserves that affected interest rates, as well as the cost and supply of credit and money.

When British banks opened their branches in the colonies outside India, they adopted some of the functions of the Chettiar business, such as the exchange function. However, the colonial system left them with the intermediary position between British capital and local population. The Chettiar borrowed at banks and on-lent to local people. Scott (1976: 90) rightly characterises Chettiar business as turning peasants into “capillaries of a network of financial arteries leading to the banks of London and Paris”. From the macro-perspective, the Chettiar agency system meant that large amounts of money were drained out of their countries of activity to India. On the other hand, Chettiar loans were in most cases used for productive investments to generate a future income for the borrowers, hence increasing the national product.

The opening of the Suez Canal in 1869 and the subsequent intensification of trade pushed Burma, Malaya and Ceylon further into the world market. With increasing world market demand for colonial export crops and raw materials, the demand for credit in the local money markets for investment in production and mining grew rapidly and led Chettiar business to flourish. A breakdown of Chettiar assets by region, for 1929–30, shows Rs 14 crore for Ceylon, Rs 25 crore for Malaya, Rs 1 crore for the Madras Presidency, Rs 5 crore for Indo-China and Rs 75–80 crore for Burma (Mahadevan 1978b; Menon 1985). With the onset of the Great Depression the steady decline of Chettiar finance began.

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4 Crore, Hindi: a unit of value equal to Rs 10 million.
The Chettiar temple as a religious and economic institution

In every place of migration, the Nattukottai Chettiar sponsored the setting up of Hindu temples praising Lord Subramanian, a manifestation of Shiva (Chettiar 1973: 83). One can read this the other way around as a useful hint for research: The existence of a Subramanian (popularly called Murugan) temple is an indicator of an existing or former Chettiar settlement. Nattukottai Chettiar temples outside Chettinad and Madras can be found in Mauritius, New York (built recently), Ceylon, Burma, Singapore, Malaysia, Thailand, South Vietnam and Indonesia.

In addition to religious functions (see Evers, Pavadarayan and Schrader 1994), Chettiar temples performed important economic functions, as a vivid description of the temple at Mogul Street, Rangoon demonstrates (Report of the Burma Provincial Banking Enquiry Committee, hereafter BPBEC 1929–30: 194–5). The ground-floor of the two-storied building consists of six narrow rooms used for business. The building is generally called “the six rooms” or “the Chettiar Exchange”. In each of the six rooms there was a double row of ten places at which each firm’s cashier sat on a mat on the floor to do business with his clients in the public. In Rangoon were 17 other “kittangis”, joint business- and living houses, in which business was run in the same way, except that the very largest firms had separate business rooms. The first storey of the building is a shrine dedicated to Subramanian. In addition to religious ceremonies this shrine was used for the “panchayats” (assemblies) of the firms’ representatives. Here they exchanged business information, fixed the nadappu interest rate on the sixteenth day of every month and laid down certain norms for the Chettiar community such as settling differences between Chettiar firms by the panchayats. Only conflicts with non-Chettiar were transferred to colonial justice. Eventually these panchayats were transformed in caste associations. The Nattukottai Chettiar Association, a member of the Federation of the Indian Chambers of Commerce, was founded in 1923 to represent the political interest of the community. In the late 1920s more than 90 percent of the Nattukottai Chettiar firms were members.

The Chettiar raised temple funds. Every firm voluntarily contributed an agreed share of profit to this fund. It was collected for and administered in the name of the god and represented a liquid capital stock for the contributing firms which could take a loan in case of capital shortage. According to Pavadarayan (1986: 129, 150) charity meant an accumulation of merit for the next incarnation and increased the social status within the community. From the point of view of business, charity symbolises the flourishing of the firm and increases trust.

I would like to call the interactions within the Chettiar community “embedded in a network of social relations” (Granovetter 1992: 60). This high degree of embeddedness forced the Chettiar to keep their individual business interest within the boundaries of collective norms. The network provided a clear-cut boundary between inner and outer morality. For caste-internal business the high degree of embeddedness engendered an
atmosphere of trust and reliability that was further increased by the symbolic testimony of the god for all oral and written agreements and the publicity of business. Caste endogamy, the minority status in Southeast Asia and the entanglement of labour and capital between different firms further strengthened group solidarity and network cohesion. At the same time the interactions' environment – the temple, the publicity of business, the networking and the reputation of the Chettiar community – provided an atmosphere of reliance and trustworthiness for business with non-Chettiar. To sum up, the contextualisation of Chettiar business exhibits a network ethic. While this ethic was on the one hand an individual restriction in business, it provided at the same time economic advantages compared to individual action in the market.

Chettiar activity in South and Southeast Asia

Burma

The rise and fall of Chettiar business in colonial and post-colonial Burma is well documented. The migration of Indian labour in South Asia to Southeast Asia and to Africa, is closely linked with the development of the British colonial system and its demand for cheap labour (Evers 1987: 217). The British, after their annexation of Burma during the period 1824–1886 aimed at turning Lower Burma from a subsistence-oriented into the main British colonial rice-producing and exporting region, and into a market for British and Indian products. Colonial policy supported the migration of cultivators and labourers from India to Burma. Cheap manpower was needed for coolie labour, trade, administration and agriculture. The majority of Burmese people were mainly subsistence agriculturalists and unwilling to take up wage labour.

The opening-up of Burma for cash-crop cultivation was a process of several decades in which the Chettiar were involved. However, as we will see, it is oversimplistic to make them responsible for this process. Referring to official statistics Mahadevan (1978b: 336ff.) points out that between 1826 and 1850 the first migration wave of Chettiar to Lower Burma was involved in small informal lending. Like their Burmese colleagues they peddled around the countryside and persuaded cultivators to borrow money. The second, more organised migration wave took place after 1850. The Chettiar agencies came into being. They financed Indian-Burma trade and provided working capital of Burmese moneylenders who on-lent to agriculturalists in turn. Direct financing of agriculturalists by the Chettiar occurred after 1880, when extensive cash-crop production was far-spread in Lower Burma.

It was not the Chettiar who turned Lower Burma from a subsistence into a cash crop-producing region, but British colonial policy, technological innovations and infrastructural improvements, which linked Europe more closely with Asia. The
replacement of customary land holding patterns by western property rights played a considerable role in this transformation process. Only against this background of a prosperous agriculture, a legal framework, private and transferable property, and increasing land prices, could the Chettiar safely lend to cultivators. However, in the final analysis it was their capital or their mediation in borrowing from banks and on-lending which was involved in this transformation process. The British annexation of Upper Burma in 1886 also extended Chettiar activities to some degree to this part of the country.

**Loan purpose**

Agricultural credit became the main business of the Chettiar as late as during the 1880s (Mahadevan 1978b: 336), which is untypical of other indigenous-style bankers in India. They financed secure short-term loans – mostly crop loans, to be repaid after the harvest – and medium-term loans for the purchase of land or for the consolidation of indebtedness. Some Chettiar traders-cum-lenders provided advances on standing crops. Most medium-term loans required the mortgaging of land. The value of the loan in the best cases did not exceed 75–80 percent of the value of the collateral.

While large trading firms obtained capital from the Imperial Bank and the joint-stock banks or financed themselves through overdrafts, cash credit and the discounting of export bills, small wholesalers and retailers normally borrowed from Chettiar on the security of hundis, house property, gold or their stocks. Other Indian traders-cum-financiers, such as the Marwaris, Multanis and Gujaratis as well as Chinese merchants were also involved in the financing of trade. In addition, the Chettiar provided credit to smaller up-country rice mills and, in some cases, to labourers and small artisans, but in general pawnshops and employers were the primary credit source for the latter target group. Some Chettiar firms combined banking with other

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5 Under the Burmese kings land titles could be obtained through the “dama-u-gyaw (squatter) system. Before the introduction of the Lower Burma Land and Revenue Act in 1876, the British adapted a similar system of occupancy rights. The Act gave the cultivator who was in continuous occupation of the land for twelve years a transferable and hereditary landholder’s right and land title, but obliged him to pay land revenues.

6 The great push of Chettiar business occurred particularly during the first decades of the twentieth century. In 1910, no more than 350 Chettiar firms were registered in Burma. In 1930, about 1,655 Chettiar firms were active in Burma, of which 95 had larger investments in Madras (Mahajani 1959). In the same year 700 Chettiar offices were counted in Malaya, 450 in Ceylon and 105 in Cochin-China.

7 A pioneering cultivator was of course in need of credit to clear the jungle, to pay labourers, to buy production inputs, and so on, while returns occurred with a time lag of often several years. In many cases he was unable to repay the loan and interest, simply surrendered the cleared land to his creditor, and began clearing new fields or left Burma and returned to India.
occupations such as the gold and timber trade, rice trade, rice mills or saw mills. The enterprises were purchased or obtained by court decree because the owners defaulted (Pillai 1930). On the whole, the number of such businesses beyond finance was comparatively small.

The British-Indian banks did not risk lending money to most native Asians during the colonial period. They did, however, offer considerable short-term loans to reputable Indian firms, including the Chettiar.8 Their financial network provided the guarantee for the British banks that if they got into difficulty of solvency they simply could borrow from another Chettiar firm. Rudner (1989: 430) maintained that the only constraint on Chettiar borrowing was their own sense of caution. But since world demand for colonial produce grew rapidly, this caution was unnecessary.

**Loan conditions**

Chettiar business practices were reported to be sound by the Report of the BPBEC. It listed the qualities of Chettiar business:

“(a) Their organisation as a financial system, (b) their solidarity, (c) their mutual confidence, (d) the confidence they command in the minds of most of the ordinary people of the country as to the honesty of their dealings, (e) the simplicity and rapidity of their procedure for granting loans, (f) the magnitude of the total business done by them, (g) their spread over all Lower Burma so that (in spite of their origin) the availability of Chettiar loans is accepted as though it were as natural as rain in the monsoon; and (h) their dominating position as rural financiers in Lower Burma.” (BPBEC 1929–30, Vol. I: 194, see Hwa 1967: 14).

Scholars criticised the payment of interest in advance, or a linear interest rate for instalment credit, while I would argue that such practices were common in Asian indigenous-style banking. Interest rates were considered to be moderate, too.9 Every

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8 These loans had to be secured by the co-signature of a second Chettiar. There was a list available for the formal banks, published by the Imperial Bank of India, which named the reliable Chettiar firms to whom British loans were available and listed the maximum creditworthiness of each firm. These firms in turn on-lent to smaller ones without such credit links.

9 The maximum current rate in the 1920s was 10–11.5 percent per annum, the minimum rate 6–7 percent. Usually it was 2–3 percent above the bank rate. The average Imperial Bank rates in 1928 and 1929 were 6.25 and 5.88 percent, the Imperial Bank rates for the Chettiar 8.25 and 7.63 percent, and the Rangoon nadappu interest rates 8.27 and 7.55 percent, respectively (Pillai 1930: 1189). For the same years, the Madras nadappu interest rates were 8.92 and 8.29, in Penang 8.19 and 8.25, and in Colombo 8.67 and 8.02 percent. For the period 1935–42 after the Great Depression, Tun Wai (1953: 53) reported much lower rates: nadappu 3–3.75 percent, advances from banks 3–5 percent, whereby it cannot be certified that these data are reliable. The individual nominal rate of interest for loans to borrowers depended primarily upon the above rates, the type of security offered, the reliability of the borrower, his general position, and the size of the loan.
loan to borrowers was documented and contained the clause "to be repaid on demand". In spite of that there was a mutual understanding that the loan continued to run as long as interest was paid regularly, and Chettiar did not usually offend against this agreement until the Great Depression forced them to do so, because moneylenders in general aim at a constant interest flow. For crop-loans the understanding was to repay interest and principal after the harvest. Other agreements were made orally.

Official documents around 1930 assumed a ratio of Chettiar borrowed capital to their own capital of 15 to 35 percent. For 1929 the total Chettiar capital in Burma was estimated at about Rs. 800 million by the Report of the BPBEC (1929–30). For 1941 Chakravarti (1971: 93) estimated their investment in Burma at Rs 750 million while the estimates of other scholars differ widely. About 60 percent of all loans were medium-term loans (3–10 years), 25–30 percent seasonal (a few months up to one year), and 10–15 percent for other periods. The Chettiar provided almost 60 percent of all crop loans in Lower Burma, compared to the share of 17 percent of Burmese moneylenders, nine percent of Chinese shopkeepers and seven percent of government agencies (Mahajani 1959: 19–23).

Mahadevan (1978b: 346–50) documented the stratification of the Chettiar community. With growing disparities in wealth and economic differentiation, caste solidarity was weakened. He related the founding of the Burma Nattukottai Chettiar Association to this process. The first All-Burma Nattukottai Chettiar Conference in 1929 in Rangoon expressed this decreasing solidarity (ibd.).

Declining business

Chettiar finance in Burma followed a steady decline particularly after the depression and a sharp deterioration in the post-war period. In contemporary Myanmar they only play a marginal role. To my mind socio-political change following independence was only the final blow to Chettiar business which declined as a result of structural change. Land alienation in Burma already between 1875 and 1913 was a subject of discussion and about a dozen bills were drafted. However, for various reasons no bill was passed (BPBEC 1929–30: 25; Report of the Land and Agricultural Committee, hereafter RLAC 1939: 21ff.), since the British were most reluctant to offend against their belief in laissez-faire capitalism and until then no formal credit institutions were available to substitute the Chettiar supply.

Land alienation peaked during the Great Depression. The period 1930–38 inflicted heavy losses on food-exporting countries such as Burma and had a severe impact on rural indebtedness and rural finance. Banks, European firms and depositors recalled their loans from the larger Chettiar firms and these in turn from the smaller ones and from the agriculturalists. Unable to repay because of the sharply reduced prices of agricultural produce, the latter defaulted and in such cases the mortgaged land was
legally transferred to the lenders. While colonial governments used to react to Great Depression and rural indebtedness with moneylenders legislation and debt relief acts (see Schrader 1996a), the scaling down of debts did not take place in Burma. Instead government loans were offered under the Land Improvement Loans Act and the Agriculturalists Loan Act. However, these loans were not in high demand. Between 1930 and 1938 the percentage of Chettiar land to total land increased from 6 to 25 percent. Two and a half million acres of the best paddy lands in Lower Burma thus came under Chettiar ownership. The events led to the freezing of the liquid Chettiar resources. The consolidated balance sheet of 1937–1938 showed Rs 650 million invested in land and other immovable property, compared to Rs 100 million in liquid assets only (Chakravarti 1971: 61).

In spite of these figures several scholars (e.g. Mahajani 1959: 19f; Adas 1974: 119) argued that they had generally no inclination toward land ownership. One reason for the Chettiar business success was their practice to keep their assets liquid. They acquired land rights only as the last resort in order to prevent further monetary losses. In 1939 they already began to sell such land again. Mahadevan (1978b: 357) rejects this at least for the medium and large firms. A confidential note of the Nattukottai Chettiar Association referred to different methods of acquiring land titles.10 Mahadevan's hypothesis sounds reasonable to me. It seems plausible that the investment in land to let to tenants was a lucrative diversification of business beyond agricultural finance. Until the depression land prises rose continuously and landlords made a good living. Unluckily for the Chettiar in Burma they bet on the wrong horse. A reason against such a strategy is that it is always dangerous for foreigners to speculate in land. If nationalist policy turned against foreigners, liquid capital could often be repatriated abroad, while the nationalisation of land usually meant a loss. This also happened in Burma after independence.

The post-depression years resulted in anti-Indian sentiments and a step-by-step introduction of Burmese nationalist and anti-Indian bills and regulations. The Burmese policy during this period was directed towards cancelling Indian rights including property rights. The Land Nationalisation Act from 1948 nationalised about 250,000 acres of Indian-owned land. New immigration was prohibited. Until Ne Wing's military coup d'état in 1962, both Indians and Chinese played the leading roles in commerce and finance. The 1964 exodus of many Indians reduced their number in the economic life of the nation. Their role in trade and finance, both legal and illegal, was from then onward taken over by the Chinese.

10 Confidential Note on the Question of Compensation Payable to Indians for the Nationalisation of Paddy Lands, drafted by the Burma Nattukottai Chettiar Association, pp. 4–5: "How Chettiar came by the Lands".
Ceylon

A detailed account of Chettiar activity in Ceylon was provided by Weerasooria (1973). I keep myself short because their business was similar to Burma in many aspects. While the Chettiar had some trading connections to Ceylon for some time, only after the arrival of the British in 1796 did the Chettiar business in trade and finance begin to flourish. Many Chettiar were merchant bankers. In addition to the financing of import-export and domestic trade, the dealing in hundis, the acceptance of deposits and safe-keeping, the Chettiar fulfilled an important exchange function. Ceylon's exchange problem was that of balancing its trade deficit with India in rupees from receipts of excess sterling earned by exports to England and Europe. Ceylon had to convert sterling into rupees. The Chettiar supplied rupees in Ceylon which were imported at a minimum cost from the Indian offices. After the emergence of banks, they lost their importance of supplying credit to the European merchants in Colombo. While most of the Nattukottai Chettiar continued to finance domestic trade, some of them adapted their business to the position of middlemen between banks and local people. In Colombo banks employed Chettiar as “guarantee Shroffs”. They checked on the creditworthiness of every applicant for bank credit. Independent Nattukottai Chettiar also had to go through this procedure if they wanted to borrow from banks and on-lend to locals. It was reported that between 1900 and 1925 the British Exchange Bank lent over Rs. 25 million to Nattukottai Chettiar bankers.

Inter-lending among Chettiar firms was the key element of their flexible financing. Large Chettiar firms obtained overdrafts and rediscounting facilities from British banks. The period of borrowing from banks was usually no more than one month, while some firms took up loans for up to three months. A Chettiar agent had a maximum credit line of Rs 2 lakh. Loans to traders were mostly for the same duration as bank loans. In spite of the good reputation enjoyed by the Chettiar, the banks were very cautious in their dealings with them. The Imperial Bank of India had a list of Chettiar firms in both India and Ceylon, which outlined the combined borrowing of different Chettiar branches of the same firm. This combined lending from different banks was not to exceed Rs 5 lakh. Due to different dates of repayment, however, the Chettiar could borrow from one bank to repay another, so that their real financial situation remained concealed.

Chettiar business in Ceylon was at its zenith during the period 1880-1913. This period coincided with the comparative prosperity of the plantation sector and world trade of tropical produce and was followed by a recession lasting from World War I to the Great Depression. It was as late as during the 1920s that the Ceylonese Chettiar turned to agricultural loans – an indicator that the Chettiar always adapted to the

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11 Lakh, British-Indian: Rs 100,000.
most advantageous, or in this case: least disadvantageous, business opportunity without being particularly choosy: trade, indigenous-style banking, agricultural finance or guarantee brokerage. Their retreat from indigenous-style banking and reorientation to moneylending was a result of the expansion of European trade and finance. What was left over in the end was the financing of small estates, small-scale and medium domestic trade, and consumer credit.

The reorientation towards moneylending coincided more or less with the “Chetty crisis” in 1925 after irregularities in a large Chettiar firm that caused a stop of bank credit to the Nattukottai Chettiar and led to the collapse of several smaller firms. To articulate their interest the Chettiar founded the Ceylonese Nattukottai Chettiar Association in 1926. The Chetty crisis was followed by the Great Depression, during which bank credit to the Chettiar was tightened further, while depositors simultaneously recalled their deposits. Chettiar in turn reclaimed their assets from borrowers who were, however, unable to repay their loans. It was the same story as in Burma or Malaya. Much land of the local people was legally transferred to the Chettiar in compensation for the default losses. The World Depression caused many Chettiar to rearrange their business, mostly outside Ceylon. As the Ceylon Banking Commission (1934, Vol. 2: 488) observed, there were practically no new loan transactions after 1929–30. Many Chettiar gave up moneylending at all and re-oriented their business toward trade and industry.

The Chetty crisis and Great Depression caused the collapse of around 250 firms. In 1934 there were no more than 550 Nattukottai firms in Ceylon, of which 180 were based in Colombo. 450 of them were principal firms, while the rest were branches. Before the depression started, their total business was assessed at Rs 14–15 crore. Rs 8.5–9 crore were own capital, Rs 4–4.5 crore were borrowed from relatives and friends in South India and the remaining Rs 2.5 crore were loans from European Exchange Banks. After the depression, Weerasooria (1973: 24–5) calculated for 1934 that the Nattukottai Chettiar possessed about 50,000 acres of land. Chettiar investment was about Rs 140 lakh. House property amounted to Rs 300 lakh. The Chettiar assets in mortgages were only about Rs 20 lakh, in promissory notes and other such securities about 250 lakh.

During the mid-1930s the Ceylon State Council decided to re-organise the whole finance sector and asked a banking commission to evaluate the credit supply of the Chettiar. On the one hand, this commission found fault with their role because of their risky lending policy, on the other hand it praised them for their contribution in building up the economy (see Weerasooria 1973: 60). After 1935 Chettiar business in Ceylon continuously declined. Various acts contributed to this development. The Nattukottai Chettiar had been and were always able to adjust to the changing legal context. However, the Chetty crisis, the World Depression, and the introduction of income tax in the 1930s, which was high for Hindu joint-family businesses, hit them very hard. Growing competition from formal banks and a number of nationalist laws
and regulations (see Weerasooria 1973: xxiff.) struck the death-blow for Nattukottai Chettiar business in Ceylon.

The Madras Presidency

In addition to the pull-factor of financial and trading opportunities abroad Menon (1985) emphasised a push-factor in the Chettiar home region: the curtailment of business opportunities in the Madras Presidency. Before 1778 they had been revenue collectors. This privilege was abolished. Later, with the introduction of the rupee as legal tender, lucrative exchange activity was eradicated. Furthermore, competition from other moneylenders was strong in the Presidency and business opportunities related to trade and finance were largely occupied by other business groups. The Chettiar, who did not migrate from the Madras Presidency and did not belong to the adhatis, were engaged in the financing of trade and rice mills and, to a small extent, agriculture (see Pillai 1930: 1178).

The agencies and wealthy independent Chettiar abroad used to repatriate the profits made in foreign countries to Chettinad. However, during the 1880s an income tax was introduced in the Madras Presidency that obliged them to pay tax. Repatriated profit to the home office was likely to be treated as business profit and taxed too. However, every branch was taxed as a single enterprise and therefore the whole income tax per firm was very high. Thus they fought for, and succeeded in obtaining the legal acceptance of joint-family status which taxed the whole family firm as a single unit. With this legal status they could balance the losses and profits made by different branches before tax (Washbrook 1977: 55) and diminish the duty. With their repatriated profit the Chettiar acquired estates and urban property, invested in textile mills, a paper mill and a small bicycle factory. Some of them obtained shares in the Indian Bank which was established in 1907. On the whole, however, the breakdown of Chettiar assets in 1929–30 showed no more than Rs 1 crore in Madras Presidency (Menon 1985: 25), since a large amount of foreign profit was reinvested in business.

The Great Depression did not hit Chettiar businesses in the Madras Presidency in the same way as it did in other regions. Since there was a shift in the terms of trade from agriculture to industries and trade before the depression in this region, they had invested in industries. For the period 1930–1940 the investor handbooks outlined Chettiar investments in six textile mills, the cement industry, power plants, banks and insurance companies. Many Chettiar formed partnership firms, others joint-stock companies. Wealthy Chettiar purchased stocks from companies, such as banks, some even entered their management ranks. However, the number of direct Chettiar investments in modern enterprise remained limited until the 1950s (Mahadevan 1978b: 332).
Malaya

While land was abundant and the price very low in Malaya before the colonial period, the British established land laws which guaranteed security of tenure, and caused land value to rise considerably. The economic environment encouraged the Chettiar and a number of Indian and Chinese traders to migrate to Malaya. Mahadevan (1978a) loosely related their activities in Malaya to two phases. The first one was from the establishment of British rule in late eighteenth and early nineteenth centuries until the last quarter of the nineteenth century, when Malaya was integrated into the world market; the second phase was the subsequent period until the Great Depression. During the first phase the British introduced favourable conditions for trade and commerce by replacing trade impediments, which had been created by the Dutch, with a modern fiscal and a unified political and administrative system. This phase was characterised by the expansion of British territorial possession and influence.

The Chettiar established their first firm in Malacca around 1808, followed by Penang, Singapore, Ipoh and Kuala Lumpur. Like in Burma they started small-scale business as local exchange bankers and moneylenders (Menon 1985: 20). In most cases the Malay Chettiar were agents of South Indian firms. Until the establishment of British banks they formed the main source of credit and supplied credit to Indian and Chinese traders, artisans, tin miners and businessmen, against the security of movable and immovable property, such as gold and jewellery, houses or land, and promissory notes. The European joint-stock banks, which were introduced by the mid-nineteenth century, restricted themselves predominantly to colonial exchange operations and the financing of large-scale foreign trade pursued by European and some Chinese merchant houses, while other Asian traders had to rely on Chettiar finance. According to Mackenzie (1954: 108), for example, most of the Singapore opium trade was financed by the Chettiar.

During the second phase (1875–1914) described by Mahadevan (1978a), colonialism was characterised by an intensification of the struggle for monopolised markets, sources of raw materials, cheap labour and new spheres of investment. Malaya developed to become the primary producer of rubber and tin for the world market. By 1914 the whole Peninsula was brought under British control, followed by the infrastructural development necessary to exploit the country’s resources. Pioneers in rubber and tin industries were mainly Chinese. European investment followed and soon began to exceed the Chinese. Economic change generated an increasing demand for credit. Another Chettiar migration wave arrived. Soon they numbered more than 1,000 (Nair 1937: 102) and opened branches in the tin and rubber plantation areas to finance Chinese rubber plantation owners and tin miners, European planters, the Malay royalty, Chinese businessmen, Indian traders and small cultivators (Sandhu 1969: 292). The interest rates varied according to the security offered. In contrast to Burma, where loans were taken mostly seasonally, plantation finance was more regular.
and medium-term. The loan amounts were often equal to or even exceeded the value of the land collateral (100–150 percent value), since land prices were continuously rising.

Mahadevan (1978a: 179f.) maintained that the passing of landed property into the hands of the Chettiar resulted partly from the logic inherent in their credit system, and partly from the structuring of the Malayan colonial economy. The single-crop farming of rubber and tin mining created dependency on the world market demand and fundamental instability of the economy. During the crisis of the late nineteenth century until the Great Depression, tin and rubber prices fell considerably and borrowers defaulted. Landed property, including rubber plantations and tin mines, began to gradually pass into the hands of the Chettiar. Due to the events the smaller firms no longer had enough working capital, so that many of them collapsed. The larger firms could take advantage of the crises because they cheaply obtained plantations, mines and their products. Almost all Indian rubber estates (242 in 1931) and other Indian land holdings (87,795 acres in 1938) as well as a substantial share in Chinese tin mines passed over into the hands of the Chettiar (Sandhu 1969: 263).

According to Kratoska (1975), the government decided in 1908 to introduce a public agricultural loan system as a reaction to the growing land transfers, which contrasts with India, Ceylon or Burma. The interest rates were 1 or 1.5 percent per month, i.e. one-third to one-half of the Chettiar common interest rates, and repayment took place in instalments over a period not exceeding three years. However, this was not successful due to the extreme slowness of the lending procedure and the maximum limit of credit amounting to only half of the value of land mortgaged. Another strategy was the introduction of co-operative societies. They were unsuccessful due to the limit of credit provisions and the lack of adaptation to local needs. A third strategy was to restrict Chettiar business by legislative action. The Malay Reservations Enactment of 1913 prevented the passing of certain Malay reservation land holdings to foreigners. However, the Chettiar continued their business as before. In the cases in which the government intervention was successful in restricting Chettiar firms, it dried up the major source of agricultural finance. Furthermore, the reservation of land was a costly affair for the government, because the foreign landholders had to be compensated for their loss. Several other acts followed to regulate land holdings and interest rates like the Usurious Loans Enactment and Land Enactment of 1919 and the Small Holdings Enactment in 1931, but they met with only limited success. In spite of their informal arrangements to cope with the acts, the Chettiar voiced their dissatisfaction with and opposition to government policy through their associations and chambers of commerce.
Singapore

By the mid-nineteenth century a few Chettiar had established their businesses in Market Street. Their activity increased significantly between 1910 and the Great Depression, followed by a decline in the 1930s, which was caused by moneylenders legislation in addition to the economic development. The Moneylenders Bill of 1930 penalised usurious interest rates. By 1936 registration was required and moneylenders were obliged to use written contracts, specifying loan conditions and interest rate. Compound interest was also abolished, and the maximum interest rate was set at 48 percent per annum (Pavadarayan 1986: 92–3). Like in the other countries, the Chettiar expressed their interests through their associations and chambers of commerce and claimed special treatment because they were bankers – in most cases without success. In addition, competition from the Sikhs and other financiers had a negative effect on their business. Nevertheless, Chettiar assets in Singapore amounted to 40 million Singapore Dollars in 1940 (Thompson 1955: 108). But the Japanese occupation (1940–45) put an end to almost all lending activity. The re-establishment of British rule led Chettiar business to grow again for some time.

Singapore’s post-colonial period is economically characterised by steady growth and continuous world market integration. Chettiar finance in Singapore declined drastically after independence in 1963. The introduction of stricter immigration and employment policies by the post-colonial government as well as the increasing number of local moneylenders and the growth of banks and other financial institutions dealt the final blow to the Chettiar business. In 1966 there were still about 108 registered Chettiar financial firms, but by 1981 the number had dropped to seven (Evers, Pavadarayan and Schrader 1994: 200). The financial market is now dominated by Chinese.

The post-colonial era in Singapore has been characterised by the migration of traditional Chettiar moneylenders back to Tamil Nadu. However, other Chettiar came to Singapore in search of wage-labour. Their appearance is different from the former financial agents. The latter came alone and left their families behind. The new Chettiar wave came with their nuclear families. In the mid-1980s, the Chettiar community in Singapore consisted of 200–250 households, of whom 70 percent were Singaporean citizens. A postal questionnaire survey in 1983 showed that 80 percent of the household heads were employed in occupations other than moneylending (Evers and Pavadarayan 1985: 8).

Indonesia

Evidence of Chettiar moneylending activity in Indonesia was overlooked by most Chettiar researchers. The first Chettiar arrived at the east coast of Sumatra in 1879.
Medan was the main centre of Chettiar business (70 agencies) during the 1920s. In addition 32 Bengali who worked individually, some Chinese and Europeans were engaged in non-Western finance. In contrast to the European moneylenders, the Chettiar did not conceal their business (Westenenk 1922: 5), which to my mind is a further argument for their self-image as bankers.

The salary of an agent in Deli was of up to $1,000 per year, the share of profit (10 percent) amounted to between $2,000 and $5,000, but shares of $9,000 and even $20,000 were also reported. The starting capital provided by the firm was around $25,000. In the early 1920s the total capital of the 70 Chettiar in Medan was estimated to be $10–12 million. In contrast to other countries of Chettiar activity instalment credit was common among the Sumatran Chettiar. For the collection of the instalments, assistants were daily sent through the bazaars and villages. Credit amounts ranged from less than $100 to usually $3,000, sometimes also to $50,000. Collateral was required for large sums such as pawns of gold or jewels, mortgages on land and houses, expressed in sales with the right to resell (Schoorl 1926: 73).12 Both Schoorl and Westenenk rejected the allegation that the Chettiar practised usury. Usual interest rates ranged from 6 to 36 percent depending on the collateral offered.13 District banks, on the other hand, took an interest of 12–18 percent and 10 percent fine interest for the rest of the loan. Village banks took a real interest of 35–130 percent p.a., and government pawnshops up to 72 percent p.a..

Reflections on Chettiar business success and business diversification during the twentieth century

In considering the question how the Chettiar could develop such an extensive financial network outside India, most authors identified external factors, such as the colonial structure and their intermediary position within this structure. Ito (1966: 369ff.) opposed this view. He referred to group-internal conditions and argued that, in spite of their Hindu joint-family system which might have inhibited capitalist development – the Weberian position towards Hinduism – they lived according to a strict ascetic ethic and their profit motive was essentially more individualistic than joint-family-based. To sum up Ito’s argument, the spirit of individual initiative in economic activity and the agency system co-ordinated individuals’ activities in distant places.

Pavadarayan (1986: 160ff.) considered group cohesion as one of the key factors of Chettiar success. I already summarised factors strengthening networking and cohesion:

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12 The intention to my mind was to conceal moneylending behind a sales-purchase act. This business practice could be found all over the world.
13 The inter-Chettiar rate, on the other hand, amounted to 6–12 percent per annum.
caste endogamy, minority status in Southeast Asia, the entanglement of labour and capital between different firms, publicity of economic interactions and the overlap of religious and economic sphere. Nevertheless, the Chettiar community was highly stratified, but the stratification formed a component of the agency system. The less well-off Chettiar who could not afford to open a firm were employed in other Chettiar firms. The social and religious ties and obligations were strong enough to stifle competition and envy. However, I demonstrated that this cohesion decreased during the heyday of Chettiar business. In the post-colonial period, Pavadarayan (1986) argued, the collective strategy of economic success was increasingly replaced by individual ones.

A question not so far sufficiently dealt with is why the Chettiar confined themselves more or less to the British colonies in Southeast Asia and did not venture further into the Netherlands Indies and Indo-China by greater numbers? The answer which Pavadarayan (1986: 80–81) provided, does not seem very convincing to me. She argued that the social, cultural and ritual ties with Chettinad were very strong, so that their radius of action remained confined to Southeast Asia. I venture a less esoteric explanation. Chettiar attempts to step into other colonial contexts were abandoned very early on, because they did not promise such high economic returns as in the British colonial context. The reason were the different colonial policies applied by the French and Dutch colonial regimes, the latter of which I analysed elsewhere (Schrader 1994b). It was characterised by a highly regulated financial landscape, restrictions to the transfer of mortgaged land to moneylenders, moneylenders legislation and competition by a well-organised popular credit system. Such a hypothesis seems to me much more plausible than Pavadarayan’s argument of social and religious bonds.

Finally, let us turn to the Chettiar adaptations to declining business opportunities in finance during the twentieth century. Most studies confined their perspective to a single country and explained this decline by political change after independence. These facts cannot be denied, but I consider them only as the final blow, while structural change in the world-economy was in the last analysis responsible for this decline. A broader perspective was taken by Evers (1987), Ito (1966), Menon (1985), Pavadarayan (1986), and Ray (1987). All of them emphasised that the wealthy Chettiar at least began to diversify their business. Pavadarayan (1986) maintained that the collapse of moneylending did not take them by surprise though sooner than expected, so that fixed capital could not be reconverted into liquid capital. The first individual retreat from indigenous-style finance occurred in the 1930s. This coincides with Goswami’s (1985, 1989) identification of a structural break during the period 1935–40, in which various Indian business groups (Marwaris, Gujaratis, Parsis, Punjabis) diversified their business. Most of these firms had also obtained their capital by trading, contracting, speculation and banking (Ray 1979: 276).

According to Pavadarayan (1986: 118–23), some Chettiar were personally involved in the founding of the Indian Bank as early as 1907 and, in 1937, the Indian Overseas
Bank. Both banks were registered in Madras, but not owned by the Chettiar. This contrasts with the Bank of Chettinad and the Bank of Madurai, to mention two examples. The Bank of Chettinad was registered in 1929 as a private company. Its members belonged to the Rajah family. They had previously formed two partnerships in Burma, Ceylon, the Straits Settlements, the Federated Malay States and Cochin China. The agencies of the former partnership firms were all renamed as branches of the bank. These branches continued to be managed as agencies of partnership firms. Although the bank fulfilled some, but not all, banking functions, Tun Wai (1953: 43) argued that it was organised on non-Western lines as a large indigenous-style firm which functioned by pooling of resources. However, compared to the old Chettiar firm it was a reorganisation of the business.

The Bank of Madurai was founded by a single family in 1943 as a joint-stock company to finance its textile mills. The Madurai bank accepted deposits and advanced loans against security. Its customers were mainly relatives and friends. For 13 years it did not show any significant growth. In the late 1950s, however, the bank opened in Chettinad and started financing Chettiar industrial and commercial activity. Until 1973 most shares were held by the founder’s family and friends. Subsequently an essential increase in bank capital caused the issuing of new shares. The bank today operates with more than 230 branches, and remains unaffected by the Indian bank nationalisation policy (Pavadarayan 1986: 118–123): In 1969 all banks with assets above Rs 50 crore were nationalised, and in 1981 banks with assets of above Rs 200 crore were brought under direct control of the central state of India. The Bank of Madurai had only 9 crore. Although the Bank of Chettinad grew strongly during this period, the assets at that time amounted to only Rs 135 crore.

The examples of the Bank of Chettinad and the Bank of Madurai demonstrate that the Chettiar were able to transform their businesses to become formal banks. However, such efforts and first steps into industries were limited to only a few and wealthy Chettiar. During the colonial period most community members continued their traditional ways of business, rather than committing themselves to long-term investments in industries or banking abroad. Here I agree with Pavadarayan that the Chettiar were a migrant and not an emigrant community. Agents were abroad for a certain period only with the sole aim to make maximum profit. They kept away from any group-external involvement such as politics, and most of them had no inclination to adopt foreign citizenship after independence (Pavadarayan 1986: 124).

The innovators of industrial activity also belonged to the upper economic stratum of the Chettiar, and most of these activities took place in India after 1950, but particularly in the late 1960s and 1970s. Compared to the Marwaris or Gujaratis, Chettiar entrepreneurial activity in industries stayed on a smaller scale during the 1930s and 40s. Ito (1966) maintained that their traditional institutions delayed their entry in the modern economic sector. To my mind Ito overemphasised the Weberian perspective, which is typical of books written during this period dealing with the
economic anthropology of Asia. Pavadarayan (1986: 131) also rejected Ito’s view and argued that the restrictive politico-economic conditions in the colonial era delayed their industrial activity. She missed the point that other Indian indigenous-style bankers, such as the Marwaris, came to dominate the British-owned jute industries, despite these conditions.

I explain the low-key Chettiar industrial activity during the 1930s as follows. In contrast to other indigenous-style bankers, their main business was based abroad, while business in the Madras Presidency was legally limited to a higher degree than it was in other Presidencies. In addition, the main Chettiar profits were made in Burma with agricultural loans, while other indigenous-style bankers were largely financing trade. This was the case of the Chettiar in Ceylon, too, and here we observe a retreat from the financing of trade and a switch towards agricultural finance during the early 1920s. I argue that the returns from the financing of trade decreased during this decade and motivated various indigenous-style bankers to invest in industries. The returns from agricultural finance, on the other hand, were still high enough until the Great Depression at least. The increasing fixed assets abroad as a result of defaults and land transfers and declining liquid capital during the inter-war period further retarded Chettiar reorientation. While small firms collapsed, the large ones stayed abroad and waited for better times because the land prices were very low, although in some countries anti-Indian sentiments grew rapidly. Many Chettiar did not leave the foreign countries before independence. This may explain why some wealthy Chettiar retarded the final step towards industrialisation which other former indigenous-style financiers like the Marwaris did some time earlier (see Schrader 1994b: Appendix).

Ito (1966) wrote an article on the four major Chettiar family business combines. Such institutions are formed by several blood-related nuclear families which pool their capital for economic investment and are, in other words, the Indianised version of family trusts. These four Chettiar business combines were the Somusundaram, the Rajah, the Kurumuttu and the AMM family groups which nowadays constitute the leading Chettiar businesses in the manufacturing, service and agricultural produce sectors. The emergence of these families as industrial entrepreneurs was not accidental. During the period of financial activity they held investments in various countries. The repatriation of profit and the various investments abroad could compensate for losses incurred in Burma by the nationalisation of land. Pavadarayan (1986: 103–105) reported that families nowadays increasingly pool their resources to form such business combines to engage in commercial and industrial activities. Most of them are small and medium-scale enterprises. 3,000 families alone are estimated to be engaged in retailing, wholesaling and the manufacture of medicinal drugs. On the other hand, many Chettiar are still involved in finance beyond Western-style banking. This activity – perhaps with the exception of pawnbrokerage – also experienced a reorganisation: the hire-purchase financing of used cars, gold business, the risky financing of film industries, and so on (Timberg and Aiyar 1980). However, many
Chettiar abandoned business altogether. They are often wage earners in Chettiar or other firms or civil servants. While in India the Chettiar trend is toward self-employment, in Singapore and Malaysia wage-labour is the prevailing form of employment (Pavadarayan 1986: 103–5).

Conclusion

Coming back to the initial question of Indian industrialisation in the late colonial period. Generally speaking, I agree that it required a finance on a level to which indigenous-style bankers were not accustomed. However, I argue against the common scarcity-of-capital hypothesis of indigenous-style bankers that – in the case of the big banking houses at least – capital was not scarce. Furthermore, the scarcity of capital of individual firms was very often overcome by pooling the capital of different family firms and sharing the risk. However, the reason for their minor engagement in financing industries seems to be that the financing of trade and industries is essentially different. The former is short-term in most cases. In the past it was limited to a particular trading venture, while in the present it bridges the gap between purchase and resale of goods. In addition to short- and medium-term finance (production inputs, wages), industrial activity also requires major long-term investment of fixed capital in the means of production, such as machinery or factory buildings.

Therefore the argument that tradition inhibits the development of rational economic action is to my mind much too short-sighted. As shown in the previous paragraphs various indigenous-style bankers reorganised their firms from the 1930s onward. They either opted for methods of operation, began to look for new niches in the field of finance or started up as industrial entrepreneurs. The top financiers among them diversified their enterprise into a number of different activities. What is taken by many scholars as indicative to the South Asian type of capitalism, is in my mind a general strategy of large-scale capitalist enterprises: to enter a variety of production, distribution and service processes, spread the risk and enlarge their profits by making ostensible business between their own sub-firms. The participation of indigenous-style bankers in the process of Indian industrialisation serves as a contrast to the classical theories of entrepreneurship. They not only considered traders and financiers conservative but even as impeding entrepreneurial activity.

The analysis shows that family firms were transformed into partnership firms or joint-stock companies. The SGIB (1971: 114) provided a long list of South Indian indigenous-style banks, which were transferred into joint-stock companies: (1) Karur Vysya Bank Ltd. (1916); (2) Kumbakonam Bank Ltd. (1904); (3) South Indian Bank Ltd. (1903); (4) Chettinad Mercantile Bank (1933); (5) Illanji Bank Ltd., Tenkasi (1904); (6) Indo Commercial Bank Ltd. (1933); (7) Kulitali Bank Ltd. (1933); (8) Mannargudi Bank Ltd. (1932); (9) Rajapalayam Commercial Bank (1936); (10) Salem
Bank Ltd., Salem (1925); and (11) Tenkasi Bank Ltd., Tenkasi (1933). The years of registration show that most of these indigenous banks were transformed during the 1920s and 30s. Most of these banks, however, later on merged with larger banks. During the writing of the report, (1)–(3) were still functioning as scheduled commercial banks, while during the 1960s (4) and (5) amalgamated with the Bank of Madurai, (6) with the Punjab National Bank, (7) with the Indian Overseas Bank, (8) and (10) with the Indian Bank, Madras, (9) with the Tanjore Permanent Bank, and (11) went into voluntary liquidation in 1954. Many of these firms have Chettiar investment. Furthermore, a number of Marwari, Chettiar, Multani or Shikapuri indigenous-style bankers turned into industrial entrepreneurs in textile, jute production or milling. What they have in common is that they had in the past been traders and financiers, that the boundary between trade and finance had never been clear-cut, that they had never before engaged in productive activities, and that they were highly urbanised (Gadgil 1955).

I would like to conclude with Granovetter (1995) that business organisation around a certain social structure such as family or kinship is not related to the failure or absence of modern institutions. It seems to me that particularly in a globalised economy business groups – “a collection of firms bound together in some formal and/or informal ways” (Granovetter 1994: 454) some of which are organised around family or kinship – provide a mechanism to reduce the complexity of economic life, risk and uncertainty in international business (Schrader 1996b).

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