

Company-states and the creation of the global international system

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Abstract

We investigate the nature and significance of the vital but neglected “company-states” in helping to facilitate the move from contained regional international systems to the first genuinely global international system. Historically, actors like the Dutch and English East India Companies were crucial in spearheading the first wave of European expansion in Asia, Africa, and the Americas. Conceptually, company-states broaden our understanding of international actors. At a time when intra-European politics favored gradual institutional convergence on the sovereign state, the demands of extra-European expansion meanwhile gave rise to diverse competing institutions. Company-states succeeded in an era of weak sovereign states because of their relative efficiency in managing the transaction costs and principal-agent challenges of intercontinental trade and rule. Conversely, company-states later declined as they succumbed to the effects of sharpening worldwide geopolitical competition, and were displaced by increasingly powerful new European empire-building projects. This argument advances earlier work on the creation of the international system by eschewing Eurocentrism and state-centrism, and foregrounding diversity and hybridization.

Keywords

Historical sociology, international history, company-states, international system, empire, International Relations

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In this article, we unearth the overlooked history of the most important and consequential hybrid actors driving European overseas expansion: the chartered “company-states.” We explain what the company-states were as a distinct institutional class, the circumstances that gave rise to their birth in early modern Europe, why they were so successful in driving the first centuries of European expansion in Asia, Africa and the Americas, and why they declined in the face of a new European imperialism.

Historians, geographers, and more recently sociologists appreciate company-states’ significance in defining modernity and transforming world politics. Yet despite their theoretical and empirical importance for the development of the international system, the company-states have been almost entirely ignored in International Relations (IR) (for rare exceptions, see Cooney, 1980; Thomson, 1994; Buzan and Little, 2000: 267–270).

Company-states were quintessentially hybrid entities that combined classically sovereign prerogatives (e.g. the right to wage war, conduct diplomacy, collect taxes, and dispense criminal justice), with the profit-making imperatives and joint-stock ownership of the private corporation. These institutions confound modern divisions “between the public and private, between political and economic, between the market and the state, the domestic and international, and between sovereignty and dependence” (Pettigrew, 2018: 306). Neither purely private entities, nor mere proxies for their home states, company-states first emerged in the early 17th century. Pioneered by Elizabethan England and the Dutch republic, company-states rapidly proved their worth as engines of colonial trade and conquest, inspiring widespread emulation from other European powers.

The company-states were central for the evolution of the international system as the vanguards of global capitalism and European imperialism. We cannot understand how the West managed its extra-European relations without apprehending how such hybrid actors—wielding what are now taken to be core sovereign prerogatives—were early modern Europe’s most important agents of expansion.

In arguing for the historical importance of the company-state, and following Keene’s pioneering work (2002), a central part of our thesis is to establish the disjuncture between developments within European international politics and those in the wider world. IR’s thinking about the development of the international system in the early modern era has been dominated by the sovereign state’s eventual triumph over the diverse polities of the earlier feudal period. Although scholars like Tilly (1975, 1992), Spruyt (1994), and Ruggie (1983, 1993) place different emphases on different factors, each sees a process of convergence toward the sovereign state form, and each credits a range of related institutional and military factors that gave the state a competitive edge over rival forms in Europe. Whatever the accuracy of this description of underlying trends in Europe (and for important critiques, see Osiander, 2007; Nexon, 2009), it is a poor fit with political developments outside Europe.

Though the sovereign state may have triumphed over its competitors in the close-quarter combat of European war-making and polity-making (Downing, 1993; Ertman, 1997; Spruyt, 1994; Tilly, 1992), company-states more often prevailed over both sovereign states and other institutional rivals in the very different game of long-distance commerce and conquest. The practical challenges of undertaking transoceanic expansion differed substantially from those entailed in contiguous territorial expansion and consolidation within Europe. Huge distances radically amplified the difficulties European rulers and managers

qua principals faced in maintaining control over their agents over the seas. The costs entailed in mobilizing the “patient” capital needed to fund overseas expansion often exceeded early modern rulers’ very limited fiscal capacities (Greene, 2016: 321–322). These challenges of control and cost spurred Europeans to experiment with a diverse range of institutions to project power overseas, of which the most important proved to be company-states (Greene, 2016: 322; Roper and van Ruymbeke, 2007: 7).

Following from these themes, the article is devoted to five main goals. The first is to remedy the neglect of company-states in IR by drawing on new historiography showing these entities to be a distinct and autonomous institutional form. This new perspective contrasts with earlier views of company-states as either purely commercial concerns, or simple extensions of their home states. However, despite the advances of this new historiography, it is methodologically limited by its reluctance to make comparisons and draw systemic conclusions, both central goals of this article.

The second is to explain the birth of the company-states. The early 17th century institutional environment spawned numerous hybrid actors, formed via the unbundling and sharing of sovereign powers, which served as precedents and inspirations for the company-states. At this time, European rulers had little capacity to project power across the oceans, and thus tended to outsource expansion by delegating sovereign prerogatives.

Third, the conceptual and empirical claims above require us to explain the success and historical significance of the company-states relative to other European institutional forms. Company-states tended to outperform ad hoc private consortia in the wider world because of their superior ability to internalize protection costs, and to pool “patient” capital, enabling them to mobilize larger amounts of money for longer periods of time. The company-state structure was often more effective than sovereign states in managing the principal-agent problems of governance over vast distances with early modern technology. Attempts by the French, Portuguese, and Danish monarchies to emulate the company-state form failed because of their unwillingness to delegate management or even safeguard the capital of private investors.

Fourth, why did company-states decline from the late 18th century? The most powerful established company-states went broke or were subsumed within new European colonial empires. Company-states could run maritime networks and entrepôts at a profit, but as their realms grew, they struggled to reconcile the costs of governing large populations with turning a profit. Sharpening geopolitical struggles further increased military and administrative costs at the expense of commercial pursuits. In the same period, the development of the military-fiscal state meant that European sovereigns were increasingly capable of projecting force and exerting their rule across the globe directly. They no longer needed company-states for imperial expansion and governance.

Finally, what does this historical examination of the company-state add to existing conventional non-mainstream accounts of the development of both the state and the international system? This article builds on and extends literature that has moved IR away from its traditional **state-centrism**, and toward more systematic recognition of the broad diversity of polities that populated the early modern world. **Revisionist scholarship has convincingly established the persistence of polity diversity in Europe, even after the supposedly epochal break of the Peace of Westphalia (see for example Halden, 2013; Osiander, 2008; Nexon, 2009; Teschke, 2003).** Likewise, the turn toward a Global IR has

demonstrated the vitality and historical significance of an equally eclectic range of polities beyond Europe besides the sovereign state (e.g. Crawford, 1994; Deudney, 1995; Kang, 2010; Neumann and Wigen, 2018; Pardesi, 2019; Schulz, 2019).

These advances notwithstanding, however, IR's knowledge of how European non-state polities interacted with diverse non-European polities, eventually establishing durable relations with them, remains in its infancy. Before the mid-late 19th century, Europeans in most cases lacked the military superiority to unilaterally impose themselves on non-European hosts. European sovereign states' weakness likewise prevented them from assimilating non-Europeans into Western diplomatic norms and practices, and limited their ability to direct cross-cultural commerce across transcontinental distances. Instead, it was company-states that were the primary mediators of Europe's relations with Afro-Asian and New World polities for much of early modernity.

The initial wave of revisionist literature took new perspectives on developments in Europe, especially around Westphalia, insights that we adapt and extend worldwide. Work outside the mainstream that has taken a more global perspective on the development of the modern international system has tended to downplay the importance of institutions, whereas we see institutional factors as key. Perhaps most importantly, even IR scholarship outside the West has tended to focus on relatively closed systems and atomistic actors, whereas the company-states were constituted by their inter-regional, relational, and hybridized nature. The company-states facilitated the epochal transformation from a world of relatively closed regional international systems to the first global international system.

In substantiating these claims, we draw our evidence from the experiences of the Dutch East and West India Companies (the VOC *Vereenigde Oost-Indische Compagnie* and WIC, respectively), the English East India Company (EIC), and the Hudson's Bay Company (HBC) from the beginning of the 17th century to the 19th century. These companies were active in the Americas, the Atlantic and Indian Ocean coasts of Africa, and all across littoral Asia. We use a relatively thin conception of the international system as "the largest conglomerate of interacting or interdependent units that have no system level above them" (Buzan and Little, 2000: 69). This is distinct from terms like "international society" or "international order" premised on common institutions and/or cultural understandings (e.g. Wight, 1977).

Finally, a caveat. It is impossible to understand the creation of the global international system without a proper understanding of the company-states, a perspective that is currently missing in IR. However, our coverage of company-states does not claim to be a complete explanation of the creation of the global international system. This much more ambitious task is better suited to book-length treatments (among many others, see Hobson, 2004; Headrick, 2010; Morris, 2010; Hoffman, 2015; Anievas and Nisancioglu, 2015).

What were the company-states?

Company-states profoundly complicate the now taken-for-granted distinctions between the sovereign state and the corporation. The company-states that proliferated from the early 17th century shared several key similarities. Their founding charter was laid down

by the monarch or legislature. These charters gave them a monopoly on the trade on certain commodities within a specific geographical range. The logic was that those venturing private capital and bearing the risk had to have a suitable incentive. From the ruler's point of view, the easiest and cheapest way of achieving this was by assigning monopolies to the newly-created companies.

Company-states were also granted extensive powers conventionally associated with sovereign states. These included the right to form colonies, administer civil and criminal justice, mint currency, collect taxes, and defend and extend their commercial interests with armed force at sea and on land. Company-states were further granted powers of conducting diplomacy and making war and peace with respect to non-European polities. Company-states made extensive use of these powers. Thus, in the 17th century, the VOC had the most powerful navy between the East Coast of Africa and the Americas (Clulow and Mostert, 2018; Gaastra, 2003). Likewise, the EIC eventually conquered a vast empire centered on the Indian subcontinent, and came to rule over a fifth of the world's population (MacDonald, 2014: 82; Stern, 2011). The HBC, ruling over the vast Rupert's Land from the Atlantic to the Pacific, again exemplifies the power company-states wielded as agents of European expansion (Cavanagh, 2011; Galbraith, 1957; Rich, 1960).

Despite these extensive sovereign prerogatives, company-states were owned by merchants and investors, with profit being their overriding goal. Beginning with the VOC from 1602, the WIC in 1621, the EIC from 1657, and the HBC from 1670, company-states pioneered two of the fundamental features of the modern corporation: joint-stock ownership and limited liability. Company-states further paralleled contemporary corporations in being genuinely multinational in their intercontinental reach. For example, the WIC had outposts from present-day New York to Ghana to the Caribbean and Brazil, while being run from the Netherlands. The EIC at various times governed territories in the Atlantic (St Helena) and Southeast Asia, as well as almost the whole of South Asia.

Company-states were run by a board of directors: the *Heeren* (Gentlemen) XVII for the VOC; the *Heeren* XIX for the WIC; the EIC Court of Directors; a Governor and seven Committeemen for the HBC. These boards ran a variety of more specialized committees, and delegated powers to agents in the field, who, thanks to the distances involved, often exercised great autonomy (Adams, 1996; Carlos and Nicholas, 1993, 1996; Erikson and Bearman, 2006; Norton, 2015; Wagner, 2018).

Our argument builds on new revisionist historiography, which critiques earlier views of company-states as either purely commercial operations, or simply dependent appendages of their home states, instead stressing their autonomous and hybrid character (Cavanagh, 2011; Clulow, 2014; Clulow and Mostert, 2018; Pettigrew, 2015; Pettigrew and Verveers, 2019; Stern, 2011, 2015; Wagner, 2018; Ward, 2008; Weststeijn, 2014; Wilson, 2015). Thus, Stern notes that previously the company-states have "suffered historiographical marginalization by virtue of scholarly assumption about what companies do and do not do: states are for politics, companies are for profits" (2006: 702). In line with this logic, older scholarship tended to segment the history of the EIC into separate "trading" and "imperial" phases, whereas newer accounts emphasize that the Company was both simultaneously (Stern, 2009: 1149). More than just their hybrid nature, these historians stress the identity and significance of the company-states as political actors. Thus, Ward refers to the VOC as "a sovereign entity" and "an empire within a state"

(2008:15). Wilson classifies the EIC as a “state within a state” (2015: 258). Like Stern, Weststeijn refers to the VOC as “a company-state” (2014: 15), while Cavanagh uses the same term with regards to the HBC (2011: 28), and Clulow and Mostert once again endorse this term for the genus as a whole (2018: 15). While this new perspective on the company-states as autonomous hybrid actors has filtered through into sociology (e.g. Adams, 1996, 2005; Erikson and Bearman, 2006; Erikson, 2014, Erikson and Assenova, 2015), this is not yet true of IR.

Yet, this new history of the company-states suffers from a key weakness: the lack of comparative and systemic perspectives. Thus, one historian bemoans the pervasive tendency to “concentrate on one Company. In such histories a strong chauvinistic preference for the success of and uniqueness of one ‘national’ Company can be detected, and the histories of other companies are merely used to position and illustrate this uniqueness” (Nierstrasz, 2015: 4). Another recent collection reinforces this point:

With every new monograph the gulf between what were essentially common (and often interlocked) models of overseas monopoly becomes wider and more nationally-focused. Even more narrowly, the various corporations of any particular nation, and especially those of the English, have largely been understood as individual entities, following separate developmental trajectories in different cities, regions, and oceanic basins (Pettigrew and Veevers, 2019: 11–12).

Together with the comparative treatment of different company-states in different regions, it is the systemic importance of the company-states in the process of early-modern globalization that marks our main contribution to the new historiography of the company-state.

The administrative and technological limitations of all early modern polities operating across continents created a reliance on some private agents. Writing on the first century of Spanish efforts in the Americas, Kamen notes an “almost total dependence of the ‘conquest’ period on private enterprise,” both in terms of financing, and the conquistadors themselves (2003: 96). “The crown had no cash, men or weapons to carry out its aspirations to empire,” and more generally: “Not a single Spanish army was expended on ‘conquest.’ When Spaniards established their control, they did so through the sporadic efforts of small groups of adventurers whom the crown later attempted to bring under its control” (Kamen, 2003: 141 and 95). Reflecting 15th century precedents from their arrival in Guinea, the Portuguese divided Brazil up into 15 proprietary captaincies, which were sold off in return for promises to develop the land and encourage settlement in the name of the King (Disney, 2009: 206, 211). The central purpose of these Iberian expedients was ultimately the same as the company-states: “To attain the wealth and power promised by overseas expansion, states empowered non-state actors to exercise violence. State economic and military capabilities alone were insufficient or their use and expansion politically constrained” (Thomson, 1994: 67).

Nevertheless, there is a clear practical and conceptual separation between the formalized, long-term chartered company-states and the temporary and ad hoc use of private concessionaries and financiers by the Spanish and Portuguese Crowns. In what one historian terms a “massive contrast” to the company-states, there was no Iberian equivalent

of the package of sovereign prerogatives granted to company-states that enjoyed de jure and de facto autonomous rule over huge areas for periods of centuries (Cavanagh, 2016: 503). Where the Spanish and Portuguese regarded their private auxiliaries as temporary expedients, the English and Dutch for centuries regarded company-states as a permanent alternative to sovereign state rule. Thus: “Companies offered characteristics—institutional permanence, evolving forms of limited liability, a particular governing structure—that distinguished them from firms, proprietorships, and other forms of colonial ‘private’ enterprise” (Stern, 2015: 20).

Having explained what company-states were, and suggested how they differed from both sovereign states and other nonstate imperial expedients, below we explain the circumstances that gave rise to their birth.

Explaining the creation of the company-states

Company-states arose in an early modern institutional context in which hybrid actors and the delegation of sovereign prerogatives were commonplace. They followed a long lineage of hybrid organizations, dating back to the High Middle Ages, which combined sovereign prerogatives with what to modern eyes appear as corporate functions. Though the institutional form of the chartered company-state was new, the idea of rulers alienating sovereign rights to what would now anachronistically be called “non-state actors” was not.

As early as the 12th century, Latin Christendom had seen the resurgence of the corporation (*universitas*) as a distinct category of rights-bearing entity within the Western legal tradition (Berman, 1983: 215). A late medieval commercial expansion prompted numerous other entities (notably towns and merchant guilds) to assert the rights and privileges of corporations, further entrenching the idea in Europe’s legal and social fabric (Cavanagh, 2016). At the beginning of the early modern period, there were many precedents for the principle that collectivities could claim the status of corporations, and exercise powers of governance. The subsequent innovation was to adapt institutional forms originally designed for local governance to perform a new transnational role (Pettigrew, 2018: 309).

Especially relevant to our inquiry, the right of corporations and other “nonstate” actors to wage wars of conquest had moreover been continuously and successfully asserted throughout the Middle Ages. Robert Bartlett notes: “It was thus the knightly-clerical-mercantile consortium, not the apparatus of kingly power, that orchestrated the most characteristic expansionary movements of the eleventh and twelfth centuries” (Bartlett, 1994: 308). From their experience of the late medieval Crusades into the Levant and Eastern Europe in particular, Western Europeans were therefore already thoroughly acquainted with modalities of rulers delegating the task of colonial expansion to religious orders, adventurers, and private parties. The company-states emerged out of a milieu that still bore the distinct imprint of medieval heteronomy.

Besides the institutional precedents, another crucial stimulus for the creation of company-states was the weakness of early modern states. By and large, these states did not have the military, fiscal, or administrative capacity to project power beyond Europe. Indeed, even the most advanced early modern European polities lacked the “infrastructural power” (Mann, 1994: 146) to effectively govern even their home territories. Instead,

would-be state-builders resorted to expedients such as tax farming and rule through local intermediaries (e.g. Henshall, 1992). Well into the early modern period, the finances of early modern rulers remained rickety, England becoming the first major polity to establish a permanent public debt only as late as 1694 (Brewer, 1990: 94). Rulers' unreliable access to resources necessarily crimped their military-fiscal capacity, both within—and especially beyond—Europe.

Early modern Europeans found it immensely challenging to assert and maintain control over distant outposts across the oceans. The endemic corruption that enfeebled the Portuguese *Estado da Índia*, and the constitutional crises that perennially beset the “extended polities” (Greene, 1994) Europeans eventually planted across the Americas, firmly attest to the huge difficulties rulers faced in directly administering far-flung colonies and controlling subordinates.

At the same time, however, the Iberian monarchies' early success in carving out empires in the Americas and Asia underscored the immense commercial and geopolitical advantages that could be won through transoceanic trade and conquest. Habsburg Spain's conquest of the Americas—spearheaded by self-armed and self-financed adventurers licensed by the Crown—unleashed a flood of silver onto global markets (Flynn and Giraldez, 1995). This not only bolstered the Habsburgs' precarious finances at home, but also helped nourish the growth of the Ming and Mughal Empires, in turn providing further incentives for expanded European trade with Asia. More generally, a Eurasia-wide “commercial efflorescence” (Goldstone, 2002). bolstered elites' appetites for exotic luxury goods, such as fine spices, silks, and furs. The potential profits arising from long-distance trade in luxury items appealed to merchants and rulers alike, whetting the ambitions of both and catalyzing a new round of institutional innovations culminating in the company-state.

To sum up: medieval Europe bequeathed a legacy of militarized trade and conquest by diverse actors. The vast potential geopolitical and commercial dividends that overseas expansion promised moreover strongly motivated rulers and merchants. European rulers' weak capacities for direct rule and military-fiscal mobilization nevertheless limited their capacity to realize these ambitions. Given the new geopolitical opportunities for expansion across the Atlantic and to the East, European rulers had the ambition, but rarely the means, to pursue transoceanic expansion (Wagner, 2018: 16). Company-states served to bridge this gap.

Explaining the success of the company-states in European expansion

Company-states' superior ability to manage protection and transaction costs, pool “patient” capital, and better mitigate principal-agent problems relative to other European institutional forms enabled them to often out-compete unarmed merchant diasporas, unincorporated merchant adventurers, and sovereign states. We first review the company-states' historical record, before explaining the reasons for their spectacular early success.

By the late 18th century, the VOC's governor in Batavia (present-day Jakarta) reigned over a larger population in Southeast and South Asia than that of the Netherlands

(Gaastra, 2003; Ricklefs, 1993; Vink, 2019; Ward, 2008; Weststeijn, 2014). Reflecting the institutional prowess of the company-state over the sovereign state, the VOC had earlier waged a highly successful campaign against Portuguese possessions in the Indian Ocean in the first half of the 17th century (Boxer, 1965, 1969; Pearson, 2003; Steensgaard, 1973). During this period, the Portuguese lost key strongholds like Malacca, Ceylon, the Spice Islands, and several ports in Western and Eastern India, while their headquarters in Goa was regularly blockaded, and Portuguese trading ships were ravaged throughout the region (Disney, 2009; Subrahmanyam, 2012).

The HBC and at first the EIC, by contrast, enjoyed their greatest successes more by diplomacy with local polities than through war, though armed force was an integral part of their business models (Basset, 1998; Chaudhuri, 1978, 1981; Galbraith, 1957; Stern, 2011). Typical of the tendency for European outposts to depend on accommodations with local peoples, the HBC was almost totally reliant on indigenous suppliers for its pelts (Carlos and Lewis, 2010). The EIC came to focus on the Indian subcontinent, and particularly the expanding Mughal Empire. Being in no position to directly challenge this rich and mighty realm, whose Emperor ruled over 100 million people and commanded hundreds of thousands of cavalymen (Gommans, 2002), the EIC did nonetheless strike a series of mutually advantageous deals with the Mughals. Once again, the Western trading and diplomatic presence would have been impossible without far-reaching concessions and compromises with local powers. With the decline of the Mughals in the 1700s, however, the EIC began to rely much more prominently on powerful armies that combined European infantry tactics with local irregular cavalry. The EIC came to exercise more and more authority, nominally as loyal vassals of the increasingly powerless Mughal Emperor. This process culminated in the company becoming the masters of a territory and population that were far greater than Britain itself (Stern, 2009, 2011).

In terms of longevity, the HBC was the most successful company state of all, maintaining a continuous existence down to the present day, although it surrendered its sovereign powers to the dominion of Canada in 1870 (Galbraith, 1957; Rich, 1961). From its initial charter in 1670, the HBC was devoted to the fur trade (Carlos and Lewis, 2010). It gradually expanded westwards from the eponymous bay, eventually reaching the Pacific. Just as the success of the VOC encouraged the creation of the WIC, so too the profits of the EIC tempted both Charles II and English private investors to wager on the HBC (and the English Royal African Company too; Pettigrew, 2013; Norton, 2015; Wagner, 2018). As with its predecessors, the HBC was forbidden to make war on European powers without permission, but was allowed to do so against indigenous polities. The company had all powers of civil and criminal justice, and “was empowered to employ its own armies and navies, erect forts and generally defend its fiefdom in any way it chose” (Cavanagh, 2011; Newman, 1998: 80; Rich, 1960).

The WIC saw more limited but still substantial successes, especially against the Portuguese (Bick, 2012; den Heijer, 2003; Oostindie, 2012). They drove the Portuguese from the African Gold Coast, which became the company’s most valuable long-term possession (Davies, 1957: 8; Israel, 1995: 325). In the 1660s and 1690s, the WIC fought wars in West Africa against local African polities and the English Royal Africa Company, retaining these possessions until the final demise of the WIC in the 1790s (Davies, 1957: 42–43, 266–269). It also captured half of Brazil from 1630 until the Portuguese made

good their losses in 1653, largely a result of internecine disputes when the powerful directors and shareholders from Amsterdam drew the conclusion that peace was more profitable than war in this instance (Bick, 2012; Boxer, 1957).

What explains the success of the company-states against their chief institutional rivals—unarmed merchant trading diasporas, unincorporated adventurers, and rival European sovereign states?

Managing the cost of violence and protection was perhaps the toughest challenge for Europeans engaged in intercontinental trade in the early modern period (Lane, 1979; see also North, 1991). Long-distance merchants—including the unarmed merchant trading diasporas that had traditionally dominant Eurasia's cross-regional trade (Curtin, 1984)—were vulnerable to predation from bandits, pirates, and local rulers alike. To mitigate protection costs, merchants could either contract with a variety of third-party providers of coercion and protection, or they could develop their own in-house capacities for organized violence (Glete, 2000; Rodger, 2010). In maintaining their own armies and navies, company-states effectively internalized their protection costs (Lane, 1979; Steensgaard, 1973). This enabled them to harness a cheaper and more reliable form of protection than that available to the unarmed merchant diasporas (Curtin, 1984).

Importantly, the company-states not only employed violence to protect their own trade, but also went on the offensive to enforce monopolies and attack commercial competitors, in effect running something of a protection racket (Adams, 1996: 19). This posture earned them the sobriquet of “Arch-pirates of all the seas” from the Portuguese (Clulow, 2014: 157). Unlike ad hoc adventurers or single missions by unincorporated merchants, company-states mustered enough naval and military force to over-awe or coerce weaker local polities, and act as a useful ally to more powerful ones. Though they were often in a position of military parity or inferiority relative to local powers, where the Europeans could get away with the use of violence, they employed it extensively, sometimes with genocidal effects. Thus one of the VOC's earliest Governor-Generals emphasized the balance between violence and profit: “the Indies trade has to be pursued and maintained under the protection of one's own arms and. . . the weapons must be financed through the profits so earned by trade. In short, trade without war or war without trade cannot be maintained” (Clulow, 2014: 14).

Company-states enjoyed a further advantage over unincorporated merchant adventurers, another key form of rival, through their thoroughly modern innovation of creating the company as a legally separate entity from its owners, pooling capital in the body corporate, and appointing professional managers. Merchants and investors had traditionally organized themselves through loose consortia, where capital and resources were pooled only for each individual voyage. Debts and losses could be marked against all of the assets they owned, not just those committed to a particular enterprise, i.e. liability was unlimited (Gaastra, 1981: 49; Stern, 2015: 21; Thomson, 1994: 32–33). In contrast, company-states were able to stay the course after individual missions failed, and adopt much longer time horizons, thanks to this stock of pooled, patient capital (Berg et al. 2015; Chaudhuri, 1981; Erikson, 2014; Steensgaard, 1973). They could ride out and increasingly manipulate price swings in key commodities like spices, which could ruin a one-off expedition with all its capital invested in a single mission. The commercial

importance of long time horizons and predictability were explained by one 17th century observer as follows:

“How can a Society of Merchants. . . expatiate their Thoughts for great and publick Undertakings, whose Constitution is subject to such frequent Changes, and who every Year run the risk of their capital?. . . no society of Trading Men can bring about any great Thing for the Common Good, who think themselves but in a precarious and momentary Possession of their Rights and Privileges”

(Stern, 2015: 25).

The company-states also proved superior at mitigating the principal-agent challenges entailed in long-distance trade and rule (Adams, 1996; Berg et al. 2015; Carlos, 1992; Carlos and Nicholas, 1993, 1996; Blussé and Gaastra, 1981; Norton, 2015). This distinguished them from European sovereign state rivals such as the Portuguese *Estado da India*, which otherwise likewise enjoyed the advantages of internalized protection costs and institutional longevity. If too much agent autonomy from principals was one problem, the experience of abortive French, Portuguese, and Danish attempts to imitate the company-state form showed the dangers of too little delegation, as discussed below. The primary focus below is on overcoming the governance challenges between European principals (the company-state management) and extra-European agents (those conducting trade, war, and diplomacy in Africa, Asia, and the Americas). Yet the chain of principals and agents could potentially be extended further backward and forward: between European rulers issuing charters and those receiving them, or between regional company-state headquarters (e.g. Batavia or Madras) and the far-flung trading posts and ships under their command.

As one letter from the HBC's London management put it to their agents in North America: “wee Cannot be soe well able to Judg of oure Affaires in the Country, wee being soe farr absent, as you can Resideing there, therefore wee must Leave it to your discretion for the management of our Trade” (Rich, 1960: 383–384). The EIC in particular proved especially adept at aligning the interests of its principals and agents. It enabled the latter to buy into the company's success through shareholding, while also permitting company employees to concurrently engage in their own private trading activities while serving the company (Erikson, 2014; Erikson and Bearman, 2006). The HBC managed its agents via an elaborate system of “employment contracts, bonuses, promotion, commendations, direct monitoring, and systematic accounting procedures,” coupled with rigorous searches of supply ships and the interception of private correspondence (Carlos and Nicholas, 1993: 245–246). VOC Governor-General van Diemen likewise stressed the importance of aligning incentives so that Company officials “will be forced by private interest to support the general and common interest better than ever” (Weststeijn, 2014: 16).

The Portuguese *Estado da India* is the exception that proves the rule: a direct statist approach to early modern European expansion that was comprehensively outclassed in both military and commercial terms by first the VOC and then the EIC. While the Portuguese state was certainly interested in profiting from the spice trade, this revenue

was seen as a means to the end of fighting against the forces of Islam (Chaudhuri, 1985: 69; Disney, 2009: 126; Subrahmanyam and Thomas, 1990: 301; Tracy, 1990: 6). The interests of Portuguese private merchants were a very distant second to those of the Crown (Disney, 2009: 153; Pearson, 1990: 78–80; Subrahmanyam, 2012: 225). In turn, merchants evaded their fiscal obligations (Subrahmanyam and Thomas, 1991: 330). Portuguese officials in the East were appointed for 3-year fixed term positions and had no personal stake in maximizing revenue, meaning that they often spent their tenure diverting as much state income as possible to their personal accounts (Pearson, 1998: 133; Winius, 1971: 169). As Winius puts it of the *Estado da India*, “nearly everybody was making money out of India except the [Portuguese] King” (Winius, 1971: 93). But since the King was responsible for paying for protection, the result was an underfunded military that was vulnerable to predation from both the VOC and local opponents (Pearson, 1998: 136; Subrahmanyam, 2012: 172–189). Portuguese possessions in North Africa were run on a similar statist model of military command and directed trade, and, partly as a result, again were a constant drain on the treasury (Cook, 1994: 85; Disney, 2009: 21).

The company-state structure itself by no means eliminated corruption among agents (Adams, 1996; Erikson and Bearman, 2006). The fundamental point remains, however, that the company-states were *relatively* more efficient in handling the management challenges of long-distance colonization in the early modern period. More generally, company-states succeeded precisely *because of* their hybrid nature. In their conception and design, company-states did not sharply differentiate sovereign from commercial functions.

Besides the challenge of distance, Europeans also confronted significant transaction costs deriving directly from the vast cultural differences separating them from host polities. As newcomers, they lacked shared languages, customs, laws, and institutions. Europeans could not rely on preexisting trust networks to secure access to local brokers, including the creditors, translators, negotiators, and middlemen necessary to sustain profitable commercial operations (Van Meersbergen, 2016). Nevertheless, the company-states’ hybrid nature equipped them with unique capacities to mitigate these challenges. As corporations endowed with institutional permanency, company-states could accumulate knowledge and forge long-term alliances with local partners and patrons. Because company-states did not directly represent European rulers, company-states were free to adapt their diplomacy to local circumstances, without compromising the dignity of their distant European sponsors. They could therefore position themselves alternatively as suzerains, supplicants, or partners to indigenous rulers as circumstances demanded. As divided sovereigns used to the sharing of sovereign prerogatives with both European chartering polities and also with indigenous hosts, company-states had the constitutional capacity to negotiate bespoke bargains with local partners (Stern, 2011). This capacity for localization was a direct consequence of the company-states’ hybrid status. It enabled them to mitigate the otherwise forbidding transaction costs inherent to cross-cultural trade, by splicing together customized authority arrangements with hosts to codify and enforce the company-states’ commercial privileges. This distinguished them from other European institutions dedicated to overseas expansion, and advantaged them as mediators of cross-cultural commerce and diplomacy.

The kings of Portugal, France, Denmark, and elsewhere sought to emulate the company-state form, but without success. Although these rulers were strongly attracted by the prospect of private finance funding their royal geopolitical ambitions, they were unwilling to delegate substantive control to private investors. Not surprisingly, these private parties were wary of investing under these circumstances. Those that did quickly came to rue their decision, as they were expropriated, or the ventures failed. Rather than hybrid private-public actors with the particular institutional strengths of company-states, the various generally short-lived French, Danish, and Portuguese ventures were overwhelmingly funded and controlled by the sovereign.

Thus Portuguese Jewish converts were “incentivized” to invest in the king’s Brazil Company with the threat of the Inquisition if they did not. Shareholders had no control over the company, which paid only one dividend before it was wound up (Boxer, 1959: 207–208; see also Disney, 2009: 153). The *Dansk Ostindiske Kompagni* was founded in 1616, but was severely undercapitalized, did not have the treaty-making authority of the EIC and VOC, and soon fell into near-complete dependence on the Danish king (Prakash, 1998: 18; Wellen, 2015: 446). The first French East India Company formed in 1664 was tightly controlled by royal officials, its creation “owed little to independent initiative from merchants, but was rather the project of the state minister Jean-Baptiste Colbert” (Hodges, 2019: 290–291). French kings promised investors in several chartered companies a guaranteed monopoly on foreign trade, investor control of management, security of capital, limited liability, and the ability to sell their shares to third parties at will. In short order, every single one of these guarantees was violated. The French companies were such an unattractive investment prospect that nobles who were assessed fines were able to discharge their penalty by buying shares instead (Heijmans, 2019: 109–111).

Wielding sovereign powers equipped company-states with the coercive power necessary to establish and enforce their monopolies, and to muscle in on foreign markets at the expense of European and local rivals. Simultaneously, however, to stay viable company-states had to offer profit to private investors by keeping military and administrative overheads down, and attract the private working capital needed to support and sustain their far-flung operations. This combination of features made them attractive to weak European states that did not (yet) possess the institutional capacities for direct overseas expansion. But by extension, the company-states’ viability depended on the continued relative weakness of their home state sponsors, and also on the company-states’ continued ability to keep their protection overheads low enough to maintain profitability for investors. Neither of these conditions would obtain by the late 18th century.

Explaining the decline of company-states

Company-states experienced a reversal of fortunes from the late 18th century onwards. They increasingly struggled to reconcile ruling their expanding domains with turning a profit. Sovereign states, meanwhile, became much more capable at deploying military force and administering territory and people over transcontinental distances. One sort of divergence between the European and international systems, with the former a nascent monopoly of sovereign states and the latter including powerful hybrid company-states, was replaced by another: European sovereign states and extra-European colonial empires.

The WIC had always been more dependent on the Dutch state than its Eastern counterpart, both financially and militarily; all its profits and more were swallowed up by the contest with the Portuguese for Brazil (Bick, 2012; Boxer, 1957; den Heijer, 2003). The company had to be recapitalized in 1674, and was re-founded on the basis of the trans-Atlantic slave trade. It was finally wound up in 1792 with its territories being transferred to the Netherlands. By this time, the VOC too was in trouble. For most of the 18th century, the growing costs of administering its expanding territorial domains exceeded its trade revenues (Adams, 1996; Gaastra, 2003). By 1800, it was bankrupt. After the Napoleonic Wars, VOC territories formed the basis of a new Dutch colonial empire in the East, now run via a direct line of command from the Netherlands government. The EIC also had become much more preoccupied with governing than trading by this time. The company had progressively ceded authority to British imperial rulers (Dirks, 2006; Lawson, 1993). The 1857 Indian “Mutiny” was the deathblow, spurring a formal transfer of British suzerainty in India from Company to Crown. As noted earlier, while the HBC endures to this day, it lost the sovereign prerogatives that had distinguished it from a run-of-the-mill commercial company by 1870 (Galbraith, 1975; Newman, 1998).

By the late 18th century, company-states had begun to lose the comparative institutional advantages that had earlier favored them over states as agents of long-distance expansion. Company-states’ declining competitiveness was driven by two factors.

First, from the mid-18th century, some company-states increasingly became involved in large-scale territorial conquest. The resulting pressures of “military fiscalism” (Bayly, 1998: 29) forced company-states such as the EIC and VOC to mobilize larger armies, and to develop more intrusive and extractive methods of revenue extraction than before. This eroded their profitability, as the costs of territorial administration came to exceed the revenues from conquest. Second, over the 19th century, administrative and to a lesser extent technological innovations strengthened European sovereigns’ capacities for long-distance rule. This cancelled out the earlier institutional advantages company-states had enjoyed over sovereign states (e.g. their superior capacity to manage principal-agent problems over long distances), further hastening their decline.

The balancing act between profit and protection was always a hard one to strike for company-states. For approximately the first 150 years of their existence, company-states had thrived most spectacularly in environments where transoceanic distances insulated them from the worst effects of European geopolitical competition, and where local conditions also favored either easy dominance over indigenous hosts, or peaceable accommodation under their protection.

From the mid-18th century, however, the conditions that had previously helped company-states to manage the profit-protection balance broke down. European military-fiscal pressures, initially centered on the North Atlantic, began to globalize during this period. From the late 15th century, inter-state European rivalries had always had a transcontinental dimension. But with the advent of conflicts such the Seven Years’ War and later the Revolutionary and Napoleonic Wars, these rivalries assumed a more globally pervasive and unrelenting character (e.g. Baugh, 2014). Simultaneously, the 18th century saw the decay and in some cases breakdown of major non-European polities that had previously helped guarantee company-states’ local security (Bayly, 1989, 1998). Local empires that had formerly sheltered the company-states crumbled,

leaving in their wake violently competitive environments in which company-states often jostled for survival and supremacy alongside powerful indigenous successor polities (e.g. Bayly, 1988: 7–8). The resulting intersection of globalizing European competition and disintegrating local order ramped up military-fiscal pressures on company-states, in ways that undermined their ability to balance the imperatives of profit and protection.

In the face of intensifying military-fiscal pressures, company-states from the mid-18th century shifted toward more classically “coercion-intensive” (Tilly, 1992: 30) strategies of accumulation and polity formation. This was most starkly reflected in the shifting balance in company-states’ sources of revenue, away from a predominant reliance on revenue generated from trade, and toward a greater reliance on the taxation of indigenous populations (Borschberg, 2018: 287–288). In South Asia, this centered on the EIC’s increasing reliance on Indian land tax revenues for the bulk of its income. Yet ultimately “the escalating cost of military expenditures in the Carnatic Wars, followed by the war against Mysore and a war against the Marathas, proved disastrous for the EIC and led to the British government depriving the company of its commercial independence” (Wagner, 2018: 225). In both South Asia and Java, the English and Dutch became trapped into a dynamic of self-reinforcing militarism (Gaastra, 2003; Ricklefs, 1993; Vink, 2019). Closer to the fulcrum of European great power competition in the Atlantic, the WIC had always been more vulnerable to the effects of geopolitical struggle. As a result, it had been correspondingly more dependent on the Dutch state and less commercially successful than its Eastern counterpart (Boxer, 1957: 7; Israel, 1995: 327). Protected by the ice-bound Hudson’s Bay and rid of the French after the Seven Years’ War, in the 19th century the HBC was meanwhile increasingly confronted by the American behemoth to the South. Both the Canadian colonies and the imperial government in London increasingly came to the conclusion that the company was unequal to the task of keeping British North America out of the hands of the United States (Galbraith, 1957: 342, 392; Rich, 1961: 825).

As a result, whereas their hybrid nature had previously endowed them with significant advantages, by the late 18th century, company-states were lumbered with competing and ultimately irreconcilable responsibilities of rule and profit-making. In some cases (e.g. the WIC and VOC), only bankruptcy resolved this tension. For the EIC, the company’s early ineptitude as rulers prompted scandals (such as the Bengal famine) that resulted in its creeping nationalization within a new British empire, as successive charters stripped it of its commercial monopolies, and subordinated it to direct British rule. Unable to exercise the new responsibilities of rule, the HBC had its sovereign charter rights bought out by the British imperial government.

Military-fiscal pressures from the mid-18th century forced company-states to shoulder progressively heavier sovereign duties at the expense of the profit-making activity that had to sustain them. The costs of war rose dramatically over the course of the eighteenth century and into the early nineteenth century, driven by both technological changes and also by the ever increasing size and sophistication of armies (Bayly, 1998: 30–31). The rapid diffusion of military innovations into regions beyond Europe (Bayly, 1998: 31; Lynn, 2003) moreover meant that distance no longer insulated company-states from the imperatives of terrestrial as well as maritime competition.

Meanwhile, the strengthening of sovereign states' abilities to project power on a transcontinental scale progressively corroded and ultimately eradicated company-states' reason for being. European rules could build their own empires overseas, not least because they could build on the foundations established by the company-states. Beginning from the late 18th century, and intensifying over the course of the 19th century, European sovereign states increasingly modernized and professionalized their own systems of administration in a process of "rational state-building" (Buzan and Lawson, 2015:1, see also Rubinstein, 1983; Headrick, 2010). Historian PH Vries thus notes:

The modern state with its direct rule, its monopoly of the legitimate use of violence and of taxation, that is supposed to have been so very important for European capitalism, empire building, and industry, was a creation of the nineteenth century. More than anything else, it is a legacy of the French Revolution and Napoleon.

(Vries, 2002: 111–112).

The resulting expansion in "administrative technologies" (Kaufman, 1997: 183) available to metropolitan European states greatly enhanced their capacities to undertake long-distance conquest and rule, without the mediation of hybrid polity forms like the company-states. Salaried colonial officials, recruited on the basis of competitive exams rather than through purchase or patronage, mitigated the principal-agent problems that had plagued long-distance colonization. 19th century states likewise sought to delegitimize and eliminate traditional threats to long-distance traders (principally pirates) with unprecedented resolve (e.g. Thomson, 1994; Shirk, 2017). This expansion in sovereign states' will and capacity to suppress transnational predators removed the need for private merchants to follow the company-states' expensive example in trying to internalize their protection costs through maintenance of their own armed forces. This hastened a sharpening differentiation between "private" organizations, primarily defined by their pursuit of profit, versus "public" institutions defined by their exclusive exercise of sovereign authority.

These trends did not make company-states normatively unthinkable, but jointly they did make them practically unviable, as the wave of abortive company-states in the late 19th century illustrates. In the scramble for new colonies, European rulers were again attracted by the prospect of using private capital to fund their geopolitical ambitions. In some cases, taking the early modern charters word-for-word, they tried to revive the company-state model in Africa, Southeast Asia, and the South Pacific. The results ranged from the disappointing to the farcical. The new company-states either quickly folded and within a few years were incorporated within formal colonial empires (e.g. the German African and New Guinea companies and the British East Africa Company), or lingered on as loss-making failures (British South Africa Company, Portuguese Nyasaland Company) (Cooney, 1980; Firth, 1972; Galbraith, 1974; Niel-Tomlinson, 1977; Press, 2017). None of these would-be company-states enjoyed anything like the political or military significance of their early modern forebears.

The resulting decline and eventual dissolution of company-states was hugely important. It marked a watershed in the separation and specialization of sovereign states and

profit-seeking companies, establishing in so doing a fundamental constitutive divide of the modern international system.

Conclusion

This article foregrounded company-states as pivotal agents in the emergence of the world's first truly global international system. Recognizing the company-states' central importance in driving early modern globalization is intrinsically important in bringing IR into closer conversation with historical scholarship. Beyond considerations of historical accuracy, however, what does our argument contribute more broadly to the literatures on comparative state formation, and on international systems' historical evolution?

First, our analysis both affirms and complicates scholarship stressing the primacy of competition in driving polities' evolution, both within and beyond Europe, in the early modern period. Scholars have long asserted the catalytic role of geopolitical competition in propelling convergence on the sovereign state as early modern Europe's dominant form of political community (e.g. Spruyt, 1994; Tilly, 1992; Thomson, 1994). But while gradual convergence on the sovereign state may have been the long-term result of competition within Europe, competition beyond Europe yielded very different outcomes.

Transoceanic trade and conquest presented Europeans with challenges distinct to those of domestic state formation. While managing protection costs remained a constant concern across both domains, expansion beyond Europe came with its own special difficulties. These included the management of principal-agent relations over transcontinental distances; the mobilization of sufficient reserves of "patient" capital to underwrite hugely expensive and risky colonial projects; and mitigation of the formidable transaction costs accompanying cross-cultural trade and diplomacy.

These challenges inspired a wide range of institutional solutions, from direct sovereign-state sponsored trade and conquest, to ad hoc coalitions of privateers and commercial adventurers, to the company-states. Competition beyond Europe thus catalyzed an upsurge in polity diversity, rather than its diminution. More fundamentally, the challenges of transoceanic trade and conquest favored company-states rather than sovereign states as the more effective vehicles of expansion.

For students of comparative state formation, then, our analysis underscores the need to recognize the heterogeneous character of competition across different theatres; the diverse institutional forms that European overseas expansion brought into being; and the superiority of the company-state over the sovereign state as a vehicle of long-distance commerce and conquest, at least in the medium term.

Looking more broadly to scholarship on the global international system itself, our argument affirms the revisionist sensibility of those who have challenged the "myth of Westphalia," by showing how diverse polities besides the sovereign state endured well after the supposed breakthrough to modernity in 1648 (e.g. Halden, 2013; Osiander, 2008; Nexon, 2009; Teschke, 2003). Crucially valuable though it has been, this revisionism has been necessarily Eurocentric. A consideration of the company-states conversely extends the geographical range of revisionist insights relating to the modern international system's emergence. It does so in part by emphatically illustrating that polity diversity was not peculiar to Western Europe. Rather, it was an indelible feature of the emergent

system of global inter-polity relations that took form during the early modern era. This feature moreover became more rather than less pronounced with European expansion, as diverse European polities forged alternative instruments to extend their global commercial, military, and diplomatic reach.

Our analysis of the company-states also has the potential to enrich scholarship that has taken a genuinely global focus in seeking to make sense of the modern international system's origins and evolution. Scholars writing from an eclectic range of traditions have provided IR with compelling "big picture" accounts of the origins of the global international system (e.g. Arrighi, 1998; Keene, 2002; Anievas and Nisancioglu, 2015; Rosenberg, 1994). Their virtues notwithstanding, these accounts frequently leave the institutional mechanisms that mediated early modern globalization either unspecified or reduced to mere superstructure, epiphenomenal to larger macro-processes such as the expansion of international society or the logic of uneven and combined development. Within the same vein, historical materialist accounts often revert back to a variant of now discredited notions of European military superiority in their origin stories of global capitalism.

By contrast, the theoretical dividends entailed in a focus on the company-states are manifold. In telling the story of the company-states' origins and worldwide spread, we help to explain the "how" of early modern globalization. Distance and cultural difference, and the forbidding protection and transaction costs they brought with them, posed enormous barriers to the formation of a durable worldwide system of inter-polity relations in an era before the advent of modern communication and transportation technologies. Accordingly, the puzzle of how the global international system came to be cannot be resolved by exclusive appeal to macro-structural historical forces. Nor can it be convincingly rendered through more traditional perspectives, which privilege the sovereign state as the prime mover of modernity. Instead, a more focused institutionalist perspective is necessary—one that recognizes the uniquely versatile character of company-states, as the corporate agents most widely responsible for bringing the early modern global international system into being.

Finally, our analysis contributes directly to efforts within Global IR to de-center the European experience, and enlarge our conceptual horizons by exploring the broad range of politics and international systems beyond the West. A burgeoning field of study has profoundly enriched our understanding of non-Western international systems (e.g. Crawford, 1994; Deudney, 1995; Neumann and Wigan, 2018; Pardesi, 2019). Nevertheless, with rare exceptions (e.g. Schulz, 2019), these analyses have generally considered these systems in isolation, as self-contained regional orders separate and distinct from the Westphalian sovereign state system. Though such an approach has helpfully unsettled earlier tendencies to universalize from the Western European historical experience, it has often come at the expense of more sustained efforts to examine the increasing relationality and entanglements between Western and non-Western international systems from the early modern period onwards.

Conversely, a focus on company-states goes a long way to addressing this lacuna, because company-states were the central institutional mediators of Europe's relations with Africa, Asia, and the New World for the first few centuries of globalization. Company-states were forged in the context of a European political order populated by a

multitude of polity forms besides the sovereign state. The requirement that company-states adapt to heterogeneous conditions in host polities from around the world, posing as suzerains, supplicants, or partners as local circumstances demanded, then further amplified polity diversity. Company-states emerged as the most important inter-regional “bridge-builders” between formerly separate regional Western and non-Western international systems. It was the company-state that was therefore most responsible for expanding interaction between regional orders, and in helping to stitch together the world’s first genuinely global international system.

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