

# THE WORLD THAT TRADE CREATED

SOCIETY, CULTURE, AND THE WORLD ECONOMY

1400 TO THE PRESENT

S E C O N D   E D I T I O N

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cated peasantry with no political experience. A small mulatto aristocracy arose who exploited the population for their own benefit but brought little development. When their rule wavered, the United States lent a hand (as during the U.S. occupation between 1915 and 1934) to maintain "stability" and keep the peasants quiescent. After 1804 Haiti found nothing to replace sugar as the island's population swelled. Certainly an economy based on exporting baseballs and blood was not likely to be dynamic. Europe's sweet tooth turned a tropical paradise into a miserable, impoverished backwater. The world economy does not only bring progress.

### 3.7 How Opium Made the World Go "Round"

It's a vaguely familiar story, though not a pretty one. One hundred fifty years ago, British seapower forced China to accept the Treaty of Nanjing, ending the three-year Opium War. China was forced to tolerate massive imports of a powerful addictive drug and various other injuries; but the treaty's clauses and defenders spoke more generally of promoting free trade and "opening" China.

Not only British generals, but supposed liberals and radicals throughout the West, assured their audiences that opium was a side issue. Former U.S. president John Quincy Adams, no lover of European colonialism, explained that "Britain has the righteous cause . . . but to prove it, I have been obliged to show that the opium question is not the cause of the war. The cause of the war is . . . the arrogant and insupportable pretension of China that she will hold commercial intercourse with the rest of mankind . . . upon the insulting and degrading forms of lord and vassal." Even Karl Marx argued that the *real* significance of the Opium War was that the global bourgeoisie's insistence on "battering down the Great Wall" would bring a "stagnant" China not only into the world market, but into world history.

Nobody today would defend dope-peddling at gunpoint; but the received wisdom remains that drugs *per se* were not the big story. John King Fairbank, dean of U.S. sinologists, explained the war in words Adams could have endorsed: "the Chinese position on foreign relations . . . was out of date and insupportable. . . . Britain represented all the Western states in demanding diplomatic equality and commercial opportunity . . . it was an accident of history that the dynamic British commercial interest in the China trade was centered not only on tea, but on opium." One of his students wrote that had war not broken out over opium, it could as easily have happened over cotton or molasses.

But in fact, opium was not incidental. A closer look shows that it was central to promoting world trade and accelerated economic growth—not for China, of course, but for Europe and the Americas.

The international opium trade began in the 1700s as an answer to a crisis in Europe's (especially Britain's) international trade. For centuries, Europe had consumed spices, silk, and other Asian products, but exported very little to Asia. Spain's conquests in the New World provided a temporary solution. New World gold and silver were shipped in huge quantities to Asia—perhaps 50 percent of these metals found their way to China alone—in return for things that Europeans could actually consume. But by the mid-1700s, Europe's Asian imports were reaching new levels (particularly in England, where tea became the national drink). Meanwhile, the New World mines were yielding less ore, and new cargoes from the Americas (mostly sugar and tobacco) were also draining Europe's cash hoard.

So how to pay for all these new tastes? Force was one answer: conquer producing areas in Asia directly and make them export to meet new taxes. The Dutch (in Indonesia) and the British (in India) each had some success, but not enough; and the Chinese state was still far too strong to contemplate such measures there. Meanwhile, attempts to sell European products—including British woolens in semitropical Canton—remained frustrating.

Eventually the British East India Company turned to opium, which could be produced in its Indian colony. The drug (previously used in China as a medicine, but rarely as a narcotic) was initially a luxury: bored government clerks, soldiers garrisoned at long-pacified sites, and wealthy women confined to home were among the early users. This traffic grew more than twentyfold between 1729 and 1800, which helped stanch the flow of bullion from Britain to China. But the flow was not decisively reversed. For China these imports—enough to supply perhaps one hundred thousand addicts in a nation of 300 million—were serious but not catastrophic.

The consequences became more grave when in 1818 somebody developed a cheaper, more potent blend of opium. The results were as spectacular as those that the Medellín drug cartel would later achieve by turning expensive cocaine into cheap crack. The Indian opium entering China in 1839 was enough to supply 10 million addicts. Enough silver now flowed out of China to buy opium to offset much of Britain's world-leading import bill—and cause monetary havoc in parts of China.

The number of addicts became sufficiently alarming that China took a stand in 1839, with dreadful results. The Chinese not only lost their battle to exclude dope and their war with the British navy: they lost their tariff autonomy, a large indemnity, the right to subject foreign residents to Chinese law, and the land that would soon be Hong Kong. The worst was yet to come:

its military weakness exposed, China entered a calamitous century of foreign aggression, domestic disorder, and civil war. Skyrocketing opium use—to perhaps 40 million addicts by 1900—played no small role in this.

One might think that the opium trade—and all the suffering it caused—would have become unnecessary to Britain just about the time that they went to war over it. After all, by the 1840s Britain was the world's industrial leader, and would remain so until the eve of World War I. It seems a good guess that “the workshop of the world” would not need to sell drugs to pay its import bills. Had China granted the British the free trade they demanded, couldn't the civilized Europeans have done without selling this one commodity? No. The British still needed opium, even in the early 1900s. Industrial superiority did not guarantee adequate foreign exchange in an era when most of the world still used few mass-produced goods and Britain's appetite for foreign foods (and raw materials) grew as fast as its industrial might. When Britain had turned to free trade in the 1830s and 1840s, the problem got worse: a flood of New World grain and meat was now added to tea, sugar, tobacco, and cotton. Meanwhile, most of Europe and North America stuck to protectionism, limiting British sales in the world's richest markets for manufactured goods—and nurturing new industrial competitors. By 1910 Britain's deficit with the Atlantic world was so large that even doubling British exports to the United States and industrial Europe would not quite have balanced the books.

Invisibles—returns on foreign investment, shipping, insurance fees, and the like—helped a bit, but not nearly enough. Moreover, Britain was a large and vital supplier of capital to the very countries with which it ran huge deficits.

This imbalanced trade, which subsidized living standards in England and rapid growth elsewhere in the West, was sustained for decades by Britain's trade with India and China, in which opium played a key part. As late as 1910, Britain's 120 million-pound deficit in the Atlantic world was largely balanced by its trade with Asia. The empire (not counting India) had a 13 million-pound surplus with China; and aside from cotton thread, manufactures contributed less to this surplus than did farm products, including non-Indian opium.

Most important of all was Britain's annual 60 million-pound surplus with India—about half of its deficit in the Atlantic world. British manufactures of all sorts—from cloth to kerosene to railroad cars—completely dominated the Indian market, aided by protection against other industrial countries and (in the case of textiles) laws that hobbled India's own producers. The foreign exchange that enabled India to keep buying all these British goods came in large part from China, especially from drugs.

Britain itself was India's biggest customer (taking 54 percent of exports in 1870), but obviously not the source of India's cash hoard. India earned large surpluses on its trade primarily in Asia—and especially China. From 1870 to 1914, India ran an annual surplus of about 20 million pounds with China; by 1910, its surplus with the rest of Asia as a whole was about 45 million pounds.

And how did India earn those surpluses? With rice, cotton, and indigo, but above all with opium. In 1870, opium accounted for at least 13 million pounds, or two-thirds of India's surplus with China. It remained the most important item in Sino-Indian trade until the early twentieth century, and also figured prominently in exports to Southeast Asia. In other words, dope not only helped create Britain's direct surplus with China, it made possible the even larger British surplus with India. Without those surpluses, Britain could not have remained the West's chief consumer and financier; and the Atlantic economy as a whole would have grown much more slowly. Though a century of British-led industrialization transformed much of the West, it was only near the end of that century that the West outgrew its reliance on piracy in Asia.

This equation still leaves a mystery: China had no countries with which it ran huge surpluses. So how did it pay for its century of unbalanced trade with Britain and India, which was so important to the growth of the world economy? Records are not good enough to offer a definitive answer. But the best bet is that remittances from Chinese workers and merchants overseas plugged the gap.

The already substantial Chinese communities in Southeast Asia grew much more rapidly as late-nineteenth-century colonialism opened up new areas for export-oriented production. The California gold rush created openings in the New World; plantations from Cuba to Hawaii sought cheap and skilled sugar-growers; and new channels of information made it easier to know what opportunities existed in the first place. Since millions of these workers came without wives and children (often at the insistence of their "host" societies), those laborers who resisted gambling and brothels could send a fair amount home even out of tiny paychecks; and telegraphs and new financial institutions made the transfers easier. No hard numbers are available, but the totals must have been quite large. Thus the Chinese laborer laying track for the Union Pacific may not only have provided muscle to build the railroads: his earnings, routed through China to India to England to the United States may have helped provide the capital, too.

Thus opium not only bound together China, India, England, and the United States in a quadrilateral of trade, but also played a central role in sustaining Britain's industrialization drive and the revolutionary nineteenth-century expansion of the world economy.