

The Story of Globalization: From the Neolithic Era to the Tea-Opium Countertrade of the 19th Century

Farok J. Contractor, Rutgers University, USA

The story of globalization begins in prehistory, when humankind had split into distinct far-flung tribes. Economic forces then impelled organization and specialization within each tribe, and later trade across tribes and distances. This brief essay begins in the Neolithic era, alludes in passing to trade between Rome, China and India along the silk route two millennia ago, but then focuses in more detail on the last three hundred years with the example of the countertrade of tea for opium enforced by Imperial Britain on China.

How Old is “International Business”?

Concentration of value-added activities in workshops or factories, sequencing of repetitive tasks, economies of scale and learning, and trade across distances began millennia before nation-states ever existed. A tool-making workshop dating to around 25,000 BCE has been discovered by University of Michigan archeologists at Grotta Sant Angelo in the Abruzzo region of Italy (Whallon, 2012). The raw material, flint, is not found everywhere. Flint knapping is a learned art and a considerably weight-losing manufacturing process. It therefore made sense to concentrate the production in a workshop near the raw material source, where skilled knappers would learn from one another, descend their “experience curves” and from there distribute or barter the finished tools over a wide area. Obsidian mined in Corsica during the late Neolithic period (ca. 6000–3000 BCE) has been found hundreds of kilometers away (Tykot, 2002). By the Chalcolithic era (4th millennium BCE) in the Levant, factories became so specialized that some would manufacture only drills or micro-borers, others only tabular scrapers or only sickles and so on. From there, the output was distributed all over the Eastern Mediterranean (Levy, 2003). Ochre of various colors (brown from Roussillon, France, and yellow from Cyprus) was used to paint dwellings, bodies and murals and for “religious” rituals all over the Mediterranean basin (Maniscalco, 1989).

By Roman times so great was the demand for Indian cotton and Chinese silks that Pliny the Elder complained of the huge trade deficit suffered by Rome against China and India. In *Natural History*, he wrote, “*By the lowest reckoning, India, Seres¹ and the Arabian peninsula take from our Empire 100 millions of Sesterces every year... That is how much our luxuries and women cost us.*”

Because Rome had relatively few goods it could export to China or India, it was forced to pay for its imports with bullion. As a result, Roman gold and silver coins are periodically excavated today along trade routes in

India, Central Asia, China and Thailand. But human history is not all an inexorably upward climb. The glories of Rome, Chang An (modern day Xian) and Pataliputra (capital of the powerful Mauryan Empire in India) were followed by a millennium and a half during which international trade declined in the West and may have been stagnant or plateaued in Asia. While Rome could do little about its trade deficit, Britain, facing the same problem some 1800 years later, came up with a military solution.

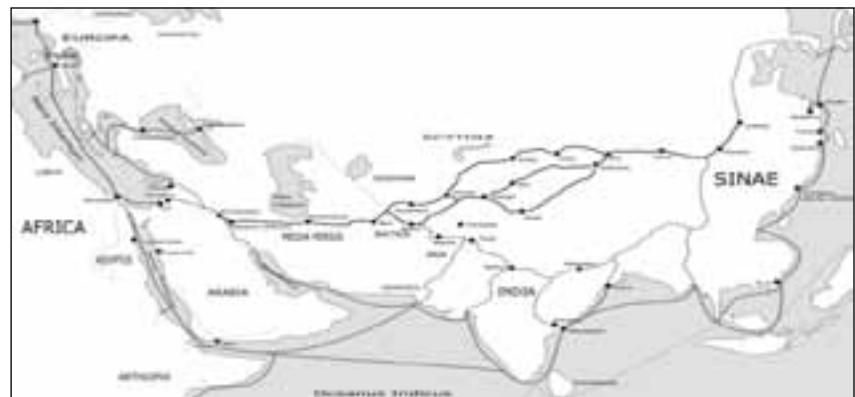


Figure 1: Trade Routes Between the Roman Empire, China and India

IB in the Era of Nation-States

How a Desire for Tea in Britain Caused Suffering to Millions in Asia

An interesting echo of the Roman trade deficit and the consequent drain of bullion, or specie, from Rome to India and China occurred in the 18th and early 19th centuries with Britain suffering an unsustainable deficit against imperial China because of the newly-acquired habit of its middle classes for a mild stimulant called tea, then grown only in China. Only nation-states such as Britain, with centralized power and economic statistics, can complain about trade deficits. And only nation-states have used military muscle as an instrument of trade policy.

A cup of tea constitutes a happy break from work around the world and is a refreshing drink whose cultivation and distribution may today employ upwards of 8 million persons worldwide. But the globalization of tea is a relatively recent 19th century story, with a dark underside to it. Tamil refugees who fled the just-concluded civil war in Sri Lanka, the grieving widows of policemen killed in the northeastern Indian state

continued on page 4

continued from page 3

of Assam by Bodo terrorists (Bodos are an indigenous Tibeto-Burmese tribe) or Chinese nationalists still smarting over occupation of parts of China by Western powers may seem to have little in common with tea. Each refreshing cup symbolizes the happier aspects of international business. But the globalization of tea also carried with it a tale of international intrigue, monopolies, wars and ethnic displacements.



Figure 2: Catherine de Braganza

How Tea Became the Western World's Favorite Drink, Started a Revolution, and Instigated Two Wars

Tea consumption on a mass scale is little more than 200 years old. Until 250 years ago, tea was a relatively rare libation made from a little bush (*Camellia Sinensis*) that originated in the hilly provinces of southern China such as Yunnan. Consumed only by a few Buddhist monks, or Chinese and Japanese aristocrats, it was more or less unknown to the rest of the world, although small shipments may have made their way—as curiosities or medicine—along the Silk Road to India and the Middle East.

The first bulk exports were made by the Dutch, who transshipped Chinese tea from Java to Holland starting in 1606. But it remained little known in the rest of Europe or in the United Kingdom (which today has around the highest per-capita consumption) until Catherine of Braganza, a Portuguese princess, arrived in England to marry Charles II of England in 1662. After a difficult Channel crossing, stepping ashore at Portsmouth, Catherine of Braganza asked for her favorite drink. But no tea was available. The nonplussed English offered her a glass of ale instead, which did little to settle her stomach. But the court sets the

fashion, and tea drinking spread among the English nobility (UK Tea Council, 2012). Initially, only the rich could consume it since, based on mercantilist principles, UK tariffs were punitively high, ranging at one time as high as 119 percent *ad valorem* (although they were later reduced to more moderate levels after tea began to be smuggled into England by privateers, to avoid paying the tariffs) (Macfarlaine, 2004). Tariffs were also needed to fund the Franco-English war that began in North America in 1754 and then spread to Europe and to India, with fighting between the British and French as far eastward as Indonesia. The American patriots (some called them ruffians led by Samuel Adams) who threw the cargo of British imported tea into Boston Harbor in 1773 were protesting high tariffs on the import—a trade then monopolized by the East India Company. Resentment against high tariffs and taxes, imposed from London, were the direct causes of the American revolution. After winning independence, tea drinking was considered unpatriotic and declined in America, but its popularity increased steadily in the UK where millions of middle-class English found their “favorite cuppa” to be indispensable (Scott, 1965).

What Was the Connection between Tea and Opium?

By the late 18th century, the British faced a mercantilist dilemma. Tea cultivation existed only in China, with the Chinese refusing any foreigners access to their tea plantations. China therefore had a tight monopoly. But the supposedly “inscrutable” Chinese, as sole suppliers of tea to the world, refused to import much from the West and insisted on being paid in silver. This meant that tea imports—by now massive since England had a large middle class with a tea-drinking habit—had to be financed in silver and bullion shipped out from England, in exchange for the Chinese monopoly product. It was a case of a British import monopsony (under the British East India Company) versus the Chinese monopolist producer.

As in Rome 1,800 years earlier, the massive drain of silver out of England caused grave concern and threatened the health of the UK economy. (Incidentally, this makes for yet another interesting parallel with the US and Europe’s complaint about today’s massive trade surplus enjoyed by China, and the accumulation of huge Chinese foreign exchange reserves in dollars and Euros.) Finally, the East India Company had an idea to solve the drain of bullion going to China. It invested in Indian plantations to grow opium in Bihar and financed poppy cultivation in Malwa (an Indian province) through Indian intermediaries. This opium was not for Indian consumption but was intended as an export to China to be exchanged for tea. Naturally, the Chinese government was horrified and prohibited the import of a narcotic that, already by the 1830s, had turned tens of thousands of Chinese into addicts and fostered an illegal smuggling of opium into China (Janin, 1999).



Figure 3: Opium Ships in China

Victorian Hypocrisy Was a Spur to Modern Indian Entrepreneurship

The British government was aware of the cost to Chinese society from addiction, smuggling and the emergence of a large underworld mafia with its corrupting influence on Guangdong government officials. The government and the East India Company could never openly admit that these evils were forced on the Chinese because of their Victorian middle-classes' appetite for a mild Chinese stimulant called tea. Nor would they openly admit that the British were involved in the tea for opium trade.

Indian entrepreneurs provided the cover. Indian companies (some with partial equity JV stakes from ex-East India Company employees like William Jardine) such as Jamshedji Jejeebhoy & Co, Bharda & Sons or P. & D.N. Cama Company would buy opium from growers in Malwa and export it to Canton or Lintin, where it would be exchanged with smugglers for silver. The silver would then be given to British agents in China to buy tea. The Indian traders would receive Bills of Exchange (promissory notes convertible for cash in London, Calcutta or Bombay) or other trade goods to take back to India. This way, the British could say that they were not officially involved in the China trade except for the legal purchase and import of tea into the UK. Besides avoiding the taint of a narcotics trade, by using intermediaries, the British also avoided the cost of fronting the capital for the opium and the risks of price swings, delays, spoilage, confiscation or arrest by the Chinese authorities, piracy, war and having to deal with shadowy networks of Rajasthani and Bihar opium suppliers (Palsetia, 2008).

Once the East India Company's monopsony was cancelled, other private British firms such as Jardine Matheson were openly involved. Nevertheless, by the late 1830s, 20 of the 42 foreign firms in China remained Parsi-owned, according to Farooqi (2006). (The Parsis were an entrepreneurial merchant community in India that cooperated with the British and founded multinational companies such as Tata based in Bombay, India.) Another source mentioned in Palsetia (2008) indicates that in 1837, eleven Parsi firms did business in Canton compared with only four

European and nine American companies. Other Indian merchants were involved, as well as David Sassoon, a leading Shephardic Jew (once the Treasurer of the Pashas of Baghdad who left Iraq for Bombay in 1817 after the Jewish community was repressed there) who built a trading empire between Bombay, Canton and Shanghai.

In the 1830s, Indian Parsi merchants had 50 to 80 "clipper ships" in the trade. This also spurred Indian entrepreneurship in ship building, such as the Wadia yards in Bombay, known for the sturdiness of their ships, and keeping up with the technology of the time which resulted in sleeker and faster vessels that could travel from India to China in a record 23 days. (The journey from as far away as America to India was cut to less than three months with the result that winter ice cut from frozen Massachusetts ponds, packed in sawdust, could be exported to Bombay ice houses. The lyrics of the American National Anthem, "The Star-Spangled Banner" are from a poem composed by Francis Scott Key in September 1814, while he was held captive by the British on board the *HMS Minden*, in Baltimore harbor. The *Minden*, built in Bombay in 1810 by Wadia & Co. for the British Navy, and used by it to bombard Fort McHenry in Baltimore harbor is an excellent early example of outsourcing. It was eventually retired to Hong Kong as a hospital ship in 1841 and sold for scrap in 1861.)

By the mid-1800s several hundred Indians lived in China—mainly Parsis, many accompanied by their families, as well as Elias David Sassoon (the second son of David Sassoon)—anchoring the eastern end of the tea for opium countertrade. Parsi cemeteries in Whampoa, Hong Kong, Shanghai and Macao, and Macao's *Estrada dos Parses* (Parsi Road) attest to a now vanished presence.

War and the Legacy of the Tea and Opium Trade

Finally goaded beyond endurance by rampant smuggling, corruption and addiction, the Qing Emperor appointed a new commissioner who cracked down severely on the business in 1838. The British response was the First Opium War (1839–1842) fought between Imperial Britain and an enfeebled China, which together with the Second Opium War (1856–1860) forced open Chinese ports, handed over to the foreigners enclaves such as Hong Kong, and collected large indemnities from the Chinese—all because they dared to resist the smuggling of an narcotic. Opium and tea could now be freely imported and exported.

Millions in the middle classes of the UK and Europe got to enjoy their cups of tea, with the habit spreading worldwide and even to India by the late 1800s. But the humiliation at the hands of the British and other European powers rankles to this day in the minds of many educated Chinese and shapes their anti-Western attitudes.

continued on page 6



Figure 4: Cartoon Showing British Admiral Forcing Opium Down the Throat of a Chinese

How Tea Cultivation Moved to South Asia (and Caused Problems There)

It was thought that tea could not be grown outside China. Indeed, several attempts to plant the Chinese cultivar elsewhere ended in failure. Meanwhile, Robert Bruce (a Scotsman who lies buried in the Indian town of Tezpur) discovered a variety of the tea bush in the Himalayan foothills of Assam (a state in Northeast India then populated by Tibeto-Burmese tribes such as the Bodos). This proved to be a close substitute for the Chinese cultivar. India's tea exports supplanted those of China by the 1860s. But this came at a further large cost in human suffering.

In the heedless fashion that was common in the colonial era, the British moved tens of thousands of indentured laborers from other poorer areas in India such as Chota Nagpur, Bihar and Bengal to work the tea estates in Assam, since the indigenous Assamese population was content in its own culture and unwilling to work as plantation labor. There followed traders, railroad workers and other enterprising Indians who took over and displaced the Tibeto-Burmese indigenes. These ethnic tensions and conflicts have culminated in separatist movements and terrorism that simmers beneath the surface in Northeast India to this day.

The highlands of Ceylon (today's Sri Lanka) also proved salubrious to the tea bush. Not many of the proud, and relatively well-off, Singhalese population deigned to work as plantation laborers. The British imported tens of thousands of Tamils from India to work in their tea and rubber companies in Ceylon. The Tamils never assimilated with the native Buddhist Singhalese, multiplied and formed a distinct ethnic minority in Sri Lanka that by the mid-20th century began to assert their rights and demanded independence. This induced migration, to support British foreign direct investments (FDI) in tea and rubber estates in Sri Lanka, directly led to the just-concluded civil war in that country which has left

nearly 100,000 dead and hundreds of thousands injured, with millions more becoming refugees.

What Ethical Lens Should We Apply?

From Ireland to Israel/Palestine, from Guyana to Fiji, from China to Assam and Sri Lanka, migrations induced by British colonialism and commerce have left a legacy of ethnic tension, conflict and tears. To the Jejeebhoy, the Sassoons and Camas or to their British colleagues in the trade such as Jardine and Matheson, the riches they amassed would have been considered cleanly earned, and their honors and Baronetcies they would have considered well-deserved. The Chinese opium eater or the Santhal tea plucker were a race and class apart, and their lives were considered to be outside the domain of corporate responsibility.

But is it appropriate to apply today's ethical standards to the past? We may be too harsh in our judgment of the British or the Indian Parsi traders using the narrower and more stringent ethical lens of the 21st century. We can rejoice that our global standards today are higher, thanks to the globalization of ideas. The same globalization that still causes angst and ethnic tensions has also contributed to world prosperity. Trade and foreign direct investment have lifted literally billions today into a middle class status—and tea into their list of favorite beverages.

The History of Globalization: From "De Unum, Multis" to "E Pluribus, Unum"

The story of humankind has been one of geographic and cultural dispersion, and then back to becoming, once again, a single global family. According to one theory, all *Homo sapiens sapiens* are the offspring of a single African mother. Her descendants after 60,000 BCE broke into separate bands in their long walk out of Africa, culturally evolving into separate tribes on distant continents (Oppenheimer, 2003). Then, in the Chalcolithic era around 8,000 BCE the economic forces of comparative advantage, specialization, scale and learning began to spur trade and barter across increasing distances, beginning the reconnection of the various dispersed tribes and culminating in the last three centuries of our era in an unprecedented level of international interdependence, integration and conflict—but also prosperity. When the world history of the 19th and 20th centuries is written in future millennia, all the wars, terrorist incidents and conflicts may be reduced to a passing mention, or just footnotes. But one salient fact will be recorded—the emergence of billions of humans from poverty to a middle class status, from agrarian backwardness to productivity, from ignorance to enlightenment, and from tribalism to a globally unified consciousness—all the result of globalization. By the 21st century, companies from nations such as China or India emerged to rival multinationals from the West. The natives had their "revenge" in the year 2000. In an acquisition redolent with symbolism for the future, the UK's leading tea company, Tetley Tea, was taken over (in a "reverse" foreign direct investment) by the Tata Group based in India.

The concluding chapters in the story of globalization yet remain to be recorded. While the formerly isolated human tribes have reconnected, and the planet is swathed in a maze of fiber-optic cables in which the dance of photons carries immense information across continents, cultural and institutional “distance” is still a major determining factor in trade and FDI patterns (Ghemawat, 2001).

This article is developed and amplified from an earlier piece by Farok J. Contractor, “How a Soothing Drink Changed Fortunes and Incited Protests: Tea’s history reveals globalization’s best and worst sides – trade, prosperity, migration and war,” *Yale Global*, 9 March 2011. Used with permission of Yale University.

References:

Farooqi, M. 2006. *Opium City: The making of early Victorian Bombay*. New Delhi: Collective.

Ghemawat, P. 2001. Distance still matters: The hard reality of global expansion. *Harvard Business Review*, 79: 8.

Janin, H. 1999. *The India-China opium trade in the nineteenth century*. Jefferson, NC: Macfarland.

Levy, T. 2003. Chalcolithic. In P. Peregrine & M. Ember (Eds), *Encyclopedia of prehistory: South and Southwest Asia*. New York: Kluwer Academic.

Macfarlane, A., & Macfarlane, I. 2004. *The Empire of Tea: the Remarkable History of the Plant that Took Over the World*. New York: Overlook Press.

Maniscalco, L., 1989. Ocher containers and trade in the central Mediterranean Copper Age. *American Journal of Archaeology*, 93(4).

Oppenheimer, S. 2003. *The real Eve: Modern man's journey out of Africa*. New York: Basic Books.

Palsetia, J. 2008. Parsis of India and the opium trade in China. *Contemporary Drug Problems*. December 22.

Scott, J. 1965. *The great tea venture*. New York: Dutton.

Tykot, R. 2002. Geochemical analysis of obsidian and the reconstruction of trade mechanisms in the early Neolithic period of the western Mediterranean. In K. Jakes (Ed.), *Archaeological chemistry materials, methods, and meaning*. Washington, DC: American Chemical Society.

United Kingdom Tea Council. 2012. *Catherine of Braganza*. <http://www.tea.co.uk/catherine-of-braganza>.

Whallon, R. 2012. *Excavations at Grotta S. Angelo*. <http://www.lsa.umich.edu/umma/research/robertwhallon>.

Endnotes

¹ *Seres* was the term Romans used to depict what is today Western China and Central Asia, their source of silk. The “Arabian peninsula” was included in Pliny’s declamation only because important branches of the trade routes from India and China passed through Arabia and the Middle East, whose intermediaries were among the first to receive payment in Roman coinage.

Farok J. Contractor (farok@andromeda.rutgers.edu) is Professor of International Business, Rutgers University, New Jersey. He is a graduate of the Wharton School, University of Pennsylvania, where he received his Ph.D. and MBA, the University of Michigan, where he received an M.S. in Industrial Engineering, and the University of Bombay where he received a B.E. in Mechanical Engineering. He has taught at universities on four continents, and is the author of more than 100 papers and 10 books. His research focuses on corporate alliances, outsourcing, valuation of intangible assets, the technology transfer process, licensing, and foreign direct investment. Dr. Contractor has been elected as Fellow of the Academy of International Business (AIB) and has served on the Executive Boards of the AIB, and the International Management Division of the Academy of Management. And, yes, he is a member of the Parsi community whose number never exceeded one hundred and fifty thousand souls, making it reasonably probable that some of his forebears were engaged in international trade with China or the USA. Chinese vases in many Parsi homes attest to the past connection.