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## *Some Reflections on the World Trade of the XVIIth and XVIIIth Century: A Reply*

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Professor Rudolph C. Blitz has touched upon a number of important issues arising out of my two articles on the structure of European trade with Asia in the seventeenth and eighteenth centuries and the monetary developments following from the large export of treasure to the orient. His comments and criticisms are arranged around four themes. First of all, he makes the general point, interspersed throughout the paper, that not all the questions raised in the second essay are discussed in full or substantiated with supporting evidence. Secondly, he refers to the problem of consumer taste in economic exchanges and we are given an explanation of Europe's rapid and phenomenal adoption of Indian cotton textiles during this period. The third criticism made by Blitz is concerned with the role of comparative costs in India's specialisation in the production of cotton textiles and the associated problem of technology. Finally, he goes on to discuss the inadequacy of the neo-classical theory of balance of payments, particularly the version known as the "elasticity approach", as an explanation of Europe's unbalanced trade with the Indies. It may be stated in clarification that my original purpose in writing these two papers was to draw attention to the complex interplay of economic forces which shape and determine the pattern of trade between separate and autonomous regions and to point out that simple assumptions about the nature of Asian hoarding habits or the rigidity of consumer taste can be seriously misleading. The discursive style of the second article (1975) was deliberately adopted to bring home these complexities to an audience composed largely of European historians. But the conclusions were not lightly reached. The research on which these are based extended over a period of ten years

and involved a careful examination of the original sources in the archives of the English East India Company in London and those of other continental Companies in the Hague, Antwerp, and Paris. Some of the wider issues and the larger aspects of the trade between Europe and Asia are dealt with in greater detail in my forthcoming work *The Trading World of Asia and the English East India Company 1660-1760* (Cambridge University Press, 1978). The book also contains exhaustive treatment of the Indian textile industry, the trade in piece goods, pepper, and other eastern products, and the export of commodities from Europe. Perhaps it is unnecessary to point out that not all the evidence presented in a work of nearly 700 pages can be summarised in a short article. I hope that my critics may be partially satisfied at least with the treatment given to these topics in the longer work.

Let me turn now to the substantive criticism made by Professor Blitz. He considers that I have dismissed the traditional arguments concerning consumers' taste and also the hoarding propensities too cavalierly. He thinks that "these two phenomena are not facets outside of the framework we are asked to consider, but rather important variables of this very framework". One is not quite sure from the discussion that follows this statement whether Blitz is saying that the two phenomena are *variables* in the sense that they can vary over time or whether they are *constants* which influence and affect the "framework". In answer to my hypothetical question as to why consumers in Europe should have developed a liking for Indian cotton textiles in a cold climate, he argues (by implication rather than directly) that fixed consumer taste was an important factor. Cotton clothing could be worn in conjunction with the woollen, and the easy washability of the material along with its obvious tactile comfort overcame any impediments which the climate might have imposed. Thus the demand for cotton goods in a cold climate and the demand for heavier woollen clothing, according to Blitz, are not strictly comparable. I hope to show that this explanation is not wholly plausible when critically examined against the actual historical evidence. In the first place, it can be argued that consumer preferences are not something that is *sui generis* but are profoundly influenced by considerations such as relative prices, income levels and distribution, and cultural values. The spectacular expansion in the sale of the East India Company's textile imports from India in the 1670s was deliberately accompanied by an attempt to popularise their use in Europe. Equally, the Company could have brought about a greater consumption of its European exports in India and Persia through more intensive marketing techniques had its servants been more motivated to do so.

Of course there is no question about the washability of cotton textiles. In a petition dated 1704 the British traders to Jamaica stated "the said

island being situated in a hot climate, much of the clothing of the inhabitants is stained calicoes, which being light and cheap and capable of often washing contributes very much to the keeping them clean and in health".<sup>1</sup> However, there was not a single reference in the records that the utility of the Indian fabrics in the colder climate of Europe lay mainly in their facility for cleanliness.<sup>2</sup> In the early years of expansion, the East India Company was overwhelmingly concerned with the question of the actual uses to which cotton fabrics could be put, and later with the problem of maintaining their relative price competitiveness. In 1682, for example, Sir Josiah Child wrote to the Governor of Madras, "You will find in a list of goods one article for shifts of all sorts, which I would have you looke upon as a matter of great concernment to the Company, being the only way I know to introduce the using of Calicoes for that purpose *in all these Northern parts of the world* (Italics added)".<sup>3</sup> Next year the Company requested the Surat Factory to supply chintz printed on fine cloth in order to make it more acceptable to upper-class women, saying that in Holland the Indian chintzes were already "the ware of Gentlewomen" but here in England "of the meaner sort".<sup>4</sup> In the early part of the century when the Company was beginning to import cotton piece goods on a significant scale, it was clearly stated at a committee meeting, "calicoes are a commodity whereof the use is not generally known, the vent must be forced and trial made into all parts and that now in the beginning till the commodity be known there be not too strait a hand carried either to the underwriting or the price".<sup>5</sup> The widespread acceptance of the finer Indian cotton textiles by all classes of the European society was achieved within a period of about two decades between 1670 and 1690. But consumer preferences remained neither static nor unidirectional.

In particular, the competition from the traditional fabrics made in Europe always remained strong. As early as 1638 the Company reminded the Surat Council that "calicoes in general... were in times past a main support of that Indian trade, and were here in good use and well requested and been sold to some profit while their making was answerable to their first cost; but, since they have declined in goodness from their former manufacture and increased so much in their prices, they are now become here at a stand in their use, and other country's clothing being better

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<sup>1</sup> *Journal of the House of Commons*, 14 February 1704, vol. 14, p. 336.

<sup>2</sup> It would be interesting to know how, before dry-cleaning was invented, woollen clothes were kept clean.

<sup>3</sup> *Records of Fort St. George: Despatches from England 1681-1686*, 9 October 1682 (Madras, 1911), p. 15.

<sup>4</sup> India Office Records, Despatch Book, 14 August 1683, vol. 90, p. 210.

<sup>5</sup> India Office Records, Court Book, August 1623, vol. 6, p. 89.

made and cheaper succeeded in calicoes' room".<sup>6</sup> These observations were to be echoed almost a century later, as we can see from the following passage. "Of later our Gentry are fallen very much into the wear of cambricks and lawns", the Court of Directors wrote to Bengal in 1721, "because our muslins prove so woolly and not clear and fine as formerly for which reason, we herewith send you two patterns of said cambricks and lawns not doubting but your people are ingenious enough to make very near imitation of it which if they can, we hope they may be effectual to beat out the increase of the others' use".<sup>7</sup> As for the rising prices of cotton textiles and the impact on the Company's trade, the Directors observed in another letter to the Calcutta Council written in 1730, "It is with great concern we are necessitated to say that the causes for our remonstrances are abundantly increased by the advance in Price of Goods at your Settlement, and those Subordinate, whereby Labour and Materials are become so dear on your Side of the Line, every year successively enhancing, that they are in a manner above an Europe Market, which you our Governour and Council ought seriously to take into consideration, and find out ways and means to bring back your Trade, Merchants, and Musters to their Old Standards".<sup>8</sup> The main impression left by these directives over a period of a century is that price competitiveness and the quality of the products were seen by the Company as vital to the preservation of its market share. The Directors of the East India Company were not really concerned with the question of "a high income elasticity" of demand for cotton textiles, as Blitz puts it, but they were very quick to act when the Company's market share was threatened.

Blitz accuses me of failing to "appreciate some important variables which explain the early comparative advantage of the Orient in cotton textiles". It is unfortunate that he has not read and is not even aware of my long article on the structure of Indian textile industry in the seventeenth and eighteenth centuries, which was published as long ago as

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<sup>6</sup> India Office Records, Despatch Book, 16 March 1638, vol. 84, p. 142. The importance of relative prices in selling calicoes was stressed even more clearly a few years later. Generally, the Company reckoned that in order to make a profit it had to set the selling price in London from 2 to 3 times the cost price, at the same time ensuring that it remained well below the prices of European textiles. When the great Gujarat famine of 1630-33 forced up prices in India, the dilemma facing the Company is strikingly illustrated in a letter to Surat: "for calico here stand upon these terms, that if it may not be afforded to undersell the Germany, Scotch and French linens, then they will not sell to any considerable quantity". India Office Records, Factory Records Miscellaneous, 29 November 1641, vol. 12, p. 39. For a description of the early calico trade of the Company, see K. N. CHAUDHURI, *The English East India Company: the study of an early joint-stock company 1600-1640* (London, 1965), pp. 190-203.

<sup>7</sup> India Office Records, Despatch Book, 26 April 1721, vol. 100, para. 29, p. 586.

<sup>8</sup> India Office Records, Despatch Book, 4 December 1730, vol. 105, p. 101.

1974.<sup>9</sup> Many of the polemical points raised by him are fully discussed in that paper. Nevertheless, let me comment briefly on some of the conclusions reached by Blitz. He believes that the early comparative advantage of India was grounded primarily in its proximity to the raw material. He thinks that the European-Oriental wage differential could hardly have been very dramatic at that time. Any possible difference in costs or the level of wages is dismissed with the argument that otherwise raw wool would have been exported from Europe to Asia for the production of cloth with cheaper labour. These astonishing statements are made without a single supporting piece of evidence from the historical sources. It is necessary to point out that in both India and Persia there was already an indigenous woollen industry which worked from the domestic supply of wool. The weavers of fine Indian shawls or Iranian carpets did not need to look to Europe for their raw materials. On the contrary, the East India Company was a constant importer of Iranian wool from the district of Kirman.<sup>10</sup> Secondly, neither the East India Company nor other contemporary economic writers considered that wage differentials were negligible factors in the production of industrial goods at the time. In 1736 the Court of Directors categorically stated that the price of labour in France was six times that of Bengal and they expected the Bengal goods to reflect if not the full differential at least a part of it.<sup>11</sup> Such a comparison was of course drawn at a time the price of Bengal textiles was rising. But the question was debated far more explicitly as early as 1701. The author of the tract *Considerations on the East India Trade* pointed out that the freight cost of transporting raw cotton was equal to those for the finished cloth, and yet it was not economic to manufacture the latter in England since English labour was a great deal dearer than Indian.<sup>12</sup> As he argued with some force of logic, "There is no reason to believe, that the Indians will take off any of our manufactures, as long as these is such a difference in the price of English and Indian labour, as long as the labour or manufacture of the East Indies shall be valued there at but one sixth part of the price of like labour or manufacture here in England".<sup>13</sup> It is significant that the analysis adopted by this early economic thinker to explain the pattern of Indo-European trade did not include

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<sup>9</sup> K. N. CHAUDHURI, "The structure of Indian textile industry in the seventeenth and eighteenth centuries", *Indian Economic and Social History Review*, 12. Nos. 2-3 (1974), pp. 127-83.

<sup>10</sup> See India Office Records, Commerce Journals and Factory Records Persia and Persian Gulf. I have compiled the annual figures of imports.

<sup>11</sup> India Office Records, Despatch Book, 3 November 1736, vol. 107, p. 81.

<sup>12</sup> *Considerations on the East-India Trade (1701)*, printed in J. R. McCulloch, *Early English Tracts on Commerce* (Cambridge, reprinted 1970), p. 550.

<sup>13</sup> *Ibid.*, p. 549-50.

any references to the Asian demand for precious metals or the fixity of consumer tastes.

Apart from the costs of production, there was also one other factor in India's comparative advantage, and here I quote from my previously published papers, "The success of the Indian cotton industry in maintaining its existing overseas markets and in creating new ones in the West before the period of Industrial Revolution owed as much to the possession of highly specialised technical skills in manufacturing as to lower costs of production. The weaving of cotton was not merely a question of assembling the necessary raw materials and setting the unemployed poor to work, as many of the early projectors in Europe imagined. The cotton industry in addition called for an empirical knowledge of the preparation and treatment of the natural fibre before it could be ready for weaving... the production and treatment of thread was a key element in the successful manufacture of the finer types of textiles and often required as much time as the actual process of weaving itself. Before the invention of machine spinning, hand spinners in Europe could seldom equal the quality of Indian yarn, and the textile fabrics utilising cotton were widely woven in Europe with thread imported from India".<sup>14</sup> Blitz asks the question why the orient failed to generate a scientific and mechanical invention in the production of cotton textiles. The problem of India's stagnation in technological development can be cast in a new form by asking a series of counter-questions. Once again my article of 1975 had this to say; "Historians have traditionally sought an explanation for the occurrence of technological progress in one place and time as opposed to its non-occurrence elsewhere. However, was there any compelling economic and social reason why India should have embarked on a search for new techniques and production methods at this particular stage of her history? Was the Indian weaving technique inferior and backward to those of other countries? And what foreign threat was there to her existing supremacy in cotton textiles"? The object of these questions is not to deny the existence of economic backwardness and its causal relationship with the differential rate of technological progress, but at the same time one must recognise the importance of human motivation for change before one begins the search for more impersonal, fundamental reasons.<sup>15</sup>

In the production of spices and pepper, of course, some Asian countries possessed an absolute advantage. But by the second half of the seventeenth century their share in Europe's total trade with Asia was quite small, being replaced by new commodities such as coffee and tea. The exact proportion of these items in the English East India Company's total imports is

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<sup>14</sup> CHAUDHURI, "The structure of Indian textile industry in the seventeenth and eighteenth centuries", p. 129.

<sup>15</sup> *Ibid.*, p. 180.

given for each year for the period 1666-1760 in my forthcoming book. There is no disagreement between Professor Blitz and myself that the European demand for tea, coffee, and sugar was based on newly-acquired tastes. The reason why he is anxious to emphasise Asia's absolute advantage in the production of both cotton textiles and spices is because, if this were true, it could be argued next that in importing these goods from the orient Europe had nothing else to offer except treasure. When juxtaposed with the apparently limitless Asian demand for precious metals, this theory enables one to ignore altogether all questions of relative prices, production functions, and existing levels of technology. However, one is compelled to raise the question that, if it was possible for Europe to acquire new tastes for Indian textiles, Arabian coffee, and Chinese tea, why was there no corresponding shift in demand for such industrial products as Europe could make, on the part of consumers in Asia. First, some hard facts help to put the problem in its proper context. In 1660 the total value of commodities exported by the English East India was £17,059 (24.9 per cent of total exports including treasure). In 1750 it was £279,668 (21.6 per cent). In terms of volume, the index which stood at 100 in 1660 was 2259 in 1750. The number of woollen cloths exported by the Company for the same two years was 504 and 30,553 respectively.<sup>16</sup> An expansion of this order can hardly be considered negligible. It is true however that the difference between the values of commodities and that of treasure did not show any significant proportionate variation. When one examines the enormous mass of documents on the history of the Company's efforts to expand the market for European goods in Asia, one is at once aware of a contradictory situation. It is apparent that there was a considerable demand for European commodities in India and Persia. Anyone who has experienced the cold weather temperatures in northern India or the rigour of the winters in the highlands of Iran and Afghanistan, not to speak of Anatolia, would appreciate the need for protective clothing in these areas. In fact, the Armenian merchants had a most lucrative trade in European woollen textiles in the Middle East, and in 1677 when John Fryer visited Isfahan he found that its magnificent *qaisariya* was better supplied with broad cloth than Blackwell Hall itself in London.<sup>17</sup> In India the main use for European woollens was not in making garments. They were used for household furnishings, in military accoutrement, and

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<sup>16</sup> These figures are all compiled from the Company's Commerce Journals in the India Office Records and reproduced in my forthcoming book.

<sup>17</sup> JOHN FRYER, *A New Account of East India and Persia being nine Years' Travels 1672-1681*, ed. W. Croke (3 vols., London, 1909-15), II, 249. For the trade of the Armenians see, India Office Records, Despatch Book, 1 September 1697, vol. 92, para. 8, p. 608; R. W. FERRIER, "The Armenians and the East India Company in Persia in the Seventeenth and Early Eighteenth Centuries", *Economic History Review*, 2nd series, 26, No. 1 (1973), pp. 38-62.

for horse and elephant furniture. To the East India Directorate in London, familiar with the extent of the Levant Company's trade as well as that of the great Armenian merchants in eastern Mediterranean, the potential of the market in the Near East and northern India seemed always promising. Only the actual realisation of the goal remained elusive.

How do we account for the contradiction? The high cost of European woollen goods was certainly one reason. The cost price of broad cloth was three to four times that of the most expensive cotton textiles produced in India. When the French succeeded in the eighteenth century in producing a lighter and inexpensive woollen cloth with more attractive shades of colours, the English suddenly found it difficult to hold on to their share of the market.<sup>18</sup> An examination of the East India Company's records also leaves one in no doubt that its servants did not adopt the right marketing policies. While the purchasing methods for the Indian export goods were most thoroughly explored and the sources of supplies were found all over the country, the sale of European goods was confined to a narrow range of outlets. There seemed to have been little urgency or enthusiasm on the part of the English officials at least to broaden the market. In the last analysis, one is left with the conclusion that in the production of silver in Europe at this time had a comparative advantage and the mining operations in the New World provided the means for increasing the global liquidity.

I turn now to the final point raised by Blitz, the inadequacy of the balance of payments equation in my second article (1975), and the failure to test it empirically. The purpose of presenting the equation at the beginning of the paper was to set out clearly in theoretical terms the conditions under which a country's balance of payments might change. If one is concerned with the effect of price changes in international trade, one must be clear about the precise effects of such changes. The equation was never designed as a testable model the parameters of which could be estimated by the standard statistical techniques. The difficulty which theoretical economists face in lending practical credibility to their theories has never been a deterrent to making inspired guesses about the operations or the effects of the theories. After all, Blitz' own paper is full of generalisations such as that the demand curve for cocoa, coffee, tea, and sugar in Europe shifting dramatically to the right or that the elasticity of demand for oriental imports was low. By what econometric estimation are these conclusions derived? Unsupported by any price or quantity index, Blitz

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<sup>18</sup> India Office Records, Abstract of Letters Received from Bombay, 20 July 1721, vol. 449, paras. 17-19, p. 397; Factory Records Egypt and Red Sea, 6 August 1725, vol. 1, No. 182, para. 28, p. 434; Abstract of Letters Received from Coast and Bay, 28 December 1735, vol. 4, para. 29, pp. 131-3. See also T. Hale, *A Compleat Body of Husbandry*, 2nd edn (4 vols., London 1758-9), III, 307.

is able to surmise not only the shape of the demand curve but also its shifts over time. He states with confidence that during the period under consideration the rate of change of income was greater in Western Europe than in the Orient. Since no quantitative study is cited, one is entitled to ask how this confidence is justified. The real reason why the elasticity equation is not very suitable for explaining the structure of Indo-European trade in the early modern period is not so much the difficulty in testing it empirically, as the fact that a differential equation is not the best tool for exploring the structural characteristics of different economies. In other words, what we are interested in is not the rate of change in prices and incomes alone but also in the relative differences. For a greater elucidation of these questions and the theoretical considerations involved, I must once again refer the reader to my forthcoming book.

In conclusion, one final comment may be made. Referring to the alleged propensity to hoard in Asia, Blitz urges that general impressions of observers, who have received high marks for their perspicacity of social processes, should not be discarded in a perfunctory way. To this one may well retort that before endlessly repeating the conventional wisdom and cherished misconceptions, the historian surely has the responsibility to see that these are supported by the available historical evidence. It is characteristic of Blitz' way of argument that he is content to say that my generalisations and conclusions are wrong. But he has no solid evidence to offer in return. We should not really have to fall back on Keynes' *Indian Currency and Finance* published in 1913 and analysing the conditions of the early twentieth century or a journalistic piece in *The Wall Street Journal* to investigate the commercial history of India two or three centuries ago. European trade with Asia in the seventeenth and eighteenth centuries is not without its history. Merchants who were actually engaged in this trade had a great deal to say about the economic and monetary conditions of their respective areas and they have left records numbering several thousand volumes.<sup>19</sup> I have learnt much from studying the documentary archives of the chartered Companies. Is it too much to hope that other historians would do the same before making a final judgement?

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<sup>19</sup> The question of the propensity to hoarding and other monetary problems in the early modern societies were extensively discussed at Comparative World History, Workshop in Pre-Modern Monetary History 1200-1750 A.D., Madison, Wisconsin, August 29-September 2, 1977. The forthcoming proceedings of the Workshop should cast considerable light on comparative monetary history of the world.

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