The East India Company and the China trade

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A company between trade and empire

The English East India Company, chartered in 1600, was by the early nineteenth century a hybrid without parallel: a joint-stock company whose shareholders met in London and a sovereign power that governed large parts of the Indian subcontinent through its own armies and civil service. Its servants were at once merchants, administrators and diplomats, whose decisions were shaped by commercial calculation, by the strategic interests of the British state and by the ambitions of its officers in Asia.[1]

Parliament supervised the Company through periodic renewals of its charter. The Charter Act of 1813 ended the Company's commercial monopoly in India, except for the tea and opium trade and the trade with China.[2] From 1813, private British merchants could trade freely with India, while the China trade remained the preserve of the Company until the next renewal of the charter by the Government of India Act 1833.[3] Singapore was founded in the interval between these two acts, at a time when the China trade was the most valuable business of the Company and the object of growing pressure from private merchants.

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The China trade and the tea monopoly

At the centre of the China trade stood tea. As British demand for Chinese tea grew throughout the eighteenth century, the Company's purchases at Canton became a principal source of its profits and of the revenue of the British state, which taxed the tea on its arrival. The Chinese authorities confined foreign trade to Canton and to a guild of licensed merchants, the Hong merchants, from whom foreigners had to buy with silver.[4]

The route from India to Canton passed through the Strait of Malacca and the Singapore Strait. Ships sailing from Calcutta, Madras or Bombay to China needed ports where they could shelter from storms, take on water and provisions, and wait for the monsoon. The Company held Penang, founded in 1786. In 1818 it still expected to hold Malacca and Java, which it had occupied during the Napoleonic Wars. The return of these territories to the Netherlands under the peace settlement left the southern exit of the Strait under Dutch influence.[5]

Country traders, opium and the silver problem

The Company solved the silver problem of the China trade in a manner that would shape the economy of Southeast Asia for a century. Private British and Indian merchants, the country traders, carried Indian goods to China and to the ports of the archipelago, above all cotton and opium, whose production in Bengal the Company controlled. The silver the country traders earned in China was paid into the Company's treasury at Canton against bills of exchange payable in London or India. The Company then used the silver to buy tea.[6]

The mechanism deserves attention because it describes, in its essentials, a financial system. Goods moved in one direction, silver in another and bills of exchange in a third. Merchants in Calcutta, Canton, London and the ports of the Strait extended credit to one another on the basis of these bills and of their knowledge of one another's reputation. The ports on the route were nodes in a network of credit as well as places of trade. Singapore entered this network from the moment of its founding. Its agency houses, examined in Part B, grew out of it.

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The opium trade was also the moral and legal shadow of the system. Since the Chinese authorities prohibited the import of opium, the trade depended on smuggling and on the corruption of officials. In the ports of the Strait, opium was legal and taxed. The revenue from its sale became, as shown below, a pillar of Singapore's public finances. The connection between the growth of the port and a trade that later generations condemned is part of the history of the financial centre and is examined in Part B.

The strategic problem of 1818

In 1818, the Company's officers in Asia faced a strategic problem. The return of Malacca and Java to the Dutch threatened to give the Netherlands control over both passages between the Indian Ocean and the South China Sea, the Strait of Malacca and the Sunda Strait. The Dutch had shown in Riau in 1784 that they were prepared to impose their control by force. Their system of monopolies and duties was, moreover, hostile to British private trade. Penang lay too far north to protect the southern route.

The Governor-General of India, Lord Hastings, was persuaded in 1818 to fund an expedition to establish a new British base in the region, with the proviso that it should not antagonise the Dutch.[7] The mandate was cautious. The Company wanted a station on the southern route without a conflict with the Netherlands, whose friendship Britain valued in Europe after the Napoleonic Wars. The tension between these two aims – a base that would weaken Dutch control, obtained without provoking the Dutch – shaped the founding and the diplomatic dispute that followed.

Notes

1. On the dual character of the East India Company as commercial enterprise and territorial power in the early nineteenth century, see Philip Lawson, *The East India Company: A History*, London, Longman, 1993, and H.V. Bowen, *The*

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Business of Empire: The East India Company and Imperial Britain, 1756–1833, Cambridge, Cambridge University Press, 2006. ↩

2. Wikipedia, "Charter Act of 1813" (accessed September 2026): "the Company's commercial monopoly was ended, except for the tea and opium trade and the trade with China". ↩
3. Wikipedia, "Charter Act of 1813" (accessed September 2026): the charter was next renewed by the Government of India Act 1833. ↩
4. On the Canton system, the Hong merchants and the silver problem of the China trade, see Paul A. Van Dyke, *The Canton Trade: Life and Enterprise on the China Coast, 1700–1845*, Hong Kong, Hong Kong University Press, 2005. ↩
5. Java was returned to the Netherlands in 1816 and Malacca in September 1818; see Wikipedia, "William Farquhar" (accessed September 2026), on the Dutch return to Malacca in September 1818. ↩
6. On the triangular trade between India, China and Britain and the role of opium and bills of exchange, see Michael Greenberg, *British Trade and the Opening of China 1800–42*, Cambridge, Cambridge University Press, 1951. ↩
7. Wikipedia, "Founding years of modern Singapore" (accessed September 2026): Hastings was convinced in 1818 to "fund an expedition to establish a new British base in the region, but with the proviso that it should not antagonise the Dutch". ↩

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