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One

The Making of Market Conventions

Humans might be smart, but there is little evidence that we are by nature "economically rational," that is, that human nature drives people to maximize their independent welfare by accumulating as many material goods as possible. Many of us remember Adam Smith's dictum that it was a basic part of human nature to "truck and barter"—so basic, according to Smith, that this tendency had probably developed along with the ability to speak. Indeed, modern economics has made this a basic principle for analyzing human behavior. But Smith's juxtaposition of trade with speech has an implication that his modern disciples have often forgotten—that trade, like speech, could sometimes serve *expressive* ends. Acquiring a particular good, or sending it to others was (and still is) sometimes a way of making a statement about who a person or group was or wanted to be, or about what social relationships people had or desired with others, as much as it was a way of maximizing strictly material comfort. And because economic activities are social acts, they bring together groups of people who often have very different cultural understandings of production, consumption, and trade.

It is certainly true that people have traded things for thousands of years: archeolgical evidence of the exchange of shells, arrowheads, and other goods over long distances (and thus of geographically specialized production) goes back well before any written records. But in most cases we can only guess at the motives and mechanisms of trade, and of the way in which the exchange ratios between different goods were determined. We have evidence that even in ancient times there were some markets in which multiple buyers and sellers competed and prices were set by supply and demand; but we also have a great many cases in which exchange reached a fairly large scale while governed by very different principles. Where supply and demand did set prices—as appears to have been the case, for instance, for many goods in ancient Greece, and at roughly the same time in China—the exchange value of goods—what they could fetch in other goods—became more important than their inherent usefulness (use value) or their status. But even price-determining competitive markets were affected by the fact that they were understood to be just one of various ways of exchanging. In the second century B.C.E., the Chinese emperor held a debate at court about whether the state (and the people, though he cared less about them) were best served by competing merchants or government monopolies over crucial goods such as salt and iron; and though the ruler's decision for monopoly could never be fully implemented even for these goods, the debate reverberated through the centuries, shaping notions of what was and was not acceptable behavior both for unregulated merchants and their would-be regulators.

Everywhere it took a very long time for the concept of prices settled by supply and demand to overcome more traditional notions of reciprocity (equal exchange of goods and favors), status bargaining, which was more ritualistic trading between acknowledged unequals, or Aristotle's notion of a just price, set not by barter in the market but rather by ethical notions of a moral economy, of just exchanges.

Some people resembled the fleet Ouetaca of Brazil. As we see in reading 1.7, they were what we today unkindly call "Indian givers." The chase after the exchange was as important as the actual exchange itself. Both parties mistrusted the other and there was only a very dim sense of property values.

Others were like the Brazilian Tupinamba, who thought the French traders "great madmen" for crossing an ocean and working hard in order to accumulate wealth for future generations. Once the Tupinamba had enough goods, they instead spent their time, according to a Jesuit priest, "drinking wines in their villages, starting wars, and doing much mischief." And among the Kwakiutl of the Pacific Northwest, giving large amounts of goods away could be either a way of procuring witnesses to one's accession to a new rank (and of outcompeting for that rank people who could not assemble enough goods to give away fast enough) or a way of deliberately embarrassing a rival; but whether the purpose was to proclaim solidarity or hostility, the giver was the winner, and goods were accumulated in order to get rid of them on the right occasion.

Even large, sophisticated civilizations were often not based on market principles. The storied Inca of Peru (see reading 1.6) knit together millions of people over thousands of miles in a prosperous, strong state that seems to have had no markets, no money, and no capital. Instead, trade was based upon the familial unit known as the *ayllu* and overseen by the state. Reciprocity and redistribution were more guiding concepts than profit and accumulation. People worked hard to survive and to fulfill social and cultural obligations, not to get rich.

The Aztecs and Maya of Mexico also had great empires that engaged in

long-distance trade. The Aztecs enjoyed an enormous marketplace in their capital city of Tenochtitlan (today Mexico City), which hosted as many as ten thousand shoppers and sellers at a time. The Maya, on the other hand, apparently had no local markets in their considerable cities. Both empires traded goods in an area that stretched from New Mexico to Nicaragua, the equivalent distance in Europe from its northernmost to furthest southern point. Yet long-distance trade was completely separate from the local markets of Aztec cities. Long-distance traders dealt in luxury goods as emissaries of their imperial aristocracies. They were essentially state bureaucrats. These sophisticated long-distance traders would completely disappear once their states collapsed and European merchants arrived.

Asia, linked by busy sea networks rather than the difficult overland routes of Peru and Mexico, had much more active private trading. As reading 1.4 demonstrates, diasporas of trading peoples such as the overseas Chinese, Muslims, and Hindus joined together an enormous and complex network of commerce; we will return to these trade diasporas shortly. Moreover, the Chinese "tribute system" (see reading 1.2) helped provide a framework for trade across vast areas of East and Southeast Asia. Though its primary purposes were political and cultural rather than economic, it helped provide an "international" monetary system, promoted shared luxury tastes across a huge area (making the market big enough for specialized producers to target), created quality standards for many goods, and promoted at least some common expectations of what constituted decent behavior. The leaders of ethnic trading communities (reading 1.1) provided other elements of a shared framework for trade; so did the accumulated practices in certain long-established entrepôts (usually city-states that were convenient meeting places for East and South Asians because of the patterns of the monsoon winds—see "Wood, Winds, and Shipbuilding" in Chapter 2). These trading networks were linked to states in many ways, but they had also gained a life of their own—and at least some of the states they were linked to were not going to collapse as easily as the Incan and Aztec ones, anyway.

Thus, when Europeans finally entered the waters of the Indian Ocean in the sixteenth century and tried to wrest away the trade, they found their Asian competitors resilient. We see in reading 1.4 that for a long while, Europeans were treated as simply one more competitor who had to be tolerated, but not obeyed. Unlike New World traders, Asians were less dependent upon their states and hence could persist, even thrive, in the face of European cannon.

But saying that Asian trade was more independent of the state than that of the Incas or Aztecs does not mean that it operated in a purely economic realm outside politics and culture. On the contrary, even "merchants" often derived more profit from state concessions and monopolies than from clever entrepreneurship or commerce. Muhammed Sayyid Ardestani (reading 1.11) amassed a huge fortune as a tax farmer and a contractor for government purchases. The importance of good relations with government officials was obvious even to the representatives of the English East India Company (reading 1.12). In order to impress the Indian princes with whom they dealt, agents of the company spent lavishly to maintain themselves in the life-style of local princes, and made frequent shows of military power. Being a successful trader required spending as much as accumulating: minimizing costs was not a consistent high priority.

Success for many Europeans in Asia also demanded intermarrying with the local population. Agents of the Dutch East India Company took Malay, Javanese, Filipina, and especially Balinese wives (reading 1.9) to implicate themselves in the local market and society. Even though the British and Dutch agents represented some of the first modern capitalist enterprises organized as joint stock companies, they relied on the traditional means of business alliances: marriage. But while a high-level European marriage generally linked two "houses" in which males controlled the capital and managed the business by exchanging a woman, almost as if she were a trade item herself—in Southeast Asia it was often the bride herself who had the liquid funds and the business acumen (her aristocratic male relatives considered themselves above such haggling). Some European men were delighted to get a domestic partner and a business partner in the same person; many more seem to have found the independent spirit of these women irksome. But for a long time they had little choice but to adapt if they wished to prosper. In fact, the European sojourners often indirectly reinforced the importance of these women even while they (and the missionaries who accompanied them) complained about it. Not being used to the tropics, these men tended to die well before their "local" wives; with inheritances in hand, these women then had even more bargaining chips for their next venture or next marriage.

Europeans had to "go native" in the first centuries of contact because of their own weakness and because of the variety of local laws and traditions that governed commerce. A diversity of states, religions, and trade diasporas and no agreed-upon commercial law left room for violent disputes. As we see in reading 1.10, the intensification of trade in the sixteenth and seventeenth centuries led to greater contact and increasing agreements on trade conventions. The spread of Islam also provided an ethical basis for conflict resolutions. But a convergence of practices was not inevitable. In fact, a depression in the eighteenth century led to a reversal of the trend, at least in what is now Indonesia; commercial customs again became more local and disparate.

Moreover, "native" was a relative term. The typical Asian port housed Gujaratis, Fujianese, Persians, Armenians, Jews, and Arabs, just as European trading centers housed separate groups of Genoese, Florentine, Dutch, English, and Hanseatic merchants. Only the most near-sighted European could fail to see that these groups differed. (The greatly increased power of Europeans in the nineteenth century encouraged such myopia and allowed more Europeans to get away with it; but earlier traders, lacking the aid of a colonial state, could not survive if they were that obtuse.) The individuals who made up these "trade diasporas" may have all expected to leave someday, but the accumulated knowledge, contacts, and ways of operating that each group created was much more enduring—sometimes more important and lasting than the laws of the supposedly rooted "local" authority.

Under the circumstances, it is not surprising that trade diasporas remained the most efficient way of organizing commerce across much of Afro-Eurasia until the nineteenth century, as they had been for centuries. Trade diasporas made sense from many points of view. In an era when contracts could be hard to enforce, especially across political boundaries, it helped to deal with people who came from the same place you did. You were likely to understand them better than you did strangers in the first place: to share an understanding of what was good merchandise, of when a deal could (and could not) be called off, and of what to do in embarrassing but inevitable situations such as bankruptcy, accident, and so on. If you traded with somebody with whom you did not share these understandings you ran a higher risk of trouble, including having to deal with the culturally alien, sometimes arbitrary, principles of the local ruler's courts. And in case a trading partner was tempted to cheat you, it helped that their relatives and yours lived near each other. If worse came to absolute worst, there were people to take your anger out on, but more often a shared home base enforced honesty in a less physical way. Somebody who eventually hoped to return home, to inherit his parents' business, or to marry his children to members of other elite families back in his home territory would think twice before hurting the reputation of his family back home. The same principles not only kept traders abroad—two Gujaratis doing a deal in Melaka, for instance—honest with each other; it worked even better to keep either one from enriching himself at the expense of his partners or employers back at their native place. In the Fujian trading diasporas, the use of social prestige back home to ensure honest dealings while abroad reached a pinnacle of sorts. Great merchant families often sent their indentured servants off to manage their most far-flung business interests, especially in

Southeast Asia. (Among other things, they may have wished to keep their actual sons at home—for company, safety, to maximize the chance of grandchildren, or to protect the family's other interests by managing their land or training to become a government official.) The servants understood that if—and only if—they returned home having done well would they be given their freedom, adopted into the family as a son, and furnished with an elite bride selected by their new parents. Until they succeeded, there was not much point in coming home.

The rulers of port cities also found it convenient to have trade handled this way. Concentrations of wealth in the hands of aliens were less threatening than concentrations of wealth in the hands of, say, local aristocrats who might have the right blood and connections to make a bid for the throne; and if many of the aliens came from the same place, they could be assigned to keep each other orderly. Even Stamford Raffles (see "Winning Raffles" in Chapter 2), who saw himself as a child of the English Enlightenment and professed a belief in the rule of law, not men, found it convenient to organize Singapore (which he founded in 1819) as series of separate ethnic quarters, with a few leading merchants in each quarter responsible for governing according to the customs they were used to. In the best of all possible worlds, a ruler might even convince a key figure in a trade diaspora to pay a handsome sum to be named "captain" over his ethnic fellows: if the ruler chose the right person, he got revenue, a grateful (and wealthy) follower, and good government in the merchant quarter at no cost to himself. With so many advantages, trade diasporas remained an indispensable way of organizing trade until full-fledged colonial rule (and with it Western commercial law) was established across much of the globe in the nineteenth century. And even then—and in fact today—such networks remain an important part of global trade. Condemned by much of Western social theory as nepotistic, irrational, "traditional" (and thus hostile to innovation), groups of Fujianese, Lebanese, and others continue to organize trade through ethnicity, and to compete successfully with allegedly more rational ways of doing business. When the "past" thrives in the present, it's a sure sign that reality is more complex than the blackboard diagrams of either economists or sociologists.

Even when distant areas conformed to European standards of law and values, many other impediments stood in the way. Reading 1.8 reveals how difficult business conditions were for an English merchant in Brazil in the years right after its 1822 independence. By this time, European military power was far greater, allowing Europeans to force some reluctant people (and their land and goods) into the kind of market they wanted. Moreover, Europe had made a quantum leap in methods of producing some goods

(such as cloth) at low prices, allowing them to trade on very favorable terms with anyone who wanted those goods. And meanwhile, conventions of trade (and ways of thinking about trade), which fit well with our notions of profit maximization, had come to the fore in Europe, so that Europeans had a much clearer idea of what market conventions they wished to impose in Brazil and elsewhere. But even so, the creation of a world economy was far from finished. Just how far will become clear in Chapter 6, on the institutions of *modern* world trade.

1.1 The Fujian Trade Diaspora

Any trader knows that personal contacts matter. But before the age of telecommunications, enforceable commercial codes, and standardized measures, it was even more important to have some nonbusiness tie with your partners, agents, and opposite numbers in other ports. So all over the world, trade was organized through networks of people who shared the same native place—and thus a dialect, a deity (or several) to swear on, and other trust-inducing connections. Genoese, Gujaratis, Armenians, Jews (though for the latter the shared "native place" had long been lost) and others fanned out across the world, and linked its cities to each other.

The Fujianese diaspora, based on China's Southeast Coast, has been among the largest and most durable of these. (In 1984, Fujian's Pujiang county had 1,026,000 residents—and over 1,100,000 known descendants abroad.) It also has an unusual feature. While most of the other trading diasporas were purely urban, Fujian also sent millions of its children to clear land and grow crops elsewhere: from the Chinese interior to Southeast Asia, the Caribbean, and California. Yet oddly enough, the two diasporas had little to do with each other until the late nineteenth century, and then largely under the aegis of Western colonialists.

Fujian has long been crowded and rocky, so that, as one Chinese official put it, "men have made fields from the sea"; it has been a center of boat-building, fishing, and trade for over 1,000 years. Even after deforestation forced boat-building to move to places like Thailand, Fujianese remained the principal shippers and traders of Southeast Asia: many also became tax collectors, harbor masters, and financial advisers in the region's kingdoms, and later in Europe's colonies there. As transportation improved in the nineteenth century, the networks extended further—most of the Chinese who came to gold-rush California, for instance, came *not* from the counties hardest hit by poverty and violence, but from counties in Fujian and neighboring Guangdong whose commercial networks gave their sons access to superior information and start-up capital for venturing abroad. The firms reformer after another sought to curb these local moneys, it was no accident that none ever succeeded—and it would have been disastrous if they had. Instead, sophisticated markets developed in which local currencies could be exchanged for more standard moneys, but only in limited quantities—a solution that balanced the needs of a huge interdependent economy with the "protectionist" needs of poorer localities.

And in the long run, paper money proved more vulnerable than clumsy coins. Since paper was supposed to be trustworthy enough to circulate over huge distances, periodic printing press inflation compromised its usefulness much more than overminting damaged local currencies. And as the currency designed for large, long-distance transactions, paper money became far less useful when political disruptions—particularly the wars that accompanied the collapse of Mongol rule in the mid-1300s—obstructed long-distance trade. Long-distance trade recovered and then reached new heights in the 1500s, but by then a new medium of exchange was available: silver, which came first from Japan, Vietnam, and Burma, and then, in unprecedented amounts, from the New World. For the next 300 years, close to half the world's silver production found its way into China's money supply, joining but not replacing other local coins, while becoming the standard for long-distance trade. Meanwhile the rest of the world enjoyed silks, porcelain, and other goodies they could not have purchased had China's experiment with paper money not proved abortive.

Only after the nineteenth-century opium trade reversed this silver inflow did the Chinese government return to printing paper money. And as poorer areas once again found silver and copper scarce, bronze, iron, and other local coins again proliferated, much to the dismay of foreigners. But what Westerners thought was monetary chaos permitted by a government that had never cared enough about trade to create a reliable currency was really something very different: the return of mechanisms that mediated the many levels of a complex economy in a way that no one currency could do.

1.4 When Asia Was the World Economy

Every schoolchild knows, Columbus was looking for India when he stumbled upon the Americas. But the Portuguese actually reached India by sea in the 1490s. And while they did not overwhelm the societies they encountered as the Spanish did in the New World, they did help to undermine a vast commercial system centered on the Indian Ocean.

This Asia-centered world economy had been taking shape since the rise of Islam in the seventh century. As the first Arab converts conquered much of the Byzantine world (especially Egypt and Syria) to their West and the

Sassanid lands (Iran and Iraq) to their East, they laid down few economic rules; both the converted and unconverted (mostly Jewish or Christian) traders of Cairo, Damascus, Baghdad, and Tashkent continued business as usual. The conquest meant that a single power, the Islamic caliphate, could guarantee safe passage between two worlds—the Mediterranean and the Indian Ocean—separated since the decline of Rome.

As later generations extended the Islamic conquests from Spain to Somalia and Java, the networks of Hindu and other traders were welded to those of the West and Near East. Commerce boomed. At the edges of the empire, merchants dealt with a still larger world. Traders bought Chinese porcelain and silk in Canton and Malaysia. Europeans shipped Indonesian spices via the Red and Mediterranean seas. And from Eastern Europe, Turkey, and sub-Saharan Africa came other crucial imports: gold (principally for coining money), iron, timber, and slaves both white and black.

The limited unity that the caliphate created—particularly in currency—was essential to this burgeoning trade. So was the urban elite's insatiable demand for exotica. But the looseness of Islamic rule was even more important: as long as tribute was paid, local rulers were allowed to do much as they pleased. Most rulers allowed traders of all faiths to move freely from port to port. Wars were frequent, but usually limited to land, while the seas remained open. Merchants who encountered problems in one port simply moved to another. Piracy was common, but manageable. Merchant groups, often organized on ethnic or religious lines, maintained insurance funds to ransom any members captured at sea. Kidnapping became so pervasive a business pursuit that, in the 1200s, a standard ransom rate prevailed throughout the Mediterranean.

Within this cosmopolitan world, businesses spanned vast areas. The letters of one group of Jewish merchants, found centuries later in a Cairo synagogue, reveal a family firm with branches in India, Iran, Tunisia, and Egypt. Moreover, a complex international division of labor developed: the soldiers who resisted the Crusades wore chain mail from the Caucasus and carried steel swords smelted in India from iron mined in present-day Tanzania. Not only luxury goods, but such bulky necessities as flour and firewood, were exchanged across huge distances. The density of exchange also favored the worldwide diffusion of knowledge and products. Rice-growing, which had spread slowly from Eastern Asia to India and parts of Mesopotamia, was now adopted in Egypt, Morocco, and Southern Spain; sorghum spread from Africa to the Mediterranean. Cotton was introduced from India to Iraq as early as the 600s; from there it followed the trade routes to Syria, Cyprus, Sicily, Tunisia, Morocco, Spain, and eventually to the Nile Valley. Islamic trade routes brought paper-making from China to Europe, and Greek medicine back into a Europe that had lost it.

By the time the Portuguese arrived, this system was already in trouble. Revolts by slaves, overtaxed peasants, and the urban poor; invasions; and ecological problems had led to economic contraction and fragmentation. Yet the volume of trade was still enormous, and the basic rules by which it was conducted still held. The Portuguese government was the first to attack the principle—common throughout the region—that the sea belonged to no one, and the first to use force to redirect trade. Within twenty years of sailing into Asian waters, they created forts at two of the three places where major westbound trade routes could be blocked: Malacca, in the straits that connect the Indian and Pacific Oceans, and Hormuz, at the entrance to the Persian Gulf. (They failed to take Aden, at the mouth of the Red Sea, but succeeded in blockading it during the annual sailing season.) They also built numerous coastal forts, mostly in India. They claimed a monopoly in the pepper trade, and the right to board or sink any ship in the hemisphere to which they had not issued a pass, or *cartaz*. The *cartaz* was cheap, but the buyer also had to agree not to trade in certain commodities, and to boycott certain ports.

Portuguese pretensions far exceeded their power. Their settlements were always vulnerable because they were not self-sufficient. Indeed, most survived only because they were obviously too weak to threaten major land powers; thus nearby kingdoms felt free to feed the Portuguese in return for *cartazes* and safety at sea. And though Portuguese ships dealt harshly with those whom they caught violating their monopoly—sinking ships, bombarding ports, and burning crops—they could not truly rule the ocean.

By the middle 1500s, the counterattack began. The sultan of Acheh led an offensive on land and sea, reopening the Red Sea trade routes in the 1540s with the help of Indian merchants, and besieging Malacca (with Turkish help) over and over in the late 1500s. Before long, more powerful Europeans appeared: the Dutch and English. By the early 1600s, the Portuguese empire in Asia was in irreversible decline. But the age of mercantilism, trade wars, and a Europe-centered world economy was just beginning.

1.5 Treating Good News as No News

Imports from Asia to Europe date back to Greek times, if not earlier. The writings of Roman moralists contain diatribes against patricians "wasting" valuable gold and silver to clothe themselves in Chinese silk. And most people today associate East–West trade before 1500 with one name above all: Marco Polo (1254–1324), the Venetian trader who spent twenty-five years in China and other parts of Asia. But to his contemporaries, Polo seemed more a crank than a trailblazer. Undoubtedly Polo, his father, and his uncle had done something right while in Asia, since they returned with enormous profits; but too many of Polo's stories clashed with European preconceptions for him to be believed.

Polo's *Travels* are today the most famous account of international trade ever written. They have gone through hundreds of printings and have been the basis of movies; a recent list of scholarly studies runs 354 pages. Most of what Polo told his readers about China, Persia, Sumatra, and elsewhere has since been substantiated. (He was less reliable about Japan, Java, and other places, for which he relied on hearsay.) But for a long time his accounts were treated less as a medieval Fodor's than as fantasies.

Polo told his stories to his cellmates after he was captured by Genoa in one phase of its centuries-long war with Venice for commercial and maritime dominance; and it was of these fellow prisoners, a professional writer of romances, who wrote out and published the *Travels*. For a good 200 years thereafter, Polo's *Travels* were usually classified as romances as well. Beginning shortly after Polo's death, carnivals in Venice featured a clown named "Marco of the Millions" (a nickname for Polo himself) who amused the crowd by telling increasingly outrageous stories; "a Marco Polo" became a proverbial English expression for lies. Meanwhile the "travel diaries" of John Mandeville, a fourteenth-century scholar who never left Europe, went through far more editions and were far more widely believed, even well beyond the days of Columbus and Magellan. Though Mandeville carefully borrowed accurate accounts from numerous other travelers (including Polo), he also borrowed much well-worn nonsense: eighty-foot-tall cannibals, giant ants that mined gold for their human master, and so forth.

Why the credibility problem? The question is even more puzzling because earlier Europeans had known much of what Polo's contemporaries would not believe. Though Europe had traded with East Asia for centuries, it had always been done through intermediaries, and political changes had made the European role increasingly marginal. After the collapse of the Eastern Roman Empire and the rise of Arab and Persian power, the amount of silks and spices moving by land across Central Asia had declined; instead, these goods moved by land and sea to Alexandria. From the tenth century on, Venice had obtained a virtual monopoly on the transshipment of spices from Alexandria to Europe, and thus had no interest in seeing other Europeans develop alternatives to Alexandria. (This intimacy with Arab traders made the Venetians something of an exception in the age of the Crusades; when they went so far as to begin their contracts with the Egyptians with "In the name of God and Mohammed," the Pope drew the line. Few Venetians stopped making such contracts, but many "made up for it" on their deathbed by willing their profits to the Church.) It was only with also faced powerful enemies within. Most Company servants soon discovered that while smuggling goods back to Holland was risky and difficult, they could earn sums by trading illegally (or semi-legally) within Asia that dwarfed their official salaries. Here their wives were a perfect vehicle for making a fortune: they were well connected in and knowledgeable about local markets, often possessed of considerable capital, and able to manage the family business continuously without being susceptible to sudden transfer by the Company.

And for some particularly unscrupulous Dutchmen there was the possibility of a kind of lucrative cultural arbitrage: after profiting from the relatively high status of Southeast Asian women, one might take advantage of their low status in Dutch law to gain sole control of the family fortune, and then perhaps even return to the Netherlands to settle down with a "proper" wife. (Though even with the law on the man's side, such a process could be very complex if the woman used her informal influence cleverly and hid her assets—in one such case the man eventually won control of most of his wife's profits, but the legal proceedings took nineteen years.)

But if men had powerful allies in the Dutch law and church, women had the climate on their side. Foreigners tended to die young in India and Southeast Asia, leaving behind wealthy widows. Such women were often eagerly sought after by the next wave of incoming European adventurers, enabling them to strike marriage bargains that safeguarded at least some of their independence; many wed and survived three or four husbands. The rare Dutchman who did live a long life in Batavia was likely to rise quite high in the VOC, become very wealthy, and marry more than once himself; but since such men (not needing a particularly well-connected or rich spouse once they'd risen this high) often chose a last wife much younger than themselves, they tended to leave behind a small circle of *very* wealthy widows, whose behavior often scandalized those Dutchmen who took their Calvinism seriously.

From the founding of Batavia in 1619 until the late 1800s, Dutch moralists and monopolists waged an endless battle to "tame" these women, and at least partially succeeded; later generations, for instance, seem to have conformed much more than earlier ones to European sexual mores. And as the scale of capital and international contacts needed to succeed in long-distance trade grew larger, European companies and their Chinese or Indian merchant allies—all of them male—did increasingly shrink the sphere in which these women operated.

Eventually, when late nineteenth-century innovations—the Suez Canal, telegraphs, refrigerated shipping, vaccinations, and so on—made it more and more possible to live a truly European life-style in Southeast Asia, a new generation of Dutch officials chose to bring wives with them, or to assume they would quickly return to Holland and marry there. Even so, trade managed by Eurasian women remained a crucial part of local and regional economies: many, for instance, managed commercial real estate and money-lending operations through which they funneled profits from their husbands' activities into local development around the fringes of Southeast Asian trading cities. (Ironically, this niche may have been kept for them in part through the racism of many of their husbands, who preferred to deal with the locals as little as possible.)

As late as the turn of this century, this sphere and those who managed it refused to disappear—the Indonesian novelist Pramoedaya Toer has painted a powerful portrait of one such woman, who waged a running battle to hold on to the businesses (and children) she had handled for years against her half-mad Dutch consort and his "legal" family back in Holland. Along with most of her real-life counterparts, this fictional woman was ultimately defeated; but for three centuries, women like her had built and sustained much of the world their husbands claimed was theirs.

1.10 Deals and Ordeals: World Trade and Early Modern Legal Culture

People can't trade without sharing some rules of the game. But societies have different ideas about who should pay what if merchandise is spoiled, prices change suddenly, and so on. Today, elaborate contracts, commercial treaties, and international law cover most eventualities, but in sixteenth-century Southeast Asian ports, such things barely existed. As trade boomed throughout the region—thanks to soaring demand for Southeast Asian spices in India, Europe, and above all China, and the increased availability of silver (mostly from Japan and Peru) to pay for it—commercial law evolved rapidly, but not always in the ways you'd expect.

In most Southeast Asian ports, traders were organized into ethnic communities, each of which had a headman who was supposed to keep order. So if, say, a Gujarati and a Dutch merchant fell out, their respective headmen would first meet to settle the dispute. This had its own perils for the merchants—they often lost the chance to speak for themselves, and might find their own case sacrificed to the broader interests of their communities, or the political ambitions of their headman. But the alternative—a lawsuit in the king's court—could be far more perilous. Witnesses on both sides might be tortured, and conflicting claims were often resolved by ordeal, in the belief that heavenly strength would enable the truthful party to endure longer. In Acheh, for instance, a common practice was to make the parties put one of their hands in molten lead, searching for a piece of pottery with sacred writing on it.

Such methods were not necessarily any more "backward" than those in use back in Europe—this was, after all, the era of witch-burnings, and the use of torture to extract truthful testimony was common to many places. In fact, a Portuguese sailor arrested for smuggling in China (and eventually freed on appeal) could not get over how much fairer Chinese justice seemed than his own. He was particularly struck by the practices of cross-examining witnesses in public (which he thought inhibited bribery) and by how everyone could swear oaths on their own sacred books (a practice that would have been unthinkable back home).

Nonetheless, polyglot trading centers, in which religious differences had to be tolerated, put the problems of relying on oaths, ordeals, and supernatural truth-finding in particularly sharp relief. And since Southeast Asia had many independent and competing ports, each hungry for the revenue that came when traders chose them as an entrepôt, the sixteenth- and seventeenth-century trade boom created powerful incentives to adopt a different kind of legal system.

Since the great trade boom also sparked a wave of conversions to Islam in Southeast Asia, the new legal codes often were based on the Koran. While that particular inspiration may have displeased Chinese and especially European traders, they could hardly deny that what resulted was a better system of dispute resolution. Increasingly, judgments were based on written laws or precedents that could be checked in advance; open interrogation of witnesses increased, and—probably most comforting of all—the use of ordeal declined in major ports. This new kind of law was seeping into cases that involved no foreigners, too, and there are even some signs that it was spreading to rural areas.

But by the eighteenth century this story of legal progress had gone into sharp reverse: ordeal was becoming more common again in various cities, and complaints about lawlessness and inter-ethnic violence became more common. What had happened?

Once again, trade patterns were central. The mid-seventeenth century saw major depressions in both China and Europe: demand for Southeast Asian products slumped, customs revenues fell, and many kingdoms turned increasingly towards a rural, less cosmopolitan orientation. Worse yet, the increased power of armed, monopoly-seeking, European traders (especially the Dutch East India Company) forced more and more of the remaining trade onto their boats and into their fortified cities. Other Southeast Asian ports shrank, either through direct destruction by European guns or loss of revenue; and as these cities became less important to their rulers so did the relatively secular and tolerant way of life that they had exemplified. Ironically, the situation was often worst of all where European trading companies became the powers behind the throne. There, the desire to keep administrative costs to a minimum often led them to try to rule based on "local custom," which they thought would be the easiest kind of law to enforce: that preference often involved reviving whatever practices seemed most "ancient," and minimizing the importance of more recent, and sophisticated, urban practices that they attributed to "foreigners." (These European rulers were also all too willing to believe that the most "savage" practices they could find were the most "authentic"; and if letting custom reign in some places drove more and more business into a handful of European strongholds, this was all right with them, too.) As colonialism flourished, foreign trade ceased to be an opening wedge for legal reform throughout the region; instead it became a force that widened the gulf between "advanced" and "backward" legal systems.

1.11 Traveling Salesmen, Traveling Taxmen

We usually think of our own era as particularly cosmopolitan, especially in economics; the globalization of finance, production, and consumer tastes and the shrinking importance of national boundaries are clichés of our time. But for certain entrepreneurs, an earlier time and place—the Middle East, South Asia, and Southeast Asia, from about 1500 to 1750—offered a much closer approximation of a borderless world than anything being contemplated today. And for many of these itinerant traders, it was their intense involvement in the politics of their host countries—not the creation of markets that ignored nations—that yielded the greatest rewards.

These entrepreneurs—mostly Persian and Chinese—fanned out across the Indian Ocean world, establishing bases from present-day Mozambique to Indonesia, and most places in between. They traded in virtually every commodity available, from textiles and grain to gold and diamonds. But what gave them their entry into kingdom after kingdom was their skill at providing a different kind of service, which today is usually reserved for a country's own nationals: collecting public revenue. They were tax farmers who, in return for a free hand for themselves and their employees, would contract with rulers to provide a set amount of revenue by taxing an agreed-upon set of commodities over a given space.

From 1500 on, virtually every state bordering the Indian Ocean auctioned off the right to collect at least some of its taxes; Chinese entrepreneurs won many of the auctions in Southeast Asia, while Persians won a few contracts there and most of the auctions elsewhere. Once established as tax farmers, and granted important rights that went with those posts—the right, for instance, to inspect every cargo that went in and out of a port where they collected the customs—they gained a valuable advantage for their efforts as more conventional shippers, wholesalers, financiers, and arbitragers. And once they were locked into commitments to deliver large amounts of revenue, or had already advanced money to cash-hungry rulers, they often found themselves assuming other roles that modern states rarely give to foreigners—as generals and admirals, for instance, raising armies to protect "their" country's claims on a particular territory or trade. When Europeans arrived on the Indian Ocean scene, they, too, usually found these political merchants to be indispensable intermediaries and trading partners.

Consider, for instance, Muhammed Sayyid Ardestani. Born in Persia in 1591, he turned up in the Indian sultanate of Golconda in the 1620s, making a fortune as a horse trader. To modern ears, "horse trading" may suggest small-scale peddling in wide open markets, but it was something very different in seventeenth-century South Asia. From the 1400s on, the scale of warfare on the Indian subcontinent increased dramatically as the Mughal Empire (itself of Persian origin) sought to conquer as much as possible of present-day India, Pakistan, Bangladesh, and Afghanistan, while other states (and leagues of states) sought control over areas big enough to be viable bases for resistance. Horses were one of the two crucial sinews of power that no Indian state could produce for itself—adequate war mounts had to come from Arabia, Persia, or Central Asia, at enormous cost. (The other major military import was a new type of cannon, available after 1500 from European traders.) In fact, horses were probably the single biggest import into India (unless we count silver, much of which was re-exported to get more horses)—and since India was probably the world's largest exporter from 1500 to 1700, the horse trade was a crucial link in world trade. Because horses had such strategic importance, virtually every state intervened heavily in the horse trade, often making it a state monopoly. Thus a would-be large-scale horse trader was likely to have two choices: accept appointment as an official of one of the importing states, and play the game of court politics, or find another line of work.

Having established himself at court (where Golconda's Muslim rulers preferred Persian Muslims to indigenous Hindu traders), Ardestani soon wangled another enormously lucrative concession: running one of Golconda's fabled diamond mines. Thus enriched, he was prepared to help the sultan procure the most basic military necessity: money.

With armies growing larger and their equipment fancier, the cost of war was soaring. Thus, rulers needed to extract more revenue from both trade and agriculture. While some kings tried trading on their own account, most

found it more efficient to license existing traders and sell to one of them the position of collector of license fees and customs; such a person was in the best position to figure what the traffic would bear. Once appointed, he could easily benefit his own interests: by monopolizing information, detaining competing cargoes while he sold his, or even by accusing a competitor of "smuggling."

Sometime in the 1630s Ardestani became governor and tax farmer for the province that included Masulipatnam, then the biggest port on India's Eastern coast. Here both Asians and Europeans came to buy the textiles that unlocked the other riches of the globe: they were exchanged for spices in Southeast Asia, gold in East Africa, slaves in West Africa, tobacco and sugar in the New World, and silver in Europe. As the port's principal tax collector, Ardestani soon developed ties to the British, Dutch, and Portuguese, despite their often violent quarrels with each other. The Dutch East India Co., eager to retain Ardestani's favor, gave his ships safe conduct passes for the seas they patrolled, even while denying them to most other others. With this help, Ardestani's personal trading empire soon extended east to Burma and Indonesia. This one-man conglomerate gained still greater synergy through the interaction of these international interests with his state-licensed involvement in Golconda's village economy.

Foreign traders at Indian Ocean ports had a problem. Though monsoon shifts determined when they could arrive and when they had to leave, orders had to be placed several months in advance for the intricate woven goods they so prized. The companies were hard-pressed to finance these substantial advances, and would have been devastated if weavers or middlemen had absconded with them. Here a local partner like Ardestani had an enormous edge: not only was he cash-rich, but he had successfully bid for the right to collect the land and other taxes from a number of weaving villages, too. Golconda got more revenue by letting Ardestani collect than it could have by relying on elites within the village (who had closer ties to fellow villagers, and fewer to the court); and Ardestani, even if he promised the court enough revenue so that he couldn't squeeze out much extra for himself, gained a vital hold over the peasants, weavers, and local brokers whose tax obligations he effectively bought from the court. He could thus lock up much of the best cloth for himself and his preferred clients; both the British and Dutch learned to their cost how hard it was to bypass such middlemen and deal directly with producers.

For years, Ardestani went from triumph to triumph. In the 1640s he served as a general in one of Golconda's many campaigns to capture more of coastal India; he bought up more and more tax farms; and he amassed a personal bodyguard of over 5,000, complete with European-made artillery.

Eventually, he fell in what was probably the only way he could have fallen. After losing a factional quarrel at court, Ardestani was arrested by a new sultan who feared he had become too powerful. But even that defeat was temporary; using some of his immense wealth to buy his release, Ardestani soon defected to the Mughal court, where he was given an aristocratic title and resumed his old activities on new terrain. Such a switch was not unusual. Many tax-farming merchants served several courts during their careers: arresting one and then letting him buy his release was often just a way of squeezing one last bit of cash from a laid-off political appointee. And it would not do to treat such people too harshly, even when dismissing them. Most of these successful itinerants had relatives who performed the same functions elsewhere, and nobody needed to make enemies who were powerful at the courts of other states; besides, many of the records that the new tax farmer would need were in the old farmer's private hands. (In fact, the transfer of accounting methods from business to the tax rolls was one of the most important long-term legacies of merchant tax-farming to statecraft all around the Indian Ocean littoral.) Indeed, foreign tax farmers were such an essential part of South Asian commerce and politics that it was a long time before anyone tried to do without them. Thus, when the English East India Company conquered Bengal in 1757, it did not try to install a new sovereign; instead the Company forced the existing ruler to appoint it—a new, corporate type of merchant—to the time-honored post of chief tax farmer.

1.12 Going Non-Native: Expense Accounts and the End of the Age of Merchant Courtiers

Corporations have always wanted to keep their employees' expense accounts under control, right? Well, it hasn't always been that simple. In fact, the British East India Company of the seventeenth and eighteenth centuries—one of the first recognizable antecedents of today's multinational corporations—found that it wasn't at all easy to get this point across. When the company's accountants started to balk at items like the bill for feeding a tiger on the estate of their chief representative in Madras, they weren't enforcing norms that everyone understood. They were, in fact, establishing a modern way of doing business that was rather shocking at the time, and which was only sold to their employees as part of a much broader set of ideas about race, purity, and the honor of a good English businessman.

Part of what was new was that the East India Company was a corporation. Earlier firms that had far-flung networks were partnerships of various sorts, so that a firm's agent in a distant city had an equity interest in the business's profit. If he wasn't yet a partner, he still usually had some interest in the firm's long-term health, or at least in his reputation back home. (Chinese merchant families, for instance, often sent young nephews or servants to manage the business overseas for a while; only when they returned with adequate accounts were they permitted to buy into the firm, and only then was a marriage arranged for them.) But EIC employees rarely held much stock in the firm—people who had enough capital for that were not usually the ones willing to go to India to try to make their fortunes. So the company's new organizational form intensified its potential conflicts with its agents.

But what was more important yet was that the EIC (and its Dutch, French, Danish, and other European cousins) was not just any corporation: it had a legal monopoly on imports from Asia back to the mother country, and a license to seek monopolies or monopsonies in other markets, using force if necessary. Indeed, as a firm that had what for the time were enormous up-front costs to cover—costs for building forts, providing armed escorts to protect its ships from other European powers, and so on, as well as more routine business costs—the firm more or less had to seek monopolies elsewhere, too, using its fighting forces offensively in order to help pay for them. But that pushed the company in two contradictory directions at once, with fateful consequences for both our modern idea of doing business and the development of colonialism.

On the one hand, trying to maintain monopolies required giving the company's local agents enormous latitude to use company funds for politics: to butter up princes who might grant lucrative local concessions, to socialize with local merchants and nobles (often the same people) who controlled stocks of desired goods, and to use force and make alliances with local power-holders who might offer a better deal than the incumbent rulers of some area. Thus a successful merchant had to be a general and a courtier as well. When the Madras agent sent in the bill for his tiger's upkeep, he no doubt felt that he was quite justified in charging the firm for the cost of looking grand enough to gain access to the necessary court circles. And when Christian merchants took local Hindu wives (even if they also had a wife back in Europe), patronized religiously oriented local cultural events, and so on, they were not only enjoying themselves, they were fitting in as they needed to. For the first century or so of the EIC's operations, London apparently agreed; becoming deeply enmeshed in local society was understood to be an essential part of doing business.

But on the other hand, running a far-flung business—especially one that sought monopoly—required keeping a very tight reign on these same employees. Very few of them expected to get rich on their salaries alone: