

Europe and the East India Trade

In 1498, Vasco de Gama of Portugal became the first European to round the Cape of Good Hope. This sea route reopened trade with India and China, which had been severed by the growing Ottoman Empire. The Portuguese became a very wealthy nation trading and selling Asian goods to the rest of Europe. They set up factories (small towns that acted as trading market places) all along the west coast of India and barricaded the coast with their ships so that no other country could trade with the Indians (at this time it was the Moghul Empire).

The Portuguese remained the leading trade nation for about a century, using the Dutch as middlemen. In the early 1600s, the tide changed for a number of reasons. The Spanish king, Phillip II, also became King of Portugal. Shortly after this, the Spanish Armada was destroyed by a storm, and was finished off by the English Navy. The Dutch jumped at this chance to no longer be the middlemen in the trade with the East and began to set up their own factories in India. Without the help of the Dutch, and no longer having naval support, the Portuguese could not remain at the head of the East India trade.

The Dutch developed fast ships that helped them compete with the Portuguese, as well as the English, who had also started establishing factories (also called colonies) in India. For a while, the Dutch and English worked together to kick the Portuguese out of India. Piracy was rampant, and ships of differing nations would attack and steal the cargo of their competitors. Portugal could not fight against these two nations and was all but wiped out of India. By 1700, the Dutch and English were the top trading nations in the East, which included India, China, Japan, and the Spice Islands of Java, Sumatra, Borneo, the Philippines, and the islands in the Banda Sea.

British and Dutch trade was conducted through companies who had monopolies in their respective countries. Queen Elizabeth I granted the English monopoly to the British East India Company. The Dutch created the United Dutch East India Company (VOC). While the companies were somewhat independent of their respective governments, all trading and settlements were made in the name of the mother country.

These companies founded new ways of doing business that revolved around the theory of mercantilism. (This was an economic system that was strictly regulated by the central government, under which it was believed there was a limited amount of money in the world and that whatever nation acquired the largest amount would be the most powerful. In order to acquire the most money, the nations established colonies whose sole purpose was to benefit the mother country in any way possible.) The companies used the factories/settlements to force the local population to grow the spices, sugar, cocoa, and other products their company could sell in Europe. If they needed to, the companies would use their heavily armed ships to barricade the port from trading with anyone else.

The companies also started their own mints and minted their version of the foreign currency. For example, the Moghul Empire in India used the silver Rupee as currency. The East India Company, with the backing of England, established a mint in Bombay and minted its own silver Rupee. This allowed the company, and England, to take more control over the economy and the fineness (the ratio of bronze to silver in the coin) and weight of the Rupee. The companies minted the money to make it easier on the locals to trade with the English, in terms that the English readily understood. The policy

of having everyone re-mint their old silver coins into the English coins, for a fee, also went along with the theory of mercantilism. The English would technically own the silver currency once it was minted by the English.

New banking practices were invented by these companies. Since trade was taking place amongst many different nations, there was a wide number of currencies being used. Also, because payment could not always be made in the purchaser's native coin, rates of exchange had to be made. Some coins were valued much more than others. Spanish Pillar dollars, minted in Mexico City and Mexico, were the most valued coins and could be used to buy anything, anywhere. Flemish Lion Dollars were of considerably less value and would not necessarily be accepted. Exchange rates would fluctuate greatly, especially those of older coins whose value would be less than the newer coins. This was because the coins would have less silver in them due to people scraping pieces of silver off them. For example, a 1764 English shipment of 51,505 Fuley Sunat Rupees (having been minted at least three years before) when weighed together, weighed only as much as if there were 51,344 Rupees and were therefore valued less. Due to the fluctuation in the value of silver and gold coins, large companies found it necessary to do their book keeping in an imaginary coin. Like banks of today, the actual currency (coin, dollar etc.) was not needed to keep track of their wealth. Numbers on a page were used. In the case of the East India Company, to show that they were using a currency whose value would not decrease over time like real coins did, they did their bookkeeping in a non-existent denomination, the Current Rupee, by which all other currency was determined to be a percentage better or worse.

Finally, The United Dutch East India Company (VOC) was the first modern joint-stock company. Each share was bought for 3,000 guilders (at first) and could be traded Dutchman to Dutchman; the stock could not be traded to people from other countries. At the end of each year, the company would pay out a dividend to each stockholder in currency, spices, and bonds. The company also issued bonds in order to raise additional capital.