1 British business in Asia since 1860

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1.1 Britain and Asia: enterprise, capital and trade

The purpose of this book is to provide a long-term historical perspective on British business in Asia. Its growth, impact and decline since the mid-nineteenth century are scrutinised in Iran, Russian Asia, India, Thailand, Malaya, China and Japan. The focus is on business enterprise: that is, on British-owned and managed organisations which had manufacturing, distributive, extractive or financial operations in Asia. In the 1980s most such ventures are multinational corporations or international banks. A hundred years ago, however, the diversity of British enterprises in Asia was so wide as to seem almost illimitable: they were crucial to the first stages of modern economic growth in that continent.

Most research on the economic relationships between the West and Asia has concentrated on flows of capital and trade,[1] but the significance of British business in Asia transcends such flows. British companies, for example, often invested capital in Asian subsidiaries, but also mobilised local savings to support their operations, or ploughed back profits. As well as capital they transferred skills, technologies, management structures and cultural attitudes across boundaries. In the nineteenth century, in particular, British capital exports to Asia often took the form of portfolio investment – the acquisition of foreign securities by British individuals or institutions without control over the management of such funds – and was unrelated to British business activity in Asia. Again, although British trading companies often marketed British goods in Asia, and British overseas banks financed this trade, when British manufacturing companies established plants in Asian countries they substituted for British imports.

'Asia' is a concept invented by European geographers rather than a description of political, economic or cultural unity: since the second half of the nineteenth century the countries or regions treated in this volume have shown marked diversity. Some had fallen under the control of the great imperial powers of Europe. In 1858 the anachronistic rule of the East India Company over a large area of the Indian sub-continent was replaced by the direct rule of the British Crown. Over the next fifty years India was the proverbial jewel of the British Empire. The gradual annexation of Burma, begun in 1826, was concluded sixty years later when, under Lord Dufferin's viceroyalty, the Alaungpaya dynasty was dethroned and its territories consolidated into British India. Further east, from the late eighteenth century, the British had established themselves in the 'Straits Settlement' of Penang, Malacca and Singapore. Over a period of four decades after 1874 a series of treaties with states on the Malay Peninsula brought them under British control. Most of Siberia had been incorporated in Tsarist Russia since the mid-seventeenth century, although in the late nineteenth century the region experienced a wave of emigration from European Russia which paralleled the development of the American West. The boundaries of the southern empire also moved southwards into the Caucasus during the nineteenth century, incorporating much territory previously ruled by Persia or independent Islamic states. The other four countries – Persia (known increasingly as Iran after 1927, and formally so from 1935), China, Japan and Siam (renamed Thailand in 1939) – remained independent, although subject to varying degrees of interference from Western powers.

The continent's political diversity has persisted in the twentieth century. Russian Asia became part of the world's first socialist state following the Bolshevik Revolution of 1917. In 1949, after a bitter civil war, the People's Republic of China was born, and embarked, at least for a time, on a similar course of socialist development. During the first half of the century Japan emerged as an imperialist power in its own right. By 1942 Japan controlled, albeit briefly, large areas of Asia. Total defeat in 1945 was followed by Japan's rehabilitation as a democratic ally of the United States. In South Asia the retreat of the British Empire led to the creation of the independent states of India, Pakistan, Ceylon (called Sri Lanka since 1972) and Burma in 1947–8, followed in 1957 by Malaya (renamed Malaysia after 1963), from which Singapore seceded in 1965. By the mid-1980s Hong Kong was the only British colony left in Asia. Thailand and Iran followed pro-American policies during and after the Cold War of the 1950s, but the exile of the Shah of Iran in 1978 followed by the creation of an Islamic republic led to a major political reorientation in that country.

The arrangement of this volume as country case-studies is an acknowledgement of Asian diversity, and of the need to study the experience of British business within each unique national market. Before examining the nature of British business in Asia, however, the remainder of this section will sketch the changing patterns in trade and investment between Britain and Asia.

The economic predominance which Britain acquired in nineteenth-century Asia was, in part, the result of the world pre-eminence which it had secured in cotton textile manufacture and shipbuilding as a result of the Industrial Revolution. British penetration of Asian markets was assisted by the political control which the East India Company enjoyed over large areas of India from the second half of the eighteenth century, and by the British possession of Singapore and Hong Kong. Singapore was taken by Sir Stamford Raffles for a reluctant East India Company in 1819, and was formally ceded by the Dutch in 1824. Hong Kong's cession to Britain by China in 1841 was one of the chief results of the First Opium War. Both islands developed as flourishing entrepôts through which British goods and capital flowed into Asia. The termination of the East India Company's stranglehold on British trade with Asia – in 1813 the company's monopoly of Indian trade was abolished, and in 1834 it also lost its monopoly of China trade – opened floodgates through which British business and trade poured into the continent.

By the second half of the nineteenth century the trade between Britain and Asia was mutually important. In 1860 33% of British exports by value went to Asia (excluding Russian Asia and Iran). The bulk of these – 13% of total British exports – went to India, and the next largest amount – 3% – to China. By 1880 the Asian share had fallen to 21%, and it remained around this level until the First World War. In 1913 24% of British exports went to Asia, with 14% going to India, 3% each to China and Japan, and 1% to Malaya.[2] In 1913 India was the largest single market for British exports. Asia, especially India and China, was particularly important to British cotton textile exporters. In 1850 Asia took 24% of British cotton textile exports by value: India took 18% and China 4%. By 1913 Asia took 47% of British cotton textile exports: India took 28% and China 10%. India ranked as the largest single market for British cotton goods between 1843 and 1939, while China ranked second only to India between 1869 and 1926.[3] Exports of manufactured goods to Asia – and to India in particular – enabled Britain to pay off its deficits with continental Europe and the United States from which foodstuffs and manufactured goods were bought.[4]

From an Asian perspective, Britain was the major supplier of cotton goods for most Asian countries, as well as a major market for the primary commodities which formed the great proportion of Asian exports before 1914. Britain provided over 80% of Indian imports in 1870 and over 60% in 1913.[5] The other Asian countries treated in this volume had a similar trading relationship with Britain before 1914, although in some countries, notably China and Japan, Britain's significance as a trading partner began declining in the late nineteenth century. Until the mid-1880s Britain was the leading exporter to Japan, but thereafter its importance receded as Japan imported relatively fewer finished manufactured goods and more raw materials and semi-manufactured goods. By 1914 Britain provided under 20% of Japanese imports. The British proportion of Chinese foreign trade also declined over the period. Its share of Chinese exports appears to have fallen from 62% in 1868 to 4% in 1913, a fall partly associated with the shifting British consumer preference for Indian tea, while the British share of imports into China seems to have declined from 33% to 17% over the same period.[6]

Asia was also important to Britain before the First World War as a recipient of capital exports. Britain was the world's largest capital exporting economy before 1914. Estimates of the size and direction of this capital outflow present a confusing array, partly because of data inadequacies, and partly because writers have been concerned with different measurements, such as capital transfers or new issues on the London Stock Exchange.[7] We cannot in this chapter join the debate on the size of British capital exports, but there is general agreement that although Asia was never the largest recipient of British capital during the period 1860–1914, the sums invested there, especially in India, were large. According to the estimate of British holdings of overseas capital by Sir George Paish, 10% of British investment in 1913 was invested in the Indian empire and a further 1.2% was invested in China. British investment in other Asian countries was tiny.

Such estimates are unfortunately concerned with *total* British investment, rather than *private* business investment. The bulk of British foreign investment in India before 1914 was in government stock and railways, while as much as 80% of British investment in China in the same period was probably in railways. Figures for capital inflows into Indian railways or public debt bonds, however, are scarcely relevant to the operations of British firms or businesses in Asia. It is almost impossible to disaggregate the public and private capital figures for the period before 1939. At best the available foreign investment statistics serve as proxies indicating the scale of British business enterprise in particular countries.

From the Asian perspective, Britain was the largest single supplier of foreign capital to the region before 1914, although there was substantial French investment in Russian Asia, while Russian investment was larger than British in Iran before 1914. Again, however, it is impossible to give figures for the British percentage of overall private capital formation, and even estimates of inward foreign investment are open to objections.[8] Many Government of India securities, for example, were bought in India itself.[9] It was common for the designation 'British' to refer to the British Empire rather than the United Kingdom: thus Australian capital in Siam was often described as 'British'. Some Chinese entrepreneurs in Asia were British nationals whose enterprises were occasionally designated as British. Nevertheless generalisations about total British foreign investment are possible. India derived almost all its foreign investment from the United Kingdom before 1914, while Britain was the largest single source of foreign capital for China. Even Japan was a substantial borrower between 1899 and 1914 – her government raising about £200 million during that period – and Britain again was the largest single source of these funds. The bulk of this investment was in government and railway stocks.

During the inter-war years trading and financial links between Britain and Asia diminished. Asia's significance as a market for British low-quality goods declined, partly because of the growth of import-substitution in Asian countries and the decreasing competitiveness of British goods, and partly because of changes in Britain's domestic industrial structure, whereby traditional export-oriented staple industries were superseded by 'new' industries, which either sold to the home market or to other advanced economies. During the 1920s Britain continued to enjoy an overall surplus on its trade with the Asian economies, although this surplus was a much smaller percentage of her deficit with the Dollar Area than it was before 1914. During the 1930s, however, Britain's trade with India, China and Japan entered deficit, ending the era when her surplus with Asia met her trading deficits with the United States and continental Europe. The biggest single factor in this changing pattern was the decline of British exports of cotton piece goods to India from 2,507 million square yards in 1913 to 356 million in 1937, the main cause of which was the development of the Indian domestic cotton industry under tariff protection.[10] India remained, however, the largest single market for British exports of cotton piece goods.

Britain remained significant as a market and as a supplier of imports to Asia in the inter-war years, but there were notable changes in relations. Britain was the leading supplier of Indian imports and the leading destination for Indian exports throughout the period. However, while Britain's share of Indian exports rose from 25% to 33% between 1918 and 1938, its role as a supplier of Indian imports fell from 54% to 29.9%, a trend associated with increasing Japanese textile imports and supplies of petroleum and machinery from the United States.[11] Britain's share of Chinese exports stagnated around 9% between 1919 and 1936, while her share of Chinese imports rose slightly from 9% to 12%. Britain remained a significant trading partner of the other Asian countries. It ranked second after the United States as a purchaser of Malayan exports (mainly rubber, tin, coconuts and palm oil), and was Malaya's main supplier of cotton textiles in the 1920s before being overtaken by Japan in the 1930s. Britain was also the main supplier of imports to Siam in the 1920s, but was supplanted in this role by Japan in the following decade.[12] Britain was the main supplier of imports to Iran from the First World War until the 1930s, and the main recipient of Iran's exports (including oil) from 1920 until 1950.

During the inter-war years the United States replaced Britain as the world's major international lender, but the latter remained the leading creditor in Asia, although during the 1930s the overall level of British investment declined. There was a rise in the relative importance of Asia, and especially India, as a recipient of British investment, and a corresponding decline in the importance of other regions, notably the United States. Britain remained Asia's most important source of capital in the inter-war years.[13] By 1938 Britain was by far the most important source of foreign capital for India, the largest foreign investor in Siam and Malaya, and the second largest investor (after Japan) in China.

The forty years after 1945 saw a decline in every aspect of Anglo-Asian economic relations. The collapse of British staple exports to Asian markets was completed. The post-war years saw a restructuring of British exports away from low-technology products to more sophisticated goods, notably chemicals, electrical engineering products and – until the 1970s – motor cars. This change in the composition of British exports led to a decline in trade with the less developed world, including Asia. In the 1950s British trade with developing countries in the Sterling Area remained substantial, but the principal growth in exports, especially after 1960, was located in Western Europe. There was a similar shift in the structure of British imports at the expense of foodstuffs and raw materials. Between 1951 and 1981 the percentage of manufactured goods in total British imports rose from 19.7% to 62.5%. Before 1960 trade with Asia, and the Sterling Area generally remained important for Britain, but as manufactures have become a major component of imports, so British imports were drawn increasingly from advanced industrial countries.[14] The percentage of Britain's exports going to Western Europe and North America increased from 57% to 73% between 1964 and 1984, while the percentage of Britain's imports coming from those regions rose from 54.5% to 76% over the same period. In contrast the relative importance of most Asian countries in Britain's trade stagnated or declined. India became much less significant as a trading partner in this period: only 1.1% of Britain's exports went there in 1984 compared to 3% twenty years previously, while Britain obtained only 0.7% of her imports from India compared to 2.5% in 1964. Only Japan grew in importance in Britain's trade, its share of British imports expanding from 1.3% in 1964 to 5% in 1984.

Just as the importance of Asian trade for Britain declined after the Second World War, and especially after 1969, so the significance of British trade for Asia has fallen. At the beginning of the 1960s Britain was still an important trading partner to the successor states of its Indian empire and to the Malay States. Britain, for example, took 29% of Ceylon's exports, 25% of India's, 16% of Pakistan's and 11.5% of the exports of the Malay States. Britain remained a significant source of imports. In the 1960s she supplied 21% of Indian imports, 19% of Ceylon's, 18.5% of Pakistan's and 22% of the imports of the Malay States. Yet a decline in Britain's importance was evident, in line with the United Kingdom's diminishing role in the trade of the world's less developed countries.[15]

Asia, and particularly India, remained an important area for British foreign investment after 1945. Most of this took the form of direct investment (involving control over the use of the capital) rather than portfolio investment, and the improvement in statistical information enables a clearer quantification of British private business investment. British foreign direct investment after 1945 preferred the Commonwealth and the Sterling Area, initially at least because of British government exchange controls. In 1957 about 12% of total British foreign investment was in Asia. By 1962 India was the fifth most important recipient of British direct investment (measured by book values of accumulated investments, and excluding oil, banking and insurance) and Malaysia was sixth. During the 1960s, and especially after Britain joined the European Economic Community in 1972, British investment re-aligned towards the United States and Western Europe. In 1981 only Hong Kong was included (in eighth place) in a list of Britain's top ten investment territories.[16] In the late 1950s India was the recipient of around 7.5% of British direct foreign investment, but this declined to 4.5% by 1970 and later fell further.[17]

Although Asia's importance for British investors dwindled after the 1960s, Britain remained a major source of capital for certain Asian countries. An estimate of foreign direct investment in Asia in 1975 given in Table 1.1 shows the United Kingdom as third largest investor after the United States and Japan. Britain retained its position as the largest single investor in India and Malaysia, and large sums were also invested in Pakistan and two Newly Industrialised Countries (NICs), Hong Kong and Singapore. The People's Republic of China ceased to be an area for British investment from 1949 until the era of economic liberalisation in the 1980s, and Britain never regained its position as a significant source of capital for China. At the end of 1986 the three largest investors in China (in order of importance) were Hong Kong, the United States and Japan.

A peculiarity of British direct investment in Asia after 1945 was the continuing low share in manufacturing. Well under 50% of the British direct investment shown in Table 1.1 was in manufacturing, despite the exclusion of important banking and insurance investments, especially in Hong Kong and Singapore. Britain's small contribution to manufacturing in Hong Kong and Singapore after 1945 is particularly striking given the

Table 1.1 *Foreign direct investment in Asia in 1975 by country of origin (book value in countries of origin, excluding oil, banking and insurance) in US$ (millions) at end of 1974*

	United States	Japan	United Kingdom	Other	Total
Hong Kong	730	190	330	270	1,520
India	290	60	640	590	1,580
Indonesia	310	650	30	690	1,680
South Korea	100	380	–	90	570
Malaysia	100	180	640	390	1,310
Pakistan	50	small	100	140	290
Philippines	530	110	10	150	800
Singapore	320	130	130	380	960
Taiwan	260	120	small	400	780
Thailand	50	150	40	140	380
TOTALS	2,740	1,970	1,920	3,240	9,870

Source: A. Edwards, *Asian International Expansion* (London, 1977), p. 43

large British involvement in those countries. A large proportion of British investment was in agricultural and forestry activities, notably in Malaysia.

Several conclusions emerge from this sketch of trade and investment relations between Britain and Asia. The relationship was intimate before 1914, remained strong despite modifications in the inter-war years, and considerably weakened thereafter. Asia has been highly significant for the British economy over a long period. Before 1914 the region's trading deficit with Britain played a key role in the latter's balance of payments. Trade relations between Asia and Britain loosened during the inter-war years, but Asia remained a major area of British investment up to the 1960s. Additionally, in terms of absolute size, and ignoring the special cases of the Hong Kong and Singapore entrepôts, trading and investment relations between Britain and India had the highest significance. China was never as important for Britain, or Britain as important for China, and after 1949 their economic relationship was all but obliterated. British trade and investment links with smaller Asian economies were always less significant for the British economy, but at least until the 1930s Britain was a leading market and a source of imports for many of them.

The rest of this chapter explores themes suggested by the case-studies in the remainder of the volume. Section 1.2 examines the structure and organisation of British business in Asia. Section 1.3 discusses the performance of British business. Section 1.4 explores the links between British business and British diplomacy. Section 1.5 looks at the impact of British business on Asia, and Section 1.6 the response of Asia.

1.2 Structures and strategies of British business

Most discussion of nineteenth-century British investment in Asia assumes that this investment was overwhelmingly portfolio in nature, outstandingly investment in government and railway stocks. However recent research indicates that as much as 40% of British overseas investment even by 1914 may have taken the form of direct investment, involving the ownership and management of a foreign business operation.[18] J. H. Dunning suggests that total foreign direct investment in Asia in 1914 amounted to US$2,950 million, or 20.9% of the world total, of which $1,100 million was in China and $450 million in India and Ceylon.[19] The correlation of these sums to those for aggregate British investment is uncertain, yet it is clear that there were many British-owned and managed enterprises operating in nineteenth-century Asia. These were the conduits for British direct investment in the region and for British trade.

Despite the diversity of structure and function, these enterprises were inter-related. At the most basic level, there were individual British nationals who established firms in Asia, usually transferring capital from the United Kingdom in the process. Such individuals do not fit the category of 'direct' investment: British entrepreneurs who established businesses in the United States in the same period are classified as emigrants. Yet in some cases they played important roles in Asian countries. Thomas Glover in Japan (see p. 225) is one example. The British concession-hunters who were active in nineteenth-century China and Iran are others. In China such individuals were usually rapacious and their concessions often negative in result, but elsewhere, for example when British concessionaires in Iran secured rights on which large British oil and banking interests grew, they facilitated the flow of full-scale foreign direct investment into Asian countries.[20]

Two regions of the United Kingdom were prominent in exporting entrepreneurs. The profusion of Scottish emigrants has often been noted: the late nineteenth century saw a considerable Scots influence in Japan.[21] In addition, the decline of Cornish tin mining from the 1850s was followed by a flow of Cornish savings and emigrants into overseas mining concerns in Malaya and elsewhere.

A more clearly recognisable form of British direct investment was the expatriate firms which spread across Asia in the nineteenth century. Such organisations have been described by Mira Wilkins, in the context of British investment in the United States, as 'free-standing firms'.[22] In Asia they took two forms. The first was of a British-registered company with a board of directors, perhaps supported by a small secretariat, which ran a Russian oil company or an Indian jute mill. These companies owned no oil or jute interests within Britain itself, and typically their business was conducted in only one foreign country. The other form was a locally registered company, which was established by locally resident British business interests. In practice these two types of companies are scarcely to be differentiated. Their boards of directors consisted overwhelmingly of British nationals, although some boards sat in London and others in Asia. Their senior management was almost always British. Place of registration gives no consistent guide to sources of capital, although as a general rule locally registered companies seem to have drawn at least some of their capital from locally resident Europeans and occasionally Asians.

In India expatriate firms were often managed by 'managing agents', organisations which developed in the early nineteenth century to control the management of firms in many sectors. This system spread from India westwards to Iran and eastwards to the Malayan peninsula, as British merchants expanded their activities. In Malaya the 'agency houses' emerged as diversified business groups, active in trading, plantations and (after 1945) manufacturing. Outside South and Southeast Asia, where the managing agency system did not evolve, it was common for expatriate firms, like British oil companies in Russia, to be 'allied' in groups of one kind or another, usually with interlocking directorships.

A related phenomenon was the British trading and shipping companies active in Asia. Companies such as Jardine Matheson, Butterfield & Swire, Dodwells, Gray Mackenzie, Peninsula and Orient, and the British Indian Steam Navigation Company were the agents by which British trade with Asia expanded in the nineteenth century, and they were important to the history of British overseas business. Several such companies gave their name and reputation to support subsidiary trading, manufacturing, mining or financial enterprises and became the nexus of investment groups with geographically dispersed interests. British companies were often active in several Asian countries, and were thus more 'international' businesses than the British expatriate firms. They were also, as the chapters below demonstrate, not simply marketing ventures. In late nineteenth-century Japan and China British trading companies entered manufacturing. In Thailand the teak industry was pioneered by trading companies such as the Borneo Company, which also had strong trading interests in Singapore, Borneo and Java.[23]

Another form of British enterprise in nineteenth-century Asia was the progenitor of the modern extractive multinational. Iran's small 'free-standing' British oil company in Iran developed into the giant British Petroleum group. Another of the world's largest oil companies, the Royal Dutch Shell Group, derived indirectly from Asian business, and directly from a merger in 1907 between a British company, the Shell Transport and Trading Company, and a Dutch concern, the Royal Dutch Petroleum