Did colonial powers economically exploit their colonies in the long nineteenth century?

The expansion of imperial control over far-flung parts of the globe did not by any means share a common pattern. However, at least for British imperial acquisitions, economic interests were extremely powerful in demanding formal political control. It is unsurprising to find therefore, that Britain at least looked at her colonies always with an eye as to the material profits which could be drawn from it. As Jules Blois said in 1903 'The Englishman hasn't the false pretension to be loved; he wishes to be comfortable and to "make money". His goal has been attained.'[1] Certainly, this had been the traditional British approach to empire, and even Adam Smith acknowledged that 'The maintenance of the monopoly has hitherto been the principal, or perhaps more properly, the sole end and purpose of the domination which Great Britain assumes over her colonies.'[2] The material profits to be made by investment abroad were therefore all the more, given the stability which the extension of British law gave to ensure that investments would be more secure. British overseas investment, which was already £110m in 1830 and £260m in 1854, expanded 14-fold between 1854-1914, while France saw her portfolio investment rise 20 times, though from a very small starting base of £98m.[3] Not only this, but the geographical locations covered by the British foreign portfolio changed from 66% of funds being invested elsewhere in Europe in 1830 to 5% by 1914, and from 2% in the empire in 1830 to 46% in 1914.[4] This clear imperial preference contrasts strikingly with the attitude of the French investor, whose reaction to the acquisition of empire was invariably apathy, seeing the greater profits to be made elsewhere. British colonies saw large amounts of British capital investment, where French investors preferred consistently to place their funds in Eastern Europe, Russia and the Balkans. To illustrate this, the French laid 96% of their foreign investment portfolio in 1851 in Europe and the Mediterranean. The geographic change was hardly as noticeable as Britain's, with 58% still in the Europe/Mediterranean region in 1914 - though two thirds of this was concentrated in Central and Eastern Europe. French colonies picked up just 9% of French portfolio investment by 1914.[5]

Yet although British money did appear to be more consciously directed towards areas of British control, it remained the case that a substantial amount was not in countries controlled directly by London. As Robinson and Gallacher stress, between 1815 and 1880 £1.187bn of overseas credit had been accumulated, of which only one sixth was in the Empire.[6] Canning mentioned in 1824 that 'Spanish America is free and if we do not mismanage our affairs she is English.'[7] Certainly the size of Latin America in the British portfolio was considerable, with it still making up almost a fifth of overseas investments by the outbreak of the First World War. The United States alone accounted for another fifth of this investment. However, 37% was placed in the white-empire Dominions of Canada, New Zealand, Australia and the Union of South Africa, where potential profits remained higher than they could have been in the United Kingdom itself. Stocks in white-empire projects e.g. railways, performed better than domestic investments before the year 1880, though the returns were worse afterwards. Indeed it has been suggested that the profitability of overseas investment may have caused a slow-down in the British economy due to the lack of capital placed in the domestic economy.[8]

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[1] Betts *Assimilation and Association in French Colonial Theory 1890-1914* p.44
[2] Cain & Hopkins: *British Imperialism: Innovation and Expansion 1688-1914* p.234
[3] Kenwood & Lougheed *The International Economy 1820-1990* p.30
[4] Kenwood & Lougheed *The International Economy 1820-1990* p.30
[5] Kenwood & Lougheed *The International Economy 1820-1990* p.32
[6] Robinson and Gallacher *The Imperialism of Free Trade* EcHR Aug 1953 p.4
[7] EcHR Aug 1953 p.8
[8] Kenwood & Lougheed *The International Economy 1820-1990* p.36

Investments were however, complicated by the fact that in many parts of the under-developed world, especially in Asia, trade relations were strained by the drop in the value of silver. The decline in the value of silver-backed currencies made products from India and Asian colonies very cheap while reducing the market for imports of industrial goods. Banks and governments did manage to create some innovative solutions to this difficulty, some of which have remained until the present day. Stabilisation of central bank arrangements and adoption of the gold-standard allowed the metropolis to circulate its own domestic currency in colonies, to the permanent benefit of the metropolitan economy. Monetary arrangements could cream off some the bank holdings and force them to be held in the colonial power's central bank, as for example, the Banque Centrale de l'Afrique de l'Ouest was forced to hold reserves in the Banque de France, and the Bank of the Belgian Congo assigned the profits of coinage to the colonial revenue service. However in the long term, colonies were often prepared to suffer this exploitation of their coinage, since investors feared investing in countries with silver currencies, since the returns would be made in a depreciated currency. Adoption of currencies backed by gold allowed for faster and more sustainable growth into the future.

Foreign investment was also invariably used for public infrastructure projects. Two-thirds of British investment world-wide in the second half of the nineteenth century went into funding railway projects either directly or via government securities, with another 5% into ports & roads and a fifth into other public utilities.[9] Direct investment into commercial or industrial ventures only totalled 30% of investment, despite the profits that could be made from primary produce. The expansion of African and Asian railways was often carried out under Government guarantee, and in less secure parts of the world, this added extra security to an already lucrative market. Railway companies in North America and to a lesser extent in Europe were highly valued, and even in Asia they soon had an impact in increasing the amount of trade in goods. Indian railways carried 4.75m tons of freight in 1873 - yet by 1914 they carried 81m tons, 16 times as much. However in almost all parts of the globe, European money - the overwhelming majority of which outside Europe was British - was directed towards government securities. In India, 49% of foreign investment was in the hands of the government and a further 37% invested in private railways. The government's share in the Straits Settlement, South Africa and West Africa - at 36%, 28% and 29% respectively, formed the largest single sector of investment. In China an amazing 84% of foreign investment was in government hands. [10] However, the remainder showed the diversity of the various colonies, inasmuch as many European colonies began to specialise in individual primary products which could gain a ready market in the developed West. In South Africa and Malaya, the diamond and tin mines made up a big selection, while in India and China plantations for various agricultural produce was more valuable.

Although the industrialising Dominions made up a very great share in British investment abroad, in the 50 years up to 1914, 25% of British foreign investment went to Africa and Asia - Asia alone received 14% which was 1% more than Europe, while Africa received the same as Australia.[11] This total for Africa and Asia was more than the sum invested in the United States of America, and although the Americas did account for a majority of British investment, it is clear that trade with underdeveloped regions of the world was of vital importance in the British portfolio. It appears also that Britain had a much greater commitment to the future of her own colonies than did France or Germany in their respective African and Asian colonies. Britain certainly did also make substantial investments in Dutch East Indies and in China, parts of Asia

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[9] Latham *The International Economy and the Undeveloped World 1865-1914* p.56
[10] Latham *The International Economy and the Undeveloped World 1865-1914* p.60
[11] Latham *The International Economy and the Undeveloped World 1865-1914* p.51

outside their imperial sphere; however only 16% of British Afro-Asian investment was not in British colonies. Even excluding South Africa, it is still noticeable how British investment in her West African colonies of Gold Coast, Nigeria, Sierra Leone and Gambia was one and a half times as much as the French put into the whole of their African possessions in the years to 1914.[12] In contrast, 41% of French investment and 53% of German investment in Africa and Asia was located in countries outside their imperial control, principally in China and South Africa.[13] This is not surprising seeing the poverty of the French colonies in Africa, and even the German ones as well, but it nevertheless represents far less confidence in the future of French colonies as going concerns. However, it also represents the fact that the relatively new acquisition of these colonies meant that the colonies had only recently begun to have the stable government which allowed for greater investor confidence. The large shares of European investment which went to the governmental sector in the British Dominions such as South Africa and India demonstrate that given time this could develop. However the large amounts of French and German capital going into Russian government projects and to a lesser extent into the Chinese government also demonstrate that this was a preferred area for private investment.

To some extent, the relative French and German neglect of their colonies was also due to the limited capacity for these colonies to produce profitable products for trade, and therefore less capacity to be able to afford European imports. It is noticeable that the two largest recipients of British investment to Africa and Asia were India & Ceylon, which took £380m (37.4% of the country's total Afro-Asia investment) and South Africa, which took £318m (31.29% of the total).[14] These countries, unsurprisingly also offered the greatest range of goods for European consumption, and to a lesser extent for the consumption of the countries and colonies surrounding them. Yet trade considerations also could be seen to have had a profound effect which could over-ride the lack of confidence in a particular area. Rhodesia had already acquired £51m worth of investment by 1914, and with 5.01% of the total, was the second-largest recipient of British money in Africa. This was thanks solely to the discovery of potentially highly-lucrative diamond and gold mines, and the speculation in London over the profits which investment could bring in at an undisclosed point in the future. Yet even without the distorting effect of stock-market speculation, the expansion of the trade of all parts of the world did manage to create an increased demand for all colonial products, a demand which was met by European investment in the means for production. The global nature of trade can be seen from the increased re-export trade carried on by European markets, of which London remained the most important. British re-exports to USA increased tenfold from £3.1m in 1873 to £30.2m in 1913.[15] This was helped even further by improvements in transportation technology, such as the opening of the Suez and later Panama Canals. The dominant position of British shipping in international freight transport was enhanced initially by the ability thanks to Suez to take more produce for less freight rates without the need for further investment in new ships. In 1880, 80% of Suez Canal tonnage was British, a proportion which declined only very slowly due to foreign competition - in 1890 it was still 76% British and in 1910 62%.

Under the influence of free trade, it was clear that from the 1860s onwards, the explosion in the volume of international trade was considerable, and beneficial to all concerned. Yet it was clear also that the greatest beneficiaries were the colonial markets rather than the domestic economies who were nominally in charge of the process. Where Britain's exports increased by 23% over the period from 1880-1900 and France's by 18% over the same period, their colonies did far better. Indian exports increased from $336m in 1883 to $792.4m in 1913, a growth of 135%. The Straits

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[12] Latham *The International Economy and the Undeveloped World 1865-1914* p.53
[13] Latham *The International Economy and the Undeveloped World 1865-1914* p.53
[14] Latham *The International Economy and the Undeveloped World 1865-1914* p.53
[15] Latham *The International Economy and the Undeveloped World 1865-1914* p.44

Settlement saw its trade increase by 164%, while Indo-China recorded a 326% growth. Due to a lower starting base, African exports grew by an even larger amount over this period. Nigeria saw its exports grow by 318% and South Africa by an astonishing 693%. French colonies also saw their trade increase, with the AOF as a whole seeing its exports grow by 510%.[16] Yet free trade also allowed as-yet independent nations to share in this export boom, such that China increased its exports by 209% and Siam by 438% between 1883 and 1913. Per capita income grew strongly in the period between 1860-1913, with the Dutch East Indies growing by 70%; India 36%; and China 7%. The rapid rises in population were the reasons for them lagging behind the World average per capita growth of 122%.

However, the developing sophistication of the international economy meant that countries no longer needed to be self-sufficient in all the products which they needed, and could instead concentrate on the sectors where they had a competitive advantage - either because of their natural resources or through industrial progress. The institution of free trade strengthened this ability for colonies to expand their export markets in whichever direction they were able. Yet this meant that for most non-industrial countries and colonies that their export markets polarised towards ever-greater production of a smaller number of products. The percentage of exports accounted for by the Largest Product gives a comparison, especially over the period of time between 1860-1900. In plantation economies, this figure increases rapidly , such that in Algeria, the figure for the largest product - in this case wine production - increased from 17% of exports in 1860 to 32% of exports in 1900, a rise of 15 percentage points. The figure for metropolitan France is a fall of 15 percentage points, as France industrialised and diversified. The same pattern can be seen in independent states such as Brazil, which increased the importance of coffee as an export crop from 53% to 60% and Siam, which increased the importance of silk from 69% of exports to 71%. These marginal increases were slight, however, when compared to the deliberate actions of colonial powers, who made the importance of rice production in Egypt climb by 41 percentage points to 78% of exports, and in Senegal where the French increased groundnut production by 40 percentage points to 71% of exports.[17] In this way, colonies were genuinely made dependent on the international economy for their very survival, while also being held ransom to the continued international demand for their principal products. Industrialising countries saw the reverse process, with the UK diversifying such that only 12% of her exports were dependent on her largest product - cotton - where 17% was the previous figure. The USA's diversification was all the more speedy, with a drop of 43 percentage points for the most important export. Industrialising colonies also followed this route, with Canada diversifying by 21 percentage points, the same figure for British India.

That a nation was diversifying did not in any sense imply that it was self-sufficient, and as Joseph Chamberlain said in 1888 'if tomorrow it were possible, as some people apparently desire, to reduce by a stroke of the pen the British Empire to the dimensions of the United Kingdom, half at least of our population would be starved.'[18] However, it did mean that the UK was able to concentrate on supplying the industrial finished products she was good at and to bear the rising import costs for the primary products and foodstuffs she needed - and to be able to trade at a loss with the industrialising countries she was now competing with. Britain's trade balance is therefore extremely skewed against the industrialising world - she had a £50m annual deficit in trade with the USA, £45m with Europe and £25m with Canada. The £8m deficit with South Africa more than accounted for the modest surplus with her under-developed African colonies. Instead, it was principally the enormous £60m surplus in the Indian trade and to a lesser extent

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[16] Latham *The International Economy and the Undeveloped World 1865-1914* p.60
[17] Hanson *Trade in Transition* p.39
[18] Bernard Porter: *The Lion's Share* p.80

the £13m in the Chinese trade, which allowed Britain to remain a free-trading nation at all.[19] If Britain had not had such large surpluses with Asia, she would have been unable to subsidise the costs of free trade in a protectionist Europe and the USA, and instead taken up protectionism. Auguste Billiard's quip in 1899 was true for France, whose colonies were invariably economic winners for French industry. ' That which it behoves us to introduce into our colonies are neither philosophical theories nor social institutions of a contingent value, but simply our manufactured products.'[20] However, it could not work for Britain, whose commitment to free trade meant a loss to most white countries and colonies.

The value of export markets in the colonies remained that cultural and historical affinities made them more impervious to foreign competition even if there was officially free-trade. Thus British trade with India, South Africa and Australia became more and more important as British trade was increasingly excluded from the USA and Europe due either to protection or the competition caused by home producers. A Royal Commission in 1886: 'We are disposed to think that one of the chief agencies which have tended to perpetuate this state of things is the protectionist policy of so many foreign countries…The surplus production which cannot find a market at home is sent abroad, and in foreign markets undersells the commodities produced under less artificial conditions.'[21] Admittedly therefore this was one of the reasons why Britain invested so much in non-imperial countries - foreign investment allowed the creation of factories in protectionist countries in order to circumvent tariffs. However, free trade did not close Indian markets for instance, eto trade with others - Indian exports to the UK declined from 54% in 1870 to 25% in 1910, while Europe's share rose from 9% to 31% - Indian cotton not so much in demand in Lancashire cotton mills. Indian imports from UK declined from 84% in 1870 to 62% 1910 (Europe's increase from 2% to 15%).[22] China's imports also had predominantly come from Britain or British colonies. 1868 - 33% from UK, 36% from India, 21% from Hong Kong (total 90%). However this slowly changed with the entry of competitive industrial economies. In 1888 24% of Chinese imports came from the UK, 55% from Hong Kong, 5% from India (total 84%); by 1913 17% came from the UK, 29% from Hong Kong, 8% from India (54%).[23] Instead, the late nineteenth century saw a slowing of the rate of demand in Europe for colonial primary products. This especially hit the colonies with which she had a trade surplus, since these were also the areas which were growing more dependent on a single product. West Africa for instance was dependent on exports of primary produce such as cocoa and palm oil. Although Joseph Chamberlain said 'if tomorrow it were possible, as some people apparently desire, to reduce by a stroke of the pen the British Empire to the dimensions of the United Kingdom, half at least of our population would be starved'[24] - it was no longer the case that Britain's food arrived from her empire. From the 1860s, the application of new world-wide systems of food transport and technology allowed cheap cereals to flood in from the USA and Russia. Overproduction by colonial and non-colonial countries alike drove down the prices of almost all commodities except for rubber and tin. Coffee consumption in Britain suffered an absolute decline after 1860 - between 1860-80 a 25% per capita decline, and 1880-1900 a 24% decline.[25] This matched a decline in the growth of sugar and tea consumption. Tea worth £25.7m was exported in 1840; £71.9m in 1900 - a 179% increase. However, the price of tea per hundredweight slipped from 175 shillings in 1840 to 80 shillings in 1900.[26] Competition for Britain's share of the textiles market reduced her demand for raw cotton. Cotton consumption increased 1826-60 by 346% in

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[19] Latham *The International Economy and the Undeveloped World 1865-1914* p.69
[20] Betts *Assimilation and Association in French Colonial Theory 1890-1914* p.134
[21] Bernard Porter: *The Lion's Share* p.79
[22] Latham *The International Economy and the Undeveloped World 1865-1914* p.76
[23] Latham *The International Economy and the Undeveloped World 1865-1914* p.90
[24] Bernard Porter: *The Lion's Share* p.80
[25] Hanson *Trade in Transition* p.101
[26] Hanson *Trade in Transition* p.78

the UK, 425% in Europe, 829% in USA. In the 30 years which followed, this rate of increase had slipped to 77% in the UK, in Europe by 259% and in USA by 337%.[27] In this context, imperial trade ties to Britain would have reduced a country's potential to expand its export market - a fact not in question due to the principles of free trade, but which was threatened after 1880 and the creation of further protectionist sympathy in Britain. The impetus for free trade had come from Britain after 1840, as she began to exhaust her own supplies of materials such as copper etc., requiring a higher amount imported from abroad, as well as the adoption of free trade allowing exports from non-Empire areas in competition to e.g. Jamaica sugar. Therefore it can be seen that growth rates for exports from less-developed countries was often higher pre-1860 than it was afterwards, as well as Britain taking in a much lesser percentage of primary products. As protectionism arrived, this was no longer the main issue - yet nevertheless an international economy had arrived which did benefit all concerned.

[27] Hanson *Trade in Transition* p.72