

**THE ORIGIN AND GROWTH OF ENTREPRENEURSHIP
IN THE NATTUKOTTAI CHETTIAR COMMUNITY OF
TAMILNADU 1880 - 1930**

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DECLARATION

I certify that the dissertation^{at} entitled
"The Origin and Growth of Entrepreneurship in
the Nattukottai Chettiar Community of Tamilnadu
1880-1930" submitted by Shri Raman Mahadevan in
partial fulfilment of the requirement of the degree
of Master of Philosophy (M.Phil.) of the University
is a bonafide work to the best of my knowledge
and may be placed before the examiners for their
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ABBREVIATIONS

| | |
|--------------|--|
| B.P.B.E.C.R. | Report of the Burma Provincial Banking Enquiry Committee |
| CJHSS | The Ceylon Journal of Historical and Social Studies |
| IIC | Report of the Indian Industrial Commission |
| IESHR | Indian Economic and Social History Review |
| M.P.B.E.C.R. | Report of the Madras Provincial Banking Enquiry Committee |
| MTCV | Madras Ter-centenary Commemoration Volume |
| NBTIAC | Notes by the Indian Advisory Committee to the Burma Nattukkottai Chettiars Association on the Land Nationalisation Act 1948 |
| RSACCV | Raja Sir Annamalai Chettiar Commemoration Volume |
| SICC | Report and Correspondence of the South India Chamber of Commerce |
| SKNNNVM | Sri Kasi Nattukkottai Nagarachathiram Nutraldu Vizha Malar |

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G L O S S A R Y

| | |
|---------------------|---|
| Bokkiam or Othi | A form of mortgage |
| Katha Kannaku | Current Account |
| Leva devi | Moneylending |
| Melal | Agent |
| Mudal Panam | Proprietor's Capital |
| Nadappu Vadi | Current or Bank rate of interest |
| Pereḍu | Ledger |
| Stridhanam | The money given to the bride by her parents at the time of marriage |
| Thandal or Kandū | A form of loan wherein the interest is taken in advance, while the loan itself is repaid in equal daily or monthly instalments |
| Thandumaral | Deposits of the Chettiars |
| Thavanai Kannaku | Fixed deposit Account |
| Thoyil | Profession or Occupation |
| Ulkade or Kattukade | Sub-agencies or loan offices in the interiors |
| Vadi | Interest |
| Vennalai | Promissory note |
| Varalaru | History |

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I N T R O D U C T I O N

In this study an attempt has been made to examine and put into historical perspective the entrepreneurial activities of an important traditional business community of South India -- "The Nattukottai Chettiars" during the period 1880 - 1930. The period of study chosen is of particular significance for an understanding of the roots of modern entrepreneurship in this community since it was during this period that Chettiars accumulation of capital took place in the various overseas countries of South and South East Asia, through extremely lucrative moneylending and trade operations. It was also precisely during this period that, like their counterparts in the North, some among them made the important transition from moneylending and commerce to industry.

The absence of a full length study on this important regional entrepreneurial group as also, curiously enough, their neglect in some of the general

works on the Indian capitalist class¹ was what initially prompted me to undertake this study. Moreover a regional study of this type, I felt, would at once bring out the variations as well as the similarities in the evolution of regional entrepreneurial groups such as the Marwaris, the Parsis, the Gujarati Baniyas and the Chettiars, to mention only a few, and thus contribute to a better understanding and appreciation of a general evolution and growth of the Indian capitalist class. I would, however, hasten to add, that this study is by no means exhaustive and I am more than conscious and aware of the imperfections and shortcomings of this study.

The sources for this study are numerous and scattered at various places. These range from the Archival sources and official publications to non-official printed records, manuscripts, pamphlets of Chettiar Associations, contemporary newspapers and

1. See for instance : V.I. Pavlov, The Indian Capitalist Class (New Delhi, 1964); B.B. Misra, The Indian Middle Class (London, 1961); A.I. Lezkovsky, Capitalism in India (Bombay, 1966); Helen, B. Lamb, "The Rise of Indian Business Communities", Pacific Affairs, XXIII, No. 2 (June 1955) pp 98-126.
D.R. Gadgil, the Origins of the Modern Indian Business Class - An Interim Report, (Univ. of British Columbia, Canada, 1967).

journals, memorial volumes, biographies, trade and financial directories, private ledgers or account books, private papers besides oral information from Chettiar businessmen. There is a lot more rich material and information on the entrepreneurial history of the Chettiars lying scattered about both inside 'Chettinadu' and outside India. These include contemporary Tamil newspapers under Chettiar management, ledgers, scrolls on palmyra leaves written in archaic tamil and the Ceylon, Malaya and Saigon Chettiar Chamber's of Commerce papers and reports. Though, unable to draw upon some of these sources, I have however identified their location and hope to examine them in another study in the near future.

The bulk of these sources are to be found in Madras and the district of Ramnad - the hometown of the Chettiars. It was in the course of two field trips to these places undertaken in 1972/73 that I was able to gather most of the relevant information. During my travel and stay in the Ramnad district, one discovered that the small towns and villages of this district were the real repositories of a mine of information on Chettiar history. Possessing a tremendous archival sense, many Chettiar families have to this day preserved their old ledgers, newspapers, pamphlets and other

manuscripts and are quite willing to show the same to a researcher if assured of his bonafides. Apart from examining the printed sources I have also used, though sparingly, information acquired through interviews with aged Chettiar businessmen and agents from a cross-section of their community. The information so secured was, however, corroborated and cross-checked with written records.

Of the non-official printed and published sources used in this study the most invaluable were some of the contemporary Tamil newspapers and journals, published by the Chettiars themselves. These papers yielded a wealth of information on the multifarious activities of the Chettiars in Madras as well as in the overseas countries. Its intrinsic value, as a source material derives from the fact that, as newspapers under Chettiar ownership it tended to highlight and report in detail contemporary affairs and problems of their own community; it also helped to provide the necessary chronological and historical perspective. The fact that some of these newspapers and journals are considered to be extremely rare, enhanced the value and importance of these sources. Some of the important Tamil newspapers and journals used in this study include the 'Vysiamitran', a weekly published from Devakottah in Ramnad district, the

'Dhanavanikan'² (a weekly), the 'Oolian' (a weekly) 'DhanaVysia-Oolian'³ (a weekly), and 'Swadesamitran', (a Tamil daily).

Another important set of sources used in this study are the unpublished private papers of the Burma Nattukottai Chettiar Association. These are housed at the residence of the late Sri SRM. Solayappa Chettiar (Ex-Honorary Secretary, Burma Nattukottai Chettiar Association, Rangoon) in Palathur in Ramnad district. Although most of the records in this collection lies outside the immediate period of this study, yet the information they contain are relevant. Among the documents that were particularly useful were: (1) The Confidential Notes on the question of Compensation payable to Indians for Nationalisation of Paddy lands in Burma. This document yielded useful data and information on the sources of Chettiar capital employed in moneylending in Burma, their interest rates, the effect of the Great depression on their business in Burma, and the mode of acquisition of property of their debtors in cases

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2. The 'Dhanavanikan' was published during 1930 from Kottaiyur in Ramnad district and was thereafter published from Rangoon.
 3. Both 'Oolian' and 'DhanaVysia Oolian' were published from Karaikudi, an important commercial centre in Ramnad district.

of default in repayment of loans. (2) Another useful source of information was a letter along with documents attached, from the Secretary of the Burma Nattukottai Chettiar Association to Mr. Kanam Pillai, charge d'Affairs, Embassy of India, Rangoon, dated 22nd October, 1953. The documents attached to the letter provided very useful data on Chettiar landholdings in Burma. (3) Also immensely useful was another document of the Burma Nattukottai Chettiar Association containing a list of the member firms of the above Association; in addition the documents indicates, systematically, the headquarters of each of the member firms -- a town or a village, in Ramnad district or the Puddukottai division of Trichy district, as the case may be -- the location of the principal branch firms in Burma, the extent of land under the ownership of each firm etc. (4) I was also able to examine, a number of claim forms from the Chettiar Overseas Association, on behalf of its members, to the Secretary, Government of India, Overseas and Commonwealth department of the years 1944-45. Since these were applications for claims of Chettiar property destroyed or lost during World War II, these forms yielded a lot of useful data on Chettiar wealth, property and investments in the overseas countries.

Printed pamphlets brought out from time to time by Chettiar Associations, though mostly in Tamil, were

another important source used in this study. Among the pamphlets consulted particularly useful were, the Presidential address of Shri T.S. Nagappa Chettiar, at the First All Nattukottai Chettiar conference held at Rangoon in 1924 and the resolutions passed at the conference.⁴

The biographies of some of the leading Chettiar businessmen, provided some valuable information about the history of their enterprises. In this connection particularly useful were the biographies of Rao Bahadur P. Somasundaram Chettiar⁵ and Raja Sir Annamalai Chettiar⁶. While the former was one of the pioneers of the textile industry in South India, the latter was among the first to promote a modern joint stock bank in Madras.

P.N.M. Muthupalaniappa Chettiars' book, in tamil, entitled 'Malayavin Thotram' and published from Penang in 1938 yielded very useful data and information of

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4. See, Burma Nattukottai Chettiarkalin Mudulavadu Mahanadu Tiruvalar T.S. Nagappa Chettiarkalin Mukuvarai Pirasangan (Tenkanchi, 1924); Burma Nattukottai Chettiarkalin Mudulavadu Mahanadil Niraiveriya Theermanangal (Rangoon, 1925).
 5. Pillai, C.S. Chockalingam, Devakottai Rao Bahadur P. Somasundaram Chettiar Avarkalathu Vazhukai Charithiran (Tamil) Coimbatore, 1924
 6. Pavalar, M.N. Muthukumaraswami, Thennadu Vallal-Raja Sir Annamalai Chettiar Avarkalin Charithiram (Tamil) Madras, 1941.

Chettiar activities in Malaya; as Shri Mutupalaniappa Chettiar, had himself served as an agent of a Chettiar firm in Malaya, his account provides a lot of interesting details on the nature of Chettiar business in Malaya.

The other non-official sources used in this study and which provided useful data and information include the Reports and Correspondence of the Southern Indian Chamber of Commerce, the Burma Indian Chamber of Commerce, the Asylum Press Almanac and Directory of Madras and Southern India, the Thackers' India Directory etc.

The archival sources, particularly the proceedings of the department of commerce and industry and of the department of Revenue did not, as one had anticipated, yield the desired information on Chettiar enterprise. Among the official publications, the Madras and the Burma provincial Banking Enquiry Committee Reports of 1929/30 provide abundant information and data on Chettiar moneylending operations. However in approaching this source one has to be conscious of its inherent limitations. Thus it should be noted that as the very scope of the Enquiry Committee was limited to an assessment of the sources of indigenous urban and rural finance and credit of rural indebtedness, of the role of 'indigenous bankers', one does not obtain from this

source, vital information on Chettiar enterprise in fields other than moneylending. Moreover as the findings of the committee were in the nature of a survey made at a particular point of time the reports do not provide data on a time series scale and are to that extent not very relevant for a historical study. An over-reliance on this source is certainly avoidable. However for want of other sources one has at times to perforce, rely on this source and derive inferential evidence.

The other official publications that were found to be useful for this study were the Report of the Indian Industrial Commission, the Report of the Royal Commission on Agriculture, the Proceedings of the Council of the Governor of Fort, St. George, and the Madras district Gazetteers of Tinnevely, Madura and Tanjore etc.

Turning to the existing secondary literature on this community, one discovers that there has been a tendency to identify the Chettiars exclusively with **moneylending** or indigenous banking. It is this aspect of their enterprise which has received most attention in the existing literature. This monolithic and static approach generally takes the form of describing the Chettiars as a class of hereditary moneylenders or ⁿbankers. This kind of an interpretation is largely the result of a failure to view the growth and development of Chettiar capital in a historical perspective.

In the existing studies on the Chettiars by far the largest are those that deal with the role of the

Chettiars in the context of Burmese colonial history, That this is so, is hardly surprising since, for over fifty years viz. from about 1880-1930, the Chettiars played a key role in financing Burma's commercial agriculture. Moreover it was in Burma that their investments were the largest. Among some of the major studies on the role of the Chettiars in Burma are those of Chester L. Cooper⁷, Michael Adas⁸, Allene Masters⁹, N.R. Chakravarthi¹⁰, Usha Mahajani¹¹, J.S. Furnival¹², etc. One of the major limitations of these studies is their over reliance on the Burma Banking Enquiry Committee Report of 1929/30. While some of these

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7. Cooper, Chester, L. : Moneylenders and the Economic Development of Lower Burma - An Explanatory historical Study of the Role of Indian Chettiyars (unpublished P.hd. thesis, The American University, 1959.)
8. Adas, Michael, 'Immigrant Asians and the Economic Impact of European Imperialism: The Role of South Indian Chettiars in British Burma'. The Journal of Asian Studies Vol. XXXIII, No. 3, May 1974, pp. 385-401.
9. Masters, Allene 'The Chettiars in Burma - An Economic Survey of a Migrant Community' Population Review, Vol. I, No. 1 Jan, 1957, pp. 22-31.
10. Chakravarthi, N.R. Indian Minorities in Burma - Divide and Decline of an Immigrant Community (London, Oxford, 1971).
11. Mahajani, Usha The Role of Indian Minorities in Burma and Malaya.
12. Furnival, J.S. Colonial Policy and Practice (Cambridge, 1948).

works have merely restated the findings of the Committee others have projected backwards in time, the data and facts which strictly pertain to the 1929/30 period.

On the role of the Chettians in Malaya one gathers only marginal information from the works of Arasaratnam¹³ and Sandhu¹⁴. Once again, both Arasaratnam and Sandhu have merely examined, and even that rather briefly, their activities in the field of moneylending.

As for Chettiar enterprise in Ceylon we have the very recent work of W.S. Weerasooria entitled 'The Nattukottai Chettiar Merchant Bankers in Ceylon'.

Weerasooria has also relied quite heavily on the Report of the Ceylon Banking Commission of 1933/34, often quoting very extensively from this source. Apart from this over reliance on the above mentioned source, his work lacks, continuity, the historical perspective and is on the whole descriptive rather than analytical. However the book proved to be useful as a source material since the libraries and the Archives in Delhi and Madras did not possess a copy of the Report of the Ceylon Banking Commission.

Lastly, we come to Shoji Ito's study 'A note on the business combine in India, with special reference

13. Arasaratnam, Sinnapah, Indians in Malaya and Singapore (Oxford, 1970).

14. Sandhu, K.S. : Indians in Malaya - Some Aspects of their Immigration and Settlement (1786-1957) (Cambridge, 1969).

to the Nattukottai Chettiars',¹⁵ It claims to be, to date the only study of the Industrial activities of the Chettiars.¹⁶ However a closer examination of this study reveals that infact Ito has merely posed the problem but has not tackled this aspect of Chettiar enterprise adequately. Thus he has not provided data and facts regarding Chettiar association with industry and other modern incorporated enterprises in the Pre 1930 period. The limitations of his study basically stem from an inadequacy of his sources. His observations are based mainly on published balance sheets and oral evidence.

However, as indicated by me earlier, it is not so much the official publications as much as the various types of non official publications, mostly in Tamil language and to be found in the Ramnad district, which yield the relevant information for a broader, understanding of the problem of the origin and roots of entrepreneurship in the Chettiar community.

As for the schema of this study there are in all three broad chapters. In the First Chapter there is a very brief description of the history of the Chettiars from

15. See, The Developing Economics, Vol. IV, No. 3 Sept. 1966 pp. 367-380.

16. ibid., p. 368.

the earliest times. In the very same Chapter, has been discussed the various factors that contributed to the phenomenal migration of Chettiar capital from South India to the various countries of South and South East Asia. Lastly the same chapter also contains a brief survey of Chettiar activities in the Madras Presidency in the last quarter of the 19th century.

In the second chapter, is discussed the process and pattern of the accumulation of Chettiar capital through moneylending and trade in Ceylon, Malaya and Burma. The last chapter is devoted to an account of Chettiar's participation in modern industry and other incorporated enterprises.

CHAPTER - I

THE EXODUS OF CHETTIAR CAPITAL FROM MADRAS
TO THE OVERSEAS COUNTRIES - CAUSES AND
SIGNIFICANCE OF THIS MIGRATION

The 'Nattukkottai Chettiars', as distinguished from the various other subdivisions with the Chetti caste¹, are a Tamil speaking business community hailing from the Ramnad district of the Pudukottai region. They were also known as the 'Nagarathars' because the entire community was grouped for socio-religious purposes into nine 'Nagarams' or temple townships. These Nagarams are as follows: Illayathakudi, Mattur, Vairavankoil, Iraniur, Pillaiyarpetti, Neman, Illuppakudi, Suraikudi and Velangudi. Within these nine 'Nagarams' there were twentyfive 'gotrams' of the subsets of this community². A knowledge of these would enable one to distinguish a

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1. The term Chetti was used rather loosely in most of the official publications, such as the census reports and gazettiers, to denote both a title in the occupational sense and a caste. The confusion was confounded by the multiplicity of the subdivisions within the Chetti community or caste. These subdivisions are as follows: (1) Ariyur Chettis, (2) Vallanad Chettis, (3) Kasukar Chettis (4) Vandakottai Chettis, (5) Vellan Chettis, (6) Viralur Chettis, (7) Narayanapuram Chettis, (8) Beri Chettis, (9) Komati Chettis of Andhra, (10) Nattukkottai Chettis or Chettiars. I shall, however, be concerned only with the last subdivision which, incidentally, happens to be the most important subdivision in the Chetti caste. For more information on the Chetti caste, see : A Manual of the Pudukottai State (based on the unpublished manual of the late Mr. Venkat Row) issued under the authority of the Darbar, Pudukotta, 1921, p.195 ff. Also see, E.Thurston, Caste and Tribes of Southern India, Vol. II (Madras, 1909) p. 91 ff.
 2. B.V. Narayanaswamy Naidu, 'The Nattukkottai Chettiars and Their Banking System', RSACCV (Annamalai University, 1941), p. 457.

Nattukkottai Chettiar from the other Chettiars and Chettys.³ Though numerically insignificant -- they numbered 10,000 in 1896⁴ and 50,000 in 1930⁵ -- the Chettiars were exceptionally enterprising in business and, in this respect, are perhaps comparable to the Marwaris and the Gujrati Banias of North India.

The legends and folklores on the early history of the Chettiars depict them as a very ancient community with a rich heritage. It is said that they were 'originally ... the inhabitants of 'Nagarathu' and were by profession dealers in precious stones."⁶ Leaving their "original home in the year 204 Kaliyuga", they appear to have "settled down at at Kanchi where they lived for nearly 2000 years".⁷ Upon the king of Kanchi imposing "a heavy fine on some members of the community" they "moved further south and settled down at Kaveripumpatinam".⁸ A flourishing seaport and capital of the Cholas, it must have been in Kaveripumpatinam that they "should have taken up trade and commerce overseas as depicted in the illustrious epic

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3. Hereafter the word Chettiar or Chetti would denote the Nattukkottais unless indicated otherwise.
 4. A. Savirinatha Pillai, Written Evidence, MPBCER, Vol.III, p. 1174.
 5. Dhanavanikan (Tamil) 1930, p.369. (An annual Chettiar journal, ed. A.K. Chettiar, published from Kottaiyur.)
 6. Chinnayya Chettiar, Nattukkottai Nagarathar Charithiram (Tamil) (Tanjore, 1894), p. 5; see also, J.S. Ponniah 'Human Geography of the Ramnad District', J.M.G.A., Vol. VII, 1932-33, p. 275.
 7. J.S. Ponniah, op.cit., p.275.
 8. Chinnayya Chettiar, op.cit., p.6

'Silapadikaram'."⁹ Nearly a thousand years were spent at the Chola capital before the Chettiars once again migrated -- in consequence of an intolorable persecution by the Chola king -- to an area which is now in the 'Chettinad' region.¹⁰ They, however, appear to have scattered themselves before setting down in 96 villages, part of which fell in what is now known as the Ramnad district and part in the Puddukottah region."¹¹ By the late 19th and early 20th century, the Chettiars migrated from some of the less inhabited villages to the more populated ones and by 1930 were concentrated in 78 villages, 58 of which were in the Ramnad district while the remaining 20 fell in the Puddukottah State.¹² Geographically this region was extremely backward and inhospitable. The dark red soil characteristic of the greater part of this region was "too spongy and too barren to be of any use for tillage."¹³ Scanty rainfall, together with the absence of any rivers or irrigation canals,

9. J.S. Ponnaih, op.cit., p. 275.
The celebrated Tamil epic 'Silapadikaram' is, according to the Ceylonese scholar Weerasooria, "based upon the life of the Chettiar family and gives a vivid description of the community's wealth ... and influence in the Chola Kingdom." W.S. Weerasooria, The Natthukkottai Chettiar Merchant Bankers in Ceylon (Sri Lanka, 1973), p.3.
10. W.F. Francis, Madras District Gazetteer: Madura, Vol.I (Madras, 1906), pp. 99-100; see also, N.Subbu Reddiar, 'The Community that has Conserved the Dravidian Culture', SKNNNVVM, (Madras, 1963), p.286.
11. J.S. Ponniah, op.cit., p. 275; see also, W.S. Weerasooria, op.cit., p.3; and also, N.Subbu Reddiar, op.cit., p. 286.
12. W.S. Weerasooria, op.cit., p.4
13. J.S. Ponniah, op.cit., p. 274.

accounted for the low agricultural production. The physical environment was, it appears, a constant threat to the very existence of this community in the early days. The acuteness of the situation is amply testified to by the Velangudi Temple inscription wherein it is "recorded that in the years 4389 and 4644 two of the most important 'Nagarams' fell desolate."¹⁴ Under such trying conditions of want and privation the Chettiars had to struggle hard to eke out a living. It was said that the menfolk of this community were engaged in selling salt, while the womenfolk took to basket weaving and spinning.¹⁵ That this very backwardness of the region might have motivated the Chettiars to revive their age old tradition of overseas trade is a possibility that cannot be altogether ruled out. Although evidence on this question is lacking, the assumption gains strength when one notes the strikingly similar case of the Marwaris, who moved out of their home towns in Rajputana to various parts of India. Unfortunately, very little is known of the Chettiars from the time of their migration from Kaveripumpatinam until the early 19th century. The only thing that is certain of their early history is their overseas trade connections. Their association with Malaya, for instance, dates back to a thousand years when they undertook voyages to that country in small boats to trade in pearls.¹⁶ Likewise, their association with Ceylon is reported to have commenced even prior to the conquest

14. J.S., Ponniah, op.cit., p. 275.

15. ibid., p. 275.

16. Murugu Subramanian, 'Malayavil Nagaratharkalin Theyva Thirupani', SKNNNVVM (Madras, 1963), p.116.

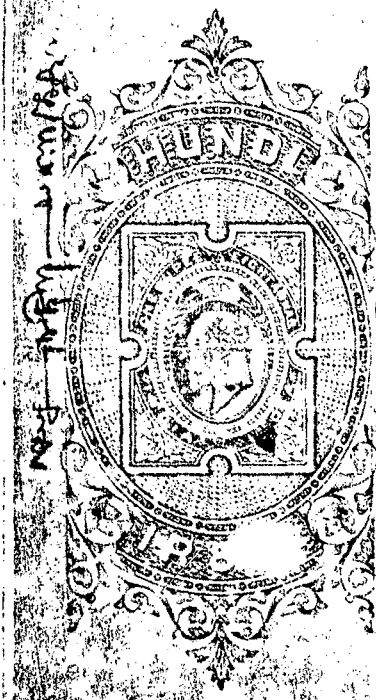
of the island by the Dutch in 1656.¹⁷ They are said to have had commercial contacts with Indonesia and several other South East Asian countries. At any rate, the Chettiars seem to have had a fairly long tradition of maritime commercial activity. A factor to be taken into account in examining these early overseas commercial ventures of the Chettiars is the convenient location of the small port of Tondi in this region. Situated a few miles from the commercial town of Devakottah, this port might have facilitated and encouraged the Chettiars to undertake these perilous sea voyages in pursuit of wealth.¹⁸

However, these early overseas trade connections need to be distinguished from the more organised efforts of Chettiar capital to migrate during British rule. Starting from about the early 19th century, there was a steady outflow of Chettiar business-men to some of the countries of South South East Asia such as Malaysia, and to Ceylon, which were being opened up for colonial exploitation. This migration, however, assumed serious proportions only from the second half of the 19th century, i.e. with the colonisation of Burma.

One of the earliest pieces of evidence of their activities in India relates to their business in Calcutta.

17. W.S. Weerassoria, op.cit., p. xiv.

18. J.S. Pooniah, op.cit., p. 276.



No. 234

Calcutta, 26th March 1908.

Rs. 2500.

(360) Three hundred sixty days after date (without grace) I promise to
pay to Ramesh Chander Banerji or
order the sum of Rupees Two thousand and five hundred only for
value received in Cash.

Sd/- Ramesh Chander Banerji
R. C. Ramesh Chander Banerji

The above specimen document shows the credit secured on a hundi paper, by a Chettiar from a North Indian businessman in Calcutta, dated 26th March, 1908.

The Chettiars went over to this flourishing commercial city around 1800.¹⁹ By about the middle of the 19th century there were, in Calcutta, approximately 120 Chettiar firms. These firms were primarily engaged in the export-import trade, the chief items of which were the export of rice and pulses to Burma and Ceylon.²⁰ However, with the opening up of Burma by the British, and the consequent importance of Burmese rice as an export item, a large number of Chettiar firms closed down their Calcutta business and went over to Burma during the 1880's to finance the lucrative rice trade of Burma.²¹ Those that remained, numbering about 60 in 1910 were, besides exporting rice to Ceylon, also engaged in collecting deposits from the Bengalis and sending it over to the Chettiar firms in Burma.²² Their Calcutta business suffered a serious setback owing to the failure of seven to eight of their firms in 1908-12.²³

Reverting to the question of the outflow of Chettiar capital from India (or more specifically, South India) to the various overseas areas, this process, as stated earlier, commenced around the early 19th century and gained

19. Somalay, 'Calcutta' (Tamil), SKNNNVM, p.41. This article, though essentially dealing with their religious charities, does briefly touch upon their commercial activities in Calcutta.

20. ibid., p.41; see also, A. Savirinatha Pillai, op.cit., p.1170.

21. Somalay, op.cit., pp. 41-42. According to this source, some of the Chettiars even set up rice mills in Arakan in Burma.

22. B.P.B.E.C.R. Vol. I (Rangoon, 1930), para 435, p.190.

See also, Somalay, op.cit., p. 42. According to Somalay, with the opening up of Burma, the number was reduced from 120 to 43.

23. A Savirinatha Pillai, op.cit., p. 1170.

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momentum with the opening up of the whole of Lower Burma in 1852. A noticeable feature of this movement of Chettiar capital from its base in South India to the various overseas areas is that it coincided, in almost all cases, with the opening up of these countries for colonial exploitation. That this was so is hardly surprising, because colonisation opened up tremendous opportunities for the profitable investment of capital in these countries. The introduction of export oriented commercial crops such as rice, tea, coffee, rubber etc. greatly stimulated the demand for credit. Together with this, the prospects of high interest rates and along with it "a steady increase of income ~~in~~ year after year"²⁴ would go to explain this organised outflow of Chettiar capital from India to Ceylon, Malaya, Burma, Indo-China etc.

The significance of this unprecedented migration of Chettiar capital in the development of modern entrepreneurship in this community hardly needs to be stressed. Much of the capital that was to find its way into the various industries in South India from the first decade of the 20th century (but more particularly from the 1930's) was largely accumulated through years of lucrative money-lending and trade in these overseas countries. The significance of the accumulation of Chettiar capital in

24. A. Savarinatha Pillai, op.cit., p.1174

the overseas countries can be seen from the fact that from a mere 10 crores of rupees in 1896²⁵ the assets of the Chettiars had shot up to 150 crores of rupees by 1930.²⁶ However, it needs to be pointed out that although the process of the outflow of Chettiar capital from India and its subsequent accumulation in the overseas areas has been acknowledged and commented upon by several writers, the causes that led to this migration have not received the same attention. A number of thought-provoking questions have, therefore, remained unanswered. For instance, why is it that the outflow of Chettiar capital from South India assumed serious proportions precisely during colonial rule? Or alternatively, can this outflow of Chettiar capital be considered as an expression of seeking outlets for the profitable investment of their capital and finding such outlets monopolised by the Europeans in South India? How else would one explain the relative smallness of Chettiar investments in the Madras Presidency until 1930? For possible answers to these questions the economic conditions prevailing both in South India as well as in the overseas countries at the time of the migration of Chettiar capital from India have to be examined.

By the middle of the 19th century almost the whole of South India had come under the firm political and economic control of the British imperialists.²⁷ In its capacity as a colonial economy Madras, like other parts

25. A. Savarinatha Pillai, op.cit., p. 1174.

26. Dhanavanikan, op.cit., p. 369. For details see pp. 75-77

27. A. Sarada Raju, Economic Conditions in The Madras Presidency, 1800-1890 (Univ. of Madras, 1941), p. 11.

of India, was discharging two essential functions: it supplied the basic raw materials for the British industrial complex and it provided markets for the goods manufactured by the British industries. The European business houses that emerged in the first half of the 19th century -- there were as many as 15 such business houses in Madras by 1850²⁸ -- were principally engaged in fulfilling and carrying out these functions, i.e. of securing the raw-materials for export and of marketing the imported goods.

In the course of the establishment of their hegemony over South India the British adopted various measures to curb the likely commercial competition from the Indian commercial classes. Ocean shipping, for example, which was virtually the backbone of the Indian commercial classes, was brought under European control by the first half of the 19th century.²⁹ This was achieved through various discriminatory tariffs and legislative measures. An act was, for instance, passed by the parliament in 1814 whereby 75% of the crew of Indian ships, including the Captain, were to be British, or else the ships were liable to forfeiture.³⁰ Moreover, from 1814 onwards, even the use of Indian ships was prohibited in Indo-British trade. The adoption of discriminatory tariffs was another means of

28. The East India Register and Army List 1950 : Madras Miscellaneous Houses of Agency (London, 1850), p.119.

29. A. Sarada Raju, op.cit., p.222.

30. ibid, p.222.

curbing participation by Indian merchants in the seaborne trade of India. Thus, in the Madras Presidency, the general import duty on goods brought by Indian ships was raised to 15% in 1812, compared to 7.5% in the case of British ships.³¹ As a result of such measures, and because of the rapid technical advances made by the western shipping industry, the Indians ceased to play any major role in the external seaborne trade of India. At the same time the imposition of "various oppressive taxes such as 'Moturpha' and the transit duty"³² dealt a severe blow to the indigenous industries of the Madras Presidency. By such methods a virtual monopoly was established by the Europeans over the key sectors of the economy like foreign trade (and all that goes with it, such as insurance, railways, shipping etc.), the money-market and a little later the industries. The participation of Indian capital in such fields was negligible if not non-existent. The conditions prevailing in the Madras Presidency in the mid-19th century were described by Danby Seymour, a British Member of Parliament, in the following words, "... a few years ago it (Madras) contained many rich Armenians; they had all disappeared, the native merchants had gone

31. A. Sarada Raju, op.cit., p.223.

32. ibid., p.161.

bankrupt, and the whole trade has passed into the hands of a few English houses connected with the civil service."³³

These European business houses performed a variety of economic activities, for instance, Arbuthnot & Co. in Madras had the following departments : Banking; General Agency operations; Import and Export; Leather and Skins; Indigo, Cotton and Timber; General Shipping; West Coast Estates and Agencies.³⁴ The case of Binny & Co. is even more striking. They were the agents of the British India Steam Navigation Co. Ltd., and in this capacity operated a flotilla of steamers, and thus "handled a very considerable portion of the imports of Madras."³⁵ As the "Landing agents for the Madras Port Trust," they "owned a fleet of cargo boats and steamers, a dockyard for repairing the boats and a transport service" for ensuring the movement of "goods from exporters' godowns to the harbours."³⁶ For a brief period until 1871, Binny & Co. were also

33. A.I. Levkovsky, Capitalism in India: Basic Trends in its Developments (Delhi, 1966), p. 21, n.44.

34. ibid., p. 23.

35. A.K. Bagchi, Private Investment in India (1900-30) (Cambridge, 1972), p.189.

36. ibid., p.189.

agents for the National Bank of India Ltd.³⁷ They were also the agents for the Madras Electric Supply Corporation, a number of cotton press companies and a large number of insurance companies.³⁸ Binny & Co. were also one of the earliest to enter the field of textile industry by promoting the Buckingham Mill and The Carnatic Mills in 1876 and 1881 respectively. Using the most up-to-date powerlooms and spindles these mills were producing fine cloth and thus capturing both the internal and external markets.³⁹ The Deccan Sugar and Abkhari Company Ltd. was held, until 1902, by the Binny's.⁴⁰ The fact that by 1914-15 the firm of Binny & Co. was being claimed as "perhaps the single largest merchants in the city of Madras" and as having "a banking establishment for the furtherance of business transactions with their many clients"⁴¹ goes to tremendous economic power that this firm had, over the years, come to acquire. It was this type of dominance in several fields of economic activity by these European houses that the Indian entrepreneurs had to reckon with. /

/show the

37. The House of Binny (Published by Binny & Co., Madras, 1969), p.69.

38. ibid., pp. 171-2; p.69; p.71 and pp. 92-3.

39. ibid., pp. 34-92.

40. Hilton Brown, Parrys of Madras - A story of British Enterprise in India (Madras, 1954); /see also, The House of Binny, pp. 128-30.

41. A. K. Bagchi, op.cit., p.189.

/p.163.

Besides Arbuthnot and Binny, some of the other leading European business houses operating in the Madras Presidency during the 19th century were Messrs Best & Co., A & F Harvey & Co., Parry & Co., T. Stanes & Co. etc. Like the Binny's and the Arbuthnot's, most of these business houses also started their career in trade and finance and later entered industry. Thus, Best & Co. were not only engaged in the export of hides and skins, groundnut kernels, ... other oilseeds and in the import of Manchester piece goods",⁴² but were also the agents of the Anglo French Textile Co. Ltd., the P & O. Steam Navigation Co. Ltd., the Anchor Line, the Barrakur Coal & Co. Ltd., the Mysore Gold Mining Co. Ltd. etc.⁴³

In the field of sugar and spirits Messrs Parry & Co. had few or no rivals. Moving into the field rather early -- around the middle of the 19th century -- Parry & Co. had, by 1902, with the takeover of Binny's Deccan and Abkhari Co. Ltd., virtually established a monopoly over the production of sugar and spirits.⁴⁴

42. A.K. Bagchi, op.cit., p. 189.

43. ibid., p. 189.

44. Hilton Brown, op.cit., pp. 163-4.

The plantation industry in South India was almost wholly "owned by the Europeans who are raising coffee, tea, cardamom, pepper, rubber etc."⁴⁵ Robert Stanes, the founder of T. Stanes & Co., was one of the successful coffee planters in South India. He established coffee curing works in 1861 and then went on to found, in collaboration with Arbuthnot & Co., the Coimbatore Spg. & Wvg. Mill at Coimbatore in 1888.⁴⁶

Messers A. & F. Harvey, the other major European business house, was founded in 1879 as a purely cotton exporting firm,⁴⁷ but by 1892 the firm had established the Tinnevelly, Coral and Madura Mills, and thus came to occupy a pre-eminent position in the textile industry in South India.

Lastly, the control of the European houses also extended to the engineering industry, where firms such as Massey & Co. and Crompton Engineering Works, with the railways and the P.W.D. as their major clients, operated in a big way.⁴⁸

In addition to all this was the Railway System in Southern India which further strengthened the

45. Rao Bahadur P. Theagraja Chetti, Written Evidence, I.I.C. Minutes of Evidence (Madras & Bangalore, 1916-17), Vol. III, p. 51.

46. N.C. Bhogendranath, Development of Textile Industry in Madras (Univ. of Madras, 1957), p. 12

47. ibid., p. 13.

48. A.K. Bagchi, op.cit., p.191.

European domination over trade and industry. The railway freight rates were so fixed as to favour the export and import of goods and discourage internal movement of goods. Elaborating on this point Rao Bahadur P. Somasundaram Chettiar, Managing Agent, The Malabar Spg. & Wvg. Co.. Ltd., and The Kaleeswara Mills Ltd., Coimbatore, in his evidence to the Indian Industrial Commission (1916-17) said (and I quote at length) :

"There is a special reduced rate for cotton between Tirupur Station in Coimbatore district in the South Indian Railway broad-gauge section and Bombay, as well as from Tirupur to Tuticorin. Speculators such as Messrs Rally Bros., Volkart Bros., and some Marwaris, purchase cotton in Coimbatore district and send it to Bombay and Tuticorin, and deprive the local mills of their raw materials. On the other hand such concession-rates are not allowed to the mill-owners, if they purchase and send cotton from Bombay, Tinnevelly or Tuticorin on the plea that Tirupur and Coimbatore are not port towns."⁴⁹ No less significant is the fact that both the Madras and Southern Mahratta Railway Co., and the South Indian Railway Co. were entirely European owned private companies. In short, almost all the channels of trade were controlled by the Europeans.

49. Rao Bahadur P. Somasundaram Chettiar, Written Evidence, I.L.C., Vol. III, Sec. Q98 on Railway freights, p. 444.

The Madras Chamber of Commerce, established in 1836, gave a concrete shape and meaning to European domination over trade and industry by bringing together the European traders, financiers and industrialists. The Indians were almost completely excluded from this organisation, and even as late as 1920 there were only two Indian Members.⁵⁰

The monopoly of the Europeans over foreign trade, and over industry, was supplemented by their control over the organised money market. Prior to the establishment of the joint stock banks the European mercantile houses had, in addition to trading and commercial activities, been conducting banking business as well,⁵¹ but these arrangements were found to be inadequate to meet the growing demands of trade and commerce.⁵² Consequently, a need was felt for the establishment of modern banks, and this came in the shape of the "Presidency Bank of Madras". Established in 1843, the bank had initially a share capital of Rs. 30 lakhs, "of which

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50. The Asylum Press Almanack and Directory of Madras and Southern India, (Madras, 1920), p. 1785. See under 'Madras Chamber of Commerce-Members'; see also, Report of the Progs. of the Madras Chamber of Commerce, Jan-Dec 1922 (Printed at the Madras Mail Press, 1922); and see also Report of the Progs. etc., 1922.
51. S.#. Sadasivan, "Three Hundred Years of Banking in Madras", M.T.C.V. (Madras, 1939), p. 526.
52. ~~Report of the Progs. of the Madras Chamber of Commerce, Jan-Dec 1922~~
ibid., p. 256.

3 lakhs were held by the Governor of Madras on behalf of the East Indian Company".⁵³ Until 1876, the bank was more or less quasi-governmental in character, but thereafter it became a purely private body. However, its "contact with the government were never wholly lost."⁵⁴ The bank was, for instance, entrusted with the management of the temporary debt of the Government of India, "for which it was paid."⁵⁵ The Bank of Madras had, like its counterparts in Bengal and Bombay, the right to use the deposits from the government and other bodies free of interest.⁵⁶ In the year 1920 the government deposits with the Bank of Madras were as high as 119 lakhs of rupees.⁵⁷ The operations of this bank were confined largely to the financing of external trade and public bodies such as the municipalities and the port trust and, to a small extent, the internal trade.⁵⁸

53. M.S. Natarajan, A Study of the Capital Market of Madras Presidency with Special Reference to its Evolution and Indigenous Institutions (D.Phil. Thesis, University of Madras, 1934), p. 41.

54. ibid., p. 42.

55. ibid., p. 42.

56. A. K. Bagchi, 'European and Indian Entrepreneurship in India 1900-30' in Edmund Leach and S.N. Mukherjee, ed., Elites in South Asia (Cambridge, 1970). P. 230.

57. M.S. Natarajan, op.cit., p. 42.

58. ibid., p. 44.

Another major European controlled bank operating in Madras during this period was the "Chartered Bank of India, Australia and China". Making its appearance in Madras in 1853,⁵⁹ the bank conducted operations in China, Japan, Burma, the Straits Settlements, Ceylon, the Dutch East Indies, and in Bombay, Calcutta and Madras in India.⁶⁰ The following figures would indicate the growth of the bank over the years:

| <u>Year</u> | <u>Capital</u> (£) | <u>Reserve</u> (£) |
|-------------|-----------------------|-----------------------|
| 1863 | 6,44,000 | 10,000 |
| 1900 | 8,80,000 | 3,25,000 |
| 1925 | 30,00,000 | 40,00,000 |

Source : S.T. Sadasivan, "Three Hundred Years of Banking in Madras", M.T.C.V. (Madras, 1939) p. 258.

A branch of "The Mercantile Bank of India", another major European controlled bank, was established in Madras in 1892.⁶¹ This bank took over the business of the "Chartered Mercantile Bank of India, London and China" (a sterling company) which had until then a

59. S.T. Sadasivan, op.cit., pp. 257-58.

60. ibid., p.258; see also, Compton Mackenzie, Realms of Silver (London, 1954) for the history of this bank.

61. S.T. Sadasivan, op.cit., p.258.

branch in Madras which had been established in 1857.⁶²
The capital and reserve of the bank over the years
are as follows :-

| <u>Year</u> | <u>Capital</u> (£) | <u>Reserve</u> (£) |
|-------------|------------------------|-----------------------|
| 1863 | 5,00,000 | 60,000 |
| 1900 | 5,61,000 | 30,000 |
| 1931 | 10,50,000 | 1,50,000 |

Source : S.T. Sadasivan, "Three Hundred Years of Banking in Madras", M.T.C.V. (Madras, 1939), p. 259

Yet another major European Exchange bank operating in Madras during this period was "The National Bank of India". A branch of this bank was opened in Madras in 1877.⁶³ Prior to 1877 the bank was represented for some time by its agents M/s Binny & Co. and later by the Bank of Madras.⁶⁴ The following table shows the capital and reserve of the bank at various stages of its growth:

| <u>Year</u> | <u>Capital</u> (£) | <u>Reserve</u> (£) |
|-------------|-----------------------|-----------------------|
| 1866 | 4,66,500 | 3,30,000 |
| 1900 | 5,00,000 | 30,00,000 |
| 1929 | 20,00,000 | 22,00,000 |

Source : S.T. Sadasivan, "Three Hundred years of Banking in Madras", M.T.C.V. (Madras, 1939), p. 260

62. A.T.Sadasivan, op.cit., p.258.

63. S.T. Sadasivan, op.cit., ibid., p. 259.

64. ibid., p.259; see also, The House of Binny, p.69 .

All these banks were under complete European control. Taking the Bank of Madras as a case in point, it is seen that from its inception in 1843 until 1921 when it was merged with "The Imperial Bank of India", there was no Indian member on itsboard.⁶⁵ Similarly, until 1907 -- when the Indian Bank Ltd. was established -- there was no Indian controlled joint stock bank of any importance which could finance Indian trade and industry. The orientation of the exchange banks was towards external trade. Operating all over the world, these banks commanded immense resources. Most of these banks, with the exception of the Bank of Madras, had access to public deposits and the money markets outside India. In Madras, as elsewhere, these European joint stock banks were concerned primarily with the financing of the export-import trade of the Europeans. Where advances to Indians were made it was mainly with the idea of promoting the European interests in trade. Thus the Bank of Madras, for instance, provided ample credit to some of the Chettiers, but it should be noted that these funds were in turn employed in financing the rice crops

65. A. K. Bagchi, op.cit., p. 188.

in Burma⁶⁶ and the rice and groundnut crops in Madras.⁶⁷ That the Bank of Madras was distinctly biased towards the European traders was made clear by Vidya Sagar Pandya (the Secretary of the Indian Bank) in his evidence before the Royal Commission on Currency and Finance. He said, "So far as I am aware, the bank has no systematic scheme or sympathetic desire to finance Indian trade and industries",⁶⁸ and added that it was providing credit to Indians only in order "to secure the raw produce, food grains etc. for export".⁶⁹ These opinions were reiterated by a group of members of the Southern India Chamber of Commerce in their meeting with Sir William Clark, Member for Commerce, Industry and Railways, Government of India. According to them, certain favoured firms had permanent seats on the board of the bank, while the Indians were not only excluded from the board of the bank but were also not associated in matters of fixing personal credit for the Indians. They also alleged that the "Directors are themselves exporters and importers of manufactures competing with Indians to whom

66. M.S. Natarajan, op.cit., p.44.

67. T.K. Duraiswamy, "Indigenous Banking in the Madras Presidency", Progs. of the Seventh Indian Economic Conference, Bombay, 1924, pp. 116-176.

68. M.S. Natarajan, op.cit., p.45.

69. ibid., p.45.

they have to allow credit from the Bank".⁷⁰

It was under these conditions of monopolistic control of Europeans over foreign trade, the money market and the industries that Chettiar operations were perforce confined largely to financing agriculture and internal trade.

Concurrent with these internal constraints in Madras, which hindered the growth of Chettiar capital, another significant development was taking place. This was the colonisation of several countries in South-East Asia such as Burma, Malaya and Indo-China, and of Ceylon. The introduction of export oriented commercial crops (such as rice, rubber, tea and coffee) stimulated a demand for capital in these countries. Furthermore, the opening up of these countries also called for the extension of credit facilities into the interior regions of these countries. For this purpose the European banks utilized the Indian and indigenous money-lenders, as they had experience of both 'traditional' money lending and of dealing with the European banks.⁷¹ For the Chettiars, there was the prospect, in these countries, of obtaining very high interest rates

70. See Govt. of India, Dept. of Commerce and Industry, Commerce and Trade, Nov. 1915, File No. 224, Sl.No. 1-2.

71. J.S. Furnival, Colonial Policy and Practice (Cambridge, 1948), p.46.

and of employing their capital in avenues not available in South India.⁷² It was under these circumstances that there came about a steady diversion of Chettiar capital from South India to the overseas countries. The most striking feature of the process of the outflow of Chettiar capital is that it was largely finding its way into such countries as were being opened up for colonial exploitation. Citing specific cases would substantiate this point. In Burma it was the development of the rice export trade and the rise in land values, together with the settled conditions brought about by British rule, that encouraged an inflow of Chettiar capital.⁷³ This was true of Malaya as well, the difference lying

72. Chettiar capital in the overseas countries was not confined just to money-lending but was also finding its way into Rubber Estates and Tin Mines as in Malaya and in plantations as in Ceylon. Taking the case of Ceylon, it is seen that Chettiar capital was quite considerably involved in general trade. This point will be elucidated in Chapter II, but it needs to be clearly stated that the notion of the Chettiars being pure money lenders is a myth.

73. Cheng Siok Hua, The Rice Industry of Burma 1852-1940 (Kuala Lumpur & Singapore, 1968), p. 186.

only in the fact that instead of rice it was the cultivation and export of rubber (the principal export item of Malaya), that had to be developed. Likewise, in Ceylon they were the main source of credit for the "purchase and development of estates as well as for trade, production, and consumption".⁷⁴ Similarly, they followed close on the French into 'Indo-China', where they financed the cultivation of rice, the chief export item of that country.⁷⁵ Thus, in all these countries, the Chettiars appear to have rendered useful help in opening up these countries for colonial exploitation. Given the state of European control over the profitable outlets for investment in Madras and the relative unprofitability of money lending in Madras Presidency,⁷⁶ Chettiar capitalists sought an outlet in these overseas countries. The fact that in the process

74. W.S. Weerasooria, op.cit., p. 28

75. S.R.M. Ramaswamy, "Indo Chinavin Charithram" (History of IndoChina), The Dhanavanikan (Tamil) (A Weekly Journal of Commerce, Industry and Finance, published by S.A.A. Kathiresan Chettiar for the Burma Nattukkottai Chettiars' Association from Rangoon) ed. A.R.M.A. Karuppan Chettiar. See the 30.3.1933 issue, p. 31.

76. Savarinatha Pillai, op.cit., p. 1176 & pp . 1184-75 .

of profitably employing their capital in the overseas countries they also served the needs of the colonialists cannot be denied. In fact, the Chettiars might have found their connections with the Europeans advantageous to themselves.

The Chettiars have come to be looked upon by several writers as a caste of hereditary money-lenders and bankers,⁷⁷ as if their only concern was to lend money and to secure the principal and the interest on it. This impression is partly the result of a heavy reliance by scholars on the Banking Enquiry Committee Reports of 1929-30 -- which obviously examined the organisation and functioning of their banking system -- and partly the result of a failure to view the development of Chettiar capital in a historical perspective. Thus, there has been hardly any attempt to examine the reasons for the failure of Chettiar capital to enter the various industries in South India until as late as the first decade of the 20th century or, more so, after the 1930's.

77. P.J. Thomas, "Nattukottai Chettairs, Their Banking System", R.S.A.C.C.V., ed. B.V. Narayanaswamy Naidu (Annamalai Univ., 1941), p.840, 842, 843. B.V. Narayanaswamy Naidu, op.cit., p. 947. P. Vaidyanathan, "Problems of Rural Credit in the Madras Presidency", J.A.U., Vol. XI, No. 3, July 1942 (Annamalai Univ. Economic Series No. 9), p. 108. Allene Masters, "The Chettiars in Burma -- An economic/ of a Migrant Community", Population Review, Vol. I, No. 1, Jan. 1957, p.22.

To view them as hereditary bankers or to suggest "that unlike the Marwaris and the Jains their business is almost exclusively banking"⁷⁸ is not only incorrect, but is to fail to grapple with certain basic issues relating to the growth of entrepreneurship in this country. Viewed in a historical perspective it will be seen that the Chettians were not in the least slow in seizing the opportunities for entering the field of Industry* or in directing their capital outside India by investing it more profitably in rubber estates and tin mines as in Malaya, or in the rice and tobacco trade as in Ceylon, etc. Moreover, diverting capital outside India with a view to investing it more profitably, and entering industry, entailed a certain amount of risk. The Chettians, by first diverting their capital abroad, and subsequently entering industry, established conclusively that they did not lack an essential attribute of entrepreneurship -- risk taking. Again, the question of their pursuing money lending has quite often been viewed both statically, and also independently of the conditions prevailing in Madras

78. P. J. Thomas, op.cit., p.840.

* See chapter III.

Presidency under colonial rule. There is reason to believe that it was precisely the choking off of almost all avenues of profitable investment in the field of trade and industry in Madras under colonial rule that made the Chettiars increasingly turn towards investment in moneylending and land. This, in fact, was even true of the Gujarati and Marwari businessmen of Madras. As Rao Bahadur P. Theagaraya Chettiar (in his evidence before the Indian Industrial Commission) very succinctly summed up: "The wealthy classes comprising the ... Gujarati, Marwaris, Nattukottai Chetties ... look for what they consider safe investments on mortgage of lands, houses and jewellery. With the rates of interest that are easily obtainable, moneylending is a very favourite occupation."⁷⁹

An explanation for this tendency of the commercial classes turning to money lending (principally in the rural areas) and seeking investment in land can be sought by examining the conditions in the agricultural sector in 19th century Madras. The British introduced certain changes in the agrarian structure of the country with the objective of effectively exploiting the material resources of the country and of extracting

79. P. Theagaraya Chetti, Written Evidence, I.I.C. (1916-17), p. 51.

the raw materials for consumption and production in Britain. These conditions created, as it were, favourable conditions for the commercial classes, deprived of the traditional avenue of investment in trade, to pursue money lending and seek investment in land. These conditions can very briefly be summed up as follows : the introduction of private land ownership; and with it the transferability of land; the institution of revenue and survey settlements; the recording of property rights; the establishment of civil courts to determine and settle land disputes;⁸⁰ the introduction of irrigation facilities after 1836 and enhancement of land rent;⁸¹ the laying of the infrastructure; and the shift in the pattern of crops from foodgrains to export oriented commercial crops such as cotton, groundnut and rice. These developments created an altogether new environment in the agricultural sector, towards which the commercial classes increasingly turned. Agricultural land, for instance, became a transferable and saleable commodity, and with the tremendous pressure on it, it acquired an increasing market value.⁸² The following figures relating to Tanjore district testify to the increasing

80. K.S. Sandhu, op.cit., p. 34.

81. A.S. Raju, op.cit., pp. 129-31.

82. S.S. Raghavaiyengar, Memorandum on the Progress of Madras Presidency etc. (Madras, 1892), pp. 109-11.

value of land:

Price of wet land in the District of
Tanjore (Madras) 1823 - 1903

| <u>Year</u> | <u>Price per Acre (Rs.)</u> |
|-------------|-----------------------------|
| 1823-24 | 12 |
| 1833-34 | 19 |
| 1841-42 | 27 |
| 1852-53 | 39 |
| 1868-69 | 151 |
| 1876-77 | 180 |
| 1877-78 | 172 |
| 1878 | 245 * |
| 1903 | 458 * |

Source : S.S. Raghavaiyengar, Memorandum on the Progress of Madras Presidency during the last forty years of British Administration (Madras, 1892), Appendix V-E(d)(i) p. CXLIII

* Dharma Kumar, Land and Caste in South India (Cambridge, 1965), p.142.

In the absence of an effective outlet in trade and industry, the commercial classes found land a very valuable avenue of investment. That the Chettiers found it profitable to invest in land is borne out by the written evidence furnished by A.Savirinatha

Pillai to the Madras Banking Enquiry Committee. Writing in 1929-30 he said : "In this Presidency the landed properties owned by the Chettis and acquired by them mostly in the course of money lending are scattered about in numerous districts ... (however) once upon a time there was a craze among the Chettyars to invest in land ...and they acquired portions of Zamindari Estates etc."⁸³ A number of Chettiars of Devakottah district had invested their capital in this form.⁸⁴ The Andipatti Zamindari (in the Trichy district) and the Ramnad Zamindari were acquired by wealthy Nattukottai Chettiars in 1897 and 1903-4 respectively. The Andipatti Zamindari which was in the hands of a polygar "became involved in 1880, and was taken under Management by the government."⁸⁵ It was finally sold in 1897⁸⁶ to the famous Nattukkottai Chetty, Mr. Chidambaran Chettiar of Kanadukathan."⁸⁶

83. A. Savirinatha Pillai, op.cit., p.1173.

84. To cite an instance, the AL AR Chettiar family of Devakottah were the proprietors of the Zamindari of Devakottah. This Zamindari consisted of 40,000 acres of wet land and 60,000 acres of dry land. This information was provided by AL AR Somanathan Chettiar when the writer interviewed him at Devakottah in June 1973.

85. Somerset Playne, Southern India -- Its History, People Commerce and Industrial Resources (London, 1914-15), p. 496.

86. ibid., p.496.

The Ramnad Zamindari, one of the biggest Zamindari in South India, with an area of 2014 square miles,⁸⁷ "was leased to a firm of wealthy Nattukkottai Chettis"⁸⁸ in the early 20th century. This Zamindari was formerly held by the Sethupathis of Ramnad.⁸⁹ A list of the villages or Zamindaris in the possession of the Chettiars in the early 20th century is given in Table No. 1

To the indigenous bankers such as the Chettiars land was also an attractive security against which they could lend money. The shift in the pattern of crops from foodgrains to commercial crops and the enhancement of land rents, besides drawing the cultivator into the monetary economy, also increased their dependence on money lenders.⁹⁰ Furthermore, the movement of crops from the centres of production to the marketing centres also called for immense funds.⁹¹

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87. Somalay, Ramanathapuram Mavatum (Tamil) (Ramanathapuram District) (Madras, 1972), pp. 252-53.
88. Report of the Settlement of Land Revenue for Fasli, 1313 (Madras, 1903-4), p.12.
89. Somalay, op.cit., pp. 43-44, & p.547.
90. D.R.Gadgil, The Industrial Evolution of India in Recent Times (Bombay, 1942), pp. 160-61; see also Dharma Kumar, op.cit., pp. 78-98.
91. T.K. Duraiswamy Aiyar, op.cit., p. 116.

TABLE I

| SL. No. | Name of Proprietor(s) | District | Taluk | Village or Zamindari | Value of land (in Rs. per acre) |
|---------|--|------------|--------------|---|--|
| 1. | V.A.R. Arunachalam Chettiyar | Madura | | Okkur and Peravali | |
| 2. | AL. AR. RM. Arunachalem Chettiyar | Madura | | Devakottai Zamindari | |
| 3. | P. Chidambaram Chettiyar | Madura | Palaiyapattu | Sirupalai | |
| 4. | P.L.S.A. Annamalai Chettiyar | Madura | Palaiyapattu | Kizhakottai | |
| 5. | SRMM Chidambaran Chettiyar | Coimbatore | Karur | Andipatti | Dry Land: Rs. 14; Wet Land: Rs. 277; Garden Land : Rs. 83 (during 1980's) |
| 6. | S.A. Nagappa Chettiyar | Tanjore | Tanjore | Vellavadipatti Veerayadipatti (portion) | |
| 7. | RMARRM Arunachalem Chettiyar | Tanjore | Patukkottai | Karakkottai Kambarkoil Omakkavayal Kuttangudi Kothamangalam | |
| 8. | Ramanathan Chettiyar Arunachalem Chettiyar Palaniappa Chettiyar | Tanjore | Patukkottai | Padirankottai Tenpadi Anantagopala Puram Tenpadi Alivalam Pazhattali Vattatikottai | Pesh cush Rs. 788; Land cess Rs. 338.* |
| 9. | Muttukkaruppan Chettiyar Olagappa Chettiyar Ramaswamy Chettiyar Lakshmana Chettiyar | Tanjore | Patukkottai | Padirankottai Vadapadi Anantagopala Puram Vadapadi Kollukkadu Yenadi | Pesh cush : Rs. 582; Land cess : Rs. 217* |

Source : The Asylum Press Almanack and Directory of Madras and Southern India, 1909 (Madras, 1909) p. 1693, 1699, 1706

* S.S. Raghavaiyanagar, Memorandum on the Progress of Madras Presidency etc. (Madras, 1892)

These, then, were some of the conditions under which the Chettiars and other business communities were turning towards money lending and seeking investments in land. It is against this background that one has to view the nature and extent of Chettiar money lending business in Madras Presidency.⁹²

92. Rather than examining the tendency of entrepreneurs seeking investment in land and turning towards money lending as an expression of seeking relatively profitable outlets for their capital in an otherwise limited sphere of investment under conditions of colonial rule, Sandhu and others characterise this tendency as indicative of a change in the "spirit and attitudes of Indian Enterprise" (Sandhu, op.cit., p.33). Elaborating on this point he says that, ejected from their former position of pre-eminence in the field of ocean shipping, commerce and financial enterprise, the Indian entrepreneurs tended "to grow shy, inward looking and less adventurous in the field of investment and enterprise" (Sandhu, op.cit., p.34). He then goes on to suggest that rather than antagonise "the British officialdom or the powerful 'Nabobs'" (Sandhu, p.34), some among the Indian entrepreneurial classes "contented themselves with subservient roles as underlings of British enterprise" (Sandhu, p.34) while others sought safe investments in land etc.

To implicitly suggest that the Indian entrepreneurs could have competed with the Europeans if they had wished, is not only (historically) an extremely unrealistic stand but is also to grossly underestimate and underrate the power and strength of the European commercial interests in India.

Taking up Sandhu's other point about the Indian entrepreneurs suffering ~~a~~ from a bout of shyness and inhibition, one can quite confidently assert that this was not so in the case of one of the leading sections of entrepreneurs of South India, namely the Chettiars. On the contrary, the Chettiars, by transferring their capital from India to the overseas countries clearly indicate otherwise. Ultimately, the whole question boils down to one of the adjustment of Indian entrepreneurial groups to the changed conditions under colonial rule.

The operations of the Chettiars in the Madras Presidency consisted primarily of financing agriculture and internal trade.⁹³ The demand for credit in the agricultural or traditional sector arose in connection with the cultivation of crops, the digging of wells, by the buying of land and livestock, the payment of "kist" or land revenue and lastly, in connection with domestic expenses such as marriage and other social functions. Moreover, the wholesale and retail trade and the movement of produce over the Presidency had also to be financed.⁹⁴ All this required immense funds and a fairly organised network of credit institutions. The funds for these requirements were largely provided by the indigenous money lenders, among whom were the Chettiars, the Kalladaikurchi Brahmins, the Marwaris and the Multanis.⁹⁵ The significance of rural credit in the Madras Presidency can be understood by examining the distribution of the indigenous bankers and their capital. According to the evidence provided by the Commissioner of Income-Tax, Madras, to the Madras Banking Enquiry Committee, "2301 indigenous bankers with a capital of Rs. 20,32,27,264 served the urban areas and about 6465 with an estimated total capital of Rs. 36,08,123 served the rural areas of the Presidency."⁹⁶ (It will be seen from

93. Written Evidence of the Nattukkottai Nagarathar Association, Madras, to M.P.B.E.C.R., Vol. III, pp. 1101-0

94. T. K. Duraiswamy Aiyar, op.cit., p. 114.

95. P. Vaidyanathan, op.cit., p. 108.

96. ibid., p. 103.

this that the proportion of capital employed in urban and rural areas was 1:1.8, while the proportion of the number of branches in the urban and rural areas was 1:2.8. The average size of capital of an urban firm was approximately Rs. 88,300 and that of the rural firms was Rs. 55,800. The proportion of the average size of capital of an urban firm to a rural firm was 3:2.)

Before discussing the nature and extent of the Chettiar money lending business in the Madras Presidency, a brief consideration about their business organisation and banking system would in place. The Chettiars have been considered (and quite rightly so) as one of the most perfectly organised indigenous bankers who represented, along with the Marwaris and Jains "the highest development of indigenous banking in India".⁹⁷ So developed was the banking system of the Chettiars that they were considered "not mere money lenders but ... as bankers by the civil courts in the Presidency."⁹⁸ An examination of their forms of business organization, their business practices and their banking system confirms the above statement.

The basic unit of the Chettiar business organisation was the 'firm'. This was held by the members of

97. L.C. Jain, Indigenous Banking in India (London, 1929, p. 36.

98. A. Savirinatha Pillai, M.P.B.E.C.R., p. 1171.

a family or by closely related individuals.⁹⁹ Firms were also organised on the basis of partnership of a number of Chettiars. It was thus quite common for the same individual to have shares in several partnership firms or concerns.¹⁰⁰ Thus there was a close overlapping and interlocking of interests within the community. In most cases the proprietor or the partners of a firm resided in the Ramnad district or in Pudukottah state, which was also usually the headquarters of the firm, while the branch firms, located at the various centres of business, were managed by their agents.¹⁰¹ The agent can be considered the central figure in the whole network of the Chettiar business organisation. He was recruited, by and large, from among the Chettiars of moderate means and served for a period of three years.¹⁰² During this period the agent had the responsibility of employing the capital entrusted to him by the proprietor in such a manner as to ensure maximum returns. The agent's salary and bonus (if any) was quite often dependent on the distance of the agency

99. Allene Masters, op.cit., p. 25.

100. P.J. Thomas, op.cit., p.845.

101. Written Evidence of the Nattukottai Nagarathar Association, M.P.B.E.C.R., Vol. III, p. 102.

102. A. Savirinatha Pillai, op.cit., p. 1172.

from the headquarters, the volume of business transacted and the profits realized by him for the firm.¹⁰³ The proprietor or partners of the firm, on their part, kept in close touch with their business by maintaining a regular correspondence with the agent.¹⁰⁴ Just before the expiry of the three year tenure of the agent, the newly appointed agent would go over to the branch firm and familiarise himself with the local conditions before relieving the old agent. The retiring agent, having earned his bonus and salary, would quite often either set up his own firm or enter as a partner in one of the Chettiar firms.¹⁰⁵ The practice of appointing agents, it should be noted, was not resorted to by the Chettiars belonging to the middle and lower strata of the community; owing to owning small amounts of capital, these Chettiars themselves managed their firms.¹⁰⁶ Apart from the agent, some of the firms also employed -- depending on the size of the establishment, the amount of capital

103. P.J. Thomas, op.cit., p.847; see also, Nattukottai Nagarathar Association, Written Evidence, M.P.B.E.C.R., p. 1102, and see also A.Savirinatha Pillai, op.cit., p. 1172.

104. Written Evidence, Nattukottai Nagarathar Association, op.cit., p. 1102.

105. P.J. Thomas, op.cit., pp. 847-48.

106. Written Evidence, Nattukottai Nagarathar Association, op.cit., p. 1102.

employed, and the volume of business conducted -- Assistants, Cashiers, Accountants and Clerks. Here again the practice was to appoint the relatively poor Chettiars to these posts. Moreover, it was not uncommon for a Chettiar appointed as a clerk to gradually work his way up to the post of the agent.¹⁰⁷

The practice of inculcating their business methods in their boys is another significant characteristic of the Chettiar community. This "ensured the community a steady supply of trained and skilled agents."¹⁰⁸ The Chettiar boys were, from a very young age, initiated into the intricacies of their family business through a rigorous formal as well as practical training. This involved their undergoing courses in book-keeping, accounting and Tamil, besides having to work as an apprentice in one of the firms¹⁰⁹ where, of course, they picked up the tricks of the trade. The period of probation lasted until such time as they were in a position to shoulder the responsibility of managing the firm independently.

It is believed that the peculiar joint family system of the Chettiars "nurtured a spirit of

107. Written Evidence, Nattukottai Nagarathar Association, op.cit., p. 1102.

108. Allene Masters, op.cit., p.26

109. ~~Allene Masters, op.cit., p. 26~~ ibid., p. 26

individual initiative in economic activity."¹¹⁰
 Some authors, eg. Shoji Ito, have attempted to relate its exceptional characteristics to the individualistic motivation of the Chettiars in economic activity. Popular as it is in certain circles, the validity of such a theory appears somewhat doubtful.¹¹¹

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110. Shoji Ito, 'A Note on the Business Combine in India, with Special Reference to the Nattukottai Chettiars', The Developing Economies, Tokyo, Vol.IV, No. 3, Sept. 1966, pp. 370-71.
111. Theories such as these proceed on the basis of certain preconceived assumptions which are often quite naive, as for instance the argument that the joint family system in India hampered and discouraged individual initiative or enterprise and rational economic behaviour by "Mixing (up) family finances with those of business" (Mattison Mines, Muslim Merchants, The Economic Behaviour of an Indian Muslim Community, New Delhi, 1972, p.2). But the other more frequent, though simplistic, argument adopted in establishing a correlation between the joint family system and rational economic behaviour is to compare the Indian system in the west and to then deduce certain conclusions. Thus it is said that in the family system of the west as also in that of the Chettiars -- the Chettiar family system, according to Ito, in some important respects was very similar to the family system of the west -- "the motivation in pursuit of profit was basically the individuals initiative rather than the consideration for the prosperity of the joint family" (Shoji Ito, op.cit., p. 370). Such arguments are what Mattison Mines has very appropriately termed as "Blanket statements" (Mines, op.cit., p.4), having little or no relation to time and space or to the specific conditions at a particular point of time.

Let us briefly examine the rationale of the correlation between the economic motivation of the Chettiars and their social institution of the joint family. The main distinguishing features between the so-called Indian joint family system (common to some of the North Indian business communities) and that of the Chettiars is said to be as follows : in the former system members of the family lived together under one roof, worked in common, the profits went to a common fund and lastly, a common mess was maintained,¹¹² in the Chettiar family system, while the members lived under the same roof, the financial unit of accounting was the married couple.¹¹³ Moreover, immediately after marriage, the Chettiars were supposed to have become financially independent.¹¹⁴ At this stage, they also succeeded to a part of their parents' estate and thus started, at their own initiative, their own business.¹¹⁵ Another peculiar feature of their family system was the maintenance

112. P.J. Thomas, op.cit., p.844.

113. Shoji Ito, op.cit., p.370. In this respect the Chettiar family system was said to be similar to that of the west.

114. ibid., p.370; see also, P.J. Thomas, op.cit., p.844.

115. Shoji Ito, op.cit., p. 370.

by married couples of separate kitchens within the palatial houses.¹¹⁶ Family accounting was also maintained independently. All this, it is said, fostered and encouraged a spirit of free competition and individual initiative among the Chettiars.¹¹⁷

If one were to accept this argument then it follows quite logically that this spirit of enterprise should have been absent in some of the other business communities such as the Marwaris or the Gujarati Banias who had adopted the Indian joint family system. That this was not so is a fact that hardly needs to be stressed. Therefore, to suggest that there is a causal relationship between the Chettiar family system and their economic motivation appears to be somewhat facile. What is more, there are serious limitations and difficulties in quantifying the effect of social institutions on the economic motivation of business groups.¹¹⁸ Consequently, such hypotheses remain confined

116. P.J. Thomas, op.cit., p. 884.

117. Shoji Ito, op.cit., pp. 370-71.

118. The futility of explaining and examining economic behaviour purely in terms of social factors has been more than amply established. See, for instance: Bipan Chandra, Colonialism and Modernisation (Presidential address to Section III of the Indian Historical Congress, Dec. 28-30, 1970, Jabalpur), pp. 10-28; M.D.Morris, 'Values as an Obstacle to Economic Growth in South Asia', Journal of Economic History, Vol. XXVII, No.4, Dec. 1967, pp. 588-607; Milton Singer, 'The Indian Joint Family in Modern Industry', in M.Singer and B.S.Cohn (eds.), Structure and Change in Indian Society (Chicago, 1968), pp. 423-52; Mattison Mines, op.cit., pp. 1-4.

to the realm of speculation. Incidentally, here one is not questioning the lack of enterprise or individual initiative among the Chettiars as much as its correlation with their family system. ¹¹⁹ What is often not taken into consideration is that, together with this financial independence, there was also a lot of mutual interdependence among the Chettiars, both within the family circle and outside it. ¹¹⁹ This coordinated action among the members of the community was ensured through such institutions as the Chettiar Associations and the Chettiar Chambers of Commerce, the weekly and monthly meetings of the Chettiars for fixing the interest rates and for deciding other business matters, the Chettiar Panchayats for settling intra-community disputes, the system of intra-Chetti deposits and loans, etc. ¹²⁰ All these are indicative of the strong bonds that existed within the community. These institutions and arrangements, evolved in response to the economic conditions of the time, enabled the Chettiars to function more effectively. In other words, these arrangements were designed to take advantage of the peculiar conditions afforded under British rule not only in India but also in Burma, Ceylon, Malaya etc. ¹²¹ The advantages of these arrangements

119. P.J. Thomas, op.cit., pp. 844-45.

120. A Savirinatha Pillai, op.cit., pp. 1178-79; see also, P.J. Thomas, op.cit., pp. 844-46; and A.I. Levkovsky, op.cit., p. 243.

121. Shoji Ito, op.cit., p. 371.

are quite obvious. It enabled the Chettiars to put up ample resources, reduce competition among themselves, and generally function more effectively. At the same time, the identity of the individual families, represented through their firms, was maintained, in that the decision of employing the capital rested with the proprietor of the firm.

Let us now examine an important aspect of their banking business, viz. their capital resources. The Chettiars own capital or "Mudal Panam" as it was known, usually constituted about "1/6th to 1/7th of his working capital",¹²² while a substantial portion of the rest was borrowed. This came in the form of deposit money (i.e. loans on which interest was payable) and borrowings from European banks. This latter privilege was, however, extended to some of the bigger Chettiar firms only.¹²³ The smaller firms borrowed either from the bigger Chettiar firms or from Marwari and Multani concerns.¹²⁴ Deposits were accepted both from the general public as well as from members of their own caste.¹²⁵ The

122. Confidential Note on the Question of Compensation Payable to Indians for Nationalisation of Paddy Lands Subheading III -- Chettiars Methods of Business, pp 2-3. (Date of publication not known). This typed document was consulted by me in June 1973 at the residence of the late Shri SRM Solayappa Chettiar, Hony. Secretary, The Nattukottai Chettiar Association of Burma, in Palathur (Ramanad District). The records and documents are now in the custody of his son, Shri Valliappan. The above document will be referred to hereafter as 'Confidential Note'.

123. ibid., p. 3.

124. ibid., p.3.

125. A. Savirinatha Pillai, op.cit., p. 1175.

deposits from the public (this category generally included lawyers, retired officials, and other professional classes) were largely accepted by Chettians operating ~~the~~ in the cities and towns.¹²⁶ The more common form of deposit was, however, that received from the members of their own community. Also known as "Thandumural" deposit, it commonly came in the form of "Stridhanam"¹²⁷ (i.e. the money given by the parents to the bride as a kind of dowry at the time of her marriage; this money constituted the bride's personal property). This was usually deposited either in her husband's firm itself or in one of the Chettiar firms known to her.¹²⁸ It was found that in some firms these deposits (both public and Chettiar) amounted to nearly as much as the capital invested by the proprietor.¹²⁹ The importance of these deposits in their banking system is clearly brought out by the following evidence furnished by A. Savirinatha Pillai to the Madras Banking Enquiry Committee 1929-30: "The borrowed capital which the Chettians take as deposits from their customers in

126. A. Savarinatha Pillai, op.cit., p. 1175; see also, Written Evidence, Nattukottai Nagarathar Association, op.cit., pp. 1103-4.

127. A. Savirinatha Pillai, op.cit., p. 1175; see also, Written Evidence, Nattukottai Nagarathar Association op.cit., p. 1103.

128. A. Savirinatha Pillai, op.cit., p. 1175.

129. T. K. Duraiswamy Aiyar, op.cit., p. 114.

British India ... and abroad may be approximately taken at 50% of their own capital ..."¹³⁰ The acceptance of deposits, followed by its employment in their business, is indicative of the emergence, if in a somewhat rudimentary form, of modern banking practices among the Chettiars.

The deposits accepted by the Chettiar firms were classified into the current account deposits or the 'Kata Kanaku' and the fixed deposits or the "Thavanai Kanaku".¹³¹ On the former the current rate of interest or "Nadappu Vaddi" was fixed.¹³² The current rate of interest was adopted at the monthly meetings of the leading Nattukottai Chettiar businessmen in the city of Madras, after taking into account the demand and supply position of credit among the Chettiars, and the prevailing bank rate.¹³³

130. A. Savirinatha Pillai, op.cit., p. 1174.

131. P.J. Thomas, op.cit., p. 850; see also, A Savirinatha Pillai, op.cit., p. 1175.

132. P.J. Thomas, op.cit., p. 851.

133. P. Vaidyanathan, op.cit., p. 111; see also : A. Savirinatha Pillai, op.cit., p. 1104; Written Evidence, Nattukottai Nagarathar Association, op.cit., p. 1104. The "Nadappu", or current rate of interest, for Madura, Negapatam and Tinnevely were fixed at a constant for all years. This was because of the smallness of Chettiar business at these places (A. Savirinatha Pillai, op.cit., p. 1180)

The rates determined at these meetings governed the current rate of interest in their operations throughout South India.¹³⁴ The "Thavanai" or fixed deposit was a loan accepted by the Chettiers that was repayable only after a definite period of time, which was usually two months in Madras Presidency.¹³⁵ The rate of interest for the "Thavanai" deposit was fixed at the weekly meetings of the Chettiar businessmen at Madras.¹³⁶ The essential difference between the "Thavanai" and the current account deposits was that while for the former compound interest was calculated at intervals of two months, for the latter interest was added at intervals of six months to one year.¹³⁷ The deposits accepted from the public by and large fell under the fixed deposit category, this was so because the Chettiers were not inclined to keep, unlike the joint stock banks, a portion of their deposits in forms readily convertible into cash.¹³⁸

134. Written Evidence, Nattukottai Nagarathar Association, op.cit., p. 1104.

135. A. Savirinatha Pillai, op.cit., p. 1180; see also, P. Vaidyanathan, op.cit., p. 111.

136. P. Vaidyanathan, op.cit., p. 111.

137. A. Savirinatha Pillai, op.cit., p. 1180.

138. Written Evidence, Nattukottai Nagarathar Association, op.cit., p. 1104.

This problem did not arise in intra-Chetti dealings as such deals were governed by the Mercantile system of accounting, whereby the Chettiar depositor credited the interest due to him every year while the Chettiar with whom the amount was deposited debited the interest payable to him every year.¹³⁹

The next major source of working capital of the Chettiars consisted of their borrowings from the European banks, among which the principal were the Bank of Madras (later named the Imperial Bank of India after its merger with the latter.¹⁴⁰) The Chettiars also seem to have had dealings, although to a lesser extent, with the National Bank of India, The Chartered Bank, The Mercantile Bank, The P & O Bank and The Lloyds Bank.¹⁴¹ These banks made advances to the Chettiars in the form of loans, bills, cash credit and overdrafts.¹⁴² Loans were granted to the Chettiars on the security of pro-notes backed by "joint signatures of approved parties."¹⁴³ In fact, when the banks expressed their willingness to advance loans, the

139. A. Savirinatha Pillai, op.cit., p. 1171.

140. M.S. Natarajan, op.cit., p. 44, see also, T.K. Durgaiswamy Aiyar, op.cit., p. 114.

141. A. Savirinatha Pillai, op.cit., p.117.

142. P.J. Thomas, 'Nattukottai Chettiars, Their Banking System', Journal of Madras University Vol. V, 1933, p. 37.

143. Written Evidence, Nattukottai Nagarathar Association, op.cit., p. 1104.

practice among the Chettiars was to get together and apply for a loan, which was thereafter divided among the Chettiars by private arrangement.¹⁴⁴

This practice of jointly obtaining loans considerably augmented their resources. The rates of interest charged by the Imperial Bank of India varied between 1% and 2% above the prevailing bank rate.¹⁴⁵ The Chettiars also secured loans from the banks in the form of cash credit and overdrafts. Cash credit was raised by promissory notes and strengthened by title deeds of houses and property as collateral security, while overdrafts were secured by government paper.¹⁴⁶ The significance of the overdraft facility enjoyed by the Chettiars hardly needs to be stressed; the revolving nature of credit inherent in the overdraft system would have provided the Chettiars a turnover equal to many times their own capital investment.

The Chettiars also secured funds by discounting "Hundis" or finance bills of traders and merchants. By rediscounting these bills at the bank, the Chettiars used to come into possession of funds.¹⁴⁷

144. A. Savirinatha Pillai, op.cit., p. 1179.

145. ibid., p. 1178.

146. P.J. Thomas, op.cit., (1933), p. 37.

147. T.K. Duraiswamy Aiyar, op.cit., p. 114. This business was widely conducted in Ceylon and Burma (A. Savirinatha Pillai, op.cit., p. 1177.)

This method was not, however, used to any significant extent in Madras Presidency. The profits to the Chettiars in this business was the difference between their interest rate (paid by the trader) and the interest rate charged by the bank when the "Hundi" was subsequently rediscounted.¹⁴⁸

The extent to which a Chettiar could borrow capital from the banks depended largely upon his credit worthiness or financial standing with the banks. The policy of the joint stock banks on the question of the accommodation of indigenous bankers with loans and other financial assistance was spelled out by L.C. Jain as follows:- "The joint stock banks keep an approved list of indigenous bankers with whom they transact business, in the form of granting cash credits or discounting Hundis ... Every banker on the list is assigned a certain amount of credit, which is determined by his financial standing and beyond which as a rule, the banks will not discount paper endorsed by him."¹⁴⁹.

Until about the trade depression in 1930 "the Chettiars had borrowed large sums from the joint stock banks, but latterly such loans have dwindled

148. A. Savirinatha Pillai, op.cit., p. 1177.

149. L.C. Jain, op.cit., p. 175.

and are not more than Rs. 60 lakhs to Rs. 70 lakhs."¹⁵⁰
 The capital secured from these banks was used not only in India but was also transmitted to Burma and Ceylon, where it was used in financing agriculture.¹⁵¹ In South India, the capital provided by the banks was used in financing the movement of produce. The reasons for the banks' choice in accommodating the Chettiars with credit is not very difficult to perceive. The extraction of raw-material and foodgrains for export required a mechanism which was sufficiently widespread and yet centralised. The Chettiars, with their well developed business organisation, institutions and practices -- particularly the wide network of agencies and correspondents and the practice of providing credit to the fellow members of their community -- were, it would be seen, especially suited to carry out this function of providing credit in the interior of the Presidency and thus promoting the movement of produce. The whole mechanism was a complicated hierarchy with the colonial banks forming the top rung, the Chettiars in the city of Madras having access to the banks forming the intermediate rung, down to

150. P.J. Thomas; op.cit., (1933), p. 37.

151. A. Savirinatha Pillai, op.cit., p. 1178

the Chettiars operating in the interior of the Presidency -- the ultimate recipients of the banks' credit. All of them were held together by the credit arrangements. The whole process has been very graphically described by L.C. Jain in the following words: "They have a representative of the community in the person of Sir Muthiah Ct. Chettiar, son of Chidambaram Chettiar, banker, who was sheriff of Madras in 1921-22. He acts as liaison officer between the Imperial Banks branch of Madras (formerly the Madras Presidency Bank) and the Chettis. His business is to arrange loans from the bank and forward the money to Sivaganga, putting an extra 0.5% on the interest charged. From Sivaganga the funds are distributed among the Nattukottai Chettis who may be said to have the finance of rice crops of eastern India almost wholly in their hands."¹⁵² In effect, the role of Chettiars was that of middlemen between the Imperial Bank and the numerous traders who moved the crops. This source of capital was of tremendous importance to the Chettiars as it considerably augmented their resources.

The capital raised from the sources mentioned above was employed in meeting the various

152. L.C. Jain, op.cit., p. 177.

demands in the agricultural sector, ranging from the sowing of crops to the movement of crops across the Presidency. The Government's attempts to provide credit to the peasants -- which came in the shape of the Agricultural Loans Act and the Land Improvement Loans Act -- were far from successful.¹⁵³ These measures did little or nothing to alleviate the problem of rural indebtedness. The same was true of the Co-operative Credit Societies which were "unable to extend their operations beyond a tenth of the needs of the rural population."¹⁵⁴ Under such circumstances, the Chettiars and other indigenous bankers were the main source through whom credit flowed into the rural areas.

The Chettiar operations in the Madras Presidency extended to financing the agriculturists, whose periodic demands arose in connection with the sowing, ploughing and harvesting of the crops, as well as the traders who moved the produce over the Presidency.¹⁵⁵ However, the bulk of their funds

153. P. Vaidyanathan, op.cit., p.112; see also, Written Evidence, Nattukottai Nagarathar Association, op.cit., p. 1102.

154. Written Evidence, Nattukottai Nagarathar Association, op.cit., p. 1102.

155. Written Evidence, Nattukottai Nagarathar Association, op. cit., p. 1102.

was employed in financing the latter. Their major areas of operation in the Madras Presidency were Tinnevelly, Coimbatore, Ramnad¹⁵⁶ and Tanjore districts, parts of coastal Andhra,¹⁵⁷ and the city of Madras.¹⁵⁸ In Coimbatore district, almost all their borrowers were agriculturists and they had practically no hold over the important cotton market of Tirrappur, which was said to have been a monopoly of the Marwaris.¹⁵⁹ However, in the cotton tracts of Tinnevelly, Ramnad, and in and around Koilpatti, Chettiar capital was said to be involved.¹⁶⁰ In Tinnevelly, the Chettiars also assisted "the traders in the purchase of chillies, paddy, pulses, jaggery and other articles".¹⁶¹ In the Chettinad region, they advanced loans mainly to their farm servants or dependants in order to keep them under obligation."¹⁶² In Tanjore and in parts of coastal Andhra (especially in Guntur and Krishna) the Chettiar finances enabled the rice

156. A. Savirinatha Pillai, op.cit., p. 1178; see also, P. Vaidyanathan, op.cit., pp. 103-4.

157. T.K. Duraiswamy Aiyar, op.cit., pp. 116-117.

158. B.P.B.E.C.R., Vol. I, p. 191, para 437.

159. A. Savirinatha Pillai, op.cit., 1178.

160. ibid., p. 1178.

161. P. Vaidyanathan, op.cit., p. 104.

162. A. Savirinatha Pillai, op.cit., p. 1176.

mill owners to "buy up paddy in the beginning of the season and store it."¹⁶³

The agriculturists in Madras Presidency borrowed money for the purpose of sowing, ploughing and harvesting between July and February ¹⁶⁴ (the Tamil equivalent of these months being "Adi" and "Masi"). The crops arrived at the rural market between January and April and was, thereafter, moved over the Presidency. ¹⁶⁵ This last process called for large quantities of credit as a result of which there was, during this period, a constant pressure on the unorganised money market for credit. This pressure found reflection in the very high interest rates that prevailed between December and May. ¹⁶⁶ The important crops of the Madras Presidency for which large quantities of funds were employed were groundnut and cotton. The importance of these crops

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163. T.K. Duraiswamy Aiyar, op.cit., p. 111-17.
The Chettiars themselves, during the days of the rice trade with Ceylon, had established a number of rice mills in the Tanjore district, by investing considerable capital. This business, however, appears to have declined with the "entry ... of Marwaris and Bombay Saits and influx of Rangoon rice ...". (A. Savirinatha Pillai, op.cit., p. 1178)
164. B.V. Narayanaswamy Naidu, op.cit., p.469.
165. T.K. Duraiswamy Aiyar, op.cit., p. 116.
166. ibid., p. 116.

TABLE No. 2.
RATES OF INTEREST 1920 - 1923

| Tamil Month | Corresponding English Month | Rate of Interest | | | | | | | | | | | |
|-------------|-----------------------------|------------------|------|-----|-----|-----------|------|-----|-----|-----------|------|--------|-----|
| | | 1920 - 21 | | | | 1921 - 22 | | | | 1922 - 23 | | | |
| | | Rs. | As | P | % | Rs | As | P | % | Rs. | As. | P | % |
| Chitrai | April 15th to May 15th | 1 | - 0 | - 0 | 12 | 0 | - 15 | - 0 | 11½ | 1 | - 0 | - 0 | 12 |
| Vaikasi | May 15th to June 15th | 1 | - 0 | - 0 | 12 | 0 | - 12 | - 6 | 9½ | 0 | - 15 | - 0 | 9½ |
| Ani | June 15th to July 15th | 0 | - 15 | - 9 | 11½ | 0 | - 10 | - 3 | 7½ | 0 | - 13 | - 3 | 9½ |
| Adi | July 15th to Aug 15th | 0 | - 12 | - 6 | 9½ | 0 | - 8 | - 6 | 6½ | 0 | - 11 | - 3 | 8½ |
| Avani | Aug 15th to Sept. 15th | 0 | - 13 | - 6 | 10 | 0 | - 8 | - 3 | 6½ | 0 | - 10 | - 3 | 7½ |
| Purattasi | Sept. 15th to Oct. 15th | - | - 13 | - 6 | 10 | 0 | - 9 | - 6 | 7½ | 0 | - 10 | - 0 | 7½ |
| Aripisi | Oct. 15th to Nov. 15th | 0 | - 14 | - 0 | 10½ | 0 | - 9 | - 6 | 7½ | 0 | - 10 | - 0 | 7½ |
| Karthigai | Nov. 15th to Dec. 15th | 10 | - 13 | - 6 | 10 | 0 | - 10 | - 6 | 8 | 0 | - 10 | - 6 | 8 |
| Margali | Ded. 15 th to Jan. 15th | 0 | - 15 | - 6 | 11½ | 0 | - 13 | - 6 | 10 | - | - | 12 - 6 | 9½ |
| Thai | Jan. 15th to Feb. 15th | 1 | - 0 | - 0 | 12 | 0 | - 15 | - 6 | 11½ | 0 | - 15 | - 6 | 11½ |
| Masi | Feb. 15th to March 15 th | 1 | - 0 | - 0 | 12 | 1 | - 0 | - 6 | 12 | 1 | - 0 | - 0 | 12 |
| Panguni | March 15th to April 15th | 1 | - 0 | - 0 | 12 | 1 | - 0 | - 0 | 12 | 1 | - 0 | - 0 | 12 |

Source : T.K.Duraiswamy Aiyar, 'Indigenous Banking in the Madras Presidency', Progs. of the Seventh Indian Economic Conference, Bombay, 1924, p, 115

can be gauged from the fact that "in 1919-20 11.5 million acres were sown with paddy, 1.1 million acres were under groundnut and 2.3 million acres were under cotton. The value involved respectively, according to the computation of Dr. Slater, was 10.7 crores of rupees, 13.5 crores and 8.7 crores".¹⁶⁷ It was also during this period, i.e. between January and April, that the land revenue had to be paid, with the result that money during this period was greatly in demand.¹⁶⁸ A perusal of the Chettiar rates of interest current during the years 1919-20, 1921-22 and 1922-23 (shown in Table No.2) confirms this point.

The rates of interest on the advances made by the Chettiars depended upon the security offered, apart from the time of the year the loan was sought. Money was lent on both long-term and short-term basis against such securities as promissory notes, land, jewellery, "hundis", title deeds, Hypothecation mortgage, as well as stock-in-trade.¹⁶⁹ This gives us an idea of the variety of business conducted by

167. T. K. Duraiswamy Aiyar, op.cit., p. 116.

168. ibid., p. 116.

169. P. Vaidyanathan, op.cit., p. 111; see also, Written Statement, Nattukottai Nagarathar Association, op.cit., pp. 1102-3.

them. Where adequate security of the kind mentioned above was provided, the interest rate varied in a small margin around 12%.¹⁷⁰ On the other hand, where adequate security was not provided (and loans were issued on pronotes) as in the case of poor peasants and agricultural labourers, the interest rate varied between 18% and 48%.¹⁷¹

The promissory notes, or "vennalai" documents as they were called in Tamil, were the most common form of security against which loans were extended to the small agriculturists.¹⁷² Some Chettiars also lent money on what are known as the "Kandu" or "Thandal" system. Under this system the money was lent after the deduction of interest on it, while the loan itself was repaid in equal daily or monthly instalments.¹⁷³ This kind of business was usually practiced by very small money lenders only and again, the people who took such loans, were either petty traders or small shopkeepers.¹⁷⁴

The other fairly common system of lending practised by the Chettiar money lenders was the

170. A. Savirinatha Pillai, op.cit., p. 1181.

171. ibid., p. 1181.

172. B.V. Narayanaswamy Naidu, op.cit., p. 470.

173. ibid., pp. 470-1; see also, A. Savirinatha Pillai, op.cit., p. 1176.

174. A. Savirinatha Pillai, op.cit., p. 1176.

raising of loans on produce such as paddy, tobacco leaves and cotton. Under this system, if the borrower failed to repay the loan on the stipulated day, the Chettiar moneylender would coerce the agriculturist to sell his produce in his presence and thus claim the principal and interest due; or alternatively, the banker himself took the responsibility of selling the produce.¹⁷⁵

Advancing loans on a long-term basis, on the security of land or other immovable property, or on the mortgage of goods, was yet another method of lending practised by the Chettiars.¹⁷⁶ Under this system, also known as "Bokkiam" or "Othi", the Chettiars enjoyed the benefit of the property mortgaged until such time as the loan was repaid. If, however, the borrower failed to repay his loan within sixty years, the property provided as security automatically became that of the creditor if sued for in a court of law.¹⁷⁷

Apart from moneylending, there is evidence that the Chettiars were engaged, though in a small way only, in trade -- both Export and Import as well as

175. B.V. Narayanaswamy Naidu, op.cit., p. 471.

176. P.Vaidyanathan, op.cit., p. 114.

177. ibid., p. 114; see also B.V. Narayanaswamy Naidu, op.cit., p. 471.

(internal) wholesale and retail trade -- in such commodities as rice, salt, timber, cotton, textiles, tobacco, etc.¹⁷⁸ In the late 19th and early 20th century there were instances of Chettiars financing as well as establishing industries and other modern incorporated enterprises, both small and large. This aspect of their enterprise will be discussed in greater length in Chapter III.

178. See A. Savirinatha Pillai, op.cit., p. 1178 and Vysiamitran (a Tamil weekly), 22.1920 issue, p. 4, for evidence relating to Chettiar involvement in the export of rice from South India. The firm of Chockalingam Chetty was one of the major dealers in timber in the Madras Presidency. Cf. Somerset Playne, Southern India - Its History, people, commerce and Industrial Resources (London 1914-15), pp. 646-49. An examination of the account book of A.M. Chettiar firm (Moulmein) for the year 1919 revealed that on Nov. 11, 1919, 120 tons of timber valued at Rs. 960 was exported from Moulmein in Burma to Pudukkottai in the Ramnad district. (I am grateful to Shri E.M. Chockalingam Chettiar, for having allowed me to consult the account book at his residence in Madras in June 1973.) A report entitled "Madras Salt Depot" in the Report and Correspondence of the SICC, March 1914-Feb. 1915 (pp. 80-95) provides interesting information regarding the virtual monopoly of the AR.AR.SM. Chettiar firm over the salt trade in Madras. See also Vysiamitran dated 6.8.1917, p. 3. While in the field of textile goods, there was the Chettiar firm of Ramaswamy & Co. Established in Madras in 1907, this firm was engaged in both the wholesale and retail trade in textile goods. See Somerset Playne, op.cit., pp. 692-696. The Mysore Cloth Store with its Head office in Konapatti and Tiruppai Khaddar Textiles are two of the many such instances of Chettiars involvement in the textile trade, see Oolian (a Tamil weekly published from Karaikudi); Chettiars also exported tobacco from Ceylon to South India, see W.S. Weerasooria, op.cit., p. 20.

Until 1930 Chettiar investment in Madras Presidency was, as a proportion of their total investments spread over the various south East Asian countries, extremely small. Various attempts have been made to arrive at an approximate of the total working capital of the Chettiars, as also the country or region-wise distribution of this capital. Thus, according to the Burma Banking Enquiry Committee, out of their total working capital of Rs. 120 crores, only Rs. 1 crore was invested in Madras.¹⁷⁹ According to the estimate of A. Savirinatha Pillai, Assistant Commissioner of Income-tax, Southern Range, the total working capital of the Chettiars was Rs. 75 crores of which only Rs. 3 crores were invested in Madras.¹⁸⁰ The Madras Banking Enquiry Committee, while putting their total working capital at Rs. 75 crores, placed their investment in Madras Presidency at Rs. 6.5 crores. The turnover of this, according to the Committee, was as much as Rs. 11 crores.¹⁸¹ Of these

179. R.P.B.E.C.R., Vol. I, pp. 210-11.

180. A. Savarinitha Pillai, op.cit., p. 1174.

181. M.P.B.E.C.R., Vol. I, pp. 185-86. Estimates of their total assets have also been worked out by V.A. Seshadri Sharma, A.K. Chettiar and M.S. Natarajan. Their respective estimates are as follows : Rs. 200 crores, Rs. 150 crores and Rs. 140 crores. See V.A. Seshadiri Sharma, Nattukottai Nagarathar Varalaru (Tamil); A.K. Chettiar, 'Chettiar Nattilan Shingankale! Inum Urakkama?' in the Dhanavanikan, 1930 issue, p. 369; M.S. Natarajan, op.cit.

three estimates of Chettiar investment in Madras Presidency, that of the Madras Banking Enquiry Committee appears plausible.¹⁸² Significantly, these three estimates, however divergent, do point to the fact that the investments of the Chettiars in the overseas countries far outweighed their investments in Madras. This question of the smallness of Chettiar investments in Madras Presidency has to be viewed in the light of the two factors already discussed, viz. (a) the lack of investment outlets in the field of industry, foreign trade and organised banking, owing to

182. The figures of Chettiar working capital in the Madras Presidency as worked out by the Burma Banking Enquiry Committee and A. Savirinatha Pillai, viz. of Rs. 1 crore and Rs. 3 crores respectively, seems to be grossly underestimated in so far as these estimates are largely based on investigation and assessment through the income-tax returns filed by the Chettiars; a major limitation of this method of estimation of the capital was- as admitted by A. Savirinatha Pillai himself - that "the Chettiars do not always produce their entire accounts before the Income-tax authorities but only some branch accounts". (A. Savirinatha Pillai, op.cit., p.1172) Moreover, both the Banking Enquiry Committee and A. Savirinatha Pillai do not seem to have taken into account in their estimates the share of the Chettiar business firms not assessable for income-tax, as for instance the Chettiar firms located in the independent principality of Pudukottah. Exempted as they were from income-tax, these firms, however, conducted extensive business in Madras Presidency. One is also not very certain whether these estimates took into account the Chettiar capital invested in the various industries and other modern incorporated enterprises, in trade and, finally, the income of the Chettiars from Zamindaris and other landed estates in their possession.

the European hold over these sectors,¹⁸³ and (b) the emergence in the overseas countries of opportunities and outlets for the profitable investment of their capital. Along with this

183. Apart from the diversion of Chettiaf capital from India, another factor indicative of the absence of outlets in the field of industry and trade etc. in the Madras Presidency under conditions of colonial rule was the investment of colossal amounts of Chettiar capital for such unproductive purposes as the construction of palatial buildings, construction and renovation of temples, gold and jewellery, marriages and other social and religious ceremonies. (See Somerset Playne, op. cit., pp.496-497; A.Savirinatha Pillai, op. cit., p.1173; M. Chinnaya Chettiar Address at Mahipalanapatti on 3.8.1911 entitled 'Nattukottai-yarin Visessa Kalan galum veena selavum' serialized in Vysiamitran. (See issues 14.8.1911, 21.8.1911, 28.8.1911, 12.12.1911, 29.1.1912, 12.2.1912, 26.2.1912, 11.3.1912, 25.3.1912, 8.4.1912); See SKNNVVM (Madras, 1963) for a detailed account of Chettiar contributions in the field of religion. The importance of such conspicuous consumption is highlighted by the figures provided by A. Savirinatha Pillai in his written evidence to the Madras Banking Enquiry Committee. According to Pillai, out of the total estimated assets of Rs. 80 crores, as much as 14½ crores was dead capital in the form of houses and jewellery alone. (A.Savirinatha Pillai, op. cit., p. 1173) As for the amount spent by them on the construction and renovation of temples, on marriages and other social ceremonies, the figures, though hard to come by, must have been equally colossal. Although such conspicuous consumption and unproductive investments can quite conveniently be attributed to their traditional behavioural pattern, yet the fact remains that in the long run such investments constituted a wastage of investible surplus, particularly when we know that a number of Chettiars did invest heavily in industry when such opportunities came their way in the post-1930 period.

can be considered yet another important factor, viz. the relative unprofitability of their money-lending business in the Madras Presidency, particularly in comparison to those "blessed regions of a very high interest rate,"¹⁸⁴ i.e. Burma, Straits Settlements, Ceylon etc. The Chettiars, particularly those belonging to the lower and middle strata, were encountering even within the limited sphere of investment open to them in the Madras Presidency of financing agriculture and internal trade, impediments and difficulties which not only restricted their area of manoeuvrability but also hampered their existing business. This, ^{the} in fact, would explain instances even as late as 1920's of Chettiars winding up their business in the Madras Presidency "with a view to divert the money abroad which is now found to be profitable."¹⁸⁵ I shall now cite specific instances to elaborate this point. Their banking or moneylending business, as stated above, was conducted with the help of borrowed capital of which a fairly sizable proportion came from the banks. It was the complaint of several Chettiars

184. T.K. Duraiswamy Aiyar, op.cit., p.116.

185. A. Savarinatha Pillai, op.cit., p.1176.

that the difference between the interest charged by the banks, particularly the Imperial Bank of India, on the loans provided to them and the interest subsequently charged by them (the Chettiars) to their debtors "in the conditions prevailing in the Presidency,"¹⁸⁵ was too small to give them a sufficient margin of profit.¹⁸⁷ It was alleged that the banks discriminated between the Marwaris and the Chettiars on the question of interest on loans. While the former were given loans at the normal bank rate the latter had to pay on these very loans an interest of 2% above the bank rate.¹⁸⁸ Another grievance of the Chettiars against the banks was the banks' manner and mode of effecting sudden repayment of loans. Thus the Imperial Bank of India, upon default of a loan, immediately issued a general notification to this effect; upon this, a run was made on the Chettiars by their constituents and this was considered as disastrous to their credit system. The Chettiars therefore requested that a longer notice for repayment of loans be given to them.¹⁸⁹

186. A. Savarinatha Pillai, op.cit., p. 1185.

187. ibid., p. 1185.

188. ibid., p. 1185.

189. ~~A. Savarinatha Pillai, op.cit., p. 1185.~~
ibid., p. 1185

As against the easy and summary manner in which legal remedy was obtained and executive proceedings initiated against defaulting debtors in the Federated Malay States -- which enabled the Chettiars to quickly come into possession of foreclosed land -- the legal and executive proceedings in South India were considered by the Chettiars to be cumbersome and long drawn.¹⁹⁰

One other factor which, in a sense, restricted the area of manoeurability of the Chettiars in the Madras Presidency was the competition encountered by them from sections of the North Indian business communities such as the Marwaris and Multanis. Evidence to this effect has been provided by A. Savarinatha Pillai. Writing about the business of the Chettiars in Coimbatore he said, "In the Coimbatore district .. there are about 100 Chettis doing business, (but) I understand that their financial operations do not touch the cotton market of Tirruppur which is entirely in the hands of Marwaris."¹⁹¹ Similarly, the decline in their (Chettiar) export trade in rice from Tanjore to Ceylon can partly be ascribed to "the entry in the field of Marwaris and Bombay Saits."¹⁹² Both the Marwaris and Multanis

190. A. Savarinatha Pillai, op.cit., p. 1183.

191. ibid., p. 1178.

192. ibid., p. 1178 .

conducted extensive business in the Madras Presidency, particularly by financing the internal trade. The capacity of these two business groups to raise capital was also enormous and to that extent they can be said to have had an advantage over the Nattukottai Chettiars. The latter could not repatriate their accumulated capital from the overseas countries to India because remittances into British India were liable to be taxed as business profits upto the limit of 4 years."¹⁹³ On the other hand, the Marwaris and Multanis, through their connections all over India came into possession of large quantities of funds. In the case of the Multanis, such funds were said to have come "mainly from the Bombay side."¹⁹⁴ Moreover, as the major financiers of the internal trade of the Presidency they were often accommodated on preferential terms by the European banks. The same privilege was often not extended to all the Chettiars. As a result, the Chettiars were unable to establish even in their limited sphere of investment in the Madras Presidency, the kind of dominance that they were successful in establishing in Burma, the Federated Malay States and Ceylon.

193. A. Savarinatha Pillai, op.cit., p. 1180.

194. T.K. Duraiswamy Aiyar, op.cit., p. 114.

The question of the smallness of Chettiar investments in the Madras Presidency, as also the outflow of Chettiar capital from India, assumes significance when seen in the light of the conditions discussed above.¹⁹⁵

Due to the lack of investment outlets in industry in the Madras Presidency, the policy of the colonial state of discouraging any inflow of Chettiar capital into India, and the relatively high profitability of investments overseas, the Chettiars were disinclined to divert their moneylending and trading capital from the overseas countries to India until 1930.

On account of the various factors listed above, the movement of Chettiar capital until 1930 was generally in one direction ; namely, from British India to S.E. Asia and Ceylon. The reversal in the direction of this movement began in the 1930's. The flow of Chettiar capital back from the **countries** overseas/ to India, came about largely on account of

195. It may be quite reasonable to assume that had conditions in the Madras Presidency been more favourable for the investment of Chettiar capital, in spite of colonial rule, the extent of the outflow of their capital would have been considerably smaller.

(a) the creation of a suitable environment for investment in industry -- the result of a relative weakening of European hold over the economy, and
(b) the changing economic and political condition in the various South East Asian countries, which made it less secure for the Chettiars to operate on their traditional line.

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CHAPTER II
THE PATTERN OF CHETTIAR
ENTREPRENEURSHIP IN THE OVERSEAS
COUNTRIES: CEYLON, MALAYA,
BURMA.

INTRODUCTION

In view of the importance, in purely quantitative terms of Chettiar Investment in Colonial Countries of South and South East Asia vis a vis their investments in India till 1930 and also considering the significance of this accumulation of their capital in relation to the subsequent growth of modern entrepreneurship in this community from the early 20th century, it is proposed to examine, in the following section, in quite some detail, the participation of Chettiar Capital or more specifically the nature of Chettiar enterprise in the colonial Economies of Ceylon, Malaya, Burma from the latter half of the 19th century.

As stated in the last chapter, Chettiar capital in South India began to seek outlets for investment outside India from around the early 19th century and was in almost all cases finding its way into such of those countries as were being opened up for colonial exploitation. It should be noted that this coincidence was by no means accidental. But the result of, as indicated in the last chapter, the lack of investment outlets in South India coupled with the emergence of profitable economic opportunities and outlets in the newly opened up areas of South and South East Asia, such as Ceylon, Malaya, Burma and Indo China. As bankers and traders, the Chettiars among other Asian entrepreneurs, visualized the prospects of good business and profits in these areas and hence migrated.

The movement of Chettiar Capital from the Madras Presidency to the Overseas Countries which commenced around the early 19th century was a process that continued well until the 20's of the 20th century. However within this broad period, two distinct waves of migration are discernible. The first of these commenced around the early 19th century and the second and the larger wave of migration commenced around the latter half of the 19th century; During the first phase, the Chettiars went over to Ceylon and Malaya and in these countries were concentrated mainly in the urban centres and port towns, where they were reported to have financed trade, besides engaging in trade themselves.

The second and the more important phase of the migration of Chettiar Capital, commencing around the latter half and the last quarter of the 19th century, coincided with the opening up of some of the colonial areas of south and South East Asia for economic exploitation. Under this phase the areas to which they went over in significant numbers included Burma, besides Ceylon, Malaya and Indo China. It was precisely during this phase that the Chettiar extended their operations extensively into the rural areas, with the help of a network of firms and apart from supplying rural credit also financed internal trade and indigenous plantation agriculture.

The movements as well as the employment of Chettiar Capital in the Overseas areas was organised on very sound lines. Thus in the course of their migration, the Chettiars took with them a host of institutions and ^a network of associations and methods or forms of business organisation. These institutions and forms of organisation were in fact developed in response to needs of the particular economic opportunities that had arisen in the overseas areas.¹ These enabled them to maintain their identity and to function as a positive economic force. The first of these institutions, which was the 'Agency Firm'. As indicated in the last chapter the basic unit of Chettiar business was the 'firm'. The firm was held either solely by a Chettiar or in partnership by a group of Chettiars.² In either case the firm was represented in the overseas areas by an Agent or 'Melal'. This Agency system was a peculiarly Chettiar institution. Though the Marwaris also operated through Agents, the system as devised and developed by the Chettiar was unique. Under this system the Chettiars of moderate means were appointed as Agents of Chettiar firm in the distant overseas areas for a period of three

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1. Shoji Ito, 'A Note on the "Business Combine" in India, with special reference to the Nattukottai Chettiars' The Developing Economies Vol.IV, No.3, Sept. 1966 p.371.
 2. The Principal firm was in most cases located in Ramnad district in Madras Presidency. See Allene Masters, 'The Chettiars in Burma - An Economic Survey of a Migrant Community' Population Review Vol.I, No.I, JAN, 1957, p.25.

years. The salary of the Agent depended upon various considerations such as the distance of the Agency from their home towns in Ramnad district, the agent's capacity, the volume of business transactions shouldered by the agent etc. The salary of the agent was determined for the whole period before the Agent took up his assignment. However only a part of the salary was paid to him as an advance. The balance was paid only when the agent's 3 year tenure got over. If the Agent proved to be efficient and industrious and secured profits for his firm he was given a bonus of 10% of the profits.³ Six months before the expiry of the Agent's term a new Agent was recruited and sent to the concerned Agency Firm for a kind of probation. The old Agent, upon the expiry of his term either set out to do business independently or sought re-employment as an Agent with either the old firm or one of the other firms. The relation between the Agent and the principal, though they belonged to the same community, was somewhat like that of a debtor and creditor. The proprietor of the Firm kept in touch with the affairs of his agencies through infrequent visits and regular correspondence.⁴ The Agency Firm usually had an establishment of 5 to 6 persons. Besides the agent there was an Assistant or 'Aduthal', a cashier, an accountant and a few young apprentices, who while learning

3. A. Savirinatha Pillai, Written Evidence, M.P.B.E.C.R. Vol. III, p.1172.

4. ibid., p.1171.

the traditional business also helped the principal employees by running errands.⁵ All these persons were recruited with great care and usually belonged to the relatively poorer ^{of} section of the Chettiar community itself. This elaborate system of recruitment of personnel was a hallmark of Chettiar entrepreneurship. One of the positive advantages of the Agency system was that it brought down the overhead charges of Chettiar business houses to a minimum, besides encouraging "honesty and devotion to work by the system of payment by results".⁶

The Chettiars like the Marwaris also developed a strong tradition of mutual accommodation and sodality. These traditions were particularly strong amongst the Chettiars in the overseas countries. Thus in places like Rangoon, Colombo, Penang, Singapore etc. - they lived and congregated in the same street, set up a common temple and met regularly in a special building known as the 'Nagara Viduthi' for conducting important commercial transactions.⁷

Another special feature of Chettiar business organisation was the manner in which they fixed ^{the} Nadappu or current rate of interest. Thus, by traditional practice on the 16th day of every Tamil month, the

5. P.J. Thomas, 'Nattukottai Chettiars - Their Banking System' Raja Sir Annamalai Chettiar Commemoration Volume, p.848.

6. A. Savirinatha Pillai, M.P.B.E.C.R. p.1170.

7. P.J. Thomas, op.cit., pp.845-846.

leading Chettiars at Rangoon, Colombo, Penang, Madras and other important centres assembled in either their temple or the 'Nagara Viduthi' for determining the interest rate for that particular month besides discussing the general financial situation at that particular point of time. Each of them who had assembled would secretly intimate his figure. Thereafter one among them would make a note of all the figures and the final rate of interest was arrived at by taking into account the supply and demand of capital among the Chettiars and in the unorganized money market as also the prevailing Bank rate.⁸ The rate so determined served as the basis for all transactions and calculations of other interest rates by the Chettiars for that entire month.⁹ Similarly the Chettiars, in the above mentioned place also met once every week to fix the 'Thavanai' or weekly interest rates.¹⁰

Another institution which served to ensure spatial unity among the Chettiars in the early years of their activities was the caste panchayat. This panchayat, attached to their temple was composed of the Elders of the community and adjudicated on economic and non-economics disputes amongst the members of the community.¹¹

8. A. Savarinatha Pillai, M.P.B.E.C.R., p.1172.

9. Allene Masters, op.cit., p.24.

10. A. Savarinatha Pillai, M.P.B.E.C.R., p.1179.

11. P.J. Thomas, op.cit., p.846; see also A. Savarinatha Pillai, op.cit., p.1179.

Some of the other features of Chettiar business organisation which grew and were developed in response to the peculiar needs of their business activities in the overseas areas ~~were~~, the practice of establishing partnership firms with strong interlocking interest,¹² the practice of inter Chettiar lending, the practice of forming groups for securing loans from commercial banks etc.¹³

Most of these institutions, practices and forms of business organisation, were developed either during the time of their migration to these overseas areas, or in the course of their activities in these places. Howsoever, in the ultimate analysis, they proved to be extremely advantageous to the Chettiars in as much as it facilitated the creation of an extensive 'Resource group'. In short their capacity to mobilize capital resources was greatly enhanced.

12. P.J. Thomas, op.cit., p.845.

13. A. Savarinatha Pillai, op.cit., p.1179.

CHAPTER IIPATTERN OF CHETTIAR ENTREPRENEURSHIP
IN THE OVERSEAS COUNTRIES: CEYLON, MALAYA,
BURMA.SECTION ICEYLON AND THE NATTUKOTTAI CHETTIARS

Ceylon, presumably because of its proximity to the Indian mainland, was among the first overseas areas to which the Chettiars went in search of profitable outlets for the investment of their capital. However, in view of the conflicting available data, one is not quite certain about the exact period when the first batch of Chettiars went over to this island. V.A. Seshadri Sharma, in his book "Nagaratharu Varalaru", is of the opinion that they had gone to this island as early as 1730¹. The 'Vysiamitran' of 19-3-1917 in its editorial entitled "Ilangayal Levadevi Thoyil" (Moneylending Business in Ceylon) expressed a similar view, though it did not specify the exact date or period of their migration; it said that the Chettiars had been conducting their money lending business even before the establishment of British rule in Ceylon². Weerasooria, in his recently published book entitled "The Nattutottai Chettiar Merchant Bankers in Ceylon", is of the view that the connections of the Chettiars with

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1. V.A. Seshadri Sharma, Nattukottai Nagaratharu Varalaru (Madras, 1970) p. 100.
 2. Vysiamitran (A Tamil weekly, published from Devakota) Ed., S.T. Ramanathan Chettiar, see the 19-3-1917 issue, p. 4.

Ceylon date back to the Dutch period (1656 - 1796) or even earlier³. As against the above views which hold that the Chettiars had migrated to Ceylon prior to the establishment of British rule, we have the opinion expressed by the Ceylon Chettiar Chamber of Commerce that it was only in 1820 that the Chettiars, for the first time, went over to the island⁴.

The only possible way of reconciling this contradictory data is to distinguish between the organised and the unorganised migration of Chettiar capital from South India to Ceylon. The proximity of Ramnad to Ceylon, as also their age old traditions of overseas trade, should explain the movement of the Chettiars to Ceylon even during the Dutch rule. However, owing to the monopolistic trade policy of the Dutch, which prevented free trade both internal and external, their activities, it is said, were circumscribed⁵. In view of this fact, it would

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3. W.S. Weerasooria, The Nattukottai Chettiar Merchant Bankers in Ceylon (Sri Lanka, 1973), p., XIV.
 4. Chettiar Chamber of Commerce, Colombo, 'Ilangayal Nagaratharkalin Theyva Thirupani' (Tamil) in Sri Kasi Nattukottai Nagara Chathiram Nutranda Viya Malar; hereafter referred to as Chettiar Chamber of Commerce, Colombo, SKNNNUM. (Souvenir to Commemorate the Centenary of the founding of the Nattukottai Chettiar's Pilgrims Rest-house at Banaras) (Madras, 1963), p.140.
 5. W.S. Weerasooria, op.cit., p.XIV.

appear that their commercial involvement in the pre-British period was not of much significance.

It was really with the establishment of British rule over the island, followed by the lifting of the restrictions on internal and external trade and the gradual opening up of the country, that the Chettiars found profitable opportunities for the employment of their capital⁶. Thus, the view of the Chettiar Chamber of Commerce that the Chettiars had gone over to Ceylon only in 1820 is very likely a reference to the more organised migration of Chettiar Capital in modern times. Though the above article does not as such specify, it is possible that the first Chettiar firm in Ceylon was established in 1820⁷.

Though one is handicapped by the lack of sufficient data to probe deeply into the question of the evolution of Chettiar business in Ceylon over a span of a little more than a century starting from 1820, yet the limited available data does lend itself to a definite pattern. It clearly shows the manner in which the Chettiar firms in Ceylon responded, adjusted and adapted their business in the field of indigenous banking and trade to changing economic conditions. With this broad

6. W.S. Weerasooria, op.cit., p. 20.

7. Chettiar Chamber of Commerce, SKNNNV, p. 140.

framework serving as a backdrop, one can conveniently examine Chettiar activities in Ceylon under three broad phases, namely 1820 to 1860, 1860 to 1925 and 1925 to 1929/30.

The first phase, i.e. 1820 to 1860, shall be dealt with rather briefly, partly because it is outside the period of our study and partly on account of a paucity of sources of information for this period. During this phase Ceylon had as yet not assumed the role of the classic export oriented plantation economy. In other words, Ceylon, though in the process of, was as yet not fully integrated and assimilated into the world capitalist system. This came about only with the development and maturing of the coffee industry in the post-1850 period⁸. The coffee industry was, during the first phase, still in its infancy, and among the chief products exported during this period to U.K. and Europe by the European merchants were Cinnamon, Coconut oil, Coir and a little Coffee. The imports consisted principally of grain from India, which was being handled almost entirely by the Chettiars⁹. There was during

8. B. Bastianpillai, "From Coffee to Tea in Ceylon - The Vissicitudes of a Colonial Plantation Economy." The Ceylon Journal of Historical and Social Studies, Vol. 7, No. 1, Jan.-June 1964, pp. 45-47.

9. H.D. Andree, "The Progress of Banking in Ceylon," in A.M. Ferguson's Ceylon Directory, 1876-78; quoted in W.S. Weerasooria, op.cit., p. 26.

this period an absence of modern commercial banking institutions, and the demand for credit was to a large extent met by the Chettiars¹⁰.

Until the establishment of the European owned joint-stock banks in the latter half of the 19th century, the Chettiars were considered to be the major bankers of the island and in this capacity exerted, for a while, a powerful financial influence in the island. Their role as financiers assumed importance principally on account of the peculiar exchange problem of Ceylon during this period, which was one of meeting her trade deficit with India in rupees out of a receipt of excess sterling earned from her exports to England and Europe. Thus, sterling had to be converted into rupees¹¹. It was this vital function that was being performed by the Chettiars. Utilising their connections in South India, the Chettiars were able to arrange for remittances to and from India. As the Chettiars had a virtual monopoly over this business of discounting sterling bills into rupees, almost all the European merchants had dealings with them.¹²

There is also evidence that along with this money changing business, the Chettiars were also directly engaged in the internal and external trade of Ceylon.

10. W.S. Weerasooria, op.cit., p. 26; See also, D.M. Kannangara, "Formative Influences in Ceylon's Banking Development," C.J.H.S.S., vol.3, No. 1, p. 83.

11. Compton Mackenzie, Realms of Silver - One Hundred Years of Banking in the East (London, 1954), p. 90.

12. W.S. Weerasooria, op.cit., p.26.

Supramanian Sathy MRS Sr.
 To La Fonciere (Cie. d'Yonnaise Reunis)

| | |
|---|------------|
| To Premium on Pol. No. 49627 covering 109 bags rice shipped per Sr. Bhusudara ^{via} to Galle for Rs 400/- @ one % | 7 4 3 1/2 |
| Less Discount @ 10 % | 6 11 3 1/2 |
| Stamp fee | 1 2 3 1/2 |
| To 2 1/2 % Clar turn off Direct @ 10 Bapches | 6 6 3 1/2 |

Calcutta, 20th Aug. 1895

Received Payment
 Walter Howard & Co
 Agents

Sm

The above specimen document is a receipt for the freight paid by a Chettiar for shipment of rice from Calcutta to Galle in Ceylon, dated 20 August, 1895.

Particularly noteworthy in this context is the importation of rice by them into Ceylon¹³. As stated earlier, this rice was procured and shipped from Bengal by the Chettiar business houses¹⁴. Rice was also secured from the Tanjore area of South India¹⁵. The importance of the rice trade of the Chettiars is brought out by the fact that the European merchants paid large sums of money to the Chettiars for the rice brought by them¹⁶. There is also evidence that the Chettiar finances were utilised in transporting the little native coffee that was produced from the interior to the principal trading centres of Ceylon¹⁷. There is also evidence that the Chettiars conducted, particularly in Colombo,

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13. Chettiar Chamber of Commerce, Colombo, SKNNNVVM, p. 140. According to this source, the Chettiars had been conducting this business since as early as 1820.
14. Somalay, "Calcutta", SKNNNVVM, p. 41; see also, A. Savarinatha Pillai, Written Evidence, M.P.B.E.C.R., Vol. III, 1929, p. 1170.
15. A. Savarinatha Pillai, M.P.B.E.C.R., p. 1170.
16. John Capper, Old Ceylon Or Sketches of Ceylon Life in the Olden Times (Colombo, 1877), quoted in W.S. Weerasooria, op.cit., p. 16.
17. Ibid., p. 16.

a large business in raw cotton. This lucrative branch of Chetti trade, however, went out of their hands with the shifting of the whole trade to Tuticorin and the abolition of the cash advance system¹⁸. So significant was their involvement in trade that it was said that "by the middle of the 19th century, the greater part of the Indo-Ceylon trade and the internal commerce of the island was either in their hands or at least largely financed by them."¹⁹ It is unfortunate that little else is known of their activities during this phase. We have no data on the number of firms that were operating in Ceylon, or the total working capital employed by them.

From the 1860's ^{the} colonial economy of Ceylon enters a new phase, a phase which witnessed the rise and growth of the plantation economy. Ceylon was hereafter cast in the role of producing certain specialised primary products such as coffee - and when the coffee industry declined owing to a blight towards the '80s of the 19th century - tea, rubber, coconut and its by-products, and of exporting the same to London and Europe.²⁰ In return the Ceylonese market was flooded with British manufactured goods. These plantation industries were largely developed with British

18. John Capper, Old Ceylon, quoted in Weerasooria, op.cit., p. 16.

19. W.S. Weerasooria, op.cit., p. xiv.

20. D.M. Kannangara, op.cit., p. 82.

capital and were also under British ownership and management. The cheap labour was, however, imported from South India.²¹ The energies of the British capitalists were, in the beginning of this phase, directed towards developing the coffee plantation industry. By 1870, the peak period of the coffee industry, coffee had become the mainstay of the economy. Coffee exports were the chief source of national income and a large section of the population and numerous occupations came to depend on the coffee crop.²²

Banking development in the island was closely conditioned by the above enumerated pattern of economic growth. With the large inflow of British private capital into the plantation industries by the middle of the 19th century and the consequent growth in foreign trade, there arose a need for organised banking and exchange facilities.²³ The European commercial banks, which made their appearance in the island during this period, were in fact the branches of well established British banks whose operations straddled across many colonial territories.²⁴

21. D.M. Kannangara, op.cit., p.82.

22. B. Bastianpillai, op.cit., pp.47-48.

23. J. Ferguson, Ceylon in 1893 (London & Colombo, 1893), p. 27; see also, D.M. Kannangara, op.cit., p.83.

24. D.M. Kannangara, op.cit., p.83.

The Bank of Ceylon (estd. 1841) was among the first European exchange banks to be established in Ceylon. This bank, however, failed very soon as a result of the coffee crisis that hit the island in 1848, and it was succeeded by the Oriental Banking Corporation.²⁵ Thereafter the Chartered Mercantile Bank and the Bank of Madras opened a branch each in Ceylon in 1854 and 1867 respectively.²⁶ Like the European banks elsewhere, those in Ceylon also were principally concerned with the financing of the foreign trade of the island.²⁷

Under these changed circumstances and conditions the Chettiars found that they could no longer enjoy their former ~~pr~~ pre-eminent position, and hence they very soon adjusted and realigned their business to the new conditions. With the emergence of the European banks the function of discounting sterling bills passed away from the hands of the Chettiars and they also lost their earlier dominant position as major suppliers of credit to the European merchants in Ceylon.²⁸

25. Compton Mackenzie, op.cit., p.14.

26. ibid., p.90; see also, Weerasooria, op.cit., p.20.

27. Vysiamitran, 19-3-1917, p. 4 & 25-12-1916, p. 4; see also, D.M. Kannangara, op.cit., p.91.

28. W.S. Weerasooria, op.cit., p.27.

They however made up for this loss by directing their activities and operations to newer areas. Thus, in the field of indigenous banking the Chettiars began, from '60s of the 19th century, the financing of the internal trade of Ceylon, the Ceylonese agriculturists, non-European plantations of coffee, coconut and later tea and rubber;²⁹ in the field of trade and commerce, in addition to importing rice, they also, during this period, began to deal in tobacco, cotton goods and other British merchandise.³⁰

The available evidence suggests that there were, in the 1870's, approximately 150 principal firms of the Chettiars in Colombo, with their branch firms located in Galle, Kandy, Gampola, Badulla, Haldumulla, Ratnapura etc.³¹ These firms, in addition to the money lending business, were also engaged in trade and commerce. Rice, apart from being the most important of the commodities in which they traded, was also the commodity in which they traded the longest, viz. 1820-1920. Making good use of their connections with their sister concerns in Calcutta, Burma and the Madras Presidency, they were able to secure large shipments of rice to Ceylon. So much so that they had a virtual monopoly over this trade and in fact tended to profiteer in times of scarcity.

29. Vysiamitran, 19-3-1917, p. 4; see also, W.S. Weerasooria, op.cit., p. 28.

30. J. Capper, Old Ceylon, quoted in W.S. Weerasooria, op.cit., p. 16; see also, Weerasooria, op.cit., p. 20.

31. J. Capper, Old Ceylon, quoted in Weerasooria, op.cit., pp. 15-16.

In 1876-77, when rice was in short supply owing to famine conditions in India, it was said that the Chettiar rice importers tended to profiteer at the expense of the planters and the Ceylonese.³² Similarly, in 1914-18, taking advantage of the temporary scarcity of rice following the imposition of rice control, quite a number of Chettiars, particularly those from the Tirupattur area, were reported to have earned fortunes.³³ According to the evidence of A. Savirinatha Pillai, submitted to the Madras Banking Enquiry Committee, numerous Chettiars from the Tirupattur area "who were worth nothing before the war were found to possess surpluses of 10 lakhs or over after the termination of the rice control."³⁴ However, by 1920, this important and lucrative branch of their business in Ceylon began to decline. The "Vysiamitran" of 2-2-1920 attributed the decline of this business to the restrictions imposed by the Government on the trade. These restrictions included price control on rice and discriminatory railway and shipping-line freight rates.³⁵

Besides rice, the Chettiars were reported to have also traded in coffee, tobacco, cotton, and other British manufactured goods. Some of the Chettiar firms, it was said, traded in all these commodities,

32. B. Bastianpillai, op.cit., p. 48.

33. A. Savirinatha Pillai, M.F.B.E.C.R., Vol.III, p. 1179.

34. ibid., p. 1175.

35. Vysiamitran, 2-2-1920, p.4.

but generally the cloth merchants, or piece-goods Chettiars as they were known, would not deal in other articles, while the rice merchants were said to have traded in coffee;³⁶ some of the larger Chettiar firms even possessed fleets of ships for conveying goods from Ceylon to India and India to Ceylon.³⁷ There is also the interesting case of one Ramanathan Chettiar entering into a partnership with five other Chettiars and acquiring all the opium licenses in the island during the period 1908-09. Ramanathan Chettiar also had the monopoly of importing opium into Ceylon from Calcutta.³⁸

In this context, it is significant that nowhere else as in Ceylon did the Chettiars to such an extent pursue trade either solely or as an adjunct to money-lending. The possible reasons, since precise quantification is difficult, for this relatively greater involvement of the Chettiars in trade in Ceylon as compared to the Chettiars elsewhere, could be that during the first phase of their activity (1820-1860) the Chettiars found investment in trade relatively

36. J. Capper, Old Ceylon, quoted in Weerasooria, op.cit., p.15.

37. W.S. Weerasooria, op.cit., p.20.

38. ibid., p.142.

more profitable than moneylending. This question cannot, however, be fully answered without carrying out a detailed study of the relative profitability of investment in trade and moneylending during this period. Secondly, given that the plantation economy had not fully developed and matured until the 1850's, it is possible that the demand for credit was not great enough to necessitate an expansion of their moneylending business.

Having once entered and invested in trade in the period 1820-1850, it was perhaps far easier for them to continue with it in the latter phase than would have been the case otherwise, i.e. if the initial investment had been in the field of moneylending. This is corroborated by the fact that the Chettiars in Burma and Malaya commenced their activities in the field of moneylending, and though some of them did succeed in branching out to trade and other fields of economic activity, the large majority of them stuck to moneylending.

Yet another possible reason for the relatively greater involvement of the Chettiars of Ceylon in the field of trade may have been the lack of stiff competition from the Ceylonese and non-Chettiar Indian traders, which was not the case in Burma and Malaya. The proximity of Ceylon to South India, and hence the

relative ease in transporting goods between these places, may have been another contributory factor.

Unfortunately for the period 1860-1925, for want of data, we have no means of knowing the volume of Chettiar capital invested in trade or even in moneylending.

Turning to their moneylending business we find that it was during the phase 1860 to 1925 that the Chettiars began to extend their operations in this field in response to the increasing demand for credit from the Ceylonese, to the large majority of whom the exchange banks were inaccessible because of the stiff standards of credit-worthiness laid down by them.³⁹ Moreover, bank lending was basically geared to the financing of the foreign trade of the expatriate firms in the island.⁴⁰ In view of these circumstances, the Chettiars, with the help of the large pool of capital at their disposal and the well-organised network of firms straddling the island, provided the answer to the increasing indigenous demand for credit both in the urban and rural sectors of the island.

In the rural sector the Chettiars were a source of credit to the large number of Ceylonese having small coffee and coconut holdings.⁴¹ Along with coffee the

39. D.M. Kannangara, op.cit., p. 90.

40. ibid., p. 91; see also, Vysiamitran, 19-3-1917, p. 4

41. Weerasooria, op.cit., p.28.

coconut crop was, from the latter half of the 19th century, gaining importance as an export item. In 1960 it was estimated that coconut occupied about 2,00,000 acres of land. By 1900 it occupied as much as 6,00,000 acres.⁴² Coconut, unlike coffee and tea, was essentially a peasant product, grown in small holdings, requiring relatively less capital investment and care than coffee.⁴³

There were, besides the large scale European coffee plantations, numerous small coffee holdings under the ownership of the Ceylonese. The finances that were required for the initial investment in these Ceylonese coffee and coconut holdings was, to a large extent, provided by the Chettiars.⁴⁴ In the 1870's it was said that some of the large Chettiar firms had given out advances of as much as 50,000 pound-sterling

42. S. Rajaratnam, "The Growth of Plantation Agriculture in Ceylon 1886-1931", C.J.H.S.S., Vol. 4, No. 1, Jan.-June 1961, p. 9.

43. ibid., p. 9.

44. Memorandum of Ceylon Nattukottai Chettiar's Association submitted to Ceylon Banking Commission, quoted in W.S. Weerasooria, op.cit., p. 52.

in cash and rice to the planters.⁴⁵ In addition to providing credit to estate owners, the Chettiar firms in the interior areas extended credit to petty dealers and middlemen.⁴⁶

In the urban areas the Chettiars were said to be an important source of credit to retail merchants, coconut millers, arrac renters and the Ceylonese importers and exporters. The traders and businessmen were generally provided with short term loans on promissory notes payable on demand or on notes supported by immovable property. The duration of these loans was between one and three months. The long term loans, secured generally by the owners of the estate and other holdings were advanced on the mortgage of land holdings. The rate of interest for both short and long term loans, depending on the security offered, was said to have varied between 15% and 84%.⁴⁷

The Chettiar firms during this period also did an extensive business in discounting the bills or hundis of the traders. According to A. Savirinatha Pillai, as many as 50% of the Chettiar firms in Ceylon did this kind of business.⁴⁸ Under this transaction Chettiars advanced money to traders on bills which ran from one

45. J. Capper, Old Ceylon, quoted in Weerasooria, op.cit., p. 16.

46. W.S. Weerasooria, op.cit., p. 28.

47. Ibid., p. 29.

48. A. Savirinatha Pillai, M.P.B.E.C.R., p.1117.

to four months. The bill bearing the endorsement of another Chettiar was subsequently brought to the commercial banks and discounted.⁴⁹

Thus, through this business an indirect relationship came to be established between the Chettiar firms and the European banks. A more direct relationship between the banks and some of the large Chettiar firms was the short term loan provided by the former to the latter.⁵⁰ While in the pre-1860 phase the Chettiars had carried on the business entirely with their own capital, in the post-1860 period, with the enormous growth in their moneylending business, this additional supply of capital made available to some of the firms by the banks was of great importance. This arrangement was convenient to the banks since it solved the problem of the utilization of surplus funds. In fact, as the Ceylon Banking Commission put it, "with some of the exchange banks the Chetty business formed a subsidiary branch of activity to utilize their surplus funds when there was no scope to employ them for short periods."⁵¹ The duration of

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49. Arnold Wright, ed., Twentieth Century Impression of Ceylon, quoted in Weerasooria, op.cit., p. 25.

50. W.S. Weerasooria, op.cit., pp. 28-29; see also, Arnold Wright, op.cit., quoted in Weerasooria, op.cit., p. 25.

51. Ceylon Banking Commission Report, Vol. I, para 293, quoted in Weerasooria, op.cit., pp. 28-29.

the loans extended by the banks to the Chettiar firms were on a short term basis, ranging from one to three months.⁵²

In advancing these surplus funds the banks were governed by certain well defined procedures which precluded a large number of the smaller Chettiar firms from being obliged by the banks. In order to be accommodated, the Chettiar firms had to initially provide large securities along with recommendations and references from Madras.⁵³ Alternatively, the banks were, in this respect, governed by the "list of the Chettiar firms in Ceylon which was prepared by the Head Office of the 'Imperial Bank of India'."⁵⁴

Similarly, the limits to the advances to be made to the Chettiar firms in Ceylon were also invariably fixed by the Head Office of the bank. This was because the Chettiars borrowed not only in Ceylon but also in India, Burma, Malaya etc., and therefore, in advancing loans, the banks had to determine the total risk they had to take on each individual Chettiar or Chettiar firm.⁵⁵

Once these conditions were fulfilled, the banks were

52. Weerasooria, op.cit., p. 33. However, these loans were for all practical purposes of a much longer duration since the Chettiars borrowed from different banks and as the date of repayment varied from bank to bank, they could very conveniently borrow from one bank to repay the other (Weerasooria, op.cit., p.34.)

53. Ceylon Banking Commission Report, Vol. II, quoted in Weerasooria, op.cit., pp. 29-30.

54. Weerasooria, op.cit., p. 34.

55. ibid., p. 34.

prepared to make advances even without much security, as was generally the case until the "Chetty Crisis of 1929". These advances were taken by means of overdrafts, promissory notes and time notes. The maximum amount given to a Chettiar by the bank at a particular point of time was about Rs. 2 lakhs.⁵⁶ The rates of interest charged by the banks on such short term advances was usually 2% to 3% above the normal bank rate, which in those days varied between 5% and 6%.⁵⁷

The funds so obtained by the Chettiars were put to several uses. Under the system of inter-Chettiar lending they were made available to those Chettiar firms who did not have access to the banks; it was lent to their various Ceylonese clients as short term loans; it was also used for financing their rice imports into Ceylon. Over and above all this it was sometimes transferred to their sister concerns in Burma and Malaya.⁵⁸ The importance of this additional supply of working capital is seen from the fact that between 1900-1925 the banks, on an average, advanced loans to the Chettiars to the tune of about Rs. 25 million.⁵⁹

56. W.S. Weerasooria, op.cit., p. 33.

57. ibid., p. 29.

58. ibid., p. 36.

59. ibid., p. xv. According to Mr. Tambyah, who was the deputy-shroff of one of the exchange banks between 1913-25, the peak figure of such advances was Rs. 30 to 40 million. (Evidence before Ceylon Banking Commission, quoted in Weerasooria, op.cit., p. 33.)

The period 1860-1925, ^{was} on the whole, the peak period of Chettiar business, as is indicated by the enormous growth in the number of Chettiar firms operating in the island. Between the 1870's and 1916 there was very nearly a fivefold increase in the number of Chettiar firms in Ceylon, viz. from 150 to 700.⁶⁰ According to the "Vysiamitran" of 25-12-1916, of the 700 Chettiar firms in Ceylon, as many as 50% of them conducted money-lending while the remaining were engaged in a variety of trades and commerce.⁶¹

However, the money lending business of the Chettiars appears to have suffered a setback around 1918 as a result of the promulgation of a moneylending ordinance in that year. The ordinance, preceded by a regulation, sought to fix a ceiling on the rates of interest that could be charged on moneylending transaction.⁶² Expressing its resentment on the regulation the "Vysiamitran", in its editorial of 25-12-1916, said that not even one of the 300 Chettiar firms in Colombo had been taken into confidence before the introduction of this regulation. The editorial further stated that in passing the regulation the government had failed to take note of the contribution of the Chettiars to the economic development of the island. The editorial added that while the European banks had been principally

60. Vysiamitran, 25-12-1916, p.4.

61. ibid., p.4.

62. W.S. Weerasooria, op.cit., p.156.

concerned with the financing of foreign trade, it was the Chettiars who had financed the internal trade and met the vast indigenous demand for credit. In its conclusion, the editorial stated that if the regulation was strictly enforced a number of Chettiars operating in Ceylon would have to close down their business.⁶³

For want of data we are unable to ascertain precisely the effect of the ordinance of 1918 on their moneylending business and following it closely, the effect of the set-back to their rice trade in 1920. The available inferential evidence, however, tends to suggest that there was not any major crisis in their overall business on account of these setbacks. Had it been so it would have been reflected in the available figures relating to the number of Chettiar firms during the period 1916-25. As it is, the total number of Chettiar firms increased rather than decreased. It increased from 700 in 1916 to well over 800 by 1925.⁶⁴ Moreover, in view of the fact that the Chettiars were engaged in diverse fields as mill owners, transport agents, general merchants, exporters of curry stuff, etc.,⁶⁵ one would be inclined to believe that the Chettiars overcame whatever setback there was to their rice trade and money lending

63. Vysiamitran, 25-12-1916, p.4.

64. W.S. Weerasooria, op.cit.; p.23.

65. ibid., p.22.

TABLE NO. 3.
AVERAGE WHOLESALE PRICE OF CEYLON PRODUCE
 (Colombo Market Prices)

| Year | Rubber (per lb) Rs. cts. | Tea (per lb) Rs. cts. | Copra (per cwt) Rs. cts. | Desicated coconut (per lb) Rs. cts. | Coconut oil (tons) Rs. cts. | Cocoa (cwt) Rs. cts. |
|------|--------------------------------|-----------------------------|--------------------------------|--|--------------------------------------|----------------------------|
| 1921 | -52 | -71 | 87-16 | -26 | 629-03 | 28-23 |
| 1922 | -53 | -85 | 78-52 | -22 | 538-13 | 37-77 |
| 1923 | -88 | 1-02 | 87-61 | -24 | 584-05 | 35-71 |
| 1924 | -75 | 1-04 | 85-42 | -22 | 574-11 | 33-30 |
| 1925 | 1-73 | -96 | 80-36 | -20 | 543-17 | 33-17 |
| 1926 | 1-21 | -99 | 79-40 | -20 | 539-36 | 30-41 |
| 1927 | -95 | -94 | 76-88 | -19 | 491-73 | 52-22 |
| 1928 | -55 | -85 | 76-22 | -16 | 489-02 | 58-89 |
| 1929 | -52 | -81 | 64-47 | -16 | 412-33 | 53-46 |
| 1930 | -27 | -75 | 52-36 | -13 | 351-63 | 37-51 |
| 1931 | -14 | -37 | 35-06 | -10 | 251-52 | 29-71 |

Source : S. Rajaratnam 'The Growth of Plantation Agriculture in Ceylon, 1886-1931', The Ceylon Journal of Historical and Social Studies, Vol. 4, No.1, Jan-June 1961, p.18.

business by diverting their capital to one or the other areas of investment. At any rate, 1925 marked the end of the prosperous years of Chettiar business activity in Ceylon.

The period 1925-30 was marked by a gradual worsening of the economic conditions of the island. Commencing from 1925, there was a steady decline in the prices of tea, coconut and its products, and rubber, until they slumped to almost rock-bottom level in 1930-31,⁶⁶ as is shown in Table No. 3.

Thus, the island's prosperity was dependant upon the income derived from exports of tea, coconut and rubber which together constituted about 90% of her exports⁶⁷ (See Table No.4). On the other hand, Ceylon's proportional contribution of tea, rubber and coconut to the total world output was relatively small viz. 25%, 9% and 25% respectively.⁶⁸ The heavy dependance of Ceylon upon the world for marketing these three principal commodities, and the smallness of its share of the total world output, made these commodities extremely vulnerable to price fluctuations, and hence the alternating periods of boom and depression in Ceylon. This instability inherent in "the economic structure of the country was forcibly revealed with the onset of the depression."⁶⁹

66. S. Rajaratnam, op.cit., p.18; see also, Colonial Reports, Annual No.1732, Annual Report of the Social and Economic Progress of the People of Ceylon, 1934, (London, 1935), p.58 and p.59.

67. S. Rajaratnam, op.cit., p.18 & p.20.

68. ibid., p.16.

69. Colonial Report, 1934, op.cit., p.52.

TABLE NO. 4.

EXPORT TRADE : PERCENTAGE OF TOTAL VALUE : 1921-29

| | <u>1921</u> | <u>1922</u> | <u>1923</u> | <u>1924</u> | <u>1925</u> | <u>1926</u> | <u>1927</u> | <u>1928</u> | <u>1929</u> |
|---------------------------|-------------|-------------|-------------|-------------|-------------|-------------|-------------|-------------|-------------|
| Arecanut | 1.3 | 1.1 | 1.1 | - | - | - | - | - | - |
| Cinnamon | - | - | - | - | - | - | 1.1 | 1.3 | - |
| Cocoa | - | 1.1 | - | - | - | - | - | - | 1.0 |
| Coconut and manufactures: | | | | | | | | | |
| Desicated coconut) | 10.4 | 6.8 | 6.5 | 5.7 | 3.8 | 3.4 | 4.6 | 5.1 | 2.9 |
| Coir) | - | 1.1 | 1.3 | 1.4 | - | - | 1.2 | 1.2 | 1.1 |
| Copra) | 9.5 | 9.7 | 5.2 | 8.0 | 7.8 | 7.8 | 7.1 | 8.1 | 6.5 |
| Coconut oil) | 5.9 | 5.0 | 4.0 | 4.1 | 3.4 | 3.1 | 3.7 | 4.9 | 4.4 |
| Rubber | 21.0 | 22.4 | 17.9 | 37.6 | 36.6 | 36.6 | 28.9 | 20.6 | 22.9 |
| Tea | 43.9 | 49.0 | 52.9 | 55.8 | 40.5 | 42.3 | 40.6 | 51.3 | 50.4 |
| Specie gold | - | - | - | - | - | - | - | - | 4.0 |
| Others | 8.1 | 6.2 | 6.6 | 7.1 | 6.9 | 6.7 | 6.0 | 7.7 | 6.8 |

Source : Colonial Reports - Annual No.1507, Ceylon, Report for 1929,
 Printed in Ceylon & London, Published by His Majesty's
 Stationery Office, 1930, p.107.

The economic crisis that overtook Ceylon from the mid 20's of the 20th century was a reflection of the basic instability inherent in a colonial economic structure that had been integrated into the world capitalist system.

It was under these conditions that from 1925 onwards Chettiar business operations began to shrink rapidly. The first of these setbacks was the failure in 1925 of the famous ARARSM Chettiar firm and a number of other smaller firms.⁷⁰ The failure of these firms can largely be attributed to the rather sudden adoption of a restrictive credit policy by the banks.⁷¹ This sudden change in the bank policy was, however, only a reflection of the changing economic situation. As stated above, by 1925 the prices of tea and coconut had begun to fall, consequently the banks, anticipating "depreciation of the securities in their hands"⁷² began to recall all outstanding loans. Being unable to meet the sudden pressure put on it by the bank, the ARARSM firm (conducting extensive trading and moneylending business in Ceylon and India) collapsed and dragged down

70. Weerasooria, op.cit., p.38. The ARARSM firm was a partnership firm held by three Chettiars with its principal business in South India and branches in Ceylon.

71. Memorandum of the Ceylon Nattukottai Chettiars Association to Ceylon Banking Commission, quoted in W.S. Weerasooria, op.cit., p.127.

72. Memorandum, Chettiar Association, quoted in Weerasooria, op.cit., p.127.

with it several other smaller Chettiar firms. The firm, heavily in debt both in India and Ceylon, was consequently declared insolvent on June 22nd 1925. It was found that while the assets of the firm in India were 8½ lakhs its liabilities were as much as 37 lakhs. Similarly, while its assets in Ceylon were around Rs. 1½ lakhs its liabilities amounted to Rs. 17 lakhs.⁷³

The failure of the ARARSM firm revealed a number of malpractices indulged in by this firm for enhancing its credit with the banks, private individuals and the business houses which had been depositing money and giving credit to the firm. Upon further enquiries it was revealed that some of the other Chettiar firms were also guilty of similar practices. The banks found that "many of the securities offered to them by the Chettiars were not safe and ... adequate."⁷⁴ This alarmed the banks which decided to not only revise the securities on which they had all this while been making advances, but to altogether suspend credit facilities to the Chettiar firms and to recall all outstanding loans.⁷⁵ This caused

73. W.S. Weerasooria, op.cit., p.38.

74. Ceylon Banking Commission Report, Vol. II, p.253, quoted in Weerasooria, op.cit., p.38.

75. According to the Ceylon Chettiar Association, during this period the Imperial Bank of India reduced its advances to the Chettiar firms from Rs. 75 - Rs. 100 lakhs to Rs. 6 lakhs. (Memorandum of Chettiar's Association to Ceylon Banking Commission, quoted in Weerasooria, op.cit., p.39.)

a chain reaction, with the larger Chettiar firms putting pressure on the smaller firms, the latter in turn putting pressure on their Ceylonese debtors. The strain of the sudden and unexpected pressure from the banks was too much for some of the moneylending firms to sustain, and resulted in what came to be known as the "Chetty Crisis of 1929", which saw quite a few of the Chettiar firms either suspending their business operations or winding up permanently.⁷⁶

Coming close on the heels of the Chetty crisis, the world wide depression of 1929-30 made it well nigh impossible for the Chettiar firms in Ceylon to obtain any financial assistance from their branch firms in the various parts of South East Asia in order to tide over the earlier crisis.⁷⁷

The depression, as stated above, further aggravated the already bleak economic situation, by sharply bringing down the prices of rubber, tea, coffee, coconut, etc. There was an "abnormal fall in export values ... accompanied by a corresponding shrinkage of incomes."⁷⁸ Particularly hard-hit by this disruption of the economy were the innumerable small holders, estate owners, peasant

76. W.S. Weerasooria, op.cit., pp.40-41.

77. ibid., p.29.

78. Colonial Reports, 1934, op.cit., p.52.

proprietors and many others who depended on the plantation industry.⁷⁹ Unable to repay their loans to the Chettiars they found their lands and estates pass into the hands of the latter. The Chettiars on their part found themselves saddled with lands, estates etc. whose value had, during the depression, shrunk considerably. The depression, by freezing their liquid capital into immovable property, upset the delicate balance between the two which they had till then striven to maintain. The Chettiar crisis of 1929 and the great depression of 1930 revealed the danger of mixing up short term liabilities with long term investment of financing.

This period witnessed the collapse of several small and some large firms as well. All in all it was a grim picture of a general failure of business and along with it a failure of the Chettiar money-lending system. Moreover, about this time, viz. the 30's, when the island was in the throes of the depression, the introduction of Income-tax in Ceylon became imminent and in order to avoid the payment of double tax, viz. in India and Ceylon, the Chettiars were said to have repatriated a large amount of their capital to India.⁸⁰

79. Colonial Reports, 1934, op.cit., p.52.

80. Memorandum of the Ceylon Nattukottai Chettiars Association to the Ceylon Banking Commission, quoted in Weerasooria, op.cit., p.127.

Consequently, Chettiar investment in Ceylon came down from Rs. 150 million in 1929⁸¹ to Rs. 100 million⁸² by 1934.

Likewise, there was a drop in the number of firms doing business in Ceylon from over 800 in 1929 to 556 by 1934.⁸³

On account of all these developments in this period, it was reported that many Chettiar firms abandoned money-lending altogether and diverted their capital to trade, industry, estate ownership and to such areas that seemed to offer better security for their capital.

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81. According to the estimate of the Ceylon Banking Commission, the working capital employed by the Chettiars in their business prior to the onset of the depression was approximately Rs. 15 crores. Of this, 8½ crores was said to be their own capital, 4 crores were deposits from their relatives in South India, and the remaining 2½ crores were advances from the European Banks in Ceylon (W.S. Weerasooria, *op.cit.*, pp.23-24.) Interestingly, the above estimate of their total working capital in Ceylon of Rs. 15 crores also tallies with the estimate of A. Savirinatha Pillai (Written Evidence, *M.P.B.E.C.R.*, p.1174.) and "The Dhanavanikan" of 1930 (See Vol. I, No.3 of the Tamil month "Thai") The Burma Banking Enquiry Committee however, estimated their working capital to be Rs. 14 crores (*B.P.B.E.C.R.*, Vol. I, pp.210-211.) Unfortunately, none of these sources provide the sectoral distribution for the pre-1930 period, viz. the volume of capital invested in money-lending, trade, commerce, estate-ownership etc.
82. W.S. Weerasooria, *op.cit.*, p.126. According to the Ceylon Banking Commission, of the Rs. 5 crores that went out of action in Ceylon during the depression, Rs. 2 crores 60 lakhs was repatriated to India, while Rs. 2 crores 40 lakhs were bank loans that were repaid. (Weerasooria, *op.cit.*, p.126.)
83. *ibid.*, pp.22-23.

CHAPTER IITHE PATTERN OF CHETTIAR ENTREPRENEURSHIP
IN THE OVERSEAS COUNTRIES : CEYLON, MALAYA,
BURMA.SECTION IICHETTIAR ENTERPRISE. IN MALAYA

The age old traditions and folklore of the Chettiar community suggest the existence, from very early times, of commercial connections between the Chettiars and Malaya.¹ However, such trade connections, sporadic and temporary as they were, need to be clearly distinguished from the modern phenomenon of organized penetration of Chettiar capital from the early 19th Century onwards into regions in the Malay Peninsula which had come under colonial rule, namely, Malacca, Penang and Singapore.

The entry of Chettiar capital and its subsequent participation in the Malayan economy can very broadly be classified into two phases. The first, from the time, or very soon after, the establishment of British colonial rule in certain regions in the Malay Peninsula in the early 19th century until the last quarter of the 19th century, viz. when Malaya was beginning to be

1. M. Subramanian, 'Malayavil Nagaratharkalin Theyva Thirupani' (Tamil) S.K.N.N.N.V.M. (Madras, 1963) p.116. see also, P.N.M. Muthupalaniappa Chettiar, Malayavin Thotram (Tamil) Happy Malaya (Penang, 1938), p.41.

integrated into the world economy as indicated by (a) the expansion of Britain's territorial possession or sphere of influence in the region and (b) the subsequent colonial economic exploitation of these regions as evidenced by the introduction of export oriented cash crops (principally rubber), and the production and export of tin. The second phase can be considered to have commenced from the time of the integration of Malaya into the world economy until the world depression of 1930. In short, it is proposed to examine the activities of the Chettiars within the parameter of the colonial economy of Malaya.

Beginning with the establishment of Penang in 1786,² the British gradually opened up more and more of the Malay Peninsula. Thus Wellesley was established in 1800, Singapore in 1819 and the Dindings in 1826.³ Singapore and Penang were by far the most important commercially : by 1825 Singapore was handling over three-fifth of the total trade of South-East Asia "while Penang had rather more than a quarter of it."⁴

2. Allen and Donnithorne, Western Enterprise in Indonesia and Malaya, (London, 1957), p.21.

3. Sandhu, Indians in Malaya, Some Aspects of Their Immigration and Settlement (1786-1957), (Cambridge, 1969), p.4.

4. Allen and Donnithorne, op.cit., p.38.

Singapore made rapid progress in the following years and on account of its convenient geographic location became an important entreport for the whole of South-East Asia and even South China. It not only handled spices and other primary products of the Archipelago but was also a channel through which manufactured goods of the west reached the interior of the Peninsula.⁵

Moreover, a favourable climate for trade and commerce in Malaya was largely created with the establishment of British rule. The relaxation, if not the abandonment, by the British of several restrictive mercantilist arrangements of the Dutch;⁶ the substitution of the monopolistic trade policy of the Dutch with a policy of free trade;⁷ the creation of a modern fiscal system in place of semi-fuedal devices of raising revenues;⁸

5. Allen and Donnithorne, op.cit., p.38.

6. Under a regime of State monopoly in all lucrative trade, the traders did not find much scope for their activities. Thus nationals of other countries, though allowed to trade in the Dutch possessions, were subject to discriminatory duties. See Allen & Donnithorne, op.cit., p.20.

7. Allen & Donnithorne, op.cit., p.21.

8. ibid., p.21.

and lastly, the establishment of unified political and administrative system, were some of the measures that created this favourable or congenial climate for trade and commerce and thus attracted a large number of traders, merchants and businessmen of Asian origin to this region. Prominent among them were the Chinese, and the Chettiars of South India.

It was in Malacca around 1808 or there about that the Chettiars established their first firms.⁹ This was followed by their entry into Penang¹⁰ around 1828, and into Singapore "soon after its establishment as a British port"¹¹ The entry of Chettiar capital into these regions was, as in Ceylon, effected through the medium of agencies, or firms represented by agents.¹²

Until the commencement of the commercial production of rubber and tin in the late 19th century, the Chettiar firms were concentrated in the three principal British

9. P.N.M. Muthupalaniappa Chettiar, op.cit., p.151.

10. ibid., p.99.

11. A Petition of Nattukottai Chettiars of Malaya to His Excellency Admiral Lord Louis Mountbatten, Supreme Allied Commander, South East Asia Command, Singapore, dated 1945, p.1.

This document was consulted by me in June 1973 at the residence of the Late Shri S.M.R.M. Solayappa Chettiar, Hony. Secty., The Nattukottai Chettiar Association, Burma.

12. K.S. Sandhu, op.cit., p.291.

No.

Bearing Interest at *36* per Cent per Annum, from the date of this Note.

55

MALACCA, *23rd* March 1878

ON DEMAND, we, the undersigned,

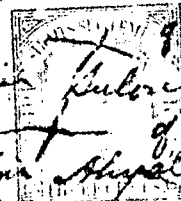
Ahyat bin Sulong and Mamat bin Ahyat

jointly and severally promise to pay to Vienna Bana Pana Rina Chitteppa Chitty,
or Order the sum of Spanish Dollars *fifty five (\$55-)*



For Value Received.

mark
Ahyat bin Sulong
mark
Mamat bin Ahyat



A specimen promissory note of a Chettiar firm of Malacca, dated 23rd March, 1878.

possessions of Penang, Malacca and Singapore where, until the advent of modern banks, they were "the main source of medium and long term credit in Malaya".¹³ Even after the establishment of the banks - around the middle of 19th century - the Chettiars continued to be an important source of long and short term credit for a large number of small and medium Indian and Chinese traders, artisans, tin miners, etc.¹⁴. In their moneylending business, the Chettiars provided loans against movable and immovable property as well as against promissory notes¹⁵.

The operations of the European joint stock banks in Malaya were very much of the conventional colonial pattern of banking; namely, of "exchange operations with London, India and China"¹⁶ and the financing of the foreign trade of the region.¹⁷ During the 19th century, only the very large European and Chinese merchant houses had direct dealings with the banks, while the larger number of small and medium Chinese and Indian traders, to whom the banks were inaccessible, had to rely for credit on sources

13. K.S. Sandhu, op.cit., p.292.

14. Allen & Donnithorne, op.cit., p.205.

15. A Petition of Nattukottai Chettiars of Malaya to Lord Mountbatten, op.cit., p.1.

16. Allen & Donnithorne, op.cit., p.204.

17. ibid., p.204.

such as the Chettiars. In fact, so important had the Chettiars become as a source of credit to the Asian traders in Malaya that by 1867 "Most of the Singapore opium trade passed through their (Chettiar) hands"¹⁸. Their knowledge of the credit-worthiness of the small and medium Chinese and Indian traders, coupled with their financial standing and reputation as business men of shrewdness and competence, enabled the bigger Chettiar firms to secure financial accommodation with the European banks in the form of fixed loans and overdrafts on current accounts against the security of bills or title deeds to property, besides the discounting of bills.¹⁹

The discounting of "Hundis" or financial bills of the Chinese traders was an important activity of the Chettiar firms in Malaya during the 19th century. These bills were later rediscounted by the Chettiars at the European Exchange Banks with whom they had financial dealings and thus placed themselves with funds. The banks derived "a considerable part of their revenue from this type of business".²⁰ Thus, in 1872, "almost all the local bills discounted at

18. Compton Mackenzie, Realms of Silver, One Hundred Years of Banking in the East, (London, 1954), p.108.

19. ibid., p.109; see also, Allen & Donnithorne, op.cit., p.205.

20. Allen & Donnithorne, op.cit., p.205.

the Singapore branch of 'The Chartered Bank of India, Australia and China') were acceptances drawn at two or three months date by these groups (Chettiars) on Chinese purchasers of opium".²¹ The position in 1880 was still much the same : "The bulk of the local discounts were ... Chinese promissory notes endorsed over to the Chettiars, representing money borrowed from the latter for trade purposes".²² Similarly, the discounts at the Penang branch of the Chartered Bank "consisted almost entirely of promissory notes drawn by Chinese traders in favour of the local Chettiars"²³ An important feature at this time, of the dealings between the Chettiars and the Penang branch of the Chartered Bank was, the steady increase of the banks rupee sales on Calcutta and Rangoon, most of which were drawn by the Chettiars. The Chettiars "who had money laid down in India, Burma and the Straits"²⁴ would, if "the rate of exchange was favourable in the Straits ... draw on India and invest the proceeds in Penang and Singapore"²⁵; if otherwise, they would remit it back to India and Burma.

21. Compton Mackenzie, op.cit., p.109.

22. ibid., p.109.

23. ibid., p.112.

24. ibid., p.112. ibid., p.112.

25. ibid., p.112.

Although money-lending was their principal business, there is evidence of their involvement in trade as well. Thus, writing in 1930, A. Savirinatha Pillai, in his evidence to the Madras Banking Enquiry Committee, said, "They (the Chettiars) say that they have been trading in Singapore ... from about a hundred years back and that they used to sell in Malaya lungi cloths dyed in the East Coast of the Presidency (Madras)."²⁶ From the middle of the 19th century, the Chettiars assisted financially the Chinese merchants from the Straits Settlements to invest in the newly opened up Tin fields in Larut and Kualalumpur.²⁷

From the last quarter of the 19th century, significant changes were taking place in the colonial economic structure of Malaya. Colonialism during this period (1875-1914) entered a new phase, a phase which was marked by an intensification of the struggle for monopolised markets, sources of raw materials, cheap labour, and new spheres of investment. From an entrepôt for Eastern commerce, Malaya was, from the last quarter of the 19th century, assuming a new role in the British Imperial scheme : that of a major

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26. A. Savirinatha Pillai, Written Evidence, M.P.B.E.C.R. Vol. III, p.1170.
27. P.N.M. Muthupalaniappa Chettiar, op.cit., p.235 & p.253; see also, Kumari Malar (A Tamil Monthly) July 1973, for an extract from Karu SU SP Ramanathan Chettiar's Biography published in 1908 in Madras.

producer of agricultural and mineral raw materials for the industries of the west. The British colonial machinery played a very important role in preparing the ground materially and organizationally for the export of British private capital into Malaya. The first step in this direction was the decision by the colonial office to extend British influence and authority over the various Malay States. Accordingly, by 1914, through a process of conquest and treaty-negotiations, the whole of the Peninsula was brought under British control.²⁸ The Peninsula was then opened up for colonial exploitation, which manifested itself in the large-scale production of agricultural and mineral raw-materials, principally rubber and tin, for the world markets.²⁹

The second step was the establishment of the essential infrastructure. Consequently, by 1914 the Railways and the roads had penetrated into almost all the West Coast States and the rubber growing and tin mining areas (in these States) were directly linked by rail and road to the ports of Penang and Singapore.³⁰ Please see Map No.1

The pioneers in both rubber and tin industry were the Chinese entrepreneurs.³¹ An extremely enterprising lot, they took full advantage of the opportunities created as a

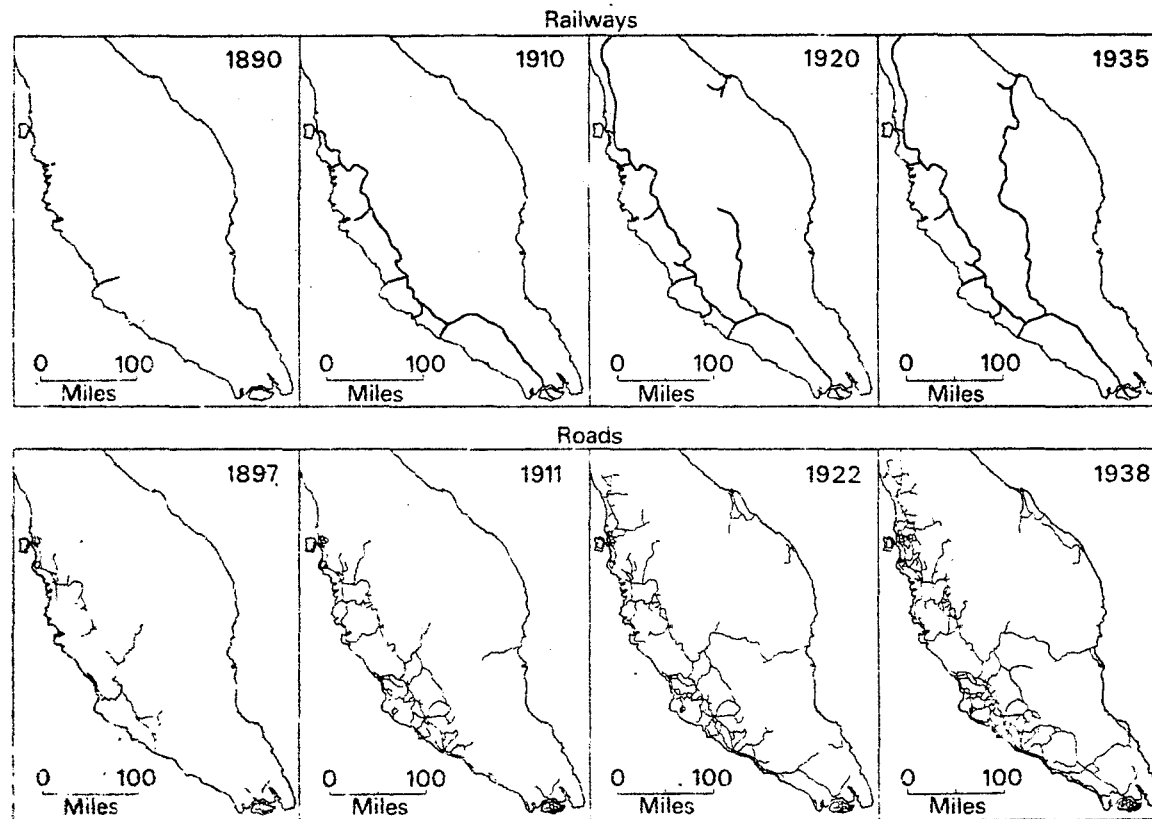
28. Allen & Donnithorne, op.cit., pp.40-41; see also, K.S. Sandhu, op.cit., pp.4-5.

29. Compton Mackenzie, op.cit., p.211.

30. K.S. Sandhu, op.cit., p.288.

31. Allen & Donnithorne, op.cit., pp.41-42.

MAP NO. 1.



The Development of Railways and Roads in Malaya 1887-1938.

Source : K.S. Sandhu, Indians in Malaya - Immigration and Settlement (1786-1957) Cambridge 1969, p.284.

result of the extension of British rule over the Malay States. However, the European, predominantly British business houses, were not too far behind. By the turn of the century the European houses of Singapore had begun to invest heavily in rubber ^{the} industries by calling upon the resources of London capital market.³² Prominent among such monopoly concerns were the Harrison and Crossfields, the Guthries, and the Dunlop Rubber Company.³³

In the meanwhile, with an increasing demand for natural rubber from the west (particularly from the automobile industry,) more and more land was brought under rubber cultivation. Thus, the acreage under rubber cultivation, which was 5000 in 1900, increased to 543,000 by 1911, and in 1938 it stood at 3,272,000.³⁴ By 1930 rubber covered nearly 2/3rds of the **total** cultivable land of the country.³⁵

An idea of the rapid growth of the rubber industry can be had from the following figures :

32. Allen & Donnithorne, op.cit., pp.41-42.

33. ibid., pp.112-14.

34. Sinnappah Arasaratnam, Indians in Malaya and Singapore, (Oxford, 1970), p.29.

35. Allen & Donnithorne, op.cit., p.42.

Net Exports of Crude Rubber from Malaya

| <u>Year</u> | <u>(In Thousand Long Tons)</u> |
|-------------|--------------------------------|
| 1900 | 1 |
| 1910 | 6 |
| 1913 | 33 |
| 1919 | 200 |
| 1927 | 232 |
| 1929 | 455 |

Source : Allen & Donnithorne; Western Enterprise in Indonesia and Malaya, p.295.

As in the rubber industry so also in the tin industry it was the Chinese who had been the pioneers in Malaya and, until 1910 controlled more than three quarters of the output of this industry. Thereafter, with the introduction of highly capitalized and mechanized mining (the use of dredges for instance), the Europeans were able to break the monopoly of the Chinese in the tin industry;³⁶ so much so that by 1930 the European, principally British owned, tin mines were responsible for 3/5ths of the output of tin in Malaya.³⁷ While tin was being produced from the early 19th century, the total output of tin until the last quarter of the 19th century was negligible.³⁸ In fact, large scale production

36. K.S. Sandhu, op.cit., p.279.

37. Allen & Donnithorne, op.cit., p.153.

38. K.S. Sandhu, op.cit., pp.278-79.

on a commercial scale began in the eighties of the 19th century "in response to the growing industrial needs of the Western nations".³⁹ Consequently, the output of the tin industry which was 26,000 tons in 1889⁴⁰ rose to 40,000 tons by 1895, 51,140 tons by 1904 and was 67,000 tons by 1929.⁴¹ Rubber and tin virtually became the mainstay of the colonial economy of Malaya. The importance of these two commodities in the economy can be seen from the fact that they accounted for 34% of the total exports in 1906 and by 1925 constituted 73% of the total exports.⁴²

It was to this transformed colonial Malaya that Chettiar capital increasingly sought to immigrate from the late 19th century. In other words, the development of the export trade in rubber and tin, together with the settled conditions brought about by British rule in Malaya, created opportunities and demands (in the areas that were opened up) that encouraged an inflow of Chettiar capital into these regions.⁴³ The spread of the Chettiar firms to the rubber producing and tin mining areas in the states on the West Coast of Malaya was quite rapid, as they fulfilled an essential role in the opening up of the country, viz. by supplying credit to the Malaya and the Chinese cultivators of rubber and the owners of tin mines. To the

39. Compton Mackenzie, op.cit., p.212.

40. K.S. Sandhu, op.cit., p.279.

41. P.N.M. Muthupalaniappa Chettiar, op.cit., p.242.

42. Allen & Donnithorne, op.cit., p.293 - Appendix V.

43. S. Nanjundan - Indians in Malayan Economy, (Govt. of India, New Delhi) N.D. p.10.

Chettiars, rubber estates and tin mines were attractive securities against which they could lend money. The importance of the Chettiars as financiers of rubber and tin enterprises increased all the more on account of the fact that bank credit was not easily forthcoming for such enterprises. The European banks were quite selective in providing credit facilities for such ventures, mainly because they were guided by the principal of "keeping the resources of the bank liquid and so available for exchange operations"⁴⁴ rather than having it locked up in risky long term projects (i.e. in rubber and tin enterprises). This being so, the estate owners and tin miners had to quite inevitably fall back on the Chettiars for their credit requirements.

The Chettiars, as financiers, have been associated from the very beginning with the commercial production of rubber in Malaya. Thus Tan Chayyan, who was the first to introduce rubber as a commercial crop in Malaya in 1895, was financially assisted in this venture by the Chettiars.⁴⁵

As in Burma, so in Malaya also, they were the main channel for the supply of rural credit. They lent money to the Malay peasants and land-owners largely in return for the mortgage of property and the deposit of their title deeds.⁴⁶ Their clientele also included the European planters, the Malay Royalty, Chinese tin miners and businessmen and the Indian

44. Compton Mackenzie, op.cit., p.225.

45. P.N.M. Muthupalaniappa Chettiar, op.cit., p.154.

46. S. Arasaratnam, op.cit., p.93.

traders.⁴⁷ The money was lent on such securities as Rubber Estates, Tin mines, Share Certificates of Companies and house properties.⁴⁸ The interest rate, depending on the security offered, varied between 12 and 36 per cent per annum.⁴⁹ Their moneylending business in Malaya was not for a portion of the year, as in Burma, but fairly continuous throughout the year.⁵⁰ In other words, the bulk of the credit they provided ~~was~~ on a long term basis. This was so because in Malaya they financed rubber cultivation in the main and consequently there was no particular season for credit, while in Burma the demand for credit was particularly high during the time of the agricultural operations only.⁵¹

As already indicated it was quite a common practise among the Chettiars to insist on mortgage of property and title deeds as security for the money lent. An inevitable consequence of this kind of lending was that land, rubber

47. K.S. Sandhu, op.cit., p.292.

48. A. Savirinatha Pillai, op.cit., p.1177.

49. ibid., p.1177.

50. ibid., p.1177.

51. BPBEER (1929-30), Vol.I, p.67.

gardens and tin mines began to gradually pass into the hands of the Chettiars.⁵² This phenomenon was, however, only partly the result of the logic inherent in the credit system of the Chettiars; it was partly an inevitable consequence of the structuring of the Malayan colonial economy into the world capitalist economy. The large scale production of rubber and tin for the world market made Malaya dependent on international business situations and hence created a fundamental instability in the economy and frequent crises in the rubber and tin industry.⁵³ Thus when prices fell, as they often did during times of crisis, the owners of rubber gardens and tin mines would, on failing to repay the loans,

52. S. Arasaratnam, op.cit., p.93.

53. This fact was realized by the Chettiars as early as 1920, as is revealed in the penetrating analysis of the crisis in the rubber and tin industry and its effect on the Chettiar moneylending business in the Chettiar Weekly Vysiamitran of 12.1.1920; see Editorial, 'Nagara Vysiarum Exchange Nilamayum'. p.4.

find the Chettiars foreclose on the mortgage and take possession of the property. These frequent crises produced two entirely different effects on the Chettiar firms: it was very unwelcome to the small Chettiar moneylending firms which conducted their business on small amounts of borrowed capital since it was essential to keep their limited funds liquid;⁵⁴ on the other hand, these crises proved very beneficial to the large Chettiar firms - who would wait for the prices of rubber and tin to appreciate before disposing off these assets for a profit.⁵⁵ In fact, a large number of Chettiar firms were reported to have taken advantage of these frequent crises in the pre-depression period by taking over rubber estates from the debtors at sacrifice prices to reap handsome profits when the prices stabilized a little later. Testifying to this, A. Savirinatha Pillai (in his written evidence to the Madras Banking Enquiry Committee) cites the case of a Chettiar in the Federated Malay States "whose assets 14 years back (viz. 1916) were worth 1.20 lakhs and are now (1930) worth 20 lakhs owing to the appreciation (in the price) of rubber".⁵⁶

Apart from acquiring rubber estates in this manner, viz. through moneylending, the Chettiars were also,

54. Vysiamitran, 12-1-1920, Editorial, p.4.

55. ibid., p.4.

56. A. Savirinatha Pillai, op.cit., p.1175.

particularly from the 1920's, independently investing their capital in rubber estates. Thus, there were a number of instances during this period of Chettiars either directly acquiring rubber plantations, or alternatively, bringing large tracts of virgin land under rubber cultivation; thus, O.A.R. Arunachellam Chettiar, the Agent of the "KVAL Chettiar firm" acquired (on behalf of the firm) between 1925-26 one thousand acres of forest land in the Jahore state and brought it under rubber cultivation. Thereafter the firm acquired some of the small estates in the adjoining areas and the entire plantation, with an area of about 1260 acres, was organised into a Private Limited Company. Floated as the Ayre Manis Estate Private Limited, the shares of the company were subscribed by the Chettiars (principally by KVALM Ramanathan Chettiar and Barrister KVALRM Alagappa Chettiar) and a few Indians.⁵⁷ The Nagappa Rubber Estate in the Jahore State is yet another example of Chettiar investment in rubber. This estate (established in 1926) with an area of 1700 acres belonged to the famous PKN Chettiar firm.⁵⁸

57. P.N.M. Muthu Palaniappa Chettiar, op.cit., (1938) p.155.

58. ibid., p.156. The P.K.N. firm conducted a wide variety of business ranging from money lending and trade to investments in land and estates in Burma, Ceylon, Malaya and India.

As in the former case, this estate was also created from virgin forest land. Some of the other leading figures in these ventures were the PRM, MRMM, MPM, PV and PMS Chettiar firms⁵⁹ and PRNR Arunachellam Chettiar.⁶⁰ This brief account disproves the notion that the Chettiars were only moneylenders and as such had no desire to become owners of rubber gardens but that "it was thrown upon them by the failure of the debtors to pay up."⁶¹

While it is true that the Chettiars had acquired considerable rubber gardens and land through moneylending both in the pre-depression period and during the depression, what is often not brought out in the existing, though scanty, literature on the Chettiars is this phenomenon of their investing capital in rubber estates independently of moneylending. In other words, when a profitable field of investment opened up before them, as in the case of rubber in the 1920's, the Chettiars took full

59. P.N.M. Muthupalaniappa Chettiar, op.cit., (1938) p.155.

60. ibid., pp.157-158. PRNR Arunachellam Chettiar came to Malacca from South India in 1913 and worked for a few years as an agent for one of the Chettiar firms in Malaya. Thereafter he set out to do business independently and acquired the "Senaka" and the "Jaya Kondar" Estates with an area of 928 and 960 acres respectively. Both these estates were located in the Jahore State.

61. P.J. Thomas, 'Nattukottai Chettiars - Their Banking System' in RSACCV, p.843.

advantage of the opportunity and thus by 1930 came to acquire a very large interest in rubber plantations and other landed properties. Thus almost all the Indian rubber estates, numbering 242 in 1931, together with the other Indian land holdings in the country were principally "owned ... by the Chettiar Tamils of South India ..."⁶² Although the exact figures of the total acreage of the rubber estates under their control is not available it is however known that the Chettiar ownership accounted for the greater part of the total Indian ownership of 87,795 acres in 1938.⁶³ Similarly, the Chettiars also made 'substantial profits out of the Chinese Tin mines'.⁶⁴ So much so that 'the Penang branch (of the Chartered Bank of India, Australia and China) was able to control the local rupee market through its connections with them'.⁶⁵

Credit was provided to the Chinese tin miners against the security of the Tin mine itself, or (if the tin mine happened to be a private limited company)

62. K.S. Sandhu, op.cit., p.263.

63. A. Arasaratnam, op.cit., p.96.

64. Compton Mackenzie, op.cit., p.224.

65. ibid., p.224.

against the share certificates of the tin manufacturing company.⁶⁶ Again, as in rubber, the Chettiars through moneylending came to acquire large interests in the Tin mining industry. This is borne out by an examination of the applications for claims, made by the various Chettiar firms in Malaya, to the Overseas Department of the Government of India, New Delhi, in respect of business and properties lost by them as a result of the Japanese occupation of Malaya in 1941.⁶⁷

A study of these applications for claims also reveals their total assets, besides the nature of their business in Malaya. Extracts from one such application of claims, made by a certain Chettiar firm, (whose headquarters was in Kardikudi, Ramnad District, South India, with its principal agency office in Malaya being located in Penang), to the Secretary to the Government of India, Overseas Department, New Delhi, is reproduced below.⁶⁸

66. A. Savirinatha Pillai, op.cit., p.1177.

67. These applications for claims were consulted by me in June 1973 at the residence of the late Shri SRM Solayappa Chettiar (Hony. Secty., Burma Nattukottai Chettiar Association) in Palathur; Ramnad District.

68. The name of the above firm is not being disclosed since the permission of the proprietor or his relations for quoting the relevant extracts could not be obtained.

Details of Claims:*

| | | |
|--|------|--|
| 1. Lands, Gardens, Estates etc. | | |
| These included rubber estates in the states of Perak, Negri. Sembilan, and the Straits Settlements; Paddy fields in the state of Kedah; Coconut gardens in Penang; and tin mines in the state of Perlis. | - \$ | 1,39,775-00 |
| 2. Offices, Houses, Bungalows etc. in Kedah and the Straits Settlements. | - \$ | 67,287-51 $\frac{3}{4}$ |
| 3. Mortgages, Securities, Pledges, immovable property. | | |
| These included mortgages of coconut gardens and houses in Penang | - \$ | 4,500-00 |
| 4. Promissory notes, On demands and I.O.U.'s | - \$ | 457-25 |
| 5. Outstandings from Chettiar firms | - \$ | 18,573-75 |
| 6. Mercantile Bank of India Ltd., Penang | - \$ | 10,100-00 |
| 7. Shares in Oriental Company Ltd., Penang (This was a Chettiar concern) | - \$ | 400-00 |
| 8. Furniture, Motor-car, 1/10th share | - \$ | 114-40 |
| 9. Cash balance | - \$ | 775-43 |
| 10. Headquarters investments, viz.: | | |
| (a) Shares in Hongkong & Shanghai Banking Corporation \$ 8536-28 | | |
| (b) Shares in the Chartered Bank of India, Australia & China | | |
| - \$ 4805-35 | - \$ | 15,188-43 |
| (c) Shares in the Rawang Tin fields Ltd. | | |
| - \$ 1846-80 | | |
| ----- | | |
| ----- | | |
| <u>Total claim</u> : | - \$ | <u>2,57,171-77$\frac{3}{4}$</u> |
| ----- | | |

*Claims application from X Chettiar to Secretary,
Government of India, New Delhi, No.219-F29-5/44-E(11)
dated 9 Feb 1944.

Besides providing credit in both the rural and the urban sectors of Malaya, the Chettiars also established joint stock trading companies. These were Kannappa and Co., and Thenappa & Co., both situated in Singapore;⁶⁹ The Oriental Company Ltd., The India Trading Company Ltd., Sundaram and Company Ltd., all in Penang;⁷⁰ and A. Teyvanay and Co., and Sundaram and Co., in Malacca.⁷¹ Information on the precise nature of the trade conducted by these firms is, however, lacking. Nevertheless, the organisation of their business on the basis of limited liability, on howsoever small a scale, marked an advance over their traditional moneylending business.

The Chettiars were most active in Malaya from the late 19th century until the depression of 1929, with their financial influence at its height during the 20's of the 20th century. Singapore and Penang continued to be the major centres of their commercial activity during this period as well. Their principal agencies or branch firms were in most cases located in these two centres while the sub-agencies were spread over in the various rubber growing and tin producing areas of the Malay states. To protect their economic interests in Malaya, the Chettiars established

69. P.N.M. Muthupalaniappa Chettiar, op.cit., (1938) p.73.

70. ibid., p.99.

71. ibid., p.176.

Associations and Chambers of Commerce in a number of places; of these the principal ones were in Singapore, Kuala Lumpur and Penang and were established in 1928, 1931 and 1934 respectively.⁷² The Chettiar Chamber of Commerce in Kuala Lumpur was designed to coordinate the activities of the various Chettiar associations in the Federated Malay States.

The Chettiar moneylending firms in Malaya, which had on the whole been conducting good business through their indirect association with the rubber and tin industries, suffered a setback with the onset of the depression in 1929. The effect of the depression on the colonial Malayan economy was quite severe; particularly hard hit were its two principal industries viz. rubber and tin, which were dependent on the world market for their prosperity.⁷³ The acute crisis which hit the Malayan rubber industry was sparked off when the American automobile industry, the principal consumer of Malayan rubber began cutting down its production from 1929 onwards.⁷⁴ This caused a chain reaction and consequently brought down rather sharply the price of crude rubber in the world market. In fact the price

72. P.N.M. Muthupalaniappa Chettiar, op.cit., (1938) pp.73, 104 & 215.

73. S. Nanjundan, op.cit., pp.7-8; see also, Allen & Donnithorne, op.cit., p.44.

74. Compton Mackenzie, op.cit., p.257. By 1932 car production in United States was a third of 1924 level; Compton Mackenzie, op.cit., p.257.

of rubber, which was on the downward trend since 1927 registered, owing to the depression, a still steeper fall in 1929 and 1930 and continued to fall until it virtually reached the rock bottom level by 1932.

Matters were made worse by the fact that "a large increase in the output of rubber coincided with the depression."⁷⁵ The following figure gives us an idea of the crisis that afflicted the world rubber industry during the depression.

WORLD PRODUCTION, CONSUMPTION, STOCKS AND PRICES
OF RUBBER

| | Production of crude rubber | | | World consumption of crude rubber 000's tons | Stocks of crude rubber in Malaya, UK, USA end of year 000's tons | Reclaimed production in USA | Average price in London Smoked Sheed d/lb |
|-------------------------------|---|---------------------|------|---|--|-----------------------------|--|
| World Exports (000's tons) | % of native production to total in Malaya % | Dutch East Indies % | | | | | |
| 1925 | 518.5 | - | 45.0 | 558.9 | - | 132.9 | 35.00 |
| 1927 | 607.4 | - | 43.2 | 598.9 | - | 189.1 | 18.44 |
| 1928 | 656.8 | - | 39.3 | 680.4 | 167.6 | 208.5 | 10.69 |
| 1929 | 861.4 | 45.6 | 41.7 | 807.0 | 275.6 | 218.8 | 10.25 |
| 1930 | 819.8 | 45.5 | 36.7 | 716.0 | 406.5 | 167.2 | 5.91 |
| 1931 | 796.8 | 44.8 | 33.9 | 678.2 | 547.7 | 141.9 | 3.17 |
| 1932 | 708.3 | 42.0 | 28.6 | 685.4 | 549.2 | 74.7 | 2.34 |

SOURCE : The ECONOMIST (London) May 5th 1934, pp.967-968.

75. Compton Mackenzie, op.cit., p.257.

The position of the Malayan tin industry was much the same. With an increasing demand for the metal in the west production increased steadily - and the industry was on the whole fairly prosperous - until the depression reversed the process. Thus the world consumption of tin "fell by about half between 1929 and 1932."⁷⁶ and with it also dropped the price of the metal.

The seriousness of the economic crisis that hit Malaya in the 1930's becomes clearer in view of the fact that rubber and tin accounted for over 70% of Malaya's exports and thus made up the bulk of the country's national income.⁷⁷ Consequently the depression, by seriously affecting the rubber and tin industry threw the Malayan economy out of gear. Prices of raw materials fell sharply, and so also the national income, employment⁷⁸ and more important the incomes of small holders, estate owners, tin miners and a number of others who depended on these industries.⁷⁹

The moneylending business of the Chettiars was also badly affected. The depression, by sharply bringing down the prices of rubber and tin, placed the estate owners and tin miners in a position where they were unable to repay

76. S. Nanjundan, op.cit., p.8.

77. ibid., p.5. Cf. Allen & Donnithorne op.cit., p.293. Appendix V.

78. Allen & Donnithorne, op.cit., p.44.

79. S. Nanjundan, op.cit., p.7.

their loans. Whereupon it was the same old story of the Chettiars foreclosing on the mortgage. Thus land, rubber gardens and tin mines began to pass into the hands of the Chettiars.⁸⁰ The net effect of the depression on the Chettiar firms in Malaya was catastrophic. It immobilized their liquid capital by converting it into immovable property. The continuous flow of credit, so very essential for the harmonious working of their system, was checked. To a system which was sustained largely by the joint effort and endeavour of the community through an intricate and complex mechanism of intra-Chetti lending, borrowing and such other practices, the depression proved to be disastrous. The failure of the small firms was infectious, and some medium and a few large firms also collapsed during this period. To make matters worse for the Chettiars, the Government introduced at this juncture certain measures to check the problem of the alienation of land from peasant proprietors to non agriculturists. Though there was a persistent trend of land passing from agriculturists to non agriculturists much before the depression, the Government took no notice of it then because it was of the view that the Chettiars as providers of credit, were "a favourable influence on the economy".⁸¹ However, when the depression

80. S. Arasaratnam, op.cit., p.93.

81. ibid., p.93.

accentuated the problem into a near crisis, the government hastened to take some action and thus introduced in 1931 the "Small Holdings (Restriction of Sale) Bill."⁸² According to the provisions of this bill, no sale of land exceeding 25 acres could be "carried out without the consent of the state where the land was situated."⁸³ This measure quite naturally evoked loud protests from the Chettiars who alleged that their investments in Malaya were in danger. They claimed that they had loaned 125 million dollars to small holders in the Federated Malay states against the security of land.⁸⁴ For an approximate estimate of Chettiar investment in Malaya in the period just prior to the depression one has to turn to the Burma provincial banking Enquiry Committee's Report. According to the Commission their total investment was of the order of Rs. 25 crores.⁸⁵ This has been, corroborated by the 'Dhanavanikan' in its 1930 annual number.⁸⁶ The only other estimate is the one provided by A. Savirinatha Pillai (the Assistant Commissioner of Income tax, Southern Range to the Enquiry Committee). According to him, Chettiar

82. A. Arasaratnam, op.cit., pp.93-94.

83. ibid., p.94.

84. ibid., p.94.

85. B.P.B.E.C.R., Vol.I, pp.210-11.

86. Dhanavanikan (Tamil, 1930) pp.96 & 118.
(An annual Chettiar journal pub. from
Kottaiyur Ed. A.K. Chettiar.)

investment in Malaya, Dutch East Indies and Siam put together amounted to only Rs. 20 crores.⁸⁷ Unfortunately the three sources indicated above stop short of providing the total investment of the Chettiars in Malaya. A detailed sector-wise or area-wise breakdown of their capital investment, or the impact of the 1929 depression, is unfortunately not provided.

During my stay in Madras and Chettinad in June-July 1973 I met a number of Chettiars who had conducted business in Malaya (either as proprietors or as agents) in the 1930's, and tried to elicit some information about their business in general. Though their memory often failed them on specific details, they were all of the view that their business suffered a severe setback on account of the depression.

87. A. Savirinatha Pillai, op.cit., p.1174.

CHAPTER IITHE PATTERN OF CHETTIAR ENTREPRENEURSHIP
IN THE OVERSEAS COUNTRIES : CEYLON, MALAYA,
BURMA.SECTION IIICHETTIAR ENTERPRISE IN COLONIAL BURMA

Burma occupies a very important place in the entrepreneurial history of this community, a fact which has been stressed in almost all the existing literature on the Chettiars and, more particularly, by the Chettiars themselves. The reasons are not far to seek: colonial Burma, by creating extremely favourable conditions, not only attracted Chettiar capital but enabled the Chettiars to play, for over fifty years, a very dominant and enviable role in financing Burma's agriculture - its main industry - and thus ensured a rapid growth of the capital they had invested. In fact, the phenomenal growth of their capital assets (spread over several countries) from a mere 10 crores of rupees in 1890¹ to 120 crores of rupees by 1930² was due largely to their lucrative moneylending business in Burma, where their capital investments increased from Rs. 15 crores in 1910 to Rs. 75 to 80 crores in 1930.³

1. A. Savirinatha Pillai, M.P.B.E.C.R., (1929), Vol.III, p.1174.

2. B.P.B.E.C.R., Vol. I, pp.210-211.

3. ibid., pp.210-211.

Thus, though Chettiar firms operated in other parts of S.E. Asia as well, their Burma business far outstripped the rest of their operations. This had a very important bearing on the subsequent growth of modern entrepreneurship in this community as it was the fortunes earned by some of the Chettiars through years of lucrative moneylending and trade in Burma that enabled them to transform themselves into modern capitalists in their own country. Two such outstanding examples among many others are the Sir Raja group and the A.M.M. group.

So far as Chettiar operations in Burma are concerned there is, compared to Ceylon and Malaysia, relatively more source material, both primary and secondary, throwing light on various aspects of their business enterprises. Apart from the published sources, I was fortunate enough to gain access to some very important papers and documents of the Burma Nattukottai Chettiar Association. Though these papers deal primarily with the post-1930 period, they incidentally throw light on the nature of their activities in the pre-1930 period. I was also able to examine the 1933 and 1934 issues of the rare Chettiar journal of commerce, "The Dhanavanikan", published from Rangoon. Though not falling strictly within the period of my study, they were invaluable in providing information on certain aspects of their business: I could not, however, make full use of them because of my inadequate knowledge of the Tamil language.

Another very important source of information on Chettiar activities in Burma, and on which most authors of secondary literature on Burma have relied heavily, is the "Report of the Burma Banking Enquiry Committee" of 1929-30, which deals with the nature of Chettiar activities in Burma rather exhaustively. However, the report is in the nature of a survey of Chettiar activities in Burma in the years 1928-29 and hence does not examine the growth of their business in a historical perspective.

The migration of Chettiar capital into Burma, and the nature of their business activities, can be studied most conveniently by dividing it into two broad phases, namely, the period from about 1826 to the 1870's and 1880's, and the period from the 1870's and 80's to 1929. Of the three major waves of Chettiar immigration into Burma, which took place in 1826, 1852 and the 1870's respectively, the first two fall within the first phase, and the last into the second.

During the first phase, the greater and potentially richer lower Burma was brought under colonial rule. Soon after the occupation of Tenasserim in 1826 some Indians, among them some of the Chettiars, went to Burma and started business on a small scale.⁴

4. Chester L. Cooper, Moneylenders and the Economic Development of Lower Burma - An Explanatory Historical Study of the Role of the Indian Chettyars, (The American University, Ph.D., 1959.) University Microfilms Inc., Ann Arbor, Michigan. (Consulted at N.M.M.L; MIC59), p.29; see also, N.R. Chakravarty, Indian Minority in Burma: Divide and Decline of an Immigrant Community, (Oxford, for the Institute of Race Relations, 1971), p.56.

However, it was only after the occupation of the whole of lower Burma, completed in 1852, that the steady flow of Chettiars into Burma commenced. During this period their activities were by and large confined to relatively prosperous towns like Rangoon and Moulmein, where they financed trade between Burma and India, and only indirectly financed agricultural production by providing loans to indigenous moneylenders, who in turn lent it to the Burmese peasants.⁵ The magnitude of their business was rather small, owing principally to two factors; the low demand for agricultural credit, and the tenurial system that existed before 1876, whereby the peasant was a squatter and not the proprietor of the land he cultivated⁶, and hence could not provide the type of security which the Chettiars usually demanded as moneylenders.

In view of these facts, the assessment that the "Chettiars played only a marginal role in the early decades of lower Burma's economic expansion"⁷ appears to be quite reasonable.

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5. Chester L. Cooper, op.cit., p.29; see also, Michael Adas, 'Immigrant Asians and the Economic Impact of European Imperialism: The Role of the South Indian Chettiars in British Burma' The Journal of Asian Studies, Vol. XXXIII, No.3, May 1974, p.383.
 6. Cheng Siok Hwa, 'The Rice Industry of Burma: (1852-1940)', (Kualalumpur, 1968), pp.137-138.
 7. Michael Adas, op.cit., p.388.

It was during the second phase - from the 1870's and 80's to 1929 - that the Chettiars established and proliferated their business to such an extent that they became the largest financiers of commercial rice production. They were able to gain this ascendancy largely due to the changed economic environment.

The opening of the Suez Canal was a momentous event for them as it served to integrate colonial Burma with the world capitalist economy: Burma was hereafter required to produce and supply rice for an ever increasing market in Europe; even in S.E. Asia, with the development of the plantation economy, the demand for rice increased because of the migration of rice-eating Indian labour to these plantations. With the growing demand for it, the price of rice shot up, and the Burmese peasants were consequently encouraged to shift from part-time to full-time cultivation, and to bring more and more land under cultivation; simultaneously, as the competition for land intensified, land values also increased. These factors contributed towards increasing the demand for credit in the rural sector of lower Burma.⁸

Another event that was, for the Chettiars, perhaps as important as the opening of the Suez Canal, was the passing of the "Lower Burma Land and Revenue Act" of 1876.

8. M. Adas, op.cit., pp.390-91.

This Act provided that proprietorship of Agricultural land would rest with the peasant who had occupied, and paid tax on, a piece of land for a continuous period of 12 years.⁹ The peasant also obtained a permanent heritable and transferable right of use and occupancy in the land, provided he paid the revenue regularly. Given the fact that the Chettiars generally lent only against the best security, which included land among other things, it would be reasonable to assume that the passing of this Act attracted the Chettiars into the field of direct agricultural financing.

It was precisely during the 1870's and 80's that the Chettiars began to extend their operations into the fertile rural lower Burma, and from this period onwards the Chettiars steadily expanded their money-lending business until they became the principal financiers of Burmese agriculture. By 1929, they were at the height of their prowess, having invested over Rs.75 crores in their business in Burma.¹⁰

9. Notes By The Indian Advisory Committee To The Burma Nattukottai Chettiars' Association On The Land Nationalisation Act 1948 (K.E.S.C. Ltd. Buildings, Chettinad, Ramnad Dist. N.D.), p.4. This document will hereafter be referred to as N.B.T.I.A.C.; see also J.F. Cady, A History of Modern Burma, (Cornell University, 1955) p. 155.

10. B.P.B.E.C.R., Vol. I, pp.210-11.

From the 1880's onwards the Chettiars had been acquiring immovable property when loans secured against such property were defaulted.¹¹ During the great depression this process was accelerated tremendously, and a large portion of their liquid capital was frozen into immovable property, the value of which was fast depreciating. The Chettiar firms were so badly hit that it has been estimated that about 400 out of the 1650 firms operating in Burma in 1929 collapsed.¹² Thus 1929-30 marks the end of the prosperous years of Chettiar enterprise in Burma.

It took the British sixty years and three wars to bring Burma completely under their rule: The Arakan Division and part of Tenasserin were the first to come under British Rule, in 1826; the rest of the potentially richer lower Burma came under colonial rule in 1852, while upper Burma was annexed last, in 1886.¹³

Long before lower Burma became a part of the Indian Empire, the British had realised the importance of the Delta Region as a potential market for British manufactured goods and as a source of raw materials. Therefore, soon after the occupation of lower Burma, attempts were made to

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11. J.R. Andrus, 'The Agrarian Problem in Burma', Pacific Affairs, Vol. XIX, No.23, Sept. 1946, p.262.
 12. Memorandum presented to the Representative of the Government of India with the Government of Burma on behalf of the Chettiar's Overseas Association, Karaikudi, dated 27th January 1945, Karaikudi, p.2. This document will hereafter be referred to as Memorandum of Chettiar Overseas Association, Karaikudi.
 13. NBTIAC., p.2.

open up the region for colonial exploitation.¹⁴

Prior to the occupation of Pegu, almost the entire lower Burma was covered with dense and marshy swamps, "wherein lived a sparse population subsisting on fishing and salt-making and the tillage in odd clearings of rice sufficient only for its own needs."¹⁵ In the pre-British period, domestic economic growth was checked by several restrictions imposed by the then ruling Konbaung dynasty - such as the ban on rice exports, sumptuary rights, etc.¹⁶ After 1852, the colonial authorities set about to remove these constraints so as to promote growth and fully exploit the economic potential of this deltaic region by importing legal, political and commercial institutions and all the paraphernalia that goes with colonial rule. Thus transport and communications and embankments were improved; private investors were encouraged to build processing plants for rice - an item which was to be, in the years to come, of great importance in the export trade of Burma - while British and Indian merchants imported manufactured goods into Burma, thus providing "stimulus to surplus production on the part of Burmese agriculturists."¹⁷

14. J.S. Furnivall, Colonial Policy and Practice (New York University, 1956), p.63; see also M. Adas, op.cit., p.387.

15. NBTIAC., p.1.

16. M. Adas, op.cit., p.387.

17. ibid., p.387.

With the establishment of British rule in lower Burma, certain changes were also introduced in the land tenurial system. In place of the loose noncontractual usufructuary rights (termed dama-u-gya) that had prevailed in the pre-British period, the British introduced the squatter system of land tenure.¹⁸ Under this system, any person could clear and settle any vacant land. The cultivator was, however, liable to eviction by the government though he was generally allowed to remain in occupation as long as the land revenue was paid regularly. The chief objective of the British government in this period of experimentation in evolving a stable land tenurial system was to open up and develop the lands in lower Burma in as short a time as possible so that adequate revenue could be obtained. The government was also seized with the idea of introducing some form of peasant proprietorship since it was thought that such a system would be most conducive to the stability and prosperity of the region.¹⁹ (It should, however, be noted that until 1876, no proprietary right was granted.)

In the meanwhile, owing to the increasing demand for Burmese rice in the European and Asian markets, an export trade in rice was beginning to grow. In 1845,

18. Cheng Siok Hwa, op.cit., pp.137-138.

19. Ibid., pp.137-138.

the rice exported from Burma amounted only to 74,000 tons but by 1865, a decade after the British had occupied Lower Burma, the export of rice had risen to 1,60,000 tons and further increased to 5,00,000 tons by 1869-70.²⁰

Encouraged by the profitable employment opportunities in Lower Burma, a steady stream of immigrants from Upper Burma and India began pouring into the delta region. Amongst the immigrants from India, who included the labouring classes, traders, merchants, and clerks, were the Nattukottai Chettiars of South India.

As indicated earlier, the Chettiars migrated into Burma in three waves. The first wave arrived in Tenasserim around 1826, soon after its occupation by the British; their business was "informal money lending among their compatriots ... in small Burmese towns".²¹ Their operations were not properly organised and were on a scale too small to be of much significance.²² The typical Chettiar agency had not yet come into existence.

In response to the growth in trade and the opportunities arising out of the colonisation of Lower Burma, there came the second and more organised

20. Chester L. Cooper, op.cit., p.8.

21. ibid., p.29.

22. N.R. Chakravarty, op.cit., p.56.

wave of Chettiar migration. These Chettiars organised the first Chettiar "agency" or firm in either Rangoon or Moulmein between 1850 and 1852.²³ More such firms came to be established in quick succession in these two towns and, until the 1870's, the Chettiars firms were concentrated in these towns, where they financed the trade between Burma and India.²⁴ It is important to note that at this time they did not finance agriculture directly: they merely provided loans to the indigenous moneylenders who in turn provided credit to the Burmese agriculturists.

It is equally important to note that generalisations about Chettiar activities that do not differentiate between the role of the Chettiars in the periods before and after the 70's and 80's of the 19th century are very misleading. Thus it is said that it was with Chettiar capital that "jungles were cleaned, swamps drained and the best part of the country brought under cultivation".²⁵ Another equally sweeping, though perhaps more subtle contention is that, but for the capital provided by the Chettiars, Burma could not have developed economically as rapidly as it did.

23. B.P.B.E.C.R., pp.200-201; see also, Allene Masters, 'The Chettiars in Burma - An Economic Survey of a Migrant Community', Population Review, A Journal of Asian Demography, Vol.I, No.I, January 1957, p.28; see also, V.A. Seshadri Sharma, Nagaratharu Varalaru (A History of the Nattukottai Chettiars) (Tamil) 1970, p.93.

24. M. Adas, op.cit., p.189; see also, Chester L. Cooper, op.cit., p.29.

25. Memorandum of Chettiar Overseas Association, (Karaikudi, 1945), p.1.

While these views are correct as far as Chettiar activities in the post 1870-80's are concerned, they provide a totally false picture of their activities in the period prior to this date.

The first point to be noted is that in the early decades of lower Burmas economic development, as is typical in a colonial economy, it was the Europeans who dominated the key sectors of the economy like banking, large-scale processing, foreign trade, transportation etc.²⁶ At the same time, internal marketing was controlled by the several thousand jungle brokers who directly purchased the paddy from the producers or the rice merchants and "non-Chettiar Indians or European agents who supervised purchasing operations at the rice mills."²⁷

The second point to be noted is that although the economy of lower Burma experienced an upsurge - the area under paddy cultivation increased from 6,00,000 acres in 1852-53²⁸ to 17,12,000 acres in 1870;²⁹ and the rice exports increased from 74,000 tons in 1845 to 1,60,000 tons in 1861³⁰ and to 3,63,000 tons by 1869-70³¹ - yet, until the opening of the Suez Canal, most agriculturists produced

26. M. Adas, op.cit., p.387.

27. ibid., op.388.cit., p.388.

28. Chester, L. Cooper, op.cit., p.44.

29. NBTIAC., p.2.

30. Chester L. Cooper, op.cit., p.8.

31. NBTIAC., p.2.

for the market only on a part-time basis.³² Thus it was reported that till as late as 1870 rice was grown on small holdings by peasant cultivators for their family and the surplus, if any, was sold only if they were assured of a good price and if there was an adequate demand in India, China and Upper Burma;³³ quite often, when there was "little demand for paddy, much of the crop might ... be left unreaped."³⁴ One would therefore go along with Michael Adas' conclusion that "the early growth of export production was based on inputs of cheap and abundant land and additional labour, normally generated within the agriculturists own family, and not upon large inputs of capital."³⁵

Partly because of this low demand for credit, and partly, perhaps, because of the tenurial system which, as indicated earlier, disabled the cultivator from providing the type of security the Chettiars generally insisted upon, Chettiar activity during the period prior to the 1870-80's was rather limited: they confined themselves to financing trade and only indirectly financing agriculture.

32. M. Adas, op.cit., p.389.

33. J.S. Furnivall, op.cit., p.85.

34. ibid., p.85.

35. M. Adas, op.cit., p.389.

It was the opening of the Suez Canal in 1869 that revolutionized the delta's economy and paved the way for the third and the largest wave of Chettiar immigrants into Burma. The opening of the Canal, by providing a direct channel for Burmese rice to the European market, gave a tremendous impulse to commercial rice production. Thus, immediately after the opening of the canal there was a striking increase in the export trade, in the area under paddy cultivation, in the number of steam rice-mills and even in the population of lower Burma.

The rice exports, which averaged 3,63,000 tons for the three years ending 1869-70,³⁶ leaped to 5,44,285 tons in 1871-72 and to 7,47,005 tons in 1872-73; by 1873-74, it was 8,35,824 tons.³⁷ In 1880, the exports of rice from Burma by sea were larger than in any previous year and amounted to 9,28,750 tons.³⁸ In 1869-70, the area under paddy cultivation was only 1,72,000 acres; during the following year 21,785 acres of additional land was brought under paddy cultivation and in 1872-73 another 1,02,200 acres of land were brought under paddy cultivation. By 1880, the area of land under rice cultivation was 3,089,213 acres.³⁹ Thereafter, for upward of thirty years, the average rate of increase exceeded 1,50,000 acres a year.⁴⁰ Likewise, there was a tremendous increase in

36. NBTIAC., p.2.

37. See Government of India, Department of Commerce & Industry, Separate Revenue, Statistics etc., April 1882, Prog. No.597.

38. ibid., Prog. No.592.

39. ibid., Prog. No.592.

40. NBTIAC., p.2.

the number of steam rice-mills, from 3 in 1867 to 26 in 1872.⁴¹

Simultaneous with this growth and expansion was the steady increase in the price of paddy, which had been more or less stationary around Rs. 45 to Rs. 50 per hundred-baskets (100 baskets = 46 pounds) in the decade prior to the opening of the canal, shot up to Rs. 70 per hundred baskets in 1870 and thereafter increased steadily and was in 1880 quoted around Rs. 85 - Rs. 90 per hundred baskets in Rangoon.⁴²

In the meanwhile the colonial authorities, with a view to fully opening up lower Burma for colonial exploitation, enacted in 1876 the "Lower Burma Land and Revenue Act". By providing that any person could acquire freehold of agricultural land after occupation and payment of land revenue for 12 years, this Act was, to some extent, responsible for attracting immigrants into lower Burma as it provided the necessary incentive for people to come in and occupy all the available land and bring it under

41. NBTIAC, p.2.

42. Cheng Siok Hwa - The Rice Industry of Burma, 1852-1940, (Kualalumpur, Univ. of Singapore, 1968) p.73. By 1880 the price of paddy had, in fact, slumped from what it was between 1877-79, viz. Rs.90, Rs.100, and Rs.110 per hundred baskets. See Govt. of India, Deptt. of Commerce & Industry, Separate Revenue, Statistics & Commerce. April 1882, Prog. No.586/97.

rice cultivation.⁴³

It was the emergence of these opportunities, coupled with the governments free land policy, that accounted for the large influx of immigrants from upper Burma and India and, to a lesser extent, from China, into the booming deltaic region of lower Burma. It was estimated that between 1850 and 1900 the population of lower Burma increased approximately from one million to over four million.⁴⁴ This increase in population intensified the competition for paddy lands and, along with the rise in the wholesale prices of paddy, contributed to increase the value of land.⁴⁵

The immigrant, and even the existing cultivator, was faced with the need for credit with which to purchase or enlarge his land holdings; apart from this, finance was needed for clearing shrubs from plots of virgin land and preparing it for cultivation, for the purchase of tools and cattle, for hiring labour and more immediately, in the case of the immigrant, for maintaining himself and his family until the harvest.⁴⁶

43. Speech of Thakin Nu, Prime Minister, in support of the Land Nationalisation Bill, at the Sixth Session of the Parliament of the Union of Burma, 11th Oct. 1948; I consulted the offprint of the above speech at the residence of the late S.R.M. Soloyappa Chettiar (Hony. Secretary, Burma Nattukottai Chettiar Association) in Palathur. See para 2, p.12. Progs. of the Parliament of Burma 1948. We shall hereafter refer to the above document as Speech of Thakin Nu (1948).

44. M. Adas, op.cit., p.388.

45. ibid., p.350-51.

46. Chester L. Cooper, op.cit., p.21.

These factors contributed to stimulate the demand for credit in the agricultural sector of lower Burma and, since this demand could not be wholly met by the indigenous moneylenders, the Chettiars, seeing prospects of good business and profit in financing agricultural production, came forward to take advantage of these new opportunities.

It was under these circumstances that in the 1880's the Chettiar business houses which were already firmly established in Rangoon and Moulmein and other important urban centres, began to extend their operations into the villages of the deltaic region.⁴⁷ Branches or sub-agencies, known as "Ulkades" or "Kattukadais", of the Chettiar firms were established in a number of small towns and villages, some of which were along the railway lines and riverways.⁴⁸

The annexation of Upper Burma by the British in 1886 offered opportunities for the Chettiars to extend their operations northwards, and in 1890 they established their business in Mandaley, in 1891 in Myingnan, in 1892 in Meitkila, in 1894 in Shwebo, and other centres of trade in Upper Burma.⁴⁹

47. Chester L. Cooper, op.cit., p.30; see also, M. Adas, op.cit., p.391.

48. P.J. Thomas, 'Nattukottai Chettiars - Their Banking System', Raja Sir Anmalai Chettiar Commemoration Volume (1941), p.847; see also, A. Savirinatha Pillai, M.P.B.E.C.R., Vol. I, p.1176; and see also M. Adas, op.cit., p.391.

49. B.P.B.E.C.R., Vol. I, p.201.

Alongside this movement of Chettiar capital from centres of trade to the remote villages and towns in the interior of lower and upper Burma, there was also a fresh wave of Chettiar migration from Calcutta and the Madras Presidency. As stated earlier in Chapter I, there were as many as 120 Chettiar firms in Calcutta ^{around} ~~1850~~, engaged in the export-import trade and in moneylending. After 1869, with the emergence of profitable opportunities for the employment of capital in the booming deltaic region of lower Burma, quite a large number of these Calcutta based firms are reported to have wound up their business in Calcutta and migrated to Burma.⁵⁰ It is said that in Burma these firms not only conducted moneylending but also exported the cheaper and better Burmese rice to India and Ceylon, and established rice mills in Arakkan.⁵¹ The principal business of the firms that remained in Calcutta, numbering around 60 in 1910, was the collection of deposits and loans for use in Burma as also elsewhere, and the export of rice to Ceylon.⁵²

It should be borne in mind that this movement of Chettiar capital from Calcutta and the Madras Presidency to Burma, as well as within Burma, was a process that continued well into the 20's of the twentieth century, with

50. Somalay 'Calcutta' in Sri Kasi Nattukkottai Nagarachathiram Nutranda Viya Malar (Tamil) 1963, p.41. Hereafter referred to as SKNNVM.

51. Ibid., p.41.

52. B.P.B.E.C.R., Vol.I, p.190.

the number of Chettiar firms and subagencies operating in Burma multiplying decade by decade.

There is a paucity of data on Chettiar operations in Burma for the period from the end of the 1880's to the 1920's. However, an attempt will be made, with the help of inferential and other piecemeal data, to survey their activities till the 1920's.

Though this lack of data prevents us from ascertaining the growth and extent of Chettiar operations, the inferential evidence of the general expansion and growth of the delta's economy suggests that their business flourished.⁵³

Thus, from the 70's of the 19th century, with the rising demand for Burmese rice in the European and Asian markets, there was a steady increase in the area under paddy

53. In 1907, there was, however, a huge crash caused by a world wide stringency in money supply because of which several Chettiar firms collapsed. The number of such firms that collapsed is, however, not available. According to the Burma Banking Enquiry Committee Report, the number of Chettiar firms operating in 1910 was 350, with a working capital of Rs. 15 crores. In view of the fact that there was a crash just 3 years earlier it would appear that both the number of firms and the capital employed in the period before 1907 was greater than the 1910 figures. / See B.P.B.E.C.R., Vol.I, p.61; see also, N.B.T.I.A.C., p.15.

/ would indicate

cultivation, as the following table shows :-

Acreage Under Paddy Cultivation in Lower Burma,
for Selected Crops Years : 1852-1933

| <u>Year</u> | <u>Acreage</u> |
|-------------|----------------|
| 1852-'53 | 600 |
| 1872-'73 | 1872 |
| 1882-'83 | 3446 |
| 1892-'93 | 5087 |
| 1902-'03 | 6713 |
| 1912-'13 | 8082 |
| 1922-'23 | 8870 |
| 1932-'33 | 9711 |

Source : Chester L. Cooper, Moneylender and the Economic Development of Lower Burma, p.44.

Alongwith this increase in the acreage under paddy Cultivation there was a concomitant increase in rice production, leading eventually to a growth in the Export Trade :

Decinneal Export of Rice and Paddy from
Burma : 1865/66 - 1939/40

| <u>Years</u> | <u>Export</u> ('000 tons) |
|-------------------|-------------------------------|
| 1865/66 - 1970/71 | 399 |
| 1871/72 - 1880/81 | 810 |
| 1881/82 - 1890/91 | 981 |
| 1891/92 - 1900/01 | 1463 |
| 1901/02 - 1910/11 | 2169 |
| 1911/12 - 1920/21 | 2176 |
| 1921/22 - 1930/31 | 2676 |

Source : Cheng Siok Hwa, Rice Industry of Burma 1852-1949, p.201.

This increase in the Export of rice led to an increase in the price of paddy which, except for marginal fluctuations, continued in its upward trend until the depression :

Wholesale Price of Paddy in the Rangoon Markets
1865 - 1931, Selected Years

| <u>Year</u> | <u>Price</u> (Rs./100 baskets) | <u>Year</u> | <u>Price</u> (Rs./100 baskets) |
|-------------|-----------------------------------|-------------|-----------------------------------|
| 1865 | 50 | 1909 | 110 |
| 1870 | 70 | 1911 | 130 |
| 1875 | 65 | 1912 | 160 |
| 1880 | 85 | 1914 | 120 |
| 1885 | 95 | 1916 | 110 |
| 1890 | 95 | 1918 | 100 |
| | | 1920 | 180 |
| 1900 | 95 | 1922 | 195 |
| 1902 | 100 | 1924 | 195 |
| 1904 | 110 | 1926 | 190 |
| 1905 | 105 | 1928 | 160 |
| 1906 | 120 | 1930 | 130 |
| 1908 | 135 | 1931 | 75 |

Source : Cheng Siok Hwa, Rice Industry in Burma
(1852 - 1949), p.73

The available evidence tends to suggest that the value of land was also increasing during this period. Owing to the lack of data it is not possible to construct a time series for land values, but citing some specific cases may serve to illustrate what may have happened generally.

The per acre price of paddy land in a certain area of Pegu District increased from Rs.18/- per acre in 1900 to Rs.46.83 in 1911-13, an increase of nearly 170%.⁵⁴ In another area of the same district, the value of land rose from a range of Rs.17.34 - Rs.19.85 to a range of Rs. 34 - Rs.61 per acre in 1913-14.⁵⁵

The third Revision Settlement Report of the Thaton District (1913-15) also indicated an increase in land value since the last settlement, as the Report put it, "as was to be expected, the price of land has risen considerably since the last settlement. The increase for paddy land is from Rs.22/- per acre to Rs.67/- ... The average value of all classes and kindsof land is Rs. 72/- per acre".⁵⁶

The Second Revision Settlement Report of the Maubin district of 1925-28 also recorded an enormous increase in the value of paddy land. As the Report put it, "over the district as a whole, the statistics indicate that the value of Paddy land has increased by 216 per cent. While in the embankment protected tracts the rise in value has been no less than 300 per cent, and in some cases 600 percent".⁵⁷

The above account is intended merely to show the allround expansion and growth of the Delta's economy

54. Chester L. Cooper, op.cit., p.48.

55. ibid., p.48.

56. NBTIAC., p.17.

57. ibid., p.17.

from 1870 onwards. Conditions such as these provided an adequate basis for Moneylenders to operate successfully, and it is quite certain that the Chettiars, with ample funds at their disposal and a wide network of firms, took full advantage of the situation.

The Chettiar sub-agencies that had mushroomed over several areas of the Irrawady region would have catered to the ever increasing demand for credit, providing long term loans against the security of the newly developed fertile land, and crop loans during the flourishing cultivation season from March to September against the security of the standing crop.⁵⁸ The steadily increasing paddy prices and land values, coupled with the relatively high interest rates ranging from 18%⁵⁹ to 36% , and sometimes even 45% per annum,⁶⁰ must have enabled them not only to secure repayment of their loans in either cash or kind but also to reap handsome profits. When the debtors failed to repay their loans the colonial legal system came to their aid and they took possession of the land, the value of which was steadily going up.

58. A. Savirinatha Pillai, M.P.B.E.C.R. - Vol. I., p.1177.

59. Evidence of U Po Tin, Asst. Registrar, Cooperative Societies, Pegu East Division, Royal Commission on Agriculture in India, Vol. XII, Evidence taken in Burma, 1928, p.104.

60. Chester L. Cooper, op.cit., p.37.

Information on Chettiar activities for the third decade of the twentieth century is relatively less scarce. We have the Burma Banking Enquiry Committee Report providing fairly useful data on the nature and volume of their business. The data provided in the report is based partly on the findings of a special survey carried out by the Burma Nattukottai Chettiar Association in 1928-29, partly on the inside information provided by a Chettiar member of the Commission and also partly on the independent enquiries made by the Commission itself. Since there is a paucity of other sources of information on Chettiar activities during this period, one is forced to rely on the Banking Enquiry Committee Report. Moreover, given the fact that the 20's represented the peak period in their activities, it should be reasonable to assume that the data provided by the report is a fair index of their activities in the 20's.

There were, in 1929, 1650 Chettiar firms operating all over Burma⁶¹ of these, 360 firms, i.e. 1/5th of the total number of firms, were located in Rangoon.⁶² The heaviest concentration of the firm was in lower Burma; it was estimated that there were 1443 firms in the whole of lower Burma, inclusive of the firms in Rangoon.⁶³ The share

61. See B.P.B.E.C.R., Vol. I p.203.

62. ibid., p.203.

63. ibid., p.203.

of upper Burma was only 195, excluding the Federated Shan States, where 12 firms were reported to have been functioning.⁶⁴ The concentration of Chettiar firms in lower Burma is indicative of their involvement in the financing of rice cultivation. Almost all the 1083 Chettiar firms in lower Burma (excluding the 360 Rangoon firms) were located in the 13 principal rice growing districts of the region, as the following table shows :-

Distribution of Chettiar Firms in the
13 Main Rice-Growing Districts

| <u>District</u> | <u>No. of Firms</u> |
|----------------------------|---------------------|
| <u>Pegu Division</u> | |
| Pegu District | 125 |
| Tharrawaddy " | 110 |
| Hanthawaddy " | 45 |
| Insein " | 40 |
| Prome " | 70 |
| Toungoo " | 65 |
| <u>Irrawady Division</u> | |
| Bassein " | 100 |
| Henzada " | 70 |
| Myaungma " | 110 |
| Maubin " | 55 |
| Pyapon " | 100 |
| <u>Tenasserim Division</u> | |
| Thaton " | 30 |
| Amherst " | 30 |
| Total | 940 |

Source : N.R. Chakravathy, Indian Minority in Burma - Divide and Decline of an Immigrant Community (London, 1971), p.62.

64. B.P.B.E.C.R., p.203.

In the course of their moneylending operations the Chettiar firms penetrated into as many as 217 villages and towns of Burma. Of these, 155 were in lower Burma, 55 in upper Burma and 7 in the Shan States.⁶⁵

The Burma Banking Enquiry Committee has also provided a fairly useful estimate of the total working capital of the Chettiar firms in Burma in 1929, which it estimated to be around 75 or 80 crores of rupees. Of this amount only Rs. 4 crores were invested in upper Burma; of the remaining 76 crores invested in lower Burma, the share of Rangoon itself was 33 crores, while the rest of lower Burma accounted for 43 crores.⁶⁶ Unfortunately, the Committee did not indicate in sufficient detail the method by which it calculated the working capital of the Chettiars. All that we are given to understand is that to start with the Committee prepared a list of cities, towns and villages in which Chettiar moneylending firms

65. B.P.B.E.C.R., Vol. I, p.203; see also, V.G. Nair - Varungala Burma (Tamil) (Colombo, 1932), p. 100.

66. B.P.B.E.C.R., Vol. I, p.210 .

operated, followed by an estimation of their capital investment in each one of the centres of activity.

The Committee further estimated that out of the total Chettiar working capital of Rs.75 crores, over two thirds, i.e. more than 53.5 crores, was the capital of the proprietors of the firms, 11.5 crores, were deposits from Chettiars, and 10 crores was borrowed from the European Banks and also included the deposits by non-Chettiars such as Marwaris, Chinese and Burmese.⁶⁷ Of this 10 crores, 3 crores was from the European banks in Burma, 1.3 crores from the Banks in Madras, and 5.7 crores were the deposits from the non-Chettiars indicated above.⁶⁸

The Banking Committee also examined the sectoral distribution of the working capital and estimated that of the Rs. 4 crores of working capital in upper Burma, Rs. 3 crores were invested in financing trade while only 1 crore was invested in agriculture.⁶⁹ In the case of lower Burma it was just the reverse: while Rs.45-50 crores was invested in agriculture, only about 21-26 crores was invested in trade.⁷⁰ That in comparison to lower Burma

67. B.P.B.E.C.R., Vol.I, p.211.

68. ibid., p.213; see also U. Tun Wai, Burma's Currency and Credit (Bombay, 1953), p.45; and see Allene Master, op.cit., p.23.

69. B.P.B.E.C.R., Vol.I, p.211.

70. ibid., p.211.

Chettiar investments in upper Burma were extremely small is not very surprising; as a largely dry zone, upper Burma experienced frequent crop failures and fluctuations in harvests. This uncertainty in farming and the consequent lack of adequate security made money lending in the agricultural sector relatively less attractive and thus discouraged many Chettiars from venturing into this area. On the contrary, in lower Burma, not only was the land extremely fertile, the rainfall dependable and the harvests regular, but the prices of paddy and land were high. Lower Burma thus provided a more adequate basis for money-lending. It was under these favourable conditions that Chettiars loaned vast sums of money to the agriculturists.

The agricultural loans provided by the Chettiars were principally the crop-loans and the long-term loans. According to the Burma Banking Enquiry Committee Report, the total amount of crop loans required annually for the whole of Burma was around Rs.20 crores and of this amount Rs. 16 crores were utilised in lower Burma while 4 crores were required in upper Burma.⁷¹ The committee further stated that the Chettiars either directly or indirectly provided about 10-12 crores of the crop-loans in Lower Burma (two-thirds of the total amount) and about Rs. 5 million, or one-sixth of all crop-loans, in upper Burma.⁷² These crop-loans were generally taken in instalments. The

71. B.P.B.E.C.R., Vol.I, p.74.

72. ibid., p.68.

Burma Banking Enquiry Committee provided the following rough breakdown in terms of the time when the loan was sought. Of the total crop-loan requirement of Rs. 20 crores, 6 crores were taken between April and June, to meet the initial expenses of cultivation such as the purchase of seeds, implements and cattle.⁷³ Money was also required for meeting household expenditure and for paying advances to the ploughmen. The next instalment was taken between July and September and was roughly of the order of Rs. 10 crores.⁷⁴ This sum was often used to meet the wages of transplanters, besides food and other household expenditure. The last instalment was taken sometime in November, just before the harvest, and amounted to about Rs. 4 crores.⁷⁵ The duration of a crop loan was generally 7 to 8 months, and these loans were normally expected to be repaid in full immediately after the harvest.

The Banking Enquiry Committee estimated that out of their total investment of 45-50 crores in the agricultural sector in lower Burma, short term loans accounted for 10-12 crores.⁷⁶ The balance was invested in the form of intermediate term and long term loans.

73. B.P.B.E.C.R., Vol.I, p.76.

74. ibid., p.76.

75. ibid., p.76.

76. ibid., p.211.

The security usually demanded by the Chettiars was land, gold or jewellery, and houses; they were said to have sometimes lent against the security of paddy and other produce, and standing crops.⁷⁷

By 1929, the Chettiars had become the mainstay of agricultural credit in lower Burma, and their operations through a net-work of firms was exceptionally wide-spread. They not only did the largest part of direct moneylending to the agriculturist, but also supplied credit to other money-lenders.⁷⁸ Thus it was said that in Prome District the "Chettiars lend one-third of all the crop-loans directly and finance the Burman lenders to such an extent that Chettiar's money forms two-thirds of all the loans."⁷⁹ The Banking Committee said that in certain areas of Hanthawadi "they are the only money-lenders";⁸⁰ in Tharrawady 99% of the loans were ascribed to the Chettiars.⁸¹ The extent of Chettiar operations as compared to the operations of other money-lenders is brought out by the following figures: in 1927-28, for income-tax purposes, 1587 Chettiars were assessed on an estimated total assessable income of over Rs. 3 crores, while 1315 other money lenders were assessed on an estimated total assessable income of Rs. 65,00,000.⁸²

77. B.P.B.E.C.R., Vol. I, pp.82-83.

78. ibid., p.67.

79. ibid., p.68.

80. ibid., p.67.

81. ibid., p.67.

82. Cheng Siok Hwa, op.cit., p.184.

However, all the Chettiars were not equally wealthy, and so this point is not brought out in most works on the Chettiars, and as there is some mis-apprehension on this point, it needs to be very clearly stated that the Chettiars, inspite of belonging to a very closely-knit social grouping, did not allow social considerations to take precedence over economic ones. No amount of sociological jugglery can gloss over the fact of economic differentiation within the community.

We get a fair idea of this differentiation from a very important document of the Burma Nattukottai Chettiar Association showing details of Chettiar landholding in Burma sometime in the post 1945 period. Though the data does not strictly pertain to our period, it does provide a fair indication of the situation. The document, which provides a breakdown of Chettiar landholders, is reproduced below :-

| <u>Size of holding</u> (In acres) | <u>No. of firms</u> | <u>Total acreage</u> |
|--------------------------------------|---------------------|----------------------|
| Below 1000 | 574 | 2,17,164-11 |
| 1000 - 2000 | 194 | 2,69,429-14 |
| 2000 - 3000 | 125 | 2,94,600-22 |
| 3000 - 4000 | 72 | 2,44,649-66 |
| 4000 - 5000 | 38 | 1,74,226-61 |
| 5000 - 6000 | 19 | 97,159-54 |
| 6000 - 7000 | 8 | 52,339-46 |
| 7000 - 8000 | 6 | 43,900-17 |
| 8000 - 9000 | 4 | 34,588-73 |
| 9000 -10000 | 2 | ,18,360-12 |
| Above 10,000 | 12 | 2,72,157-50 |
| | <u>1054</u> | <u>17,18,575-31</u> |

(This data along with certain other information was provided by the Secretary, Burma Nattukkottai Chettiar Association, to Shri Kanam Pillai, Charge'd Affairs, Embassy of India, Rangoon, Covering letter dated 22nd Oct. 1953, Ref. No.137/53/54, has been cross-checked by referring to a list of landholding of member firms of the Burma Nattukkottai Chettiar Association.)

The above data provides a fair indication of the stratification within the Chettiar community. 574 firms with a holding of 2,17,164-11 acres, and an average approximate holding of 378 acres per firm, can be classified as the really small firms, while firms having a holding ranging between 1000 and 5000 acres can be said to compose the middle strata of the community. Under this category we have 429 firms with a total holding of 9,82,905-16 acres. The remaining 51 firms with a holding of 5000 acres each can be considered as the large firms. 12 of these possessed more than 10,000 acres, and one possessed 80,000 acres.⁸³

83. See Letter from Secty., B.N.C.A., to Kanam Pillay, dated 22 Oct., 1953.

Because of the growth of business, and the economic differentiation within the community, an urgent need was felt for an organisation which could exercise some control over, and also co-ordinate, the multifarious activities of the growing number of Chettiar firms. A need for an organisation that could consolidate and strengthen their overall economic position was also felt.

It was to meet these needs that the Burma Nattukottai Chettiar Association was formed. The Association was a member of the Federation of Indian Chambers of Commerce and Industry, and had a membership of 1498 firms by 1929.⁸⁴ It was specifically charged with the responsibility of protecting the vast commercial and economic interests of the community.

In the course of its activities the Association strove to infuse a sense of unity among the various competing Chettiar firms, and in this direction organised meetings and conferences of the Chettiars at frequent intervals. The first All-Burma Nattukottai Chettiar Conference was held in Rangoon in Nov.-Dec. 1924. I was fortunate enough to gain access to the text of the Presidential address and the printed copy resolutions

84. B.P.B.E.C.R., Vol.I, pp.195-196.

In his Presidential Address Shri T.S. Nagappa Chettiar, the proprietor of the TSN Firm, urged his kinsmen to strengthen the position of the Association. He pointed out that there was currently less unity and more competition among the Chettiars. He also deplored the practice of taking intra-Chettiar disputes to the courts rather than settling them at the Chettiar Panchayats. He appealed to them to change with the changing times and requested them to venture into fields other than money-lending, such as trade and organised modern banking.

Among the major resolutions passed at this conference were :-

- (a) The establishment of a modern joint stock Chettiar Bank, the directors and shareholders of which were to be Chettiars.
- (b) in order to effectively represent the interests of the community in Burma, it was requested that the Chettiars come forward and contest elections for the legislative assemblies, municipalities, and town corporations.

85. (1) Burma Nattukottai Chettiar Kalin Mudalay - adu Mahanadu; Thiruvalar T.S. Nagappa Chettiar Kalin Mukuvarai Pirasangam' (Tenkanchi, 1924), pp.1-11.

(2) Burma Nattukottai Chettiar Kalin Mudulavadu Mahanadil Niraiveriya Theermanangal, (Rangoon, 1925), pp.1-8.

- (c) It was requested that the Chettiar firms should not charge excessive interest rates on loans to their own kinsmen, and that Chettiars should not borrow from non-Chettiar sources.
- (d) It was requested that the Government inform the Chettiars in cases where landholders had failed to pay land revenue of a particular land before that land was put up for auction.
- (e) It was urged that the commercial banks in Burma lower their interest rates on loans to the Chettiars since the same was much higher than the rates prevailing at banks in Calcutta and Madras.
- (f) It was resolved that the tenure of the Agent of the Chettiar firms in Burma be reduced from three to two years.
- (g) Consideration on the resolution as to whether disputes amongst the Chettiars be settled within the community, viz. through the medium of the Chettiar Panchayats, or outside the community, was postponed to the next conference.

Though the association theoretically represented the interests of the community as a whole yet, as some of the above resolutions indicate, the association and the conferences held under its auspices was sometimes used as a forum for effectively representing the interests of

certain influential Chettiars.⁸⁶

The Establishment of the Association marked a major change in the organisational development from the traditional Chettiar caste panchayat; the formation of the association is also a clear indication of the economic differentiation within the community, which has been discussed above.

Having surveyed the growth and development of Chettiar activities upto 1928-29, ^{we} now pass on to a discussion of their Business organisation and financial management.

The Chettiar firms in Burma, as elsewhere, were either partnership firms or sole proprietor concerns, in either case, the head office or the proprietor of these firms was in Chettinad, while the branch firm was managed by an Agent. The principal agency or firm in Burma was, in most cases, located in Rangoon or one of the other major trading centres.

86. Apart from the Burma Nattukottai Chettiars' Association, the Burma Indian Chamber of Commerce was also utilized as an organisation for representing their interests. As many as 13 leading Chettiars were members of the organisation in 1925-26. They included the AKACTV, AKRMMCT, AKRMMK, PKN, RMP, SAA, SARM, SKRSKR, SMARA, SRMMA, SRMMCTMSIR, SRMMRM and TSN firms. See: The Burma Indian Chamber of Commerce, Reports of the Committee and Correspondence for 1925-26, 1926-27, Rangoon 1929 pg. V.

A large portion of the capital of the Chettiar firm was provided by the proprietor or the partners, (as the case may be); money was also borrowed from relations and members of the Chettiar caste. The larger Chettiar firms had direct dealings with the European Banks from whom they got loans and overdrafts. Apart from this, they also accepted deposits from Marwaris, Chinese and Burmese. Thus, it was estimated by the Burma Banking Enquiry Committee that out of the total Chettiar working capital of over Rs. 75 crores. over 2/3rds, i.e. 53.5 crores, was the capital of the proprietors or partners of the firm; 11.5 crores were deposits from Chettiars, and Rs. 10 crores was the sum borrowed from the European Banks and the deposits by non-Chettiars such as Marwaris, Chinese, and the Burmese.⁸⁷ Of this 10 crores, 3 crores was from European Banks in Burma, 1.3 crores from the Banks in Madras such as the Imperial Bank of India, Chartered Bank, the National City Bank etc. and 5.7 crores were the deposits of the non-Chettiars indicated above.⁸⁸ The smaller Chettiar firms, which did not have access to the European Banks, borrowed from the bigger Chettiar firms and from big Marwari firms like Rai Bahadur Bansi Lal Abirchand, Nanigram Jamuna Das and others.⁸⁹

87. B.P.B.E.C.R., Vol.I, p.211.

88. B.P.B.E.C.R., Vol.I, p.213 and pp.218-219.

89. Confidential Notes on the Question of Compensation Payable to Indians for Nationalization of Paddy Lands (A document prepared by the Burma Nattukottai Chettiar Association Subheading III Chettiars/- (N.D.) P.3.

A noteworthy feature of Chettiar money-lending operations in Burma, as elsewhere, was that capital was never allowed to remain idle; it kept shuttling between the sub-agencies in the small villages and towns and the principal firms, which were located in one of the larger trading centres, and vice versa, depending on the demand for credit at a particular time in a particular area.⁹⁰ Thus between April and November, the paddy cultivation season, capital was required, as has been indicated already, for buying various inputs and to meet household expenditure. At the end of the cultivating season the paddy brokers came to the villages and purchased the produce, the money the cultivator received for the produce was given to the Chettiars as repayment of the loans they had earlier provided. The Chettiars now used this money to finance the threshing and transportation of paddy to the trading centres.⁹¹ When the demand for credit was small during the slack season, the sub-agencies sent part of their capital to the principal firms at the trading centres where it was utilised in such activities, other than financing agriculture, that the Chettiars were engaged in.

90. B.P.B.E.C.R., Vol. I, pp.92-93.

91. Ibid., p.93.

There is ample evidence that besides moneylending some of the Chettiars also carried on trade in rice and timber. Among these were the Chettiars who had come from Calcutta to Burma, and they are reported to have established rice mills in the Arrakkan region and also to have carried on trade in rice.⁹² Apart from these ex-Calcutta firms, several other Chettiar firms were also engaged in the rice trade. So important a force were they in this line of business that they were considered not merely as middlemen but "as potential rivals of the millers (European) as they brought rice for India and the Straits".⁹³ In so far as procurement of paddy (for export) was concerned, one can say that they had an edge over the European millers, since the rice was easily acquired in the normal course of their moneylending operations. Elaborating on this point, J.S. Furnival noted that the Chettiars "had done much to destroy the independence of large numbers of Burmese cultivators, to whom they advanced on ruinous terms and when the harvest time comes around, it usually turns out that to satisfy the moneylenders claim, the debtors' whole crop of paddy has to be made over to him (the Chettiar), and the Chettiar instead of selling it at a low rate to the European miller shipped it to Madras".⁹⁴ That the Chettiars

92. Somalay, SKNNVM, p.41; see also, Vysiamitran, 2-2-1920, p.4.

93. J.S. Furnival, op.cit., p.96.

94. Ibid., pp. 96-97.

were also securing loans in kind is confirmed by Shri A. Savirinatha Pillai in his evidence to the Madras Banking Enquiry Commission of 1929. According to the evidence gathered by him, the Chettiars obtained 50% of the crop of the agriculturist.⁹⁵ The weekly journal of the Chettiars, 'The Oolian', by regularly publishing quotations of paddy prices in the various markets enabled them to keep a constant watch on the prices of paddy.

The Chettiars also either established or acquired a number of rice mills. According to the evidence of the Indian Industrial Commission of 1916-17, 16 rice mills out of a total of 318 were under Chettiar ownership.⁹⁶ Quite a few of these had originally been set up by the Burmese with the help of Chettiar capital but gradually, on account of bad management and the resultant losses, these mills got into the hands of the Chettiars.⁹⁷ Among the important rice mills of the Chettiars was the M.M.P.L. Palaniappa Rice Mill at Akyab; with its Registered Head Office at Nemuthapatty in Ramnad district, it had branches spread over Burma, India and Ceylon. In Burma, besides Akyab, it had branches in Dedaye and Rangoon.⁹⁸

95. A. Savirinatha Pillai, M.P.B.E.C.R., p.1177.

96. See Report of the Indian Industrial Commission Minutes of Evidence 1916-17, Vol. V, Punjab, Assam Burma & General (Cal., 1919), p.543.

97. Evidence of Mr. English, Commissioner, Maymyo, IIC, 1916-17, Vol. V, p.638.

98. Thacker's India Directory, 1915, Commercial Industries Section, Rice Mills, p.71.

MARINE.

Rangoon, 29th January 1920.

Policy No. 840

Mr. V. T. Arunasalam Chetty

D.

To New Zealand Insurance Company, Limited.

(Incorporated in New Zealand.)

For Premium on Marine Policy, numbered as above:

Per S. V. "Pallabriamaswamy"

On 60 Tons Timber

from Moulmein to Tondi

Amount Insured Rs 6000/- at 1 1/2% Rs 270 - -

At Exchange of per Re.

Less Disc. @ %

Net Premium

Rs. 270 - -

Policy Stamp .. 4 -

Rs. 270 4 -

PLEASE PAY SUMS OVER RS. 10 BY CHEQUE TO ORDER

For NEW ZEALAND INSURANCE COMPANY, LD.

PER PRO. GILL & COMPANY

W. H. 1920

Resident Manager.



KD

A specimen copy of an Insurance receipt for Timber exported by a Chettiar from Moulmein in Burma to Tondi, a small port in Madras, dated 29th Jan. 1920.

Apart from rice, the Chettiar firms were also exporting considerable quantities of timber to India. From the August 7th 1911 issue of "The Vysiamitran" we gather that 5000 tons of timber were shipped from Burma to the small port of Tondi in Ramnad district.⁹⁹

An important figure in the timber business of Madras was P.A. Chockalingam Chetty. He commenced his business around the year 1902, though it was said that his ancestors for three generations had been dealing in timber. This firm imported huge quantities of timber from Burma and it was said that every week a consignment of logs was either shipped or floated ashore from Burma. Among his customers were the Government of Madras and private contractors in Madras, and the dominions of Hyderabad and Mysore.¹⁰⁰

An examination of the ledger of the A.M. Chettiar firm of Moulmein for the year 1919 revealed that along with money lending they were also exporting huge quantities of timber to South India.

The Chettiars also possessed quite a few saw and timber mills in Burma. As in the case of the rice-mills, some of these were originally set up by the Burmese with

99. Vysiamitran, 7-8-1911. From the Swadesh-mitran (the nationalist Tamil daily published from Madras) of 8-5-1896 we gather that Shri NAR Arunachellam Chettiar, a businessman based at Moulmein, possessed a cargo ship with a load capacity of 810 tons.

100. Southern India - Its, History, People, Commerce and Industrial Resources, compiled by S. Playne, Ed. by A. Wright, (London, 1914-15), pp.646-649.

the help of Chettiar capital, but owing to mismanagement and losses, passed into the hands of the Chettiars.¹⁰¹ There were as many as 18 saw-mills under Chettiar ownership, out of a total of 189 mills in 1916-17.¹⁰²

The above account shows that the Chettiars did not hesitate to employ their capital in fields other than moneylending. This diversification and dispersal of their capital into different fields of economic activity would surely have helped in averaging the risk, and in maximising the profits. At any rate, the pursuit simultaneously of two or more economic activities is a unique feature of Chettiar entrepreneurship.

However, it was the financing of agriculture that took up a major part of Chettiar capital. Loans in Burma were classified into five main types on the basis of the form of advance made and the mode of repayment.¹⁰³ These were :

- 1) Ngwedo - A loan given in cash with principal and interest repaid in cash.

101. Evidence of Mr. English, I.I.C., Vol. V, 1916-17, p.638.

102. I.I.C., Minutes of Evidence, Vol.V, p.543.

103. Cheng Siok Hwa, op.cit., p.173.

- 2) Sabado - was a loan given in kind with the principal and interest also paid in kind.
- 3) Sabade - This was again a loan given in kind but while the principal was paid in kind, the interest was to be paid in cash.
- 4) Sabanyun - was a loan made in cash, while the principal was to be repaid in cash, the interest was to be paid in kind.
- 5) Sabape - Was a loan made in cash at the beginning or the middle of the agricultural season. The loan (both the principal and interest) was to be repaid in kind at harvest time.¹⁰⁴

Of all these loans the Chettiars mainly dealt with Ngwedo loans and to a smaller extent with Sabape loans. Though the Chettiars deny that they resorted to Sabape loans there is evidence that they did provide these loans. According to A. Savirinatha Pillai, Assistant Commissioner of Income tax, Southern Range, the "Chettis themselves obtain 50 per cent of the crop of the agriculturists"¹⁰⁵ in return for the loan advanced. He further stated that by acquiring paddy in this way and selling it, they could, given the upward trend in the prices of paddy, easily secure repayment of their loan and the interest.¹⁰⁶

104. Cheng Siok Hwa, op.cit., p.173.

105. A. Savirinatha Pillai, M.P.B.E.C.R., p.1177.

106. ibid., p.1177.

Moulmein.

உ. பூ. ரு. மெய்

17. 1. 1889 R. M. C.

மேல்மேன், 138 7

138 7

வா. தெ. வ. சி

ச. ய. சி.

22,300/-

No. 138/7

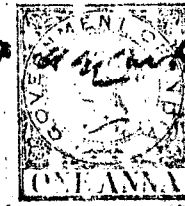
அன்மென்டு நான்கு வயது கரணித்தியந்தி

நாட்டுக்கோட்டை, 17. 1. 1889 முத்துராமன் செட்டியார் அவர்களிடத்தி...

செவ்வாய்க்கிழமை நடைபெறும் காலத்தில் கொடுக்க வேண்டியது ரூபாய் 22,300/-

முத்துராமன் செட்டியார் அவர்களுக்காவது அளவுக்குரிய பெற்றவர்களுக்காவது மீ-க-க்கு வா-க்கு வட்டி ரூபாய் 10/- வுடன் கேட்கும்போது...

செவ்வாய்க்கிழமை சம்மதித்த பிதின் கீழ்கையெழுத்து வைக்கின்றேன்



17/1 1889 - 22300/-



R. M. C. Moothoaramen Chetty.

D'Vaux Press.

A specimen copy of a promissory note of a Chettiar firm of Moulmein (Burma), dated 14th Jan., 1889. The amount lent against the promissory note was 22,300/-.

Loans were further classified, on the basis of the period of the loan, into long term, intermediate term and short term loans. Long term loans were lent for the purchase of land, expensive implements, repayment of large debts etc.¹⁰⁷ These loans were secured by mortgage or against the security of land, houses, jewellery, etc. The duration of this loan was, in the case of Chettiar firms, usually 3 years, though sometimes it was allowed to run on if the security was adequate and the interest was paid regularly after every harvest.¹⁰⁸ Intermediate term loans were generally provided for house-building, the purchase of cattle, carts etc. These loans were also lent against some security and were to be repaid within 2-5 years.¹⁰⁹

Short term loans, also known as crop-loans, were given for cultivation expenses and the living expense of cultivator and his family. These loans were to be repaid in full after the harvest;¹¹⁰ short term loans were issued against the security of promissory notes.

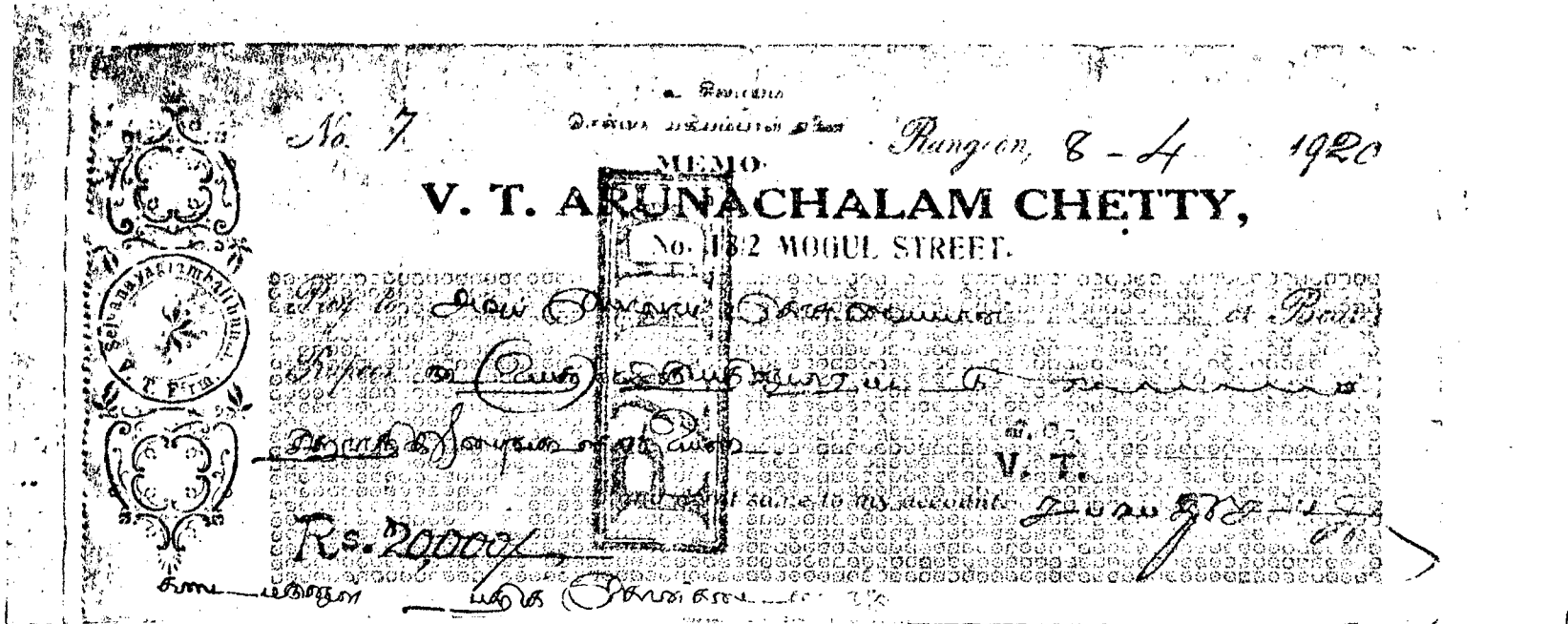
The rates of interest on all these loans was determined by and dependent upon the size of the loan, its

107 Chengsiok Hwa, op.cit., p. 175.

108 Allene Masters, op.cit., p. 24.

109 Chengsiok Hwa, op.cit., p. 175.

110 B.P.B.E.C.R., Vol. I, pp. 75-76; See also, Allene Masters, op.cit., p. 24.



A specimen copy of a cheque issued by a Chettiar firm of Rangoon, dated 8th April, 1920.

duration, the time of the year it was sought, the kind of security offered, and the prevailing rate of interest in the unorganised money market. On the whole, small loans were charged a higher rate of interest than the large loans.¹¹¹ The interest rates generally varied between 18% and 36% per annum, but were sometimes as high as 45%.¹¹²

Long term and intermediate term loans were, as already indicated, lent against the security or mortgage of land, houses, jewellery etc. Since the rates of interest were fairly high, it often happened, especially if paddy prices registered a fall or if there was a bad harvest, that the debtor defaulted in repayment of the loan. The failure of repayment inevitably involved the loss of the mortgaged property. Since land constituted a major part of the security or mortgage offered by the debtor, there was a steady flow of land from cultivator to creditor.

This persistent trend of loss of lands by Burmese peasants to non-agriculturists, particularly the Chettiar moneylenders, noticed first around the 1880's, was a

111. Cheng Siok Hwa, op.cit., p.174; see also, Allene Masters, op.cit., p.24.

112. See Royal Commission on Agriculture in India, Vol. XII, Evidence taken in Burma, (1928), p.75, and p.104; see also Speech of Thakin Nu (1948), p.17; and also see Chester L. Cooper, op.cit., p.37.

continuous process which assumed alarming proportions during the depression of 1930.¹¹³ Given the nature of the tenurial system the British had created, this trend was in a sense inevitable. Thus, as already stated, under the Lower Burma Land and Revenue Act of 1876 the squatter over a piece of land obtained a permanent heritable and transferable right of use and occupation in land after the payment of land revenue continuously for a period of 12 years. The Act also provided that a cultivator could obtain an occupancy right by paying a nominal land revenue for a single year so as to enable the cultivator to use the land as security for loans to cover the purchase of such things as food, cattle and seeds, and cultivation expenses.¹¹⁴ The moneylenders, it was said, made good use of this provision by moving in to take the occupancy right before full heritable permanent ownership could be acquired.¹¹⁵ It is ironical that the colonial authorities who set out to create some form of peasant proprietorship in Burma by making the title of land heritable and transferable under the 1876 Act, in fact ended up by preparing the ground for the extinction of peasant proprietorship. It should be noted that this was also precisely the period when land values

113. J.R. Andrus, op.cit., (1946) p.262.

114. J.F. Cady, op.cit., p.158.

115. ibid., p.158,

and prices of paddy had started increasing and hence land acquired a sale or exchange value and therefore began to be used by the moneylender as a security for loans.¹¹⁶ Consequently, from this time onwards, viz. in the 80's, 90's of the 19th century, there was a steady transfer of land from the cultivators and agriculturists to non-agriculturists moneylenders and though several attempts were made by the authorities to check the process of land alienation, because of the strong opposition of the Chettiars, the Burmese land-lords and the European merchants, nothing was done until as late as 1939.¹¹⁷

It was estimated that by 1926 non-agriculturists held 3.5 million acres of land out of a total of some 18 million acres of cultivable land.¹¹⁸ By 1929/30, viz. before the onset of the depression, the Chettiars owned as much as 5,70,000 acres of fertile land in the thirteen main districts of lower Burma. This was 6% of the total occupied land,¹¹⁹ no mean figure by any standard.

It needs to be pointed out that the process by which Chettiar moneylenders became landlords was not pure chance or accident, as is quite often made out in works on Burma, but the result of the logic inherent in their credit

116. NBTIAC., p.1.

117. Speech of Thakin Nu, (1948), para 3, pp.13-14.

118. ibid., p.15.

119. NBTIAC., p.7.

system. Since the bulk of Chettiar operations was in the Irrawady region, it may be reasonably assumed that they loaned against the best land, and when the repayment of the loan was defaulted, the Chettiars took possession of the land.

The Confidential Note on the Question of Compensation Payable to Indians for the Nationalisation of Paddy Lands,¹²⁰ drafted by the Burma Nattukottai Chettiar Association, has listed the following methods whereby Chettiars generally came to possess land:

- (1) Voluntary Sale in Settlement of Debt: When a debt accumulated and the debtor was unable to pay, he sometimes settled with his creditor by conveying a portion of his property in full settlement of the debt.
- (2) Court Sale under Money Decree: If the Chettiars were unable to realise their dues from the debtor, they filed a suit in a court and obtained a money decree and attached the property. Thereafter, the court authorised the property to be sold in a public auction and the creditor sought the permission of the court to bid at the auction so as to set off the purchase money against the dues. Since the creditor was usually the highest bidder he secured the property.

120. This document was consulted by me at the residence of the late Shri Solayappa Chettiar, the former Secretary of the Burma Nattukottai Chettiar Association, in Palathur, Ramnad district.

(3) Court Sale under Mortgage Decree: Under this method the Chettiar filed a suit for the realisation of the mortgaged property and obtained a decree, and after the normal period of six months for redemption of the property, the property was sold, as in the above case in public auction. The remaining procedure was the same as in the above case.¹²¹

It is stated that the Chettiars purchased the property only when they found that their full dues were not being realised by the sale.¹²² One is a bit sceptical of this argument in view of the fact that land values were on the whole rising during the period 1880-1929. Moreover, since the Chettiars usually demanded the best land as security for the loan, the sale value would ordinarily have been far greater than the amount (the loan and the interest) due from the debtor. Thus the fact that the Chettiars purchased land in a public auction in the face of competition from other bidders would indicate ^{that} the ownership of land was profitable. That this was in fact so was inadvertently admitted in the Confidential Note. Looking back at the turn of events, the Note stated rather critically that "they (the Chettiars) thought

121. Confidential Note, op.cit., Sub-heading 'How Chettyars came by the Lands', pp.4-5.

122. ibid., pp.5-6.

rather foolishly that if they purchased the land they might sell it later on at a higher price."¹²³

Several writers have striven to stress upon the assumption that basically the Chettiars were not interested and in acquiring land that they were forced into landownership by circumstances.¹²⁴ One writer has even suggested that their business organisation was not equipped for land-ownership since "ownership necessitated constant surveillance of property and some responsibility for the collection of rents and indirectly, production on land."¹²⁵ As already indicated, the trend among the Chettiars was to diversify their activities into different fields, such as trade and ownership of mills etc. Of significance in this context is a certain memorandum of the Burma Nattukottai Chettiar Association to the Chairman of the Central Board of Revenue. Listing the losses incurred by the Chettiars during the Japanese occupation of Burma, the memorandum incidentally throws light on the nature of the business of the Chettiars in the pre-war period. According to the memorandum the Chettiars were, apart

123. Confidential Note, op.cit., p.6.

124. Golay Anspach, et.al., Underdevelopment and Economic Nationalism in S.E. Asia, (Cornell, 1969), p.220; see also N.R. Chakravathy, op.cit., p.58; and see also Memorandum of Chettiar Overseas Association, Karaikudi (1945), pp.1-2; Allene Masters, op.cit., pp.28-29.

125. Allene Masters, op.cit., p.29.

from moneylending, also engaged in the collection of rent from their lands. The rent so collected, largely in kind, was stored in granaries and subsequently exported from Burma.¹²⁶ In the face of this evidence it is a little difficult to accept the hypothesis that their business organisation was not equipped for landownership. Leasing out lands to the tenants and securing the rent does not call for any elaborate organisation. The question of ownership of land by the Chettiars assumes its real significance when seen in conjunction with their involvement in rice-milling and in the rice-trade.

In any case, considering that the Chettiars owned as much as 5,70,000 acres of fertile land in 1929 and bought land themselves at public auctions when the proceeds of the auction would have secured them their dues, the arguments regarding their disinclination to be land-owners do not appear plausible.¹²⁷

126. Memorandum of the Burma Nattukottai Chettiar Association to the Chairman, Central Board of Revenue. (This document was made available to me for consultation by Sri AKACTAL Chidambaram Chettiar of Kottaiyur), p.1, para.3.

127. In fact the Burmese Newspaper 'Thuriya' in its issue of 19th Feb. 1930 had stated that "in the recent years Chettiars have aimed at obtaining possession of agricultural land and for this purpose have seized it more readily when loans were in arrears, holding it and working it through tenants." Making a specific reference to the Maubin district, the paper stated that the Chettiars had taken over 30,000 acres of paddy lands in each of last three years.

The majority of the members of the Burma Provincial Banking Enquiry Committee (viz. 5 out of 8 members) endorsed the view expressed by the newspaper and added that this was due to "the increase of rents and the disappearance of difficulty in finding tenants." However the Chairman and another member of the Committee disagreed with the above view (the Chettiar member of the Committee kept himself out of the debate). See, B.P.B.E.C.R., Vol.I, 1929-30 (Rangoon, 1930), pp.198-199.

Another argument that has been advanced is that the Chettiars, in accordance with their preference for liquid capital, would not have been inclined to lock up their funds in landholdings.¹²⁸ However, this principle would apply strictly to the smaller firms only, which operated with a small quantum of capital. The large and medium firms, which commanded a larger pool of capital, were quite prepared to invest their capital in fields other than moneylending, if such an investment provided an adequate return.

The transfer of land to the Chettiars, and the ownership of land by them, was profitable as long as the prices of paddy and land values were high; however, with the onset of the depression and the sharp fall in prices of paddy and land, the ownership of land became distinctly unprofitable. Thus, in discussing the ownership of land by the Chettiars, one needs to distinguish between the pre-depression and the post-depression periods.

The calamitous effect of the depression on Burmese agriculture, trade and more specifically on Chettiar moneylending operations was heralded with

128. Allene Masters, op.cit., pp.28-29.

the collapse in the wholesale prices of paddy. Thus the price of paddy, which had been Rs. 160 per hundred baskets in the Rangoon market in 1929 came down to Rs. 130 in 1930 and plummeted to Rs. 75 in 1931.¹²⁹ A Burma Nattukottai Chettiar Association document provided a different set of figures. According to it, the wholesale prices of paddy in lower Burma fell from Rs. 240 in 1929 to Rs. 155 in 1930 and to Rs. 60 in 1931.¹³⁰

Land values also registered a fall. Thus, in Pegu district, where Chettiar operations were quite considerable, land values had, by the 1932-34 session, fallen by 25% from the values of 1924-25.¹³¹ The average sale value of land, which was about Rs. 92 per acre,¹³² fell to Rs. 68.36 per acre by 1932-34.¹³³ Similarly, in the Amherst district, from the highest price of over Rs. 300 per acre in 1927-28 in certain developed tracts, the value came down to Rs. 230 per acre in 1931-32, a fall of 26%.¹³⁴

129. Cheng Siok Hwa, op.cit., p.73.

130. Confidential Note, op.cit., Subheading Depression of 1929-30, p.7.

131. NBTIAC, p.16; see also, Chester L. Cooper, op.cit., p.48.

132. Chester L. Cooper, op.cit., p.48.

133. NBTIAC, p.16.

134. Ibid., p.17.

The net result of these developments was that it became virtually impossible for the agriculturist to repay his loans and often even the interest. When outstanding loans could not be repaid, the Chettians went to court in settlement of their dues. Thus, hundreds of thousands of acres of land got into Chettian hands during this period. The extent of this land holding is shown in Table No. 5 . As the table shows, Chettian holdings of land increased from 5,70,000 acres, which was 6% of the total cultivated area in the major rice-growing districts, to 23,93,000 acres, which was 25% of the total cultivated area. In addition to these land-holdings, it was estimated that another large area of 10-20% of the total cultivated area in lower Burma was mortgaged to them.¹³⁵ A considerable amount of real estate in Rangoon also came into their possession during this period.¹³⁶

The smooth functioning of their system of money-lending required the maintenance of a balance between their liquid assets and investment in immovable property; hence, this drastic conversion of their capital into immovable property created a serious crisis in their moneylending system.

135. Allene Masters, op.cit., p.29.

136. Ibid., p.29.

TABLE NO. 5.

Classification of Occupiers of Land in the
13 Principal Rice-growing Districts ('000's)

| Year | Total agricultural land | Total agricultural area occupied by non-cultivators | Area occupied by Chettiars | Percentage area occupied by Chettiars to area occupied by non-agriculturist | % of area occupied by Chettiars to total occupied area |
|------|-------------------------|---|----------------------------|---|--|
| 1930 | 9245 | 2943 | 570 | 19 | 6 |
| 1931 | 9305 | 3212 | 806 | 25 | 7 |
| 1932 | 9246 | 3770 | 1367 | 36 | 15 |
| 1933 | 9266 | 4139 | 1782 | 43 | 19 |
| 1934 | 9335 | 4460 | 2100 | 47 | 22 |
| 1935 | 9408 | 4687 | 2293 | 47 | 24 |
| 1936 | 9499 | 4873 | 2393 | 49 | 25 |

Source : Notes by the Indian Advisory Committee to the Burma Nattukottai Chettiars Association on the Land Nationalisation Act of 1948,
K.E.S.C. Ltd. Bldgs., Chettinad, Ramnad Distt., p.7.

This crisis was further intensified as the European banks began calling in the loans they had advanced to the big Chettiar and Marwari firms. The latter in turn applied pressure on the smaller firms and demanded immediate repayment of their loans. Being unable to bear this pressure many small Chettiar firms, and few large ones, collapsed.¹³⁷ It was estimated that as many as about 400 of the 1650 firms that were operating in 1929 collapsed during the depression.¹³⁸

The 1930's can be considered as the end of the era of large scale Chettiar financing in Burma. With the bulk of their capital frozen in ^{to} immovable property, their activities were largely limited to the management of the lands in their possession.

136.

137. Among the large firms that collapsed during this period were such reputed firms as T.S.N. Chettiar and S.A.R.M. Chettiar firms. Both these firms were adjudicated insolvents with debts of 50 to 70 lakhs of Rupees - Confidential Note, op.cit., p.7.

138. Memorandum of Chettiars Overseas Association, Karaikudi (1945), p.2.

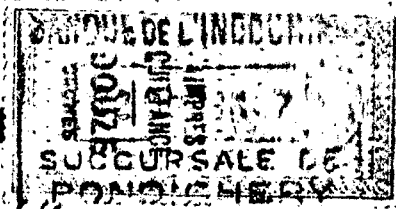
CONCLUSIONChettiars in Indo-China

About a decade after Indo-China had come under French colonial rule viz. in the 1870's, some enterprising Chettiars came over to this area from Singapore in search of prospects for good business.¹ They started their moneylending operations in the urban centres and port towns and in course of time gradually extended it to the rural areas. In the urban centres, it was said that importers and exporters obtained "trade loans from Chettis on a large scale".² In the agricultural sector they were an important source of both short and long term credit. While short term loans, sought by the agriculturists, during the cultivating season, were advanced on the security of standing crops and promissory notes, the long term loans were advanced against the security of land. According to Virginia Thompson the short term loans of the Chettiars generally bore a very usurious rate of interest ranging from 15% to 25% per month;³ The failure of the Annamite debtors to repay their loans, as during the period of bad harvest between 1905-1907, often resulted in the foreclosure of land by the Chettiars. It was during 1905-1907, a period of bad harvests, that the Chettiars, owing to large scale defaults by Annamite

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1. SRM Ramaswamy 'Indo Chinavin Charithiram' (Tamil) Dhanavanikan 30-3-1933, p.21. Ch. Alagappan 'Vietnamil Nagarathar, Kalin Theyva Thirupani' SKNNNVVM, p.148.
 2. A. Savirinatha Pillai, MPBECR, Vol.III, p.1177.
 3. Virginia Thompson : French Indo China, London, 1937, p.224.

N° 8672

BANQUE DE L'INDOCHINE
SUCCURSALE DE SAIGON



COMMERCIAL BANK

Reçu de Madame M. A. R. S. Kavari Achi

la somme de Cinquante cinq roupies quatorze annas six pies
Conte de notre dépêche à Singapour et de Singapour
à Pondichéry pour son compte
Pondichéry, le 22 Octobre 1937.

B.P.S. 35.14.6

Le Caissier:

[Signature]

Le Directeur

[Signature]

The above specimen document indicates a Chettiar's dealings with a French Commercial bank in Saigon Indo-China, dated 22nd Oct., 1937.

debtors in repayment of their loans secured a grip over the country.⁴ And by the 1930's were said to have been in possession of 1/4th of the land holdings in Cochin China.⁵ Their moneylending business in Indo China was fairly lucrative and enabled them to clear handsome profits. Upto 1920 the Chettis it was said cleared a profit of about 10% on loans.⁶ It has been further estimated that since 1900 the Indo-Chinese had paid to the Chettiars as much as 182,000,000 piastres.⁷ Of this amount 42,000,000 piastres was repatriated to India while 40,000,000 piastres was reinvested in new loans in the country.⁸

The extremely lucrative business of the Chettiars in Indo China attracted more of them to the area. By 1930 it was estimated that there was approximately 120-130 principal Chettiar firms operating in Indo China with an investment of about Rs. 5 crores.⁹

The period from 1880 to 1930 was an important phase in the evolution of entrepreneurship in the Chettiar community.

4. Virginia Thompson, op.cit., p.225.

5. ibid., p.225.

6. ibid., p.225.

7. ibid., p.225.

8. ibid., p.225.

9. SRM Ramaswamy, op.cit., p. 24.

Their lucrative business in moneylending and trade in colonial Burma, Ceylon, Malaya, Indo-China among other areas, enabled some among them to accumulate over a period of time, huge fortunes. Part of this accumulated capital began to find its way, from the early 20th century, into some of the industries and modern incorporated enterprises in South India.

The period 1880-1930 also marked the end of the era of traditional Chettiar business enterprise. The Changing economic and political conditions in the colonial countries of South and South East Asia made it increasingly difficult for them to operate on their traditional lines. The depression of 1930 gave a rude jolt to their very system of moneylending. The delicate balance between liquid capital and immovable assets in the form of land and urban property, which they had been precariously maintaining until the depression was completely upset thereafter. The economic crisis in these colonial countries provided a fillip to the nationalist movement in these areas, which avowedly expressed its hostility towards the Chettiars.¹⁰ By forcibly acquiring large land holdings the Chettiars became visible exploiters of the people. During this period attempts were also made, as in Burma, to induce certain sections of people to refuse to pay their dues to the Chettiars;¹¹ There was also about this time, imminent prospects as in Ceylon and Burma, of double assessment on Income tax.¹²

10. Allene Masters, op.cit., p.29.

11. Usha Mahajani, The Role of Indian Minorities in Burma and Malaya, p.19.

12. ibid., p.19, Weerasooria, op.cit., p.156.

These various factors, in a sense, prompted the Chettiars to withdraw part of their capital and profits from the overseas countries to India.

Moreover even their traditional business organisation and practices were found to be unsuitable by the 20's of the 20th century and were either modified or discarded altogether; thus caste sodality increasingly receded into the background. As indicated earlier in this chapter, disparities of wealth or economic differentiation within the Chettiar community became a noticeable feature, and consequently some of the non-economic forces which had bound the Chettiars together when they had started business in the overseas countries became, in the course of time, inept. Thus the institution of caste panchayat which was utilized for settling disputes amongst the Chettiars, became defunct in the course of time and the Chettiars were found to be increasingly taking recourse to the courts to have their disputes settled.¹³ Likewise, the "Nagara Viduthi" and the assembly of the elders gave way to the chettiar association. A much larger body, the Chettiar Association though, theoretically, intended to provide spatial unity to the larger number of Chettiars in a particular region, in fact came to be dominated by the wealthier Chettiars, to whom the Association served as a pressure group.

In the meanwhile a section of the Chettiars had on their own begun to realise and feel the necessity of diversifying their capital from mere moneylending to other fields of economic activity such as trade, Commission agency, and organised modern banking.¹⁴

13. T. S. Nagappa Chettiar avarkalin Muguvarasi pirasangam Burma Nattukkottai Chettiar Kalin Muduvaladu Mahanadu (Ten Kanchi, 1924) Pt. 6-7.

14. Chockalingam & Co., General Merchants & Commission Agents, Rangoon, Dhanavanikan, 12-10-33, p.6.

It was the depression of 1930 which provided an occasion for the Chettiars to divert part of their capital to India, for investment in industries and other modern incorporated enterprises.

CHAPTER III

THE RISE AND DEVELOPMENT OF CHETTIAR

CAPITALISTIC ENTERPRISE

Having discussed the circumstances that led to the migration of Chettiar capital from Madras Presidency to the overseas areas and its subsequent investment in moneylending and trade in those areas, we now turn to examine a rather neglected aspect of Chettiar entrepreneurship, their participation in capitalistic enterprises in South India. From the late 19th century onwards, some large Chettiar houses, though still engaged in moneylending and trade operations in South India and various overseas areas, began to gradually invest part of their accumulated capital in various industries and non-industrial modern incorporated enterprises.

The Chettiars who entered industry did so not by breaking away from their 'traditional activities', viz. moneylending and trade, but combined the two. In other words, the transition from the stage of moneylending and trade to that of industry, was not entirely smooth; the old modes of business enterprise coexisted with the new. This, in fact, was the distinctive feature of Chettiar enterprise during the period 1880-1930.

This peculiar phenomenon has, however, to be viewed in the light of the great odds against which

they attempted to enter industry. To begin with, the degree of industrialisation in Madras Presidency in the late 19th and early 20th century was much less than in the Bombay and Bengal Presidencies.¹ Rao Bahadur P. Theagaraja Chettiar, in his evidence before the Indian Industrial Commission (1916-17), listed the following factors as being responsible for the industrial backwardness of Madras Presidency: (a) the lack of facilities for the generation of power, (b) the absence of coalfields and minerals and (c) the chronic problem of transportation and communication.²

Secondly, there were also the problems involved in procuring and transporting the raw-materials. This was brought out by P. Somasundaram Chettiar in his evidence to the Indian Industrial Commission (1916-17). According to him, speculators made big purchases of raw cotton in the cotton growing areas of South India and sent it to Bombay and Tuticorin for export, anticipating higher prices in countries such as Japan. These speculators were even provided with

1. A.K. Bagchi, Private Investment in India 1900-1939, (Cambridge, 1972), p. 189.

2. Written Evidence of Rao Bahadur P. Theagaraja Chetti (Witness No. 204), Indian Industrial Commission (hereafter referred to as I.I.C.), Minutes of Evidence 1916-17, Vol. III, (Madras & Bangalore), p. 51.

concessional railway freight rates. The South Indian mills were thus deprived of the local raw material and had to make purchases in Bombay and Tuticorin. They now faced the difficulty of transporting this raw material as the freight rates to and between port towns was much lower than those between the port towns and the interior. Thus the mill owners of Coimbatore were transporting their raw cotton from Bombay "to Calicut 115 miles away from Coimbatore and then rebooked to Coimbatore as the freight from Bombay to Coimbatore direct is more than from Bombay to Calicut and then to Coimbatore."³ Apart from these problems there was also the difficulty in securing machinery and other accessories for industries as well as the competition from British manufactured goods.

Coupled with these physical constraints was the larger problem of a lack of private Indian capital for investment, and in this context it should be noted that Indians seeking to enter industry had to have a considerable amount of capital to be able to survive in a highly competitive

3. Written evidence of Rao Bahadur P. Somasundaram Chettiar (Witness No. 253), I.I.C., Minutes of Evidence (1916-17), Vol. III, (Madras & Bangalore), p. 444.

market. As indicated in Chapter I, the wealthier classes preferred, during this period, to invest in operations like moneylending.⁴ The European banks did not extend credit to Indian investors to any significant extent; as Vidya Sagar Pandya (Secretary, Indian Bank Ltd.) put it, the European banks "had no systematic scheme or sympathetic desire to finance Indian trade and industry."⁵

Over and above all this was the income-tax policy of the Government of India which, by regarding capital repatriated from abroad as liable to taxation as business profit, discouraged the Chettiars from repatriating their excess capital from the overseas areas.⁶

Apart from these hinderances there were also serious economic constraints imposed by colonialism

4. Chapter I, p. 42.

5. M.S. Natrajan, A Study of the Capital Market of Madras Presidency, (D. Phil. Thesis, Univ. of Madras, 1934), p.45.

6. A Savarintha Pillai, Written Evidence, Madras Provincial Banking Enquiry Committee Report (1929), Vol.III, p. 1180; see also, Speech of Rao Bahadur S.R.M. Annamalai Chettiar, Progs. of the Council of Governor of Fort St. George, July 1916- June 1917, (Govt. of Press, Madras, 1917), p.901.

which made very difficult the flow of private capital into industrial enterprises. The most important of these were the strong European hold over the organised money market and the foreign trade (which have already been discussed in Chapter I⁷) and the strong European hold over industry - a supremacy that remained unchallenged till the 1930's.

Taking the cotton textile industry as a case in point, it is seen that a few European Managing Agency houses, viz. Messrs A. F. Harvey & Co; N/s Binny & Co., Messrs T. Stanes & Co., were able, through their effective control over the textile industry, to ward off any challenge to their supremacy. The location of their mills further aided them in maintaining this supremacy. The mills of Binny & Co. were situated in the city of Madras, those of A.F. Harvey in Tinnelvelly, while T. Stanes & Co. had its mill in Coimbatore.⁸ By spreading out in this way, they not only minimised competition amongst themselves, but were also able to effectively curtail or thwartth the potential for the rise of Indian industry in these areas. The history - at least until

7. Chapter I, pp. - 24 - 37

1930 - of the mills under the control of these three managing agencies can be characterised as one of expansion and growth leading to the establishment of a virtual monopoly. The Binny's were the first to enter the textile industry when they set up the Buckingham Mill Co. Ltd. in August 1876. It started with an initial capital of Rs. 5,00,000 which was subsequently, in October 1876, raised to Rs, 7,00,000.⁹ Likewise, from 15,000 spindles in 1878 the company had, by 1890, 35,000 spindles,¹⁰ while the 500 powerlooms installed in 1893¹¹ enabled it to produce fine quality cloth for both the external and internal market. Messrs Binny & Co. were also the managing agents of the Carnatic Mill Co; established in Madras in 1881, with an initial capital of Rs. 7,00,000. Starting with 16,500 spindles and 129 looms in 1884¹² the Carnatic Mill had, by 1890, a total of 29,048 spindles and 491 looms.¹³

8. N.C. Bhogendranath, Development of the Textile Industry in Madras, (Univ. of Madras, 1957), pp 10-13.

9. The House of Binny (Published by Binny & Co., Madras, 1969), pp. 84-85.

10. N.C. Bhogendranath, op.cit., p. 11.

11. The House of Binny, p. 116.

12. ibid, pp. 89-90.

13. N.C. Bhogendranath, op.cit., p. 12.

Equally powerful and dominating was the managing agency house of A.F. Harvey. Making a rather modest beginning in 1879 "as a purely cotton exporting firm",¹⁴ by 1929 this firm had come to possess the biggest group of mills, viz. The Madura Mills, which comprised the Tinnevelly, Coral, Madura and Pandyan Mills, established in 1885, 1888, 1892 and 1925 respectively.¹⁵ Beginning from 1924, all these mills were, one after another, amalgamated into the parent company, and came to be known as the Madura Mills Ltd.¹⁶

Messrs T. Stanes & Co., the other reputed managing agency house, along with Arbuthnot & Co., founded in 1888 The Coimbatore Spinning & Weaving Co. Ltd.¹⁸ However, with the failure of Arbuthnot in 1906, T. Stanes assumed full control over the mill.¹⁹ The Coimbatore Spg. & Wvg. Mills Co. Ltd. had the distinction of being the first textile mill to be established in Coimbatore²⁰ - an area which later became the centre of the textile industry in South India. Specially important is the fact that for

14. N.C. Bhogendranath, op.cit., p. 13.

15. ibid, p. 13 and p. 28.

16. ibid, p. 29.

17. ibid, p. 12; see also, The House of Binny, p. 103.

18. N.C. Bhogendranath, op.cit., p. 12.

19. ibid, p. 12.

20. ibid, p. 15.

eighteen years it was the only mill in that area.²¹

The purpose of this brief sketch is to highlight the extent of European control over the textile industry, for it is against this backdrop of European control over industry, as also the organised money market and foreign trade, that the exertions of Chettiar entrepreneurship has to be viewed.

It is constraints to such as those discussed above that would explain the relative smallness of Chettiar investment in the field of industry in the pre-1930 period. In fact, the entry of the Chettiars into modern industry in a big way in the post-1930 period was essentially due to : (a) the creation of a suitable environment for industrial investment, which was the result of the weakening of the British hold over the Indian economy²² and (b) as indicated in the earlier chapter, the changing economic and political conditions in the various British colonies in South-East Asia which

21. N.C. Bhogendranath, op.cit. pp. 11-15

22. A.K. Bagchi, op.cit., p. 206.

made it less secure for the Chettiars to operate on their traditional lines.²³

Curiously, it was by way of textiles that the Chettiars, like the entrepreneurs of Bombay, entered industry; and what is more, in the field of industry, their investment in textiles was, until 1930, by far the most.

Among the first Nattukottai Chettiars to be associated with any modern incorporated enterprises, though in collaboration with one of the leading European business houses of Madras, was P. Somosonthram Chetty. He was one of the Directors of the Madras Cotton Cleaning Co. Ltd., floated sometime in the 60's of the 19th century with a paid-up capital of rupees 2.5 lakhs, this company was very closely associated with Messrs Binny & Co.²⁴ P. Somosonthram Chetty was also co-opted in 1877 as a Director of Binny's Buckingham Mill Ltd.²⁵

The first bold Chettiar venture in the field of textile industry came with the setting up of the Malabar Spinning & Weaving Mill Co. Ltd. at Calicut in 1888.²⁶ The capital for this company

23. It was the co-incidence of these two factors that would largely explain the inflow of Chettiar capital into industry in the 1930's in a much more vigorous manner, than earlier.

24. The House of Binny, pp. 71 and 85.

25. ibid., p. 85.

26. N.C. Bhogendranath, op.cit., p. 11.

TABLE No. 6.

Analysis of Working

| | Year ended December | | | | |
|------------------------------------|---------------------|-------------|-------------|-------------|-------------|
| | 1924 Rs. | 1925 Rs. | 1926 Rs. | 1927 Rs. | 1928 Rs. |
| Profit | 2,64,652* | 1,30,667 | 1,28,935 | 1,46,326+ | 93,356 |
| Depreciation | 63,000 | 78,496 | 78,778 | 79,378 | 34,689 |
| Reserve Funds | 50,000 | - | - | - | - |
| Dividend | 1,20,000 | 90,000 | 60,000 | 60,000 | 60,000 |
| Dividend rate per cent per annum | 20 | 15 | 15 | 10 | 10 |
| Highest and lowest price of shares | 350-265 | 305-365 | 325-275 | 332-300 | 332-285 |

* Includes Rs. 212,062 being enhanced price of cotton and yarn since the last balance sheet.

+ Includes Rs. 40,000 transferred from Dividend Equalisation Fund.

Source : A.S. Pearse, The Cotton Industry in India (Manchester, 1930), p. 266.

Balance Sheet of the Malabar Spinning & Weaving Co. Ltd. as on December 31, 1928

(17,696 Ring Spindles)

| | Rs. | | Rs. |
|--|------------------|-------------------|------------------|
| Capital | .. 6,00,000 | Gross Block | .. 15,47,896 |
| Reserve Fund | .. 9,50,000 | Less Depreciation | .. 12,13,395 |
| Sundry liabilities including profit and loss account | .. 3,41,248 | Net Block | .. 3,34,501 |
| | | Liquid Assets | .. 15,56,747 |
| TOTAL : | <u>18,91,248</u> | TOTAL : | <u>18,91,248</u> |

was principally subscribed by the ALAR Chettiar family, the zamindars of Devakottah, and the Desamangalam Namboodripad family of Travancore.²⁷ Till 1900, M/s Kalianjee Soondarjee & Co. and M/s Vandarwandas Purshotamdas & Sons were the Managing Agents. In 1902, ALAR (Somasundaram) Chettiar became the Managing Agent of the company;²⁸ Rao Bahadur P. Somasundaram Chettiar was also for sometime, the Managing Agent.²⁹ The mill ran into considerable difficulties in the year 1899, but managed somehow to tide over it³⁰ and by 1920 was paying a dividend of 50% to its shareholders.³¹ The balance sheet and an analysis of the working of the Malabar Spg. & Wvg. Mills Co. Ltd. as on December 31, 1929, is appended. See table No.6.

27. This oral testimony was given by ALAR Somanathan Chettiar when the writer interviewed him at Devakottai, in June 1973.

28. N.C. Bhongendranath, op.cit., p.12.

29. Rao Bahadur P.Somasundaram Chettiar, Written Evidence, I.I.C., p. 443.

30. C.S. Chockalingam Pillai, Biography of Rao Bahadur P. Somasundaram Chettiar, (Tamil) (Coimbatore, 1921), pp. 3-4.

31. N.C. Bhongendranath, op.cit., p. 34.

The Malabar Mill also had the distinction of being the first textile mill to be floated by a South Indian entrepreneur, but what is most remarkable is that it was established at a time when the European business houses like Binny & Co., A.F. Harvey & Co., T. Stanes & Co., themselves had just entered or were entering the field of textiles.³² The period 1900-14 is a striking contrast to the earlier period in that there is a much greater degree of participation by the South Indian entrepreneurs in the textile industry.³³ In the earlier period, viz. 1875-1900, most of the capital invested in the industry belonged either to "the local English traders or Bombay capitalists."³⁴

Rao Bahadur P. Somasundaram Chettiar, the Managing Agent of the Malabar Spg. & Wvg. Mills Co. Ltd., was among the successful South Indian entrepreneurs to emerge during this period. In partnership with the ALAR Chettiar family he founded the Kaleeswara Mills at Coimbatore in 1910.³⁵ The paid-up capital of this mill, amounting to Rs. 6,50,000, "was principally

32. N.C. Bhogendranath, op.cit., pp. 10-13.

33. ibid., p. 15.

34. Interestingly, it was the Indian entrepreneurs from Bombay who established the first two textile mills in Madras. The first of these was the Southern India Spg. & Wvg. Co. Ltd., established in 1874 with a capital of Rs. 5,00,000. M/s Jahangir Hormujee were for a short while its managing agents until Moolji Jatia took it over. The latter, along with Soonderdas Moolji, founded the Madras United Spg. & Wvg. Co. in 1875. N.C. Bhogendranath, op.cit. pp. 9-10.

35. C.S. Chockalingam Pillai, op.cit., pp. 4-5.

subscribed by merchants, bankers and vakils".³⁶

In addition to Kaleeswara Mills, he also established the Calicut Tile Co. at Feroke in Malabar; a ginning factory and a bank at Ariyalur in the Trichy district; a paddy husking mill at Arni, in North Arcot district; and another ginning factory at Pollachi, in the Coimbatore district.³⁷

Besides promoting mills, the Chettiars were also acquiring defunct mills and starting them again. This was the manner in which the Koilapatti Mills was acquired by the Nattukottai Chettiar bankers, R.MMST. Vairawa Chettiar and M.IM. Ramanathan Chettiar, in 1908.³⁸ The Koilpatti Mills was originally established at Koilpatti in Tinnevelly district, with a paid-up capital of Rs, 5,00,000 by "some Muhammadans"³⁹ in 1892.⁴⁰ After a short while the mill incurred financial losses, went bankrupt, and was ultimately closed down in 1908. Thereafter "the property came to court sale, and was bought by two Nattukottai Chettiars for nearly seven lakhs

36. P. Somasundaram Chettiar, Written Evidence, I.I.C. Vol. III, p. 443.

37. C.S. Chockalingam Pillai, op.cit., pp. 4-5.

38. H.R. Pate, Madras District Gazetteers - Tinnevelly Vol. I, (Madras, 1917), p. 213; see also, Thacker's India Directory, 1915, Commercial Industries Section, Cotton Mills Sub-Section, Madras Presidency, p. 23.

39. H.R. Pate, op.cit., p. 213.

40. N.C. Bhogendranath, op.cit., p.12.

of rupees."⁴¹ After remaining idle for nearly one and a half years, the mill was recommissioned and renamed as Kamakshi Mills. Apparently, this was only an 'ad hoc' and temporary arrangement, because by 1911 an altogether new mill was floated in place of the Kamakshi Mills named as the Chidambaram Vinayagar Mill, it was floated with a paid-up capital of Rs. 7,00,000. The original owners, R.MMST. Vairawan Chettiar and M.L.M. Ramanathan Chettiar held two-thirds of the shares.⁴²

Between 1911 and 1920 no new textile mills were established in Madras Presidency. Though the 1914-18 war, by cutting off imports and partially throwing open the domestic market to the Indian entrepreneurs, did afford an opportunity for the South Indian entrepreneurs to enter industry, they could not take advantage of these circumstances because the machinery and other accessories required for the mills had to be secured from Great Britain.⁴³ The entrepreneurs had, therefore, to wait for the war to end and fortunately for them the climate, both

41. H.R. Pate, *op.cit.*, p. 213.

42. N.C. Bhogendranath, *op.cit.*, pp. 12 & 15; see also, H.R. Pate, *op.cit.*, p. 213. It was from the Thaker's India Directory, as indicated in no. 38, that one secured the names of the two Chettiars who had acquired the old mill and floated the new.

43. N. C. Bhogendranath, *op.cit.*, p. 25.

economic and political, in the post-war period was extremely favourable for investment in industry. The lifting of the wartime prohibitions and controls followed by the resumption of commercial intercourse with the overseas countries resulted in a boom.⁴⁴ Moreover, the launching in the 20's of the non-cooperation movement, with its boycott and swadeshi programme, contributed towards strengthening the hand of the Indian entrepreneurs.

Karumuthu Theagaraja Chettiar, who was to emerge in post-independent India as one of the leading figures in the field of the textile industry, controlling thirteen textile companies (sixteen mills) in addition to a Bank and Insurance companies, made his beginning in this period by establishing the Sri Meenakshi Mills in Madura in 1921.⁴⁵ It had by 1929/30 a paid-up capital of Rs. 14,07,700.⁴⁶ As was characteristic of most Chettiars, Karumuthu also built up his fortunes through moneylending and trade in Ceylon and South India - a base that had in turn been built on land

44. N.C. Bhogendranath, op.cit., p. 28.

45. ~~N.C. Bhogendranath, op.cit., p. 28; see also, V.A. Seshadiri Sharma, Nattukottai Nagarathar Varalaru (Tamil). P. 133.~~ ibid.

46. A.S. Pearse, The Cotton Industry in India - being the report of the journey of India (1930). See under 'List of Cotton Mills in India', in the Appendix, p. 242.

rents.⁴⁷ Until our period of study, the Karumuthu group, while investing in industry, was also engaged extensively in moneylending and trade.

The next step in the direction of investment in the textile industry was the establishment of the Mahatma Mills Co. in 1925 at Madurai by SS.N. Lakshmanan Chettiar.⁴⁸ As was the case with almost all the mills established by the Chettiars, the managing agents of these two mills were the founders themselves, their close relations and members of their own community. The managing agents of these two mills were Theagaraja Chetty & Co. and SS.N. Lakshmana Chetty & Co.⁴⁹

The famous AR.AR.SM. family of Devakottai also had a mill at Madras.⁵⁰ The exact date of its establishment is not known, but one can assume

47. G. Baldwin, Industrial Growth in South India (New York Free Press, 1959), p. 263.

48. N.C. Bhogendranath, op.cit., p. 29; see also, V.A. Seshadiri Sharma, op.cit., p. 151.

49. Kothari's Investors Encyclopaedia, 1949-50, p. 323 and p. 282; see also, A.S. Pearse, op.cit., p. 242. This was true of practically all the mills founded by the Chettiars until 1930. Thus, each of these mills was a close preserve of relatives, friends and members of the Chettiar community. It is possible that this might have been a means for raising the large amounts of capital required for such industries, especially when such capital was not forthcoming from the joint stock banks.

50. A.S. Pearse, op.cit., p. 242.

TABLE NO. 7.

A COMPARATIVE STUDY OF THE STRENGTH OF THE COTTON MILLS IN THE MADRAS

PRESIDENCY UNDER THE CONTROL OF THE CHETTIARS AND THE EUROPEAN BUSINESS HOUSE

| <u>Name of the Mill and proprietor</u> | <u>Location</u> | <u>Year of establishment</u> | <u>Total Paid up capital</u> | <u>Spindles</u> | <u>Looms</u> | <u>Average No. of hands employed daily</u> |
|---|--------------------------|------------------------------|------------------------------|------------------|----------------|--|
| 1) Malabar Spg. & Wvg Mills Ltd; A.L.A.R.Somasundaram Chettiar. (Agent: Kallai; Malabar) | Kallai (Malabar) | 1888 | 6,00,000 | 17,696 | - | 689 |
| 2) Kaleeswara Mills Ltd; Diwan Bhadur P. Somasundaram Chettiar | Anudrapalayam Coimbatore | 1906 | 6,50,000 | 25,968 | 294 | 1,403 |
| 3) Sri Chidambara Vinayagar Mills (formerly the Koilpatgi Mills); R.M.M.S.T.Vairawan Chettiar M.L.M.Ramanathan Chettiar | Koilpatti | 1910 | 7,00,000 | 15,000 | - | 800 |
| 4) Somasundaram Mills Ltd. (formerly the A.R.A.R.S.M. Spg. Mills) | Madras | N.A. | 10,75,000 | 10,000 | - | - |
| 5) Sree Meenakshi Mills Ltd. Messrs Theagaraja Chetty & Co., Managing Agents | Madura | 1921 | 14,07,7000 | 12,480 | - | 354 |
| 6) Mahalaxmi Mills Co. | Madura | 1925 | N.A. | 7,040 | - | - |
| 7) Madura Mills; Tinnevelly Mills Coral Mills Madura Mills Pandyan Mills A.F.Harvey, Mg.Agents | Madura | 1892 | 55,33,537 | 3,95,650 | 11,444 | - |
| 8) The Buckingham and Carnatic Mills; Binny & Co., Mg.Agents | Madras Madras | 1876 1889 | 1,10,50,900 | 46,712 50,572 | 1,400 1,333 | 4,354 4,516 |
| 9) Coimbatore Spg. & Wvg. Co.Ltd; | Coimbatore | 1888 | 13,82,300 | 57,832 | 1,302 | 1,967 |
| Coimbatore Mill Mills Ltd., T.Stanes & Co; M.Agents | Coimbatore | 1908 | 7,06,690 | 4,676 | 393 | 596 |

Source : A.S.Pearse, The Cotton Industry in India being the report of the journey to India, 1930, Appendix, 'List of Cotton Mills in India', p 242. N.C.Bhogendranath, Development of Textile Industry in Madras (Univ. of Madras, 1957), pp. 10-13, & p. 15.

that it was set up some time prior to 1925, for in that year the AR.AR.SM. firm and its subsidiaries, engaged in a wide variety of activity ranging from moneylending and trading (in Ceylon and South India) to industry, was declared insolvent, and assignees were appointed by the High Court of Madras over all the estates belonging to the family.⁵¹ Consequently, the AR.AR.SM. Spinning Mill was acquired by Somasundaram Chettiar and was thereafter known as Somasundaram Mills Ltd.⁵² In the field of industry as a whole, until about the 1930's, it was cotton textiles which accounted for the bulk of Chettiar investment. As is indicated in Table No.7. they had by 1930's established as many as six cotton textile mills.

Given the various constraints under which these mills operated, it appears that they performed quite favourably in comparison with the well established European owned mills. For want of data one is unable to ascertain the degree of profitability of the Chettiar concerns vis-a-vis the European owned firms. However, the dividend rates of the AL.AR. Chettiar's Malabar Spg. & Wvg. Co. from 1920 onwards and P. Somasundaram Chettiar's Kaleeswara Mill from 1934 onwards clearly show that in spite

51. W.S. Weerasooria, The Nattukottai Chettiar Merchant Bankers in Ceylon (Sri Lanka, 1973), p.38.

52. A.S. Pearse, op.cit., p. 242

TABLE No. 8.

A SAMPLE SURVEY OF DIVIDEND RATES IN SOME
OF THE TEXTILE MILLS IN MADRAS

| <u>Year</u> | <u>Buckingham & Carnatic Mills</u> | <u>Coimbatore Spg. & Wvg. Mills.</u> | <u>Madura Mills</u> | <u>Coral MILLS</u> | <u>Tinne-Velly Mills</u> | <u>Madras United Mills</u> | <u>Malabar Spg. & Mills</u> | <u>Kaleeswara Mills.</u> |
|-------------|--|--|---------------------|--------------------|--------------------------|----------------------------|---------------------------------|--------------------------|
| 1919 | - | 10 | 60 | 35 | 60 | 20 | - | |
| 1920 | - | 50 | 80 | 80 | 100 | 50 | 50 | |
| 1921 | 10 | 50 | 100 | 80 | 100 | 50 | 50 | |
| 1922 | 20 | 75 | 75 | - | 87.5 | 40 | 40 | |
| 1923 | 20 | 50 | 20 | - | 30 | 12 | 30 | |
| 1924 | 20 | 20 | 20 | x ^a | 40 | 12 | 20 | |
| 1925 | 20 | 8 | 22.5 | | 40 | 12 | 15 | |
| 1926 | 10 | 10 | 19 | - | 40 | 12 | 10 | |
| 1927 | 10 | 12 | 15 | | 40 | 12 | 10 | |
| 1928 | 10 | 12 | 20 | | x ^b | 6 | 10 | |
| 1929 | 10 | 8 | 25 | | | 8 | 10 | |
| 1930 | 10 | 8 | 24 | | | - | - | |
| 1931 | 10 | - | 10 | | | - | 5 | |
| 1932 | 10 | 2.5 | 10 | | | - | 6 | |
| 1933 | 10 | - | 10 | - | - | - | - | |
| 1934 | 10 | - | 5 | - | - | - | 10 | 20 |
| 1935 | 10 | 3 | 10 | - | - | - | 4 | 20 |
| 1936 | 7.5 | 5 | 10 | - | - | - | 3 | 15 |

Source : N.C.Bhogendranath, Development of the Textile Industry in Madras (Univ. of Madras, 1957), pp 36, 61, 74, and 46

x^a In 1924, Coral Mills was amalgamated with Madura Mills.

x^b In 1927, Tinnevelly Mills was amalgamated with Madura Mills; in 1929 the Pandyan Mills, also under the managing agency of Messrs A.F.Harvey, was amalgamated with the Madura Mills. The latter was floated in 1922.

of internal and external competition, and other economic constraints, the Chettiar Mills were on the whole working reasonably profitably. This is testified by a perusal of Table No.8.

The sugar industry was another field that attracted a certain amount of Chettiar capital. Once again, it was the established families of AL.AR. and AR.AR.SM. Chettiars which acquired the two sick mills viz. the Lakshmi Sugar Mills at Alwartirunagiri in Tinnevelly district,⁵³ and the Pettai Sugar Refining Co. at Tachanaloor, also in Tinnevelly district;⁵⁴ both these mills were engaged in producing sugar by refining jaggery.⁵⁵ The size of these enterprises was perhaps small, but the significant fact is that these mills were being acquired and operated at a time when the European business house Parry & Co. had secured a virtual monopoly over the production of sugar and spirit in

53. This information was provided by AL.AR. Somanathan Chettiar when the writer interviewed him at Devakottai in June 1973, see also H.R. Pate, op.cit., p. 226

54. Thackers India Directory, 1915, Commercial Industries Section, sub-section: Sugar Factories in Madras Presidency, p. 80; see also H.R. Pate, op.cit., p. 226.

55. H. R. Pate, op.cit., p. 226.

the Madras Presidency.⁵⁶

The Lakshmi Sugar Mill was established by a native of Attur. The mill, though small, could not, however, be worked successfully and changed hands several times before being acquired by the AL.AR. family.⁵⁷

The Pettai Sugar Mills Co. was acquired by AR.AR.SM. Somasundaram Chettiar in much the same way. It was founded in 1895 by some Muhammadan businessman and worked until 1910, but thereafter incurred financial losses and passed into the hands of AR.AR.SM. Somasundaram Chettiar, who had until then been assisting the mill financially.⁵⁸ The mill was then renamed as the AR.AR.SM. Sugar Mill and had a paid-up capital of Rs, 3,00,000 subscribed by the proprietor himself.⁵⁹ That the mill was working successfully until 1925 is borne out by the fact that its paid-up capital for the manufacture of sugar was raised to Rs, 4,50,000 in addition to Rs. 2,50,000 raised for the establishment of a distillery.⁶⁰ Herein we

56. Hilton Brown, The Parrys of Madras, A story of British enterprise in India (Madras, 1954), pp. 163-64.

57. H.R. Pate, op.cit., p. 226.

58. ibid, p. 226.

59. Thackers India Directory, 1915, Sugar Factories in Madras Presidency, p. 80.

60. Thackers India Directory, 1923, Sugar Factories in Madras Presidency, p. 87.

have the classic case of a Chettiar entrepreneur not merely entering industry but also being prepared to introduce innovations and to venture out into new fields. However, with the failure of the entire network of the AR.AR.SM. firms, the sugar mill passed into the hands of the official receiver, who was one ALVRST. Veerappa Chettiar, the zamindar of Thevaram, Devakottai.⁶¹ The mill was subsequently named after him.

The spirit of enterprise and innovation shown by AR.AR.SM. Somasundaram Chettiar in venturing into new fields is also exhibited in the attempt by the Chettiars to establish a paper mill at Punalur in Travancore state⁶² during the second decade of the 20th century. The mill, however, suffered from the inevitable want of good machinery, chemicals and expert advice and was hence not a commercial success.⁶³

Another noteworthy Chettiar venture in the field of industry was the establishment of a modern cycle factory at Madras in 1925 by S.A.A. Annamalai

61. A.Savirinatha Pillai, *op.cit.*, p. 1178; see also, Thacker's India Directory, 1929, Sugar Industries Section, p. 70.

62. ~~ibid.~~ ~~xxxx~~ 1178. A.Savarinatha Pillai, op.cit., p.1178.

63. Rao Bahadur S.R.M. Annamalai Chettiar, Speech in the Legislative Council of Madras. See, Progs. of Council of Governor of Fort St. George, July 1916 - June, 1917, p. 902.

Chettiar.⁶⁴ A member of the Burma India Chamber of Commerce, Annamalai Chettiar was also conducting, through his firms, considerable moneylending business in Burma.⁶⁵

The Chettiars also established large number of rice mills in the Tanjore district.⁶⁶ Of these, some of the prominent ones were those of the AR.AR.SM. firm and the RM.AR.AR.RM. firm at Kuttalam, and that of M.T.T.V. firm in Kumbakonam.⁶⁷

These, in short, were some of the industries in which Chettiar capital was sought to be invested. In the light of the evidence furnished in the preceding sections of this paper, one could quite satisfiably conclude that Chettiar investment in industry as a whole was by no measure small, given the conditions of colonial rule, the state of industrialisation in the Madras Presidency, and the fact that an enormous amount of Chettiar capital was locked in

64. See 'Oolian' (The Tamil Weekly published from Karaikudi, ed. Rai Chockalingam), 10.11.1925, p. 8.

65. The Burma-India Chamber of Commerce, Report of the Committee and Correspondence for 1925-26 and 1926-27 (Rangoon, 1928); See under List of Members as on 31st March 1928, p. 5.

66. A. Savarinatha Pillai, op.cit., p. 1178.

67. Thaker's India Directory, 1923. See under section Commercial Industries, sub-section Rice Mills in the Madras Presidency, p. 77.

the various overseas countries.

Besides these purely industrial enterprises, the Chettiars also promoted, and were associated with, a number of modern joint stock companies and banks. I shall now consider some of the important companies which the Chettiars promoted. They were : (1) The South India Commercial Corporation established in Madura, sometime in the pre-war period, with a paid-up capital of Rs. 1,00,000. The corporation (of which SR.MA.R. Ramaswamy⁶⁸ Chettiar and RM. Nagappa Chettiar were President and Secretary respectively) apart from running a bus service between Madura and Karaikudi was also engaged in importing motor cars and motor cycles from England.⁶⁹ (2) The private firm of Ramaswamy & Co.

68. SRMAR. Ramaswamy Chettiar provides a classic example of an entrepreneur combining moneylending with investment in land and modern incorporated enterprises. Ramaswamy Chettiar's principal business was moneylending, which he conducted through a network of firms spread over Burma, Cochin-China, and Madras. He was also "the owner of a rice mill at Thillai-vilagam, and of an oil mill at Patukottai, which are together estimated to be worth a lakh of rupees." He was also a director of the Indian Bank. Apart from all this, he was also investing in land: around the second decade of the 20th century he bought the Sillattur Zamindari in Tanjore district, which had an estimated annual income of Rs, 40,000. Ramaswamy Chettiar's other landed property included "two villages in the districts of Ramnad ... (with) a yearly rental of Rs. 5,000." Southern India - Its History, People, Commerce and Industrial Resources, compiled by Somerset Playne, ed. Arnold Wright, (London, 1914-15), p. 479.

69. The Vysiamitran, see the 12.1.1914 issue, p. 1.

established in Madras in 1907, by PL.NK. Meenatchi Sundaram Chettiar, OR.MOM. C. Subramanian Chettiar and AL.AR. Arunanachalam Chettiar. The concern was principally engaged in importing various kinds of cloth from Manchester and Germany.⁷⁰ (3) The firm of Muthoo & Co., which specialised in import-export business, was founded by two leading Nattukottai Chettiar Bankers-cum-Merchants, PMA. Muthiah Chettiar⁷¹ and SR.MM.CT. Muthiah Chettiar.⁷² (4) The three Electric Corporations set up in the commercial towns of Devakottai, ~~Manadukthan~~^a and Karaikudi were also the result of Chettiar enterprise.⁷³ Lubin Bertram & Co.,⁷⁴ PSNC. Palniappa and Bros.,⁷⁵ the Madras Railway Provincial Company⁷⁶ were some of the many such joint stock concerns floated by the Chettiars. The organisation of their business (be it in the nature of industry of trade) on the basis of limited liability

70. Southern India, ed. Arnold Wright pp. 692-6.

71. PNA. Muthiah Chettiar's firm conducted moneylending in Burma and Ceylon. He was also a member of the Southern India Chamber of Commerce, a director of the Indian Bank Ltd. and many other commercial and financial companies. Southern India, ed. Arnold Wright, p. 646.

72. Thacker's India Directory, 1915, See section Madras, sub-section Merchants, Agents, Trading-firms etc. p.65.

73. A. Savarinatha Pillai, op.cit., p. 1178.

74. The proprietor of this firm was C. Murugappa Chettiar. The firm Lubin Bertnam were General Merchants, Contractors and Commercial Agents. Thacker's India Directory, 1915, p. 62.

75. ibid., P. 57.

76. "Dhanavysia Oolian" (A Tamil Weekly published from Karaikudi, ed. S. Murugappa Chettiar); see the 11.11.1921 issue, p. 2.

can be considered as constituting a new stage in Chettiar entrepreneurial activity, a stage heralding modern capitalist enterprise.

This trend was also carried over by the Chettians into the field of banking. Thus The Indian Bank Limited, established as early as 1907 after the failure of Arbuthnot & Co. was backed by Chettiar finances to a large extent.⁷⁷ This bank, one of the first of its type in Madras, "was intended by its founders to be purely indigenous in its aims, and to ... afford banking facility to Madras merchants and manufacturers."⁷⁸ The Bank started with a paid-up capital of Rs. 10,00,000 in 1907⁷⁹ and we learn from 'The Swadeshamitram' (the Tamil nationalist daily) of 30.1.1908, that the subscribed capital had gone up to Rs. 17,75,000 by 1908, and that a further sum of Rs. 2,25,000 was expected to be subscribed shortly;⁸⁰ of the Rs. 17,75,000, nearly two-thirds was subscribed by the Nattukottai Chettians.⁸¹ The growth of the bank is testified to by the increase in its deposits, viz.

77. 'Swadesamitran', 30.1.1908; see also, M.S. Natarajan, op.cit., pp. 59-60.

78. M.S. Natarajan, op.cit., p. 60.

79. ibid., p. 60. 30-1-1908

80. 'Swadesamitran', 30.1.1908

81. ibid.

from Rs. 41,00,000 in 1917 to very nearly Rs. 1,93,00,000 in 1930. The following table brings out the progress of the Indian Bank since 1917:

The Progress of the Indian Bank

(Figures in '000's of rupees)

| Year | <u>Paid-up capital</u> | <u>Reserve & Rest</u> | <u>Total Deposits</u> | <u>Cash Balance</u> |
|------|----------------------------|-------------------------------|---------------------------|-------------------------|
| 1917 | 1000 | 292 | 4118 | 1056 |
| 1920 | 1000 | 424 | 5825 | 1361 |
| 1923 | 1279 | 641 | 6800 | 783 |
| 1926 | 1279 | 831 | 11366 | 2274 |
| 1929 | 1279 | 1309 | 18662 | 3872 |
| 1930 | 1279 | 1429 | 19256 | 3335 |

Source : M.S. Natarajan - A Study of the Capital
Market of Madras Presidency (D.Phil.
Thesis, Univ. of Madras, 1934), p. 79.

The Chettiars closely associated with the bank since its inception were SRMMA Annamalai Chettiar, who later earned the title of 'Raja Sir', FMA Muthiah Chettiar and SRMAR Ramaswamy Chettiar.⁸² The diversion of capital by some of the wealthiest Chettiars, on howsoever small a scale, from moneylending to organised banking, was another significant step in the development of modern entrepreneurship among certain sections of this community; it was a definite advance over the traditional banking system in so far that the Chettiars now had

82. Thaker's India Directory, 1915, see under Section
Madras, p. 52.

access to greater financial resources (which in turn tremendously increased their financial power) and in that their risk was circumscribed to their share of the subscribed capital.

At this stage, it needs to be stressed that those among the Chettians who entered industry and other modern incorporated enterprises were essentially the wealthiest Chettians, commanding enormous economic resources of their own. It is, however, curious that the Raja Sir Annamalai group, one of the wealthiest families of South India, did not attempt to enter industry until the post 1930 period. Even their participation in modern incorporated enterprises -- principally the Indian Bank Ltd. and the Bank of Chettinad Ltd. -- was in relation to the wealth they commanded, quite insignificant. The major operations of this group remained, until the 1930s, moneylending and trade in Burma, Ceylon, Malaysia.

Before concluding we should take up for consideration the Japanese Scholar Shoji Ito's remarks on the supposed late entry of Chettiar capital into industry in the Madras Presidency. Shoji Ito, in his article entitled 'A Note on the Business Combine in India - With Special Reference to the Nattukkottai

Chettiars' published in the journal Developing Economies,⁸³ has expressed the view that the adaptability of Chettiar traditional institutions to their traditional activities "retarded their entry into the modern sector of the economy".⁸⁴ He goes on to argue that it was only with the bankruptcy of their traditional activities in Burma in the 1930's that an occasion for entering industry presented itself to the Chettiars.⁸⁵

That their entry into industry and other modern incorporated enterprises was not late has been amply substantiated in the preceding section of this Chapter. Also, the very fact that the Chettiars were entering industry from the late 19th century onwards disproves the myth that the adaptability of their traditional institutions to their traditional activities retarded their entry into the modern sector of the economy.

Such theories remain confined to the realm of hypothesis as there are serious limitations in the quantifying the effects of traditional social institutions on the economic motivations of businessmen.

83. This article was published in the Sept. 1966 (Vol. IV, No. 3) issue of the journal.

84. Shoji Ito, op.cit., p. 374.

85. ibid., p. 372.

Shoji Ito has overlooked what seems to be a peculiar feature or pattern in the evolution of Chettiar entrepreneurship under conditions of Colonial rule. Thus the Chettiars did not give up their traditional activities to enter modern industry in the 1930's but combined moneylending and trade operations with ownership of land and industrial enterprises. Thus the Raja Sir group, for example, in both the pre and the post depression period, was on the one hand extensively conducting moneylending and trade and investing in land, while on the other establishing and operating modern incorporated enterprises.

As for the argument that the bankruptcy of the traditional activities of the Chettiars in Burma was the occasion for their investing in industry, it should be noted that the depression of 1929/30 was basically a temporary crisis and that there was no collapse of the financial structure of the Chettiars.⁸⁶ It was a crisis that made the system of moneylending temporarily less secure and less profitable than it had been in the pre-1930 period. It was only the Chettiars belonging to the middle and lower stratas of the community, and owning small amounts of capital,

86. This is confirmed by the following evidence: "the Chettiars dominated foreign investment in Burma ... even after the depression. It was estimated in 1941 that they were still the largest single foreign investors, holding 36 per cent of all foreign investments". Allene Masters, "The Chettiars in Burma - An economic survey of a Migrant community", Population Review, Vol. I, No. 1, Jan 1957. P.23

who were hit by the depression. The wealthy families such as those of Raja Sir, in fact, stepped up their economic activities. This is borne out by the fact that between 1931-41 Raja Sir Annamalai Chettiar founded the Bank of Chettinad Ltd., The Chettinad Corporation Ltd., The Burma Commercial Corporation Ltd. and several other concerns which conducted extensive business in Burma, Malaya, Ceylon, Indo-China etc.⁸⁷

It can be argued that the entry of the Chettiars in a comparatively big way into industry and other modern incorporated enterprises in the 1930's was primarily because of the loosening of the hold of European capital over the Indian economy and the subsequent creation of an environment suitable for investment in industry.⁸⁸ Thus, taking the textile industry of Madras as a case in point, it was precisely during and after the depression that there occurred an enormous growth in this industry, as is indicated by the following table :

87. B.V. Narayanaswamy Naidu, "The Nattukkattai Chettiars and Their Banking System, Raja Sir Annamalai Chettiar Commemoration Volume (Annamalai University, 1941), p. 472.

88.. A.K. Bagchi, op.cit., p. 206

Progress of the Textile Industry in Madras

(Capital in Lakhs of Rupees)

| <u>Year</u> | <u>Number of Mills</u> | <u>Capital</u> | <u>Looms</u> | <u>Spindles</u> | <u>Labourers</u> |
|-------------|----------------------------|----------------|--------------|-----------------|------------------|
| 1929-30 | 20 | 246.15 | 5039 | 697564 | - |
| 1930-31 | 22 | 296.08 | 5033 | 753520 | - |
| 1932-33 | 23 | 282.27 | 5137 | 794564 | 38769 |
| 1933-34 | 29 | 303.01 | 4083 | 846230 | 41208 |
| 1935-36 | 39 | 336.00 | 5834 | 1034830 | 54854 |
| 1936-37 | 44 | 362.97 | 5684 | 1123622 | 56875 |
| 1937-38 | 48 | 382.23 | 5893 | 1013796 | 63711 |
| 1938-39 | 54 | 452.14 | 6332 | 1315954 | 68100 |

Source : N.C.Bhogendranath - Development of Textile Industry in Madras (University of Madras 1957) pp. 52 & 64.

It will be seen from the above that between 1929/30 and 1938/39 there was nearly a 175 per cent increase in the number of textile mills. It is important to note that almost all these mills were being floated by the Indian entrepreneurs,⁸⁹ among whom were Karumuthu Theagaraya Chettiar and Somsundaram Chettiar, who ventured in a big way into the textile industry.

It can therefore be suggested that rather than examine the question of the smallness or the lack of Chettiar investment in industry in terms of the hold of tradition over the Chettiar community and the role of social institutions in retaining Chettiar activity in traditional grooves, it is more meaningful to consider the more tangible material constraints on the entry of Chettiar capital into industry.

89. N.C. Bhogendranath, op.cit., p.64

....

C O N C L U S I O N

This study, as stated earlier, has been an attempt to trace the broad contours of entrepreneurship in the Chettiar community of Tamilnadu during the period 1880-1930. From the foregoing study it would seem that the Chettiars, like their counterparts in the North, were not found lacking in qualities of enterprise, namely those of risk taking and profit making. Moreover, it also needs to be emphasised that the evidence in this study does not suggest that social factors ever hindered or stood in the way of the Chettiar's drive to take advantage of economic opportunities as and when they arose.

It would be worthwhile here to summarize and put into perspective the main features of Chettiar enterprise between 1880-1930. It was, as shown above, the lack of investment outlets in Madras during the 19th century and concomitantly the emergence during the same period of economic opportunities in parts of South and South East Asia that resulted in the phenomenal migration of Chettiar capital to the latter areas. To take maximum advantage of the economic opportunities which had arisen in the overseas countries, the Chettiars developed ~~them~~ institutions

and business practices which enabled them in the given circumstances to function and operate effectively. These institutions and practices, as stated above, included the caste panchayat, the Agency system, the provision of Intra-Chettiar credit facilities, the organisation of firms on partnership basis, the practice of fixing interest at rates at temple meetings of leading Chettiar businessmen. All these practices and institutions were developed in response to the specific needs of the time and helped to augment their operational efficiency and capital mobilization.

Amongst the overseas areas where the Chettiars operated, they were most prominent in Burma, Malaya and Ceylon. While in Burma their investments were essentially in money lending and land and only marginally in trade, in Malaya and Ceylon, on the other hand, apart from money lending the Chettiars had considerable investments in Rubber, Tea and Coconut Estates, besides trade. Since the returns of capital investments were relatively high in these newly opened up colonial areas, the Chettiars were able, over a short period of time, to amass and accumulate substantial capital.

From the last decade of the 19th century part of this capital began to seek entry into industries and other modern incorporated enterprises in Madras.

In the field of industry, their investments were largely in cotton textiles. It should, however, be noted that those among the Chettiars who were successful in making the transition to industry during 1880-1930 did not give up their traditional business enterprise to enter modern industry but combined the two. This, in fact, was the characteristic feature of Chettiar enterprise during the period 1880-1930. However, until 1930 their investments in large scale industry were not very substantial. The relatively greater association and participation of the Chettiars in modern industry since 1930 was partly the result of the creation of a more favourable climate for industrial investment in India, and partly the result of the jolt and setback which their traditional business activities in money lending and trade received during depression.

This study has revealed, significantly enough, certain striking similarities in the pattern of the evolution of enterprise between the Chettiars and another important traditional business community, the Marwaris. It is seen, to begin with, that both these traditional business communities hailed from regions which were basically inimical and hostile to the pursuit of commerce and would perhaps explain, to an extent, their long tradition of migration to distant areas in pursuit of their vocation.

Coming closer in point of time we find a close resemblance in the response of the Marwaris and the Chettiars to the emergence of economic opportunities in areas which had come under colonial rule. Thus, like the Chettiars who migrated to distant commercial centres within and outside India, you have the Marwaris migrating to Calcutta and later to Western and Southern India. The process and the mode of migration of the Marwaris also has a number of characteristics in common with the Chettiars. Thus the Marwaris also developed, in response to the specific needs of their activities, a host of institutions and a network of associations which enabled them to adapt themselves to the new situations and to function as efficient 'Resource groups'.¹ The institutions and practices that they had in common included the Agency system, the provision of easy credit facilities amongst themselves, the organisation of Marwari Caste Association etc.² Lastly, another common characteristic is that both accumulated their capital through usury and trade and were relatively late in making the transition to Industry.

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1. Thomas A. Timberg, 'A Study of a 'Great' Marwari Firm 1860-1914' The Indian Economic and Social History Review, Vol. VIII, No. 3, Sept. 1971, pp. 264-66.
 2. ibid., pp. 265-66, see also, S.A. Kochanek : Business and Politics in India (California, 1974), pp. 133-135.

Scanty as it is, in the existing literature on the Chettiars -- from Thurston³ to Michael Adas⁴ -- the accent and focus has been essentially on their money lending activities. The overemphasis on this aspect of their enterprise has produced certain misconceptions. Thus the Chettiar is often depicted and described as a hereditary banker or money lender whose sole concern was to provide credit and to secure the interest on it. It has been suggested that "unlike the Marwaris and Jains their business is almost exclusively banking; and they do not combine with it trading and other occupation".⁵ Carrying this argument forward it is suggested that the Chettiars had no desire for owning land or rubber --,tea -- and coconut - estates and that such of these estates and land which had come under their possession was not the result of their "deliberate design but was thrown upon them by the failure of their debtors to pay up".⁶ The above arguments are clearly not tenable. I have cited ample evidence to show conclusively that the Chettiars

3. Edgar Thurston : Castes and Tribes of Southern India , Vol. V (M to P) (Reprint, Delhi, 1975), pp. 249-71.

4. Michael Adas, "Immigrant Asians and the Economic Impact on Imperialism: The Role of South Indian Chettiars in British Burma", The Journal of Asian Studies, Vol. XXXIII, No. 3, May 1974, pp. 385-401.

5. P.J. Thomas, 'Nattukottai Chettiars - Their Banking System' Raja Sir Annamalai Chettiar Commemoration Volume, 1940, p. 840.

6. ibid., p. 843.

were not disinclined or averse to investment in land or rubber and coconut estates, trade etc. Thus in Malaya the Chettiars were not only acquiring rubber estates and gardens in the course of money lending but were also buying up rubber estates and developing virgin forest land into rubber gardens. While in Ceylon the Chettiars were ~~actually~~ actively engaged in the Import-Export trade of the Island in such commodities as cotton goods, rice, tobacco and coffee etc.; in Burma, though their principal investment was in money lending, the considerable Chettiars had ~~conserable~~ investments in land and were also engaged in the export of rice and teak. Thus the Chettiars, like entrepreneurs anywhere else, were basically motivated by considerations of profit and when profitable investment opportunities arose the Chettiars did not hesitate to take advantage of it. Nor for that matter did the caste system, the joint family system and other socio-religious values and practices inhibit or prevent the Chettiars from taking advantage of economic opportunities. On the contrary, some of the business practices and institutions which they had developed in response to their specific needs during the early years of their business enterprise in the overseas areas were, in course of time, promptly discarded and ignored when they were found to have outlived their usefulness. A case in point

is the institution of the Chettiar Caste Panchayat. This body, composed of the elders of the Chettiar community, sought to amicably settle all disputes within the community. However, in course of time, with the growing economic polarisation within the community, this body was found to be obsolete and the Chettiars increasingly took recourse to colonial courts for settlement of their disputes. Similarly the assembly and meetings of leading Chettiar businessmen at Chettiar temples or 'Nagara-vidhuthis' in important commercial centres, where general financial matters were discussed and information exchanged, gave way in the 20's of the 20th century to the Chettiar Associations and Chamber's of Commerce. These were much larger bodies and strove to protect the vast economic interest of the community in an organised way.

The Japanese scholar Shoji Ito has expressed the view that Chettiar traditional institutions "were too well adapted to traditional activities" and that this "retarded their entry into the modern sector of the economy"⁷. This view is again unsubstantiated. In view of the evidence cited in Chapter III of this study it would seem that their entry into modern industry was not very late. The Chettiars had by 1930 promoted as many as 6 textile mills, a modern joint stock bank - the first of its kind to be floated by Indians in Madras - a paper mill, a few sugar mills,

7. Shoji Ito, 'A Note on the 'Business Combine' in India -- with special reference to the Nattukkottai Chettiars', The Developing Economies (Tokyo) Vol. IV, No. 3,

and a number of modern incorporated enterprises. Moreover, in examining this question of Indian participation in industry during colonial rule one has to take note of the tangible constraints faced by Indian entrepreneurs in this respect, which included, among other factors, the lack of adequate industrial growth in South India, the European hold and monopoly over industry, foreign trade, and the money market, infrastructural bottlenecks etc. It was precisely owing to these factors, and also to the fact that investment in usury and trade continued until 1930 to be profitable, that Chettiar investments in industry, in comparison to their total investment during the period of this study, was quite insignificant.

As a closely knit financial group, the Chettiars were able to make their presence felt in South India and a section of the Chettiars began to play, from around the first decade of the 20th century, a very dominant role in the economic life of Madras. Thus, through the Indian Bank Ltd., the Raja Sir Annamalai Chettiar group associated themselves with the formation of the South India Chamber of Commerce and eventually came to dominate the activities of the Chamber.⁸

8. S.A. Kochanek, op.cit., p. 151-53.

In conclusion, one may say that this study, essentially a preliminary exploration, which may be followed by a more detailed investigation, indicates that the Chettiars did respond favourably, given the colonial matrix, to economic opportunities much the same way as their counterparts in the North.

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- (b) Written Evidence of Nattukkottai
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2. Memorandum of the Burma Nattukkottai Chettiar Association, Rangoon, to the Chairman, Central Board of Revenue, Govt, of India (Typewritten copy undated) pp. 1-6. Consulted at the residence of Shri AK. ACTL Chidambaram Chettiyar in Kottaiyur.

The documents indicated below were all consulted in June 1973 at the residence of the late Shri SRM Solayappa Chettiar, (Hony. Secretary, the Burma Nattukottai Chettiar Association) in Palathur (Ramnad district). These Records and documents of the Burma Nattukottai Chettiar Association, and of the Chettiar Overseas Association, Karaikudi, are now in the custody of Shri Valliappan.

3. Notes by the Indian Advisory Committee to the Burma Nattukottai Chettiars Association on the Land Nationalisation Act, 1948. (Published from Chettinad, Ramnad district, undated).
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V. ORAL EVIDENCE - A List of people interviewed during my field work in Madras and its districts in May/June 1973.

| Name | Place of interview | Date |
|--|---------------------------------|-----------|
| 1. AL.AR. Somanathan Chettiar Zamindar of Devakottah and also a Director of the Malabar Spg. & Wvg. Co. Ltd. | Devakottai | June 1973 |
| 2. A.K. Chettiar Former Editor of Dhanavanikan | Madras | May 1973 |
| 3. P.P.R. Subramania Chettiar Former Editor of Veera Kesari; A weekly published from Ceylon in the 30's of the 20th century | Avinapatti (Ramnad district) | June 1973 |
| 4. Rai Chockalingam Ex. Editor 'Oolian' (a weekly) | Karaikudi (Ramnad district) | June 1973 |
| 5. V.A. Seshadiri Sharma Ex. Editor of the Journal 'Chettinadu' | Madras | May 1973 |
| 6. Roja Muthiah - Shri Muthiah has also got a stupendous col- lection of rare manuscripts, newspapers, journals and books | Kottaiyur | June 1973 |
| 7. AKACTL. Chidambaram Chettiar | Kottaiyur | June 1973 |
| 8. MAPL Palaniappa Chettiar | Palathur | June 1973 |
| 9. A.L. Muthiah Director Chamundi Textile (Silk Mills) Ltd. Bangalore | Kottaiyur | June 1973 |
| 10. M.V.M. Alagappan Asstt. Secretary, Southern India Chamber of Commerce | Madras | May 1973 |

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|--------------------------------|-----------|-----------|
| 11. A. Ramanathan Chettiar | Madras | May 1973 |
| 12. Saw Ganesan | Karaikudi | June 1973 |
| 13. S.M.L. Lakshmanan Chettiar | Madras | May 1973 |
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