Agency, Economy, and Sovereignty on the Periphery of Empire: "Capitalisms" and Interactions Surrounding the Establishment of a British Exchange Bank in Bahrain, 1900-1920

Jesse James Pisanelli

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By: Jesse James Pisanelli

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Dr. Andrew Ivaska

________________________________ Examiner
Dr. Elena Razlogova

________________________________ Supervisor
Dr. Wilson C. Jacob

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____
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Abstract

Between 1900 and 1920, there was a tense debate surrounding the establishment of a British bank in the Persian Gulf with special attention paid to Bahrain - a small but significant location in terms of grand strategy and commerce. After years of multilateral negotiations between a plethora of variegated groups and a messy ensemble of intertwined and discrete interests – a branch of |Eastern Bank Ltd. was established on the island. The purpose of the bank was ostensibly to facilitate trade between Britain and British India, as well as global trade passing through the Western Indian Ocean. However, what this paper shows is that the establishment of this bank is intimately tied to the processes that underpin British Imperial consolidation in the Gulf via a slow but steady encroachment on other modes of economics, exchange, and life. Through understanding British concerns and vantage point, and thinking economy and political economies of the region through a historical lens, we can begin to see capitalism as a concept, and some of the assumptions associated with it, dilate and dissipate. The arrival of the bank does not represent the arrival of capitalist modernity or embody the ideals of economic liberalism - it is first and foremost a tool of empire, employed at a moment where control over capital and commodity flows are quickly becoming the conditions of possibility for political control.

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Introduction

Historiography

For centuries, if not millennia, the Indian Ocean littoral has been imagined and navigated as an interconnected arena. As Britain and other imperial powers expanded their holdings and gained increasing interest in the Gulf from the seventeenth to the nineteenth centuries, British officials such as John Lorimer and Arnold T. Wilson were among the first to write "official" histories of the Persian Gulf and the Trucial States. These studies surveyed the area in different ways, documenting the ways in which politics operated in the region while catering to, as well as being involved in, British imperial policymaking.[1] As geopolitical and intellectual currents shifted in the lead up to the twentieth century, processes of state formation and a changing imperial order meant that the way that the region was "thought", also changed. Civilizational and racial discourses, as well as geopolitical re-ordering of the Middle East and Arabia, made it so that the newly formed 'nations' were thought and characterized as part of "Islamic Society".[2] This production occurred in the context of a "new awareness" of an object called "the Orient" stemming from shifts in the balance of power toward Northwest Europe. Concurrently, the discovery and translation of texts from Sanskrit, Arabic and other "Oriental" languages aided in the production and iteration of this awareness, a production that supported a representation of the Orient as a relic of the past.[3] This relegated the dynamic and multifaceted worlds across the Indian Ocean to an overarching, and stagnant or shrinking role in the historical process.[4] This

[1] See J.G. Lorimer, *Gazeteer of the Persian Gulf, Oman and Central Arabia: Part 1,* (Calcutta: Superintendent Government Printing, 1908); Sir Arnold T. Wilson, *The Persian Gulf,* (London: George Allen & Unwin, 1928).
[2] H. A Gibb and Harold Bowen, *Islamic Society and the West: A Study of the Impact of Western Civilization on Moslem Culture in the Near East,* (New York: Oxford University Press, 1950), 19-24.
[3] Edward Said, *Orientalism* (New York: Vintage Books, 1978), 41-43.
[4] Israel Gershoni, Amy Singer, and Y. Hakan Erdem eds., *Middle East Historiographies: Narrating the Twentieth Century,* (Seattle: University of Washington State Press: 2006).

narrative puts forth an image of an autarkic and command economy in which mobility of trade and peoples was greatly restricted within and outside of the imperial borders. In contrast, by describing a system characterised by a politics of urban elites acting as intermediaries between the central state and urban centres and their hinterlands, the now classic work of Albert Hourani opened up a space for further examination of life on the ground. Scholars in the following decades would navigate and elucidate a world rife with exchange and mobility, characterized not by mere layers of sovereignty, but complex webs of interaction and negotiation which connected some of the most peripheral regions, peoples, ideas and things to the global, beginning no later than the early modern period.[5]

In the mid twentieth century, the discourses of area studies secured a foothold in American universities. Senior orientalists were 'imported' from Europe and took up residencies at American Universities in the postwar era, and would aid in the structuring of the disciplines in terms of "areas" – the newly mapped theoretical territories of culture, formerly seen as an all-encompassing way of life of a people or nation, and systemization of these disciplines - the political, economic and social systems. In terms of the most consequential example of this

[5] Hourani debunks the nationalist view claiming that Turks wiped out Muslim society thus stunting its modernization, or, what would have been a congruent European path. His analysis elucidates the conjoined advancement of Arabs and Turks in the political and social realms, something that persisted and might not have if not for the ottomans. Islam was spawned by Arab tribesman, but flourished in the great cities across "Middle Eastern civilisation" and adapted to the customs of these civilisations after the establishment of the caliphate. This new dynamic reinserted the Arabs into the history of the Ottoman Empire through their intermediary roles. These groups of intermediaries or notables included: 1. The Ulama, religious authorities that could confer the legitimacy of the state's acts. Their authority and thus claim to a parcel of sovereignty came from ancestry and sometimes even grave sites of saints, something that the state would not lay claim to. They built up wealth with their connections to bourgeoisie and regulation of waqf (endowments) 2. There were the leaders of the local garrisons. These served a disciplining and political function in the mustering of troops and the disciplining of bodies 3. The secular notables. Rooted in political or military tradition, or in the control of agriculture of waqf, this could allow them to control supplies into the city and thus exacerbate or quell discontent (whichever suited their interests). For more on this see Albert Hourani, "The Ottoman background to the modern Middle East," in *The Emergence of the Modern Middle East*, (Berkeley, University of California Press, 1981).

transformation, economics, the traditional study of prices, markets (not necessarily in the abstract sense of the word) and business cycles were integrated and abstracted into an object of knowledge termed the economy or economic system (in political science the equivalents would have been law, legislatures, behavior of parties and voters integrated into the study of the political 'system').[6] According to Timothy Mitchell, these changes "can be related to the professionalization of the Social Sciences" in the mid-twentieth century, "including claims to scientific authority that can be built upon exclusive territorial control of new theoretical objects…but also contributed to a broader political and intellectual change"; the "nationalization of social knowledge".[7] Nationalist histories focus on the origins of nationalism in the eighteenth and nineteenth centuries and its colonial origins, but omit the fact that the "nationalism" and the academic representation of the world as a series of nation states are mid-twentieth century developments. [8] With the collapse of European empires and the development of a new liberal order of nation states and American Empire characterized by nominal sovereignty, the globe was now seen as a post-imperial level playing field of nation states, and each "geographical unit was imagined, in turn, to possess an economy, portrayed in terms of the novel statistical trope entitled

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[6] Timothy Mitchell, "Past and Future of Social Sciences", In David Szanton, *The Politics of Knowledge: Area Studies and the Discipline*, (Berkeley: University of California Press. 2004), 81-83; For more see Chris Hann & Keith Hart, *Economic Anthropology: History, Ethnography, Critique,* (Polity Press. Cambridge. 2011), Michel Callon Ed. *The Laws of the Markets,* (Blackwell Publishers. Oxford. 1998), 1-57, 244-269.

[7] Timothy Mitchell, "Past and Future of Social Sciences", 83.

[8] Timothy Mitchell, "Nationalism, Imperialism, Economism: A Comment on Habermas," *Public Culture*, 1998, 417-418. Theories attempting to trace the colonial origins of modern constructs of race and gender have been elaborated by Benedict Anderson, Anne Stoler and many others. Benedict Anderson traces the rise of modern nationalism to the fear of contamination of the Creoles ("whites" who could never quite become Europeans) of South America and the Caribbean mixing of populations. Out of this emerged the "desire to fix political identity in the racial categories of modern nationalism." Ann Stoler analyses Dutch settlers' in the East Indies anxious to secure their identity in relation to both those of mixed blood and poor whites, developed a racial sense of class and gender identity. This colonial racism was reimported into Europe and "reinscribed in the emergence of a bourgeois, nationalist sense of self." Rather than tools misused by elites, imperialist nationalism and racism were essential to the way the bourgeois European male negotiated the anxieties of his modern class and gender identity.

national income."[9] The social sciences would be reorganized around objects of knowledge that assumed "the structure of the national state as their universal social template." This would in turn divide and restrict collaborative studies, and thus area studies emerged as a remedy to this professionalization of the social sciences. This interdisciplinary initiative was not simply a reaction to Cold War Politics, but was part of an attempt to create a larger "sovereign structure of universal knowledge." This attempt at bridging the disciplines did not bring about an equitable distribution of agency in the writing of history, but erected new borders elaborated in terms of development rhetoric rather than civilizational.

Beginning in the late 1970's and 1980's, after the publication of Said's Orientalism, Foucault's *Discipline and Punish,*[10] the rise of "new social history" and the cultural turn, and the emergence of postcolonial theory and the subaltern school, Middle Eastern historiography began to shift toward emphasizing representation, narrative and meaning.[11] Although Kenneth Cuno and Ariel Salzmann's pieces do not fall squarely into this category, they are important works that warrant discussion. Continuing in the tradition of political economy and brooking the historiographical trend, in 1984 Kenneth Cuno published "Egypt's wealthy peasantry, 1740-1820: A study of the region of al-Mansura". In this piece Cuno traces a continuity in the landholding patterns of wealthy peasantry, a group that he showed had a "status" consciousness as a group and had held their prominent positions prior to the arrival of Mehmet Ali's or Western reforms. He shows that the system and regulations surrounding land tenure resulted in the

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[9] See Ibid, 84; Mark Mazower**.** *No Enchanted Palace: The End of Empire and the Ideological Origins of the United Nations,* (Princeton: Princeton University Press, 2009); Carl Schmitt, *The Nomos of the Earth in the International Law of the Jus Publicum Europaeum*, (Telos Press: New York, 1950).

[10] These were both published in the late 1970's, Foucault's work would be deployed in *Orientalism* by Said, who was instrumental in introducing Foucault's theories to the discipline of history.

[11] Gershoni, Singer, and Erdem, ed., *Middle East Historiographies,* 131.

creation of market in land where it had previously been assumed that land ownership was a privilege enjoyed only by the state, and that Mehmet Ali's reforms did not change the resource distribution, but simply registered the lands to those who already had control over them. This study calls into question much of the prior historiography embedded in orientalist or 'post'-orientalist tropes characteristic of area studies, a field that was still enmeshed in orientalist discourse.[12] By showing continuity with the eighteenth century and the development of an organic market in land, notions of external forces "impacting" the region are replaced with a story of appropriation and adaption of these externalities. The idea that there was an "aversion" to competition is also shown to be a fallacy. The world system begins to appear as a longer continuous process and history of interaction between localities and global forces that began prior to and will endure after to the collapse of modernity and western imperialism. [13]

In her 1993 piece, Ariel Salzmann situates the eighteenth century movements toward privatisation and decentralisation in the Ottoman Empire within a larger trend that is being

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[12] He is one of the first to show, as Ariel Salzmann does later, that land reforms sustained the old power order, diffusing the locus into interrelated loci of power, allowing the weakened state to knit a fabric binding the core with the periphery and laying the groundwork for the centralizing project that would begin in 1812.

[13] Kenneth Cuno, "Egypt's Wealthy Peasantry, 1740-1820: A Study of the Region of al-Mansura," in *Land tenure and Social Transformation in the Middle East,* ed. Tarif Khalidi, (Beirut: American University of Beirut, 1984), 324. Wealthy peasant families occupied prominent positons as intermediaries between small land holders and landless peoples and these elites (al-dhawat). This shift in production patterns led to the rise of power of sate functionaries in the villages in the nineteenth century. However Cuno shows increased concentration of lands in the hands of families was prevalent prior to the arrival of Mehmet Ali. Economic patterns stemming from global economic shifts resulted in social and economic inequity in the 18th century as well as forms of futures contracts played an integral role in the structure of the local economy and in rural-urban relations in Egypt prior to the 'formal' arrival of western influence. There was much trade between rural and urban centres and the materials used in production of goods were often imported from abroad, thus the villages were not cut off from the global as some historians suggested. Crop production during this time may not have been monoculture, but was not subsistence farming either. Cuno calls it "market oriented production". Land had been treated as property prior to "official" legislation in 1858, tenure was in essence contractual ownership- use as long as one could pay taxes on it. Land was inheritable and transferable. In addition, rising to the level of sheik rested on being part of wealthy village families.

played out on a global level as necessary precursors to 'modern' state formation.[14] Like other prominent historians of this time, they begin to see the writing of history as contingent on one's current vantage point. She draws on similarities between contemporary models of corporate and industrial organization, showing that rather than seeing this process as one that is necessarily in decline, "one should measure and gauge the political [coercive] power of the State that permeates and oozes from its decentralized institutional framework."[15] Her study paints a picture of a diverse, multifaceted, messy and heterogeneous Ottoman world, with constantly shifting hierarchies, production centres, payment methods, speculation patterns, and decentralized advances in economic, political and social spheres. She shows how Ottoman regulatory, interventionist and anti-accumulationist policies were never as consistent and enforceable as many scholars who apply feudal or Asiatic (world systems) models to the state contend, and the reliance of the Capital on tariffs and trade tax, monetization of dues and taxes and commercialization all came about in conjunction with state policies. The development of legal-administrative centralism was something that was more enduring in terms of state formation than the centralized military-administrative hierarchy. The continued shifting of military personnel and the social permeability of the power structure led to a redistribution of the political and military hierarchy. The state would now engage in further negotiation with its population across 'classes', allowing for the establishment of unofficial "power checks".[16]

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[14] Ariel Salzmann, "An Ancien Regime Revisited: "Privatisation" and Political Economy in the Eighteenth-Century Ottoman Empire," *Politics and Society* 21 (1993).
[15] Ibid, 395.

[16] A shared early modern pattern saw central authorities loosening the leash on private accumulations in a more integrated global system, this led to the states reliance on secondary powers for securing loans and networks in order to maintain their territorial integrity and dynastic. The reality of "privatisation" was prevalent across Europe, but effected different states in different fashions. The Ottomans had to rely on loans based on contract, the English would develop (partially independent of government) a central bank, and the French formed the "*ferme generale*". However, unlike in France, the system did not result in the deposition of the sovereign. Post-1770 the lack of means

Concurrent to developments in Middle Eastern historiography, South Asian scholars from within or outside the Subaltern tradition began to describe a world (especially those focused on the early modern) of movement, trade and interactions of goods and peoples centered in the Western Indian Ocean but spread all across Eurasia and Africa. The production of global, transnational, and connected histories that run contrary to narratives that use 'The West' as the locus point for research and discourse was taking shape, much of it centered around 'indigenous' capitalist relations that took shape prior to Western incursion and domination. Interconnected diasporic communities, merchant networks, and religious orders sprawled across great expanses of land prior to European imperialism.[17] Michael N. Pearson argues that the period before European arrival was a time when the Western Indian Ocean was a *mare liberum*, in which the seventeenth and eighteenth-century European "enlightenment ideals" such as free trade characterized exchange within that oceanic space.[18] The system of standardized and universalized time constructed and "imposed by the West" in the late nineteenth century could very well have been a final 'nail in the coffin' for indigenous merchant communities, who had been accustomed to a temporality not only devoid of steamships, telegraphs, and railroads, but

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of overseeing their investments along with other pressures hit both provincial and central elites, but the provincial elites, begin close proximity to the resources were able to minimize costs and exact surplus off of the producers without intermediaries. This calls into question narratives of developmental/centralizationist model of state formation and its institutionalist corollary (limited case studies prior to this). Rather than view these developments as "discrete" capacities, a comparative analysis should take into account how these institutions (coercive, administrative, and financial) were articulated in a separate sociopolitical and cultural and economic and geographic setting. It was the absence of janissary or magnate power in Syria that led Mehmet Ali to conquer Syria in 1831 and caused the ottomans to look to Europe for help, resulting in an unprecedented tariff agreements and the (free-trade) treaty of Balta Liman in 1838. From 1854 onward, the Ottoman state sought capital from external sources and was forced to compromise its sovereign claims. Under this new regime of western imperialism that Ottoman statesmen guided by the principles of modernization and centralization would see the incorporation of their economy into the market (a process that had already began), followed by multinationalization and dismemberment of the empire.

[17] See Giancarlo Cassale, *The Ottoman Age of Exploration*, (Oxford: Oxford University Press, 2010) for a description of Ottoman transoceanic naval exploration and global reach of the Ottoman Empire in an era previously characterized solely by Portuguese domination.
[18] M.N. Pearson, *The Indian Ocean* (London: Routledge, 2003), 17.

that was wholly reliant on the power of nature, be it the sun or the monsoon rains.[19] While many indigenous merchant networks were eventually relegated to more localized forms of trade or perished altogether, other more sophisticated networks (by this time composed largely of South Asians) increased their market share and created virtual monopolies in inland trade across the Western Indian Ocean, relying on indigenous systems of credit (trust) and finance to move wholesale trade with Europeans and merchants of interiors and port cities, from Gujarat and Bombay to Zanzibar and the Persian Gulf.[20] This system has been well documented by Rajat Kanta Ray and expanded by Fahad Ahmad Bishara to include Persian and Arab traders, and well into the twentieth century.[21]

It is within the above mentioned literature that I attempt to situate the process of the establishment of Eastern Bank LTD. at Bahrain. The state subsidized push for this institution representing Western modernity calls into question economic theory as well as theories of multinational banking espousing the unstoppable flow of 'capital', search for wider profit margins, or other 'market' based analysis explaining the expansion of 'Western' capitalist institutions.

The Stage

Between 1900 and 1920, there was a tense negotiation surrounding the establishment of a British bank in the Persian Gulf with special attention paid to Bahrain - a small but significant location in terms of grand strategy and commerce. The political, legal, social, and economic

[19] On Barack, *On Time: Technology and Temporality in Modern Egypt,* (Berkeley and Los Angeles: University of California Press, 2013).
[20] Rajat Kanta Ray, "Asian Capital I the Age of European Domination: The Rise of the Bazaar," *Modern Asian Studies*, 1995, 453-56.
[21] See Fahad Ahmad Bishara, *A Sea of Debt: Law and Economic Life in the Western Indian Ocean, 1780–1950,* (Cambridge: Cambridge University Press, 2017); Lakshmi Subramanian (1996) also details Arab trade in the region.

dynamics at play during this period can be characterized as a continuation of what James Onley refers to as “the protective zone of informal empire surrounding British India”.[22] Beginning in the early nineteenth century, the English East India Company and, after 1858, the British Empire-state, intermediated sovereignty via the Political Residency in Bushire. The Residency engaged Native Agents from local merchant communities to oversee imperial operations. In 1899, Viceroy Curzon recommended the appointment of a British agent at Bahrain, and the native agency was replaced with a British Political Agency in the face of changing geopolitical and international economic and financial ordering. By 1900, the Resident at Bahrain was British. Although the general perception at the time by Anglophobes in the region and those who resented British influence was that this moment marked the beginning of British imperial hegemony on the island, the interactions surrounding the establishment of a British bank on the island tell a different story.

The establishment of a British bank in Bahrain would be negotiated multilaterally between a plethora of variegated groups and a messy ensemble of intertwined and discrete interests – namely those of the Sheikh and his household, principle merchants of South Asian origin on the island, peripheral local financiers, and British State and business interests - the latter which did not operate in tandem and are layered to say the least. The purpose of the bank was ostensibly to facilitate trade between Britain and British India, as well as global trade passing through the Western Indian Ocean. In exploring these layered conversations and tensions amidst the context of local institutions and global processes, conventional and naturalizing narratives regarding Western capitalism and the some of the categories associated with this (state/nation, subject/personhood, capital, law, economy) become complicated.

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[22] James Onley, *On the Arabian Frontier of the British Raj: Merchants, Rulers and the British in the Nineteenth-Century Gulf* (Oxford: Oxford University Press, 2007), 216-217.

What is evidenced in examining the correspondences is that many of the actors were, to varying degrees, aware of the existence and efficacy of indigenous system(s) and the prevalence of an 'indigenous' economy[23], local methods of exchange and institutions, and hybrid systems which incorporated the influx of European capital into existing systems which had governed political and economic life in the region for centuries. These constituted forms of life and exchange that operated with high degrees of 'efficiency', but did not fit within the rationalized, homogenized categorization and universalising processes/projects of international ordering, modern state formation, economic and politico-legal developments, nor the goal of geostrategic supremacy amidst imperial rivalry in the region. Examining the story of the establishment of the Eastern Bank branch at Bahrain will therefore attempt to shed light on the history of banking, economy (exchange, commerce, and economic life), and sovereignty (viewed through the shifting lens of political subjects/citizens/legal persons) in the Gulf and in the wider context of empire during the early twentieth century.

The various agents - whether British colonial officials, local fishermen, British shipping interests, or members of Pan-Asian financial and legal networks or diasporic communities - were all simultaneously actors in distinct but interrelated theatres. These multiple and enmeshed theatres cannot be neatly separated or categorized, but for the purposes of this paper we regard these actors as operating within or with shifting geopolitical and financial orders, the Western Indian Ocean and pan-Asian financial and legal discourses and networks therein, British imperial linkages, and the island of Bahrain. In order to better understand the negotiated process behind the formation of the bank, it is important to sketch out these theaters, their interactions, and their effects.

[23] This was an abstract and decentralised world of economic, political, and legal discourses and representations as well as economic, political, and legal life and orders grounded in exchange relations.

Situating this project is thus not a simple task. As I progressed in learning more, it seems that fields that might not previously have been in dialogue with one another needed to be included. From historiographies describing the transregional nature of the Gulf will involve addressing broader Middle Eastern history, global imperial histories, and connected histories of Eurasia - to nineteenth and early twentieth century developments in political and economic thought underpinning the burgeoning international system of nation states.[24]

Economic histories of multinational banking will often espouse a narratives which focus on strategy of banks. While they rely on different theories in their examinations, they will usually hold to a certain logic, common sense, or consciousness – that the market or economy, as it articulated in the postwar era (and thus the theories that underpin it), are the guiding forces that drive their proliferation.[25] Banks are often treated within their regional context and specificity, and as an industry in the service sector.[26] The question of why multinational banking exists also falls within this rubric, relying on the specificity of particular clients or affiliates, or relying on broader economic theory.[27] Economies of scale, product differentiation, imperfect markets with regards to information and technology, as well as government support have all been treated in economic histories of banking. However, as stated above, these remain within the rubric of specific theoretical frameworks related to that field, taking for granted many assumptions that have, for our

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[24] See Madawi Al-Rasheed, ed, *Transnational Connections and the Arab Gulf*, (London: Routledge, 2005). For more on transregional links between the Gulf and East Africa, nationalism, identity and politics see Amal N. Ghazal, *Islamic Reform and Arab Nationalism: Expanding the Crescent from the Mediterranean to the Indian Ocean (1880's-1930's),* (Routledge, New York, 2010). Abdul Sherif, "Persian Gulf and the Swahili Coast," in *The Persian Gulf in History*, ed., Lawrence G. Potter, (New York: Palgrave Macmillan, 2009); M.H. Ilias, "Malayee Migrants and Translocal Kerala in the Gulf: Re-conceptualizing the Political," in *Diaspora's of the Modern Middle East: Contextualizing Community*, ed. Anthony Gorbin and Sossie Kasbarian, (Edinburgh: Edinburgh University Press, 2015); Patricia Risso, "India and the Gulf: Encounters form the Mid-Sixteenth to the Mid-Twentieth Centuries," in *The Persian Gulf in* History, ed. Lawrence G. Potter, (New York: Palgrave Macmillan, 2009); Isa Blumi, *Foundations of Modernity: Human Agency and the Imperial State*, (New York: Routledge, 2012).

[25] See Geoffrey Jones, *British Multinational Banking, 1830-1990*, (Oxford: Clarendon Press, 1995).

[26] Ibid, 1.

[27] Derek F Channon, *Global Banking Strategy,* (New Jersey: Wiley, 1988), 3-4.

intents and purposes, been relegated to the past. These histories ground their analysis on theoretical frameworks such as world's system's theory (or variants of it) and are riddled with assumptions of a singular process of modernization and globalization that arrives with European technologies and empire in the late nineteenth century which run contrary to the evidence and literature deployed in this narrative.[28] The latter point of government support is of particular interest to this paper, however, what we are referring to here is not merely government support, but a state run project of deploying institutions of capital, countering dominant economic theory, for imperial aims.[29]

Developments in STS studies, in particular sociologies and anthropologies of markets help to redefine debates concerning globalization in light of the way that markets and the actors therein function in their exchange relations. Namely, that of the worldwide extension of "the market".

In this specific case, the bank can be seen less as design of the workings of the institution of capital, and more as capital deployed as an instrument of the state in ensuring a grip on economic, and thus political life: gathering knowledge, rendering the local systems legible and representable (ordered), exerting political power, and ensuring a solid buffer to British India amidst imperial rivalry. The relationship is no doubt reciprocal, as capitalism does guide imperial aims

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[28] Adrian E. Tschoegl, "International Retail Banking as a Strategy: An Assessment," *Journal of International Business Studies* 18, no. 2 (1987), 68; Barry Williams, "The Defensive Expansion Approach to Multinational Banking: Evidence to date," *Financial Markets, Institutions, and Instruments* 11, no. 2 (2002), 127-203; Stefano Battilossi, "The Determinants of Multinational Banking during the First Globalisation, 1880-1914," *European Review of Economic History* 10, no. 3. (2006), 361-388. Theories upheld in this story that run contrary to these assumptions are grounded in works from Albert Hourani, Roger Owen, Dipesh Chakrabarty, *Provincializing Europe: Postcolonial Thought and Historical Difference* (Princeton University Press: Oxford, 2000); Timothy Mitchell; Sanjay Subrahmanyam and Chris Bayly. "Portfolio Capitalists and the Political Economy of Early Modern India," *The Indian Economic and Social History Review* 25, no. 4 (1998); One Asia or Many?, and the wide scope accompanying literature.

[29]The economic imperialism discussed by Landes and others are useful additions to understanding the histories of banking in the Middle East and their relation to imperialism.

and inform actors within the web. However, the dynamic of the state (or one faction within the imperial apparatus) acting as host to capital to achieve its aims in such a deliberate and cognizant fashion is one element that makes the story one worth telling.

The period from 1890 to 1920 sees the relative shift of Britain from a producer and exporter of manufactured goods (vis-à-vis the rising industrial powers of the United States and Germany) to becoming reliant on imports from the global market for agricultural products and raw materials as well as on imperial holdings for a stable export market.[30] While British imports were suffering at the hands of global competitors, Britain became an exporter of capital due to her neo-mercantilist imperial economy. However, the largest export market, India, maintained an increasing current account surplus with the core, offsetting the imports from Britain. This surplus was then deposited in The City of London. This dynamic led to the creation of a gold exchange standard. The rise of joint stock banks further decentralized the London money market and the power of the Bank of England. These shifts in the global financial system, in conjunction with a loss of faith in British strategic and financial supremacy laid the groundwork for the entry of other actors and modes of governing, and a reshuffling of political and economic ordering.

World War One is often seen as the moment that everything changed in the "Middle East", where borders were (re)drawn arbitrarily in accordance with English and French imperial interests. While this is certainly the case, we see the process of modern state formation in the Gulf emerging slowly and earlier than the outbreak of war. The Ottomans had not held sway in the region for some time, and British incursion coincided with, as well as catalysed, the process. This process was, in part, characterized by deterritorialization of empire formalized through treaty relations and

[30] Marcello de Cecco, *Money and Empire: The International Gold Standard, 1890-1914,* (Totowa: Rowman and Littlefield, 1975), viii.

represented through novel techniques in data collection and ordered via concepts of civilizational hierarchies. The process of formation of the modern state is underpinned by a shifting economic logic, from one that holds that economic and commercial processes are seen as inherently separate from politics in the nineteenth century within dominant strands of economic thought,[31] toward a blurring of the separation of the domains of politics and law, as well as territory and economy in the twentieth. The control of territory via annexation or colonisation would no longer be the primary method which states used to dominate, control, infringe on sovereign jurisdiction and reorder populations and territories. This would be achieved through the use of economic control which then creates the conditions of possibility for territorial sovereignty.[32] The interwar neo-imperial setup, as described by Susan Pederson[33] (and earlier on by Carl Schmitt), drove a wedge between political and economic sovereignty, with the latter becoming a nominal form of governance:

> Over, under, and beside the state-political borders of what appeared to be a purely political international law between states spread a free, i.e., non-state sphere of economy permeating everything: a global economy[34]… The significance of this new procedure was the fact that it destroyed the order and orientation that had obtained in the previous form of sovereign territory. This was obvious in all the characteristic details of the new methods of domination and control. Territorial sovereignty was transformed into an empty space for socio-economic processes. The external territorial form with its linear boundaries was

[31] This is not the case for all theory. Friedrich list understood early on that Smith, Riccardo and other British Philosophers /economists developed their theories in the service of their empire and their respective class. List's stage theory was modeled after Britain's road to industrialization. See De Cecco, *Money and Empire*.
[32] Schmitt, *The Nomos of the Earth*, 5.
[33] Susan Pederson, *The Guardians: The League of Nations and the Crisis of Empire*, (Oxford: Oxford University Press, 2015).
[34] Schmitt, *The Nomos of the* Earth, 236.

guaranteed, but not its substance, i.e., not the social and economic content of territorial integrity. The space of economic power determined the sphere of international law.[35]

The history of the region and the interactions surrounding the establishment of the bank demonstrate that this transformation in sovereign structure is a drawn out process with a long history associated with the development of specific form of economy which cannot exist outside the purview of the state.[36] The state upholds property rights, participates, and plays a vital role in the constitution of the economy, which is built on the blurring of public and private spheres.[37] What I set out to explore here is not a genealogy of this process, but how the establishment of the bank and the interactions with various forms of economic and political life and governance interact and lay bare these shifting sands before, during, and after the war. In fact, the war years of 1914-1918 will not figure prominently in the narrative as a coherent block.

Shifts, ruptures, and continuities that occur across this era and space make it difficult to situate this story neatly within pre-ordained temporalities or conceptual frameworks. The concepts of capitalism and capital become increasingly difficult to pin down when we observe local and global changes, discrete and hybrid systems, and varying theories and conceptions. In the Western Indian Ocean, forms of capitalism, along with the varieties of subjecthood that accompany them, can be seen in the interactions across oceans between subjects, states, empires, jurists, bankers, and institutions. Changing consumption patterns, value systems, commodification, and subsequent forms of opulence and ostentatious consumption are global developments concurrent with the proliferation of what some might call “market logic”. For this purpose, capitalism as such may not

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[35] Ibid, 252.
[36]Michel Callon, Timothy Mitchell, Friedrich List, Vladimir Lenin, and a multitude of histories of finance, capitalism, and banking articulate this formation a different stages of its development.
[37] Michel Callon, ed.,*The Laws of the Market*, (Oxford: Blackwell Publishers, 1998), 40.

constitute the most useful term for differentiating these systems. Western and perhaps modern capitalism can be useful insofar as they depict a form of exchange and organization that work in conjunction with the state, and, for our purposes in the late nineteenth and early twentieth centuries, use of international gold standard upheld through central monetary authorities.[38] A more useful term for describing the developments and period under consideration are the concomitant processes of multinational banking consolidation, state formation, and the process of centralized monetization within private hands – a process characterized by Rudolph Hilferding and Lenin as finance capital. The shift from the stock market to banking as the ultimate arbiter of "national economies" is a development unique to the time period under investigation.

Different methods of thinking the economy in the nineteenth century help to inform the ways in which we interpret the function of Western capitalist institutions. The ideas of David Ricardo, Adam Smith, and other classical economists and certain enlightenment thinkers drive the economic logic used to assess and justify capital flows and hierarchical distributions of wealth and power. However, nineteenth century thought in political economy is far more wide ranging and layered than the hegemonic English Ricardian Model supposes. For the purposes of this paper, understanding certain theories of German economist and government official Friedrich List's conception of a "national economy", that is, an economy driven by politics to meet the economic and thus political "needs" of a nation, is helpful in defining the possibilities of thinking economy at the time as well as the German model of development and subsequent rivalry in the Gulf in the lead up to the WW1. Thinking economy as a historical process and tool of governance, not solely as a reciprocal performance that guides policy, but as a tool and organizational principle that can

[38] De Cecco, *Money and Empire*, 12-17.

be wielded and acted upon, as List does, helps to undo the naturalizing narratives associated with capitalist development.

As Fernand Braudel points out, the development of finance capital was not something unique to the early twentieth century.[39] Italian, German, and Dutch banks had become leaders of industry, or perhaps more accurately described as large scale commerce, hundreds of years earlier.[40] For our particular purposes, this development is novel due to its synchronous development of finance capitalism to the development of systems of calculation which rendered the nation legible in economic terms, and could articulate the place of a nation in terms of its economic activity or, as was the case just years later, in terms of the "novel statistical trope of national income". [41]

In the pages below, I endeavor to, directly or indirectly, bring the above-mentioned literatures into conversation with one another to help elucidate the processes that underpin British Imperial consolidation in the Gulf via a slow but steady encroachment on other modes of economics, exchange, and life. The correspondences surrounding the establishment of the bank help shape our understandings British concerns and vantage point within the region. By deploying this literature while thinking economy and political economies of the region through a historical lens, we can begin to see capitalism as a concept, and some of the assumptions associated with it, dilate and disperse. The arrival of the bank does not represent the coming of modernity or liberal capitalism - it is first and foremost a tool of empire, employed at a moment where control over

[39] See Fernand Braudel, *The Mediterranean and the Mediterranean World in the Age of Philip II* (1949), (Berkeley and Los Angeles: California University Press, 2008), 500-510.
[40] Jones, *British Multinational Banking*, 4.
[41] Mitchell, "The Middle East in the Past and Future of Social Sciences.", 84.

capital and commodity flows are quickly becoming the conditions of possibility for political control.

In chapter one, I provide an outline of the geographical, social, and conceptual domains, and their interactions, and contextualize the global and regional shifts within this space. A brief description of these "interrelated theatres" – that is, the island of Bahrain, the Arabian Peninsula, the Western Indian Ocean, Britain's Informal Imperial structure, the political economy of the region(s), the concept(s) of economy imbued within the interactions, and the instruments of law and economy that helped constitute the worlds and subjects and underpinned discourses of exchange and politics. This chapter brings to light the long-standing and deeply woven connective tissue that bound these worlds and discourses, how these ties could not be undone via brute force nor in the face of supposed superiority in a "marketplace of ideas", and that the severing of said tissue rested not upon a natural progression toward capitalist modernity, but largely upon a purposeful push to establish dominion. In chapter two, I focus on banking and its relation to empire in the late nineteenth and early twentieth centuries and the specific correspondences and debates that eventually led to the establishment of the Eastern bank Ltd. after WW1. Here, I examine a few nineteenth and early twentieth century articulations of the relationship between the economy, banking and the state, and why dominant classical models and contemporary ways of looking at the establishment of capitalist intuitions fail to accurately describe the process and reasons for the establishment of 'capitalist' institutions. I follow by analysing correspondences between British State officials and certain local power brokers. These archival sources demonstrate the logic and process by which what we call capitalism had arrived in the region, and help in doing away with ahistorical, teleological thinking surrounding 'capitalist modernity'.

<u>Chapter 1: Interrelated Theatres</u>

Bahrain, the Arabian Peninsula, and the Western Indian Ocean

British Imperial interests in Bahrain have been documented from the seventeenth century, but it was only during the nineteenth century that the British secured varying levels of influence over the island by way of a series of treaties.[42] These agreements between the British Government and the ruling Al Khalifa family defined relations between Bahrain and British India since the 1820's. Anglo-Bahraini relations were thereafter characterized by a similar dynamic as elsewhere in the Gulf - what James Onley refers to as "the protective zone of informal empire surrounding British India".[43] The strategy of using Bahrain and Gulf States as buffer zones was something that was put in place by empire-states long before British arrival. Thus, British strategy in the region was, to an extent, an appropriation of what was seen as the "natural" geopolitical logic of the region. The Gulf littoral was an area of contestation between powers in Persia, the Arabian Peninsula, and South Asia - and during the late nineteenth and early twentieth centuries, Germany and Russia would be added to the list of players in the region.

The island has long been a hub for commercial and economic life tethered to the gulf and Western Indian Ocean hinterlands, from Bandar Abbas and Baghdad, to Gujarat and Bombay. It's centrality in this arena has also led it to being a site of contention amongst external powers – whether global or regional, Dutch, British, Portuguese, Persians, or Arab tribes, vied for dominance over the gulf island and its highly lucrative pearl trade and its significance as a

[42] The array of polities on the mainland adjacent to Bahrain were thereafter named the "Trucial States" by the British due to the nature of the treaty relations by which they were bound.
[43] Onley, *On the Arabian Frontier of the British Raj,* 22.

commercial hub and central port with inland access.[44] Once the Safavids took Hormuz in 1621 and expelled the Portuguese from the region, the Persians constructed a fort at Manama, cementing the city's importance within the archipelago. Manama did not have walls or a geography suited for defense. It possessed an open socio-economic structure which encouraged mercantile exchange and expanded into a cosmopolitan immigration hub.[45] Unlike other metropolitan states of the Persian Gulf, Bahrain has a long history of agriculture and a sedentary population long before the discovery of oil.[46]

As Bahrain became further enmeshed into the world of nation states and global imperial competition during the nineteenth and twentieth centuries, it was led from the realm of British suzerainty via treaty relations to sovereign jurisdiction in the twentieth century. The changing global order provided the conditions of possibility and necessity for ordering and grouping populations, commodity flows, and their circulation to render them legible to the new methods of data accumulation and representation, and thus permeable to new forms of imperialism, sovereignty, and state building. The processes of "Arabisation" and modern state formation on the island, though often attributed to the oil era, begin to unfold in the nineteenth century.[47] Prior to the nineteenth century, the islands had never been a sovereign state or independently run polity, they were a permeable buffer zone, a node where interaction between merchants, labourers, and polities unfolded. During the long-nineteenth century, the long-standing position of the Al-Khalifa and British presence in conjunction with the Persian inclusion into the global economy, British

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[44] Talal Toufic Farah, *Protection and Politics in Bahrain, 1869-1915,* (Syracuse: Syracuse University Press, 1986), 6.
[45] Nelida Fuccaro, *Histories of the City and State in the Persian Gulf: Manama since 1800*, (Cambridge: Cambridge University Press, 2009), 42.
[46] Nelida Fuccaro, "Mapping the Transnational Community: Persians and the Space of the City in Bahrain, c. 1869-1937," in *Transnational Connections and the Arab Gulf*, ed. M. Al Rasheed, (New York and London: Routledge, 2005), 41.
[47] Ibid., 40-44.

seizure of Aden (1839), opening of the Suez Canal (1869), and what Chris Bayly coined the "tribal breakout" (beginning in the eighteenth century) were major contributing factors that led to the opening up of territories previously run by major imperial centres and smaller coastal empires in the region.[48]

In the seventeenth century, during a time of tribal upheaval and the loosening of Ottoman grip on the region, the Al-Khalifa clan, one of the many contending tribes from the Arabian Peninsula, seized control of Bahrain and other areas of the eastern Gulf coast. The clan treated the island as others before had - as a dependency. The ascendancy of the Al Khalifa clan marks a turning point as the politics of the island reconstituted in the form of Arabian tribalism.[49] Within twenty years, the rise of Saudi and Omani Sheikdoms threatened Al-Khalifa rule, with the Saudis taking Qatar and forcing them to withdraw in 1796. When the Al-Khalifa refused Omani demands for tribute and free crossing of the Strait of Hormuz, they invaded and took Bahrain in 1801. The clan subsequently solicited the Saudi's for help in a joint invasion. While successful, the Khalifa were again reduced to tributaries when appealing to both the British and Omanis in the following years.[50]

According to Chris Bayly, the consequences of the crumbling of older Muslim imperial centers and the problems of accommodating indigenous capitalism in Ottoman and Mughal lands, as well as the headwinds facing imperial finances and the subsequent 'breaking out' of military tribes in both Arabia and India, were as historically, economically, and politically significant as the fallout from the Mongol invasions of the thirteenth and fourteenth centuries.[51] The

[48] Fuccaro, *Histories of the City and State in the Persian Gulf*, 47.
[49] Ibid., 7.
[50] David Commins, *The Gulf States: A Modern History*, (London: I.B. Tauris and Co., 2012), 66-68.
[51] C. A. Bayly, *Imperial Meridian: The British Empire and the World 1780-1830*, (London: Routledge, Taylor & Francis Group, 2016), 35.

establishment of the first Saudi polity in 17444 on the Arabian Peninsula and its combined ideological and military power led to the undermining of sovereign claims of empires who had enjoyed varying degrees of hegemony, or at least high degrees of influence in the region.[52] Wahhabism questioned the Universalist claims of the Ottoman Caliphate and their support of religious pluralism. As the Saudi tribe continued to conquer vast swaths of the peninsula, already multifaceted webs of inter-polity treaty relations became increasingly complex, with the Khalifa clan appealing first to the Saudi's and then falling back on the British for protection in 1805. British interests and protectorates in the Western Indian Ocean and later the Gulf were upheld via a loose network of native agents who acted as agents of the political resident at Basra.[53] In 1820 the Al-Khalifa were formally recognised by the British after entering into treaty relations. However, the relationship remained a tenuous one for over a century.

Control of the fort at Manama lent credibility to the clan in engaging with polities, locals, rulers, and merchants. However, the very structure of the island and the relative limits to their militaristic power projection meant that the rulers' position was far from that of an absolute sovereign. The clan's role resembled that of a mediator between the different forces that interacted on the island. In the late nineteenth century, ninety-eight percent of the islands revenue came from agriculture, land taxes, and maritime trade. This material and economic structure meant that the dynamics driving the nascent formation of the Bahraini state were far from solely geopolitical. Traders and financiers from far strung networks who visited the islands, as well as indigenous populations had a hand in shaping the historical process.[54] Manama was a central node representing the microcosm of Bahrain as the frontier society of the Persian Gulf. Being situated at the

[52] Most notably the Ottomans and the Persians.
[53] Prior to 1834, these were usually "principle merchants", Gujaratis or other bankers from South Asia.
[54] Fuccaro, *Histories of the City and State in the Persian Gulf*, 41.

intersection of the Persian, Arab and Sunni/Shia worlds. Its sectarian and heterogeneous population reflected the long history of immigration associated with the pearling, trade, pilgrimage and military conquest. [55]

The General Maritime Treaty of 1820 between rulers of Gulf emirates and the British, which was "put in place in the name of God and enforced by the arrival of British gunboats", banned slavery and piracy in the region. The treaty, and the gunboats backing it, underpinned the establishment of the native agency in 1823.[56] The Al-Khalifa clan continued to fight and use diplomacy to serve their interests, using the sovereign claims of the Ottomans and Persians to the Island in negotiations with the British, blockading a Saudi port, and threatening British agents. Internal disputes and constant conflict led to the British formally establishing themselves on the island and encroaching on the sovereign claims of the clan, enforcing the removal of warships, ceding authority over foreign residents to Britain, acknowledging and relinquishing their claims to Qatar, and installing Sheikh Isa in 1869.[57]

The history of dynastic strife and treaty relations that characterized Bahrain were different from elsewhere in the Gulf due to the sectarian tension inherent in the distinction between the ruling Sunnis and the local Shi'i Bahraini. The ruling sheikhs distributed land to clansmen and subjugated the population to higher taxation and fewer rights. The sectarian hierarchy and subsequent 'feudal' land regime led to a situation where sovereignty over the island was never fully achieved. From the 1870's, the islands rulers continued to flout British rule and play larger

[55] Ibid., 38-45.
[56] Lorimer, *Gazetteer of the Persian Gulf*, 678–680.
[57] Commins, *The Gulf States*, 101-103. However, declared wars and external aggression were not covered under this treaty, which rendered the prospect of British hegemony mute.

powers against each other to secure claims over the island and its inhabitants while seeking protection from rivals.[58]

After the Anglo Persian war and the "India Mutiny" and subsequent Government of India Act, the British consolidated their military presence in southern Iran. Fear of Ottoman occupation of Bahrain prompted the British to set up further exclusive agreements with its rulers as well as those of the Trucial states. In 1861 the interests of the government of India in Bahrain was regulated under a convention with the sheikh of Bahrain which confirmed his autonomous status under treaty relations, while granting British subjects and the British State jurisdiction over relations with other polities and non-local residents.[59] This newly acquired control over external relations in the gulf coincided with the British expansion into Ottoman territory culminating with the taking of Egypt in 1882. The new era of steam and steel transformed the Gulf into British shipping station for British trade with India. These British inroads into the gulf recomposed the tribal breakout by cementing clan authority over their respective territories and protecting major power centers from their hinterlands and creating protectorate states.[60]

In the decades following the establishment of direct treaty relations and British regional dominance in 1861 and 1869, local and long distance trade flourished. From 1873-1900 the pearl trade, Bahrain's most notable commercial enterprise, increased sevenfold.[61] This boon in commercial activity cemented Bahrain's position as the predominant geographical node in the realms of British strategic and commercial interests. While the requisite labor for this increase in trade and commerce was drawn largely from Manama's rural population, the merchants, traders,

[58] The clan even went as far as to ban Indian merchants from the island in 1890.

[59] Fuccaro, "Mapping the Transnational Community," 44.
[60] Fuccaro, *Histories of the City and State in the Persian Gulf*; Onley, *On the Arabian Frontier of the British Raj.*
[61] Fuccaro, "Mapping the Transnational Community," 44.

financiers, and most others involved reigned from Basra, Kuwait, Iran, South Asia and elsewhere. Under the governing structure, the British were granted extraterritorial jurisdiction over the immigrant communities. The open nature of the city and the fact that about half of its residents belonged to immigrant communities resulted in complicated legal battles regarding jurisdiction. Many cases were eventually relegated to British Native Agents who would apply British Indian law in Islamic courts in conjunction with tribal councils controlled by the ruler.[62] These new forms of extraterritorial jurisdiction, arbitration, and mediation began a process by which mercantile communities on the island gained control of large swaths of land that the Sheikh had allocated to his kinsmen, as well as property he had donated in exchange for cash as direct sales were prohibited. As beneficiaries of *hinnah*[63], they could not theoretically dispossess land through sale, but found clever methods of dispensing of control of land, further chipping away at the nominal sovereignty of the Al-Khalifa clan. In addition, the very nature of growing global trade and the subsequent large influx of capital and profits reaped by the mercantile firms meant that the level of differential accumulation was high enough to tip the balance of economic power in their favour.[64]

The lack of any class of state-affiliated merchants led to a situation in which the clan could not impose a monopoly on pearling or other trade, and thus could not exact direct taxes from revenues. Even when they took control of customs houses in the latter half of the nineteenth century, they did so with funding from immigrant merchants and bankers. By the end of the century, Indian merchants had control over Bahrain's custom houses through loans extended to

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[62] Ibid., 45.
[63] Land gifted by the Clan which could not be sold on the market under Islamic Law.
[64] The landed clan and family members were reliant on agricultural revenue and annuities from rents. The sharp rise in trade meant that it was the merchants who were able to tilt the balance of economic power in their favour, as neither the annuities nor the taxes on trade were enough to establish a sort of 'equilibrium'.

the ruling family. Sheikh Isa and the Indian merchant class continued to clamour for control of capital flows, and by the early twentieth century the Sheikhs power was dwindling.[65] The new modes of arbitration and juridical orders set in motion a dynamic in which there was a constant struggle between the British, the Sheikh, and the merchant community. The merchant community and the Sheikh competed for revenues, while the Sheikh and British vied for position of protector of commerce on the island. This dynamic was later cemented with the eventual establishment of a land market and property rights and direct ownership in the mid 1920s.

The importance of farming rights and control of custom houses is an integral part of this story and the struggle for sovereignty. Across the Gulf, merchants who supplied capital to rulers gained access to custom house farming. The custom houses supplied the ruler with all the revenues that came from trade within his polity, and merchants who controlled and purchased rights of said customs houses were paid via taxes. Some years the custom masters would take losses and willingly pay to retain control of the information flows – their function was not only the collection of dues, but in the process of observing, calculating, and controlling trade as it passed through the polity. As we will see later in the text, the struggle for control over custom houses was one of the primary concerns of British imperialists in the early twentieth century and was intimately tied to banking and capital flows. These arrangements were inscribed and enlivened within the realm of Islamic law by members of legal and merchant communities where "genealogy and obligation were bound to one another."[66] While paper trails were increasingly important for imperial powers in this era of tense geopolitical rivalry, those supportive of 'lesser' claimants were readily tossed aside in the courts.

[65] J.G Lorimer, *Gazeteer of the Persian Gulf, Oman and Central Arabia: Part 1*, (Calcutta: Superintendent Government Printing, 1908), 928.
[66] Bishara, "A Sea of Debt," 66.

The post-1880 agreements with the gulf sheikdoms cemented rulers while encroaching on their claims as sovereigns, providing them with security at the expense of many of their prerogatives with regards to territory, populations, and revenues. Their ability to sell or cede land without British approval and take mortgages were stymied, and foreign merchants came to increasingly dominate trade.[67] As merchants and their capital increased and became more mobile in the region, port authorities had to relax taxes and fees to cater to the needs of said capital. Within this environment where polities competed for capital flows, merchants began to acquire significant political leverage. However, the British presence in the region ensured that the state would provide checks on the power of indigenous merchants. As British imperial claims became more domineering, groups of merchants began demanding limits on British influence in trade and politics in the region. The result was that by the twentieth century, the British had exiled large swaths of merchants who challenged their dominant position. [68] However, it is important to note that by categorizing groups on the island, it is easy to overlook the wide array of interests and players in this story.

The social, political and economic relationships between pearl divers, ship captains, local rulers and financiers were complex and intertwined. Most workers worked on seasonal advances and many were put into forced labor in bad pealing seasons. Indigenous shipping interest were not curtailed but maintained their businesses and ensured that they used both indigenous and British ships. These merchant networks consisted of Persian, Arab, Jewish, Indian and local Bahraini traders, with different levels of ethnic and class distinction depending on their position in the social fabric. In the 1890s, as the market for cash grew in the area, Jewish and Indian financiers were

[67] Lt. Colonel Sir Arnold T. Wilson, The Persian Gulf: A Historical Sketch from the earliest times to the Beginning of the twentieth Century, 246-248.
[68] Fuccaro, *Histories of the City and State in the Persian Gulf*, 57-72.

propped up in tandem.[69] This coincided with increased rivalry from German and Russian interests in the region.

Beginning in the 1890's, the British began taking direct control over trade and customs houses (formerly bid on and operated by merchants). Amidst the geostrategic conflict brewing in the region, the British and other imperial powers pushed ever harder to gain control of capital flows and economies. These had become necessary for establishing dominion in the region, and the continued possession of custom houses by merchants was seen as a potential threat to British Interests. British influence continued to grow in commercial affairs on the island, aided by the native agencies' position within the indigenous commercial council headed by the ruler of Bahrain. However this did not put an end to the contention over sovereign claims made by the rulers, the British, and merchants over the islands' trade structure as well as its inhabitants.

The al-Khalifa clan competed with the Bania native agents over the protection of the town's merchants, and notable traders and merchants on the island pushed to secure their roles as intermediaries between the ruling family and the population. With the influx of European goods and capital, the merchants were able to reshape the islands material culture and spatial order. When war amongst rival tribes broke out in the Gulf littoral, it was these merchants that supplied them with the requisite capital. At the same time, the al-Khalifa clan was ever more subservient as the British tightened their grip on the Island.[70] By the end of WW1, British imperial ambitions were such that a reordering was necessary to make way for the new international. Beginning in 1919 Manama was transformed it into "the natural platform for imperial reform and political modernisation in the era of municipal government."[71] To better understand the ways in which this

[69] Ibid., 84.
[70] Ibid., 85.
[71] Ibid., 111.

took place, it is helpful to analyse the structures of the informal imperial apparatus, or "Indian empire within-the-empire".[72]

Informal Empire

> Arabia is not a State in any effective sense, but a fortuitous concourse of tribes—more or less settled in the fertile regions near the coast, elsewhere wandering—under Chiefs, the limits of whose sway are determined, not by frontiers, but by the tribes which they for the time being control. Their politics are closely interwoven, and a quarrel may run light across the continent. With the tribes and Chiefs along the coast mentioned we have treaty relations.[73]

Britain's foreign relations in the Western Indian Ocean realm were managed by either the East India Company (from 1600-1858), the Government of India (1858-1947), or one of the subsidiary provincial governments of British India. The British grouped these polities into "diplomatic districts" known as political residencies, each under the supervision of a political resident. Most residents employed networks of subordinate political agencies that would act as intermediaries between the British crown and the local political leaders. Included in these "foreign states" were the Gulf Arab sheikdoms, which were said to be independent from the British, but were locally acknowledged to be a representative of the Empire. The political residency of the

[72] Priya Satia, Review of James Onley, *The Arabian Frontier of the British Raj: Merchants, Rulers, and the British in the Nineteenth-Century Gulf.* Journal of British Studies, Vol. 48, No. 3 (2009), 789-791.
[73] British interests in Arabia' [1r] (1/4), British Library: India Office Records and Private Papers, IOR/L/PS/18/B247, Qatar Digital Library, <https://www.qdl.qa/archive/81055/vdc_100023462303.0x000002>.

Persian Gulf (1822-1971) was one of the most notable, with the political resident residing in Bushire.[74]

The residency was able to exert its influence in the region by working in tandem with indigenous political, commercial, and social structures.[75] The political resident engaged native agents from prominent merchant families of Indian, Persian, or Arab descent to over half the posts in the residency, resulting in power triangles between the rulers, the native agents, and the resident that sustained Britain's informal empire in the Gulf. Because the resident was often solicited for protection from many of the rulers, he entered into a culturally sanctioned protectorate relationship (dakhala) in which the protector's (mujawwir) performed as rulers "expected a protector to behave". This legitimated Britain's role in the political system of Eastern Arabia and meant that their authority was not simply representational (stipulated in treaties), but integrated into local practice. Because of this role, the resident was granted high titles and his rule was self-enforcing due to the efficiency in trade and protection that he provided. The connections with the agents were reciprocal benefited those in power, allowing Britain to operate its informal empire with low overhead and getting access to the networks of these elite merchants, while the merchants benefited financially and influence from their positions.

The origins of the residency system were based on the corporate structure of the East India Company. As the Company became involved in political affairs in Asia, the role of its commercial resident became more political. Commercial residents became colonial administrators where the company assumed direct control over territory. In the Gulf, the implementation of this "Trucial

[74] Wilson, *The Persian Gulf: An Historical Sketch from the Earliest Times to the Beginning of the Twentieth Century*, 246-252.
[75] Onley, *On the Arabian Frontier of the British Raj*, 30-33.

System" of treaty relations and exclusivity agreements, in conjunction with the presence of the British gulf squadron and use of native agency system were the foundations for the establishment of Pax Britannica.[76] Intelligence gathering was one of the essential resources for exercising British interests in the region which extended to and underpinned shipping, trade, treaties, property of British and dependents (including Bania's, and the British Indian Steam Navigation Company), law, post office protection and Anglo-Bahraini relations.[77] Native agents were the de-facto representatives of the residents. The agent would also have to have a relationship with the Suq masters, powerful men in Bahrain who oversaw the economic life of the sheikhdom's principle towns and commanded groups of armed guards. The native agent was both a source for data and information as well as policy execution and as protector of British subjects. In addition to their political duties, there was a significant social component to their role.[78] The agents consisted largely of Banias until 1834, when discontent among the Muslim rulers and populations pushed the British to appoint Muslim agents from either Arab or Persian populations.[79] Amidst growing tensions between the British and their representatives in the region as well as amongst European powers toward the end of the nineteenth century, British Indian officials opted for increasing oversight and control of domestic and foreign affairs.

By this time, Turkish designs for the region had largely subsided, but French and Russian incursions were mounting. The French had worked with the English in granting Oman nominal

[76] See Balfour-Paul, G., *The End of Empire in the Middle East: Britain's Relinquishment of Power in her Last Three Arab Dependencies*, (Cambridge University Press, 1984).
[77] Onley, *On the Arabian Frontier of the British Raj*, 127. These relations cannot be reduced to British relations with the Al-Khalifa Clan, nor British relations with certain merchants nor perceptions of the various populations on the island.
[78] Onley, *On the Arabian Frontier of the British Raj*, 138.
[79] Certain families with contacts around the region, such as the Persian Safars, were regularly appointed as agents in the place of South Asians, who were seen as upholding their interests and those of the British above Arab and Muslim traders and populations.

independence in 1862 and were looking to expand their commercial, logistical, and strategic footing in the region to ensure their continued access to their Indian Ocean holdings.[80] As previously noted, the agents on the island at this juncture were drawn from traders of Arab and Persian decent with connections to the Khalifa family. Bania merchants, through leveraging their position as creditors as well as their extensive networks, had secured the contract for tax farming the customs house on the island. However, with burgeoning rivalry in the region and local agents thumbing their nose at South Asian and British power, there was to be a push for the removal of the native agency. From the mid 1890's the growing European rivalry in the gulf and subsequent need for increased oversight and jurisdiction on the island led to an effort for the replacement of the native agency. Simultaneously, relations between the Political resident and the Sheikh fell apart, and suspicions of faltering loyalties began to foment. This falling out was synonymous with the reduced influence and ability of the agent to protect the commercial interest of Banias under British Law.[81]

Political Economy of the Gulf and Western Indian Ocean

The changing political economy of the region would create new impetus for trade and drive local rulers to conquer lands, lease ports, enter into treaty relations with various powers.[82] In conjunction by changes spurred by the arrival of European capital, navies and administrators, the hegemony of Muscat in the eighteenth century (and fall of competitors like Persia and the Qawasim) further exacerbated said political and economic dynamics. Traders from all over would flock to the kingdom that best guaranteed their security. Rulers at smaller ports often took a

[80] Farah, *Protection and Politics in Bahrain*, 91.
[81] Onley, *On the Arabian Frontier of the British Raj*, 190.
[82] See Wilson, *The Persian Gulf*; Onley, *On the Arabian Frontier of the British Raj*; Jones, *British Multinational Banking*; Farah, *Protection and Politics in Bahrain*; Fuccarro, *Histories of the City and State in the Persian Gulf*.

'laisser-faire' approach to merchants, offering competitive taxation rates to attract revenue. The emergence of the Omani Bu Sa'id led to the expansion of related families setting up small sovereign states in Kuwait, Bahrain and elsewhere, and reinvigorated the connections between Muscat, the Gulf, and India. Traders flocked to the area due to Muscat's position as the intermediary to the Indian market[83]

At the dawn of the nineteenth century, Muscat Arab traders in the Western Indian Ocean with the backing of Sayyid Sultan began to dominate the carry trade and extend their control over various ports in the Indian Ocean.[84] The opening up of new markets and subsequent increases in demand (as well as political concerns) led the Sultan to take control of Muscat, Hormuz, and the lease of Bandar Abbas and pursue an aggressive policy of trade and shipping tonnage expansion, far surpassing the British and any other competition in the region.[85] Gujaratis and Omanis looked first to the trade in ivory and then other commodities to secure profits and access new markets, while Indian merchants rushed to fill in rate gaps to extend credit to producers and caravan leaders and gained access to the interiors, constituting economic and legal relationships of debt and obligation. [86] This new dynamic uprooted and changed the way that people interacted with land and each other. Practices of speculating and borrowing against the natural rhythms of agricultural production interacted with the arrival of modern capitalism and created a hybrid system.[87] New ways of thinking about land and commodities began to permeate the economic and legal life of subjects in the region, and things previously imbued with meaning were now assigned value,

[83] Bishara, *A Sea of Debt*, 31.
[84] Subramaniam, *Indigenous Capital and Imperial Expansion*, 138.
[85] Often by ratios of 2:1 or greater.
[86] Fahad Ahmed Bishara. Ottoman History Podcast. Islamic Law and Commerce in the Indian Ocean http://www.ottomanhistorypodcast.com/2018/10/bishara.html?fbclid=IwAR1aVLaCtLh7EaId6ZuLun5K23JmBmBxTETfEy48fR2_RBSyLNHKQEOZS-Y.
[87] Ray, "Asian Capital in the Age of European Domination."

represented by currency, which in turn is defined by its sign in relation to other commodities - "The land could have a meaning, but the trees would now have an assigned value in the market – a metric against which a loan could be measured and an accounting entry made."[88]

The demands of modern capitalism of the late nineteenth century created global futures markets where shifting time horizons needed to adjust to a global marketplace where natural cycles were not entirely displaced, but mediated the burgeoning political and epistemic orders. These emerging orders were partly characterized by cycles based on abstract concepts theorized in the discourses of political economy and, later on, in economics.[89] With the advent of this variegated capitalist system came new forms of consumption.[90] As mentioned, this coincided with the rise in forms of ostentatious consumption among the merchant and bureaucratic classes and value being driven by goods that functioned not simply as goods or things, but as signifiers, as forms of representation. This type of consumption meant that use value of commodities made up only one part of this market, and that exchange of commodities became less efficient. As capital poured in and the circulation of goods increased in quantity, scope, and speed, larger portions of the population engaged in new forms of consumption. As the market grew, large price fluctuations in markets as goods that signified wealth became more widespread, lose their ability to signify and

[88] Ibid, 46; Michel Foucault, *The Order of Things: An Archaeology of the Human Sciences* (1966), (London and New York: Routledge, 1989), 171. There is an interesting discussion to be had regarding the development of political economic thought in Europe, the development of theories of value, the ways in which these theories move alongside capital and commodity flows, and how they may become internalized and vernacularized in this context.

[89] These were the forebears of today's business and manufacturing cycles. As is made clear by our current economic "cycle", these don't adhere to season or any strictly delineated measures of time, but are produced in theory which works in conjunction the expectations of modern subjects and groups (albeit to varying degrees of impact or importance), from wage laborers and peasants to transnational capitalists, hedge funds, states and politicians. See Rabah Benkemoune, "Charles Dunoyer and the Emergence of the Idea of an Economic Cycle", *History of Political Economy*, 41 (2009), 271–295. The works of numerous economists dating back to at least the nineteenth century deal with this, including Marx, Keynes, Kuznets, Sismondi and many others. Thinking in cyclical terms can be traced much farther back.

[90] As is touched on elsewhere in the text, the arrival of Western capital to the Western Indian Ocean cannot be neatly categorized as the arrival of modern capitalism. There are elements of commercial, finance, and industrial capitalism reminiscent of Italian, Dutch, and British varieties at play before and after the arrival of Western institutions, navies, and technologies.

be replaced by others. This meant that universal modes of payment, such as cash, were required to sustain the market with such a large number of shifting goods, and shifts in demand.

This global change in production and consumption patterns resulted in the development of local money markets.[91] These markets first expanded into the Indian interior through the nineteenth century, and with the arrival of British capital and industry came the arrival of the first commercial banks in 1809 and 1840. The credit derived from these institutions was extended to the Persian Gulf, Arabian Peninsula, and East Africa – markets characterized by information gaps, and thus opportune for those positioned to capitalize on said opportunities. These gaps allowed merchants and businessmen to take advantage of arbitrage opportunities through what was termed the "bazaar rate" by the British – resulting in the formation of a proxy money market. This market, while using western credit, could not accurately be characterized as hybrid, as only those with the requisite knowledge and contacts would be able to penetrate these networks. The only agents who could successfully intermediate between systems and thus extend credit to the interior were those already embedded within the local system. For the British, the risk of extending credit across oceans would be too high to render rates competitive.[92] Thus, the Bazaar economy should be seen as a largely a pan-Asian formation.

The monopolization of regional oceanic trade routes by Arab traders and their dhows resulted in an expansion and acceleration of trade and circulation of currencies, commodities, and peoples from the late seventeenth century.[93] While some British private interests expressed grievances about this in the following decades, the increase in trade in the region was seen as beneficial to British Imperial designs. The lack of cohesion between the state's geostrategic

[91] Bishara, *A Sea of Debt*, 28.
[92] Ibid, 29.
[93] Subramaniam, *Indigenous Capital and Imperial Expansion*, 282-284.

initiatives and private economic interest, as well as limits to the coercive power of the British Empire in the region meant that there was only sporadic intervention by the British navy. Local and regional traders, while in dialogue with different principalities and sovereigns including both empires and regional polities, flourished and traded freely across the maritime arena. While tethered to sovereigns and overlapping jurisdictions through law, family, and credit, the sea offered them a freedom which incentivized rulers of the littoral to compete through accommodative practices. Although Arab traders dominated commerce on the seas during the early nineteenth century, it was the South Asian Bania (namely from Gujarat) merchants who came to benefit most from trade within this space. [94]

Much like in Bahrain, Bania merchants acted as an interface between the Western Indian Ocean and the mushrooming world economy. Even prior to the nineteenth century, Bania's acted as brokers between India, the Persian Gulf, and South Arabia on the one hand and European trading companies on the other. Beginning with the arrival of the Portuguese, South Asian merchant communities brokered trade on a global scale, interacting with localities and sedentary merchant houses and brokering deals with the predecessors of today's multinational corporations. When the English East India Company was expanding its commercial and political reach in India during the eighteenth century, "it did so with the help of Bania financiers in Surat and Bombay."[95] The numbers of Bania's around the Indian Ocean during the mid-nineteenth century varied from port to port. In the 1830's, it was reported that there were around 100 Bania's operating in Bahrain

[94] Unless otherwise specified, Bania in this text will refer namely to those traders deemed "Banyān's" by Arab merchants, wealthy South Asian wholesalers renowned for their wealth. This classification came about due to their common heritage and positions in commercial circles. The British term "Bania" would encompass all Indian merchants in foreign ports, regardless of status or wealth. As Bishara has shown, the term is derived from the vernacularization of their South Asian designation in the commercial world of the Bazaar.
[95] Subramaniam, *Indigenous Capital and Imperial Expansion*, 332

(concentrated in Manama),[96] a relatively large number when considering the population of this small island, and one that drastically increased as the age of empire reached its apex during the trajectory to World War One.[97]

The increase in trade brought about increased movement of South Asian merchants and capital to the Arabian Peninsula, East African coast, and beyond.[98] This allowed for the accumulation of large amounts of capital, and the increase in circulation of specie revived the money and credit markets of the Indian subcontinent. Large fixed capital investments were made in the trade regions, providing the West Indian money markets access to ports around the western Indian Ocean littoral. This led to South Asians and their diasporic community in the region dominating trade and financing the bulwark of commercial activity, from large scale bullion flows and control of the Persian Gulf's highly profitable pearl trade (Bahrain being by far the largest market).[99] These Gujarati bankers also played a vital role in war financing against the Maratha confederacy and the ensuing domination of India by the British, a feat that might not have been accomplished without the system of indigenous finance that supplied the necessary credit that the British East India Company came to rely on. Using the hundi exchange system and three big banking houses to transfer the British surplus in Bengal to western India enabled "the British to achieve a husbanding and distribution of resources on an all-Indian basis to break up the Maratha confederacy."[100]

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[96] Bishara, "A Sea of Debt," 68-70. The total immigrant population of the island was around 25 000.
[97] Reference to Eric Hobsbawm's *The Age of Empire: 1875–1914,* (London: Weidenfeld and Nicolson, 1987).
[98] The works of Claude Markowitz, Stephen Frederic Dale, and many others have outlined these dynamics in great detail.
[99] The revenue of this trade alone was 24000000$ /annum (adjusted for inflation) in the 1830's (and increased by between 300-600% by the twentieth century), a substantial amount even by European standards.
[100] Ray, "Asian Capital in the Age of European Domination," 470.

Trade, credit, and capital accumulation in the Western Indian Ocean realm continued to expand, diversify and increase throughout the nineteenth century. This increase in exchange brought about changes in production and consumption patterns from mainland China and Bombay to East Africa, and globally with the arrival of steamships. Indian merchant capital continued to penetrate the periphery of the Indian Ocean, spurring increased production and movement of cloves, Ivory and cloths whose centers of production while scattered, acted as catalysts to this movement.[101] The arrival of the steamship in the 1830s and the opening of the Suez Canal in the latter half of the nineteenth century drastically changed the trading landscape of the Indian Ocean - tearing through the old temporal and spatial boundaries that had previously been constrained by the monsoon rains and winds, creating a new reality of standardized time and constant flows that were no longer dependent on weather patterns, but on the extraction of dense stores of hydrocarbons buried underground.[102] In the following decades British companies with the backing of the State would lay the foundations for trans-oceanic telegraph infrastructure and by the 1890s, merchants from Aden or the City of London could easily access market information from as far away as Bombay and Zanzibar (Bahrain did not see this system implanted until the interwar period).[103] Of even greater significance in terms of extending the tentacles of Empire was the complementary arrival of a British banking system that would reshape large scale trade financing, shifting it "from the realm of the Indian merchants and moneylenders to that of formal banks with links to metropolitan European capital."[104] By the late nineteenth century Indian Ocean finance

[101] For detailed articulations see the works of Chris Bayly, Claude Markowitz, Nirad C. Chaudhuri.
[102] Barack, *On* Time; Pearson, *The Indian Ocean*, 201-206.
[103] Bishara, "A Sea of Debt," 62. See Wilson, *The Persian Gulf*; George Allen & Unwin, 1928 PP.266-269. For a more comprehensive list of established telegraph cables. Bishara includes Bahrain in the above list, however Bahrain did not establish telegraph infrastructure until 1916. The establishment of a British commercial bank in Bahrain was not established until 1920.
[104] Bishara, *A Sea of Debt*, 63.

was in large part consolidated in the hands of Western banks including the chartered banks of India and China, Indian National Bank, Lloyd's and several French, Dutch and American institutions.

While Western institutions did penetrate the Indian Ocean markets, replace local merchants, and undercut the Bazaar for the financing of trans-oceanic trade, these developments toward the pinnacle of 'European modernization' were not able to secure a monopoly over inland trade nor many Indian Ocean routes that continued to be financed on a large scale by indigenous moneyed interests well into the twentieth century.[105] The Bania communities of India, along with Chinese and Jewish traders were able to operate successfully within the rubric of modern finance, commerce, and trade brought about by the communications/steam revolution of the nineteenth century.[106] This rapid change took the Asian business communities by storm- resulting in reshuffling of indigenous trade activities in what would be called the Bazaar economy. In deploying their hereditary skills in banking and brokerage, these groups developed system of finance for forward and wholesale trade and carved out a place for themselves in the international capitalist system that proliferated with the opening of the Suez Canal. The bazaar economy came to fruition with the advent of European expansion - it represented a new formation in the Afro-Asian economy that relied on trade networks established over long periods of time and space, and moulded the raw capitalism imported from Europe to the tropics. The bazaar dictated the rate by which the vast majority of the inland wholesale trade of British India was financed, a hybrid system drawing on European capital and often undercutting the loan rate of British joint-stock banks.[107]

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[105] See Sugata Bose, *One Hundred Horizons: The Indian Ocean in the Age of Global Empire,* (Cambridge: Harvard University Press, 2006).
[106] These communities had practiced double entry bookkeeping for a long time, a method held by some historians to be a development indigenous to Asia and appropriated by the Italian city-states.
[107] Ray, "Asian Capital in the Age of European Domination," 484.

Economy

Achieving a high level of maturity in India and China, the bazaar rate was "the fluctuating intermediary rate"- a rate determined by indigenous bankers who manipulated the flow of money through the economy to conform to seasonal trade needs.[108] This indigenous regulation of the money supply increased rates during the busy season and lowered them during low season to meet market demands and needs - much the way in which modern central banks (conform to abstract/manmade and not `natural` cycles) regulate money supply and interest rates. In Bombay and Calcutta, the most reputable local bankers reported the bazaar rates of the month to the official monetary authorities of British India and were published by the controller of the currency. Beginning in 1935 they would be published by the reserve bank of India. By the dawn of the twentieth century, the bank rate and the bazaar rates, while affected by supralocal and international circumstances, were distinct and not tied to one another.[109] In addition, these two systems continued to operate within their distinct spheres for years after the arrival of steam, telegraphs and European banking to the Indian Ocean.

Rajat Kanta Ray's seminal piece on the bazaar is probably the most in depth elaboration of this formation, what he describes as an "indigenous money market which finances…wholesale and forward trade over long distances." Ray was one of the first scholars who systematically dismantled notions of the 'Eastern' economic and commercial relations put forth by scholars such as Immanuel Wallerstein and Clifford Geertz. In much the same way the work of Timothy Mitchell and Michel Callon partially isolate the abstract object of the market from the physical marketplace, bridging the material and semiotic, he removes the bazaar economy from the constraints of the

[108] Ibid., 498.
[109] Ibid., 499.

theoretical spatially bound bazaar as expressed by Geertz.[110] While Mitchell and Callon theorize the economy as an object, given expression and life via its constitution through theory and discourse while being acted upon and performing economics in the material world via its interaction with its theoretical makeup, Ray showed that the physical urban centers of wholesale commerce where transactions took place among actors (peddlers) in a 'pre-modern' marketplace were a separate entity from an abstract system which funded and provided credit for regional trade by way of promissory notes and bills of exchange.[111] Unlike the specificity of the previously mentioned articulation of economy, the world of the Bazaar was far more decentralized and elusive to those on the outside looking in. As we will see, our understanding of this system has been expanded upon by many other scholars to include intertwined systems of law, exchange, and familial and religious ties. The correspondences concerning the establishment of a British bank in the Gulf provide firsthand evidence elucidating how select British bureaucrats and financiers were well aware of the existence of this system, and that this system was operating at such a high level of efficiency and impenetrability that a European bank in the Gulf would not be commercially profitable. As we will later see, it was increasing geopolitical tensions in conjunction with the process of international reordering and the resulting regional instability that necessitated tightening the imperial grip on the region. This in turn led the heads of the Political Residency to actively lobby for the establishment of the bank in a situation where indigenous instruments and systems of exchange were working efficiently in meeting the demands of capital in the abstract, but not the needs of the British empire-state.

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110 See the works on the markets and economy of Timothy Mitchell, John Law, Keith Hart, Michel Callon, and Rajat Kanta Ray.
111 Ray, "Asian Capital in the Age of European Domination," 452.

Hundis are understood as a highly negotiable instrument and source of liquid capital which knitted together the properties of goods, capital, credit, information, and agency - all of which served as the backbone of the Indian merchant network. After 1858 the British government began viewing the instrument as a taxable revenue stream, resulting in hundi being integrated with statutes and regulations during the colonial period. Hundi is broadly described as a bill of exchange and method of remittance to settle debts and transfer funds. However, as Marina Marin has demonstrated, it is both an instrument and system of credit. As new forces and technologies proliferated, this system interacted with modern banking and new forms of legislation that come along with it. Due to its lack of accountability under the British legal system, Hundis were classified as "informal" or indigenous since the nineteenth century. Although they were differentiated or "classed" as "indigenous" or "traditional", hundis were in fact part of the formal economy. They were subject to late nineteenth century financial legislation such as the "Negotiable Instruments Act" of 1879 (NIA) and the "Indian Stamp Act" of 1881 (ISA), achieving status as formal bills of exchange through the later.[112] On the one hand, the NIA marginalized hundi's by way of their "indigenous" classification and representation, while on the other hand, practice and precedent in the courts meant that this system would gain a more formal and 'legitimate' status.[113]

Another major lapse in in understanding concerning the nature of these instruments related to their being as entangled objects within the system. The nature of these instruments/systems meant that they were indivisible from those who employed them. Creditors' ability to pay debts were bound up with their respective personhood. Ethnic group, tribe, family, as well as personal worthiness were considered in the network of credit. Because Indians were the major creditors in

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[112] Marina Martin, "Between Formality and Informality: Hundi/Hawala in India," http://blogs.lse.ac.uk/southasia/2013/01/16/hundihawala-in-india/, 2013.
[113] Ibid.

the region, sanscritik and other non-Arab names would need to be bound up in Islamic legal and commercial instruments. This had social and political effects. The katibs furnished them with personhood necessary to forge bonds of obligation. For the Hindu South Asian community, their Sanskrit names would be placed within the garb of Islamic legal lexicon, removing their suffix and adding "Al-Banyani" at the end of the name, helping to cement the Banias (south Asian banking community) as an identifiable social group.[114]

This indivisibility flies in the face of market logic, where calculative actors need necessarily be disinterested to perform rational exchange (though it has been shown that this only occurs on the limit, never fully realized).[115] And so the agents are necessarily rendered externalities within the order: cannot be embedded into a disinterested and commodified system of national accounting that accompanies modern state formation.[116] The project of modern state formation in the Gulf was one that was messy, involving actors and elements from institutions and individuals, to weather patterns and ideas. One such element that is of importance to this paper is that of the evolving discourse of economic theory and to what extent it might inform, directly or indirectly, the interactions between various agents and the historical processes unfolding.

A discussion regarding genealogies of economic thought and the prevalence of certain theorists in constituting modern economic discourse is outside the scope of this paper. The below discussion of the theory of one particular economist, however limited in scope and perhaps somewhat reductionist, may help provide insights as to why the export of the British models and theories, but not their practice, of development ensured Britain's relative power increased relative

[114] Bishara, *A Sea of Debt*, 70.
[115] Michel Callon, "An Essay on Framing and Overflowing: Economic Externalities Revisited by Sociology," *The Sociological Review* 46, no. 51 (1998): 244-269.
[116] Ibid. This is necessarily the case if the system is not bound within a specific territory or concrete discursive formation.

to the host polity or state. It also helps shed light on why the British order could not accommodate alternative forms of exchange while securing hegemony in the Gulf and greater Indian Ocean arena, as well as the ways in which European states used the concept and instruments of economy as a strategy of capital accumulation and shoring up of state power.

The dominant classical and neoclassical economists who came to inform economic theory in the late nineteenth and early twentieth century draw heavily on many of the ideas of Adam Smith and David Ricardo. This line of thought, known as the popular or classical school, attempts to establish political economy and economy as an exercise in logic, "a study of the internal consistency of abstractly formulated logic systems".[117] While Smith does draw some distinction between theory and the material world, Ricardo sees his theoretical mechanisms as representing economic life on the ground.[118] The logic that these theories enforce is one that informs the decision making process of private and state interests during the era in question, and certainly guides discourse surrounding the establishment of banks and exchange houses. As Economic Historian Marcello De Cecco points out, there had been, albeit little known or taught, economic theories developed contemporaneously to Ricardo's that ran contrary to these bourgeois and individualistic depictions of economic man.[119]

The early nineteenth century German economist Friedrich List is one such figure. List understood economics as a political endeavor, rejecting the "popular school" for "ignoring the principles of nationality and national interests, finally comes to the point of altogether denying their existence, and of leaving individuals to defend them as they may solely by their own

[117] De Cecco, *Money and Empire*, 9-13.
[118] Ibid., 17.
[119] Friedrich List's communalism was by not anti-capitalist, but communalist and nationalistic.

individual powers."[120] He used economic history to inform his theories and the subsequent policy initiatives he hoped to achieve.[121] Thus, for him, economics was one of the arts of governance.[122] List places the nation front and center in his theory, and in his 1841 *The National System of Political Economy*, he formulizes his theory as counter to Ricardo's search for immutable laws governing *homo economicus* and Universalist doctrines of free trade in articulating the concept of national economy as one that is inherently political, one charged with a political task above and beyond the theoretical personal economy immune from state power: "It is the task of politics to civilise the barbarous Nationalities… It is the task of national economy to accomplish the economical development of the nation, and to prepare it for admission into the universal society of the future."[123] List's attack on the classical school rested on the premise that if one were to import bourgeois revolution from Britain, that nation would cement the hierarchical relations in place with Britain. Rather, nations should industrialize under strict protectionism, develop, and then open up to trade when it suits the nation's interest. He held, as many do today, that both Smith and Riccardo's theories supported the political dynamics of Britain at the time as well as their personal interests.[124] In hindsight, Germany and the industrialized nations of Europe seem to have undertaken Lists advice, using their proper policies to industrialize and, in the case of Germany in

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[120] Friedrich List, *The National System of Political Economy*, (1841), chap. 15. https://web.archive.org/web/20081225202357/http://socserv2.socsci.mcmaster.ca/~econ/ugcm/3ll3/list/list2 I leave John Locke, David Hume and other prominent figures out of this discussion for the sake of brevity and lack of necessity.
[121] In his case, this was the development of a powerful German national economy that could be used to underpin Germany's political power.
[122] De Cecco, *Money and Empire*, 11.
[123] Friedrich List, *The National System of Political Economy*, Ch. 14-15.
[124] De Cecco, *Money and Empire*, 13. Similar thesis can be drawn from Locke's support of colonialism, and countless other theories, enlightenment or otherwise.

particular, resist British economic hegemony and attempts at global ordering prior to both World Wars.[125]

The work of constituting a particular form of economy therefore relies on state power and the upholding of certain rights. In developing its economy, the state should remain insular and develop an enclosed system which it can manage, oversee, gather knowledge from, and put to work. While there are certainly other forces at play, there are political initiatives in place that seek to enframe elements within the order and make them legible, rationalized, quantifiable, and allowing for data collection, oversight, and control. This presented a major hurdle for the British in the region and meant that the process of alienation and dissociation from their larger context and entanglements meant undoing the existing structure that had existed for centuries and helped the British secure their positon.[126] As mentioned above, the systems of exchange and finance (Hundi/Hawala and the Bazaar) as well as the economic and legal instruments used (Waraqa and Hundi) are all intimately tethered to their specific context. The result is that to this very day, these instruments, while still in use across the region and globally, have not found a place to render them legible in law or economics.

Indigenous Instruments of Law and Economy

The nature of trans-regional networks have been described as heterogeneous structures where goods, people, capital, and credit circulate in a non-linear fashion by scholars such as Jeremey Presholdt, Patricia Risso, and many others in a similar fashion. Ray, and, more recently

[125] See Pederson, *The Guardians*, Ch. 5. She argues that the German push for reterritorialization of empire in the 1930's was driven in part from British internationalist designs which excluded Germany from oil concessions and a seat at the table in strategic reordering..

[126] See Timothy Mitchell, "The Properties of Markets," in *Do Economists Make Markets? On the Performativity of Economics*, ed. Donald MacKenzie, Fabian Muniesa, and Lucia Siu, 244-275, (Princeton and Oxford: Princeton University Press, 2007); Michel Callon, "The Embeddedness of Economic Markets in Economics," *The Sociological Review* 46, no. 51 (1998): 18.

Marina Martin and Bishara have paid close attention to the instruments and discourses that constituted these expansive systems – the hundi, waraqa, and other underlying economic and legal tools that underpinned the Bazar economy and other systems of exchange.

Hundi's today are often derogatorily cast as "illegal" and associated with undesirable and criminal elements of the economy, or associated with the informal due to their lack of representation within the legal system. As previously stated, the sidelining of these instruments and the systems of exchange within which they operated has a history dating back to British use and legislation of in the late nineteenth century.[127] This relegated the instruments to the position of informal, and associated them with the disorderly and primitive marketplace or Bazaar. While most commonly described as a remittance vehicle, Martin's analysis shows that Hundi was far more than that: it can denote an indigenous banking instrument as well as the system itself. Regulations concerning hundi were framing it solely as the former, and could not get a handle on the nature of the object, rendering it elusive to regulators. The Hundi system was highly adaptable and shifted functions to meet the needs of trade, its agents, and the economic and political context. The problem of definition can therefore be seen less a function of a lack of clarity, but an expression of a dynamic system that was intimately tethered to those who acted within it and the larger contexts of law, politics, and economy.[128]

[127] Martin, M. (2012), An Economic History of Hundi, 1858-1978, *PhD Thesis, Department of Economic History, London School of Economics and Political Science,* 17-20.

[128] The etymological roots of the terms Hundi and Hawala are uncertain, increased circulation across the Gulf and South Asia, with particular importance paid to the interaction between Indian, Persian, and Arab pearl traders around the island of Bahrain, may have brought the concept of Hawala to South Asia. The connections and modes of exchange associated with these instruments likely existed prior to their articulation. For our purposes, we will use only the term Hundi, which can be deployed to describe the instrument, or bill of exchange as well as the hundi remittance system.

Chris Bayly has argued that the British administration's replacement of Hundis with Treasury bills was a sign of the attenuation of relations between Indian Merchants and the British in the later nineteenth century. Although Martin demonstrates that the British continued to engage and put the system to use, what is pertinent for this story is that the British were well aware that use of this system was dependent on amicable relations with those involved. In order to get around and supplement its functions, they needed to introduce their proper instruments. What Martin shows is that the British continued to make use of the system even after the introduction of treasuries and banking in South Asia, and that this would only have been the case if the system was functioning with a high degree of efficacy.[129] The efforts of the British to legislate what they defined as an instrument continually failed, from the unenforceability of the 1881 Negotiable Instruments Act due to issues surrounding language, to a 1930 report which maintained that Hundi could not be defined in law due to its 'loose' usage in commerce, and up to this day where the problem of language continues to defy regulators. In summation, the problem that Hundi posed, and continues to pose, rested largely in that it was not a system that could be rendered legible to the British legal system or fit neatly into economic discourse. Hundis could not be relegated to mere instruments of exchange, they constituted a system, a system that was intimately tied to modes of economic life that had existed in the region for centuries.

The nature of the system meant that the British could not hope to secure a level of control needed to ward off rivals without neatly mapping out and calculating capital flows across their territories. In addition, being tethered as they were to subjects, families, and polities, rates of interest varied according to systems of credit tethered to those things. This posed problems in

[129] See Chris Bayly, *Rulers, Townsmen and Bazaars: North Indian Society in the Age of British Expansion, 1780-1870*, (Oxford: Oxford University Press, 1983); Martin, "An Economic History of Hundi, 1858-1978," 918.

efforts to theoretically tame, as well as frame, the economy. In addition, the cost of capital could not be standardized though British methods of calculation and centralized within *their* system. However rates *were* standardized and calculated rationally within the Bazaar economy. This was done via the vast system of indigenous knowledge produced within the economic and legal systems of the region and inscribed via both the Waraqa as well as remittance vehicles themselves. This brings the question of "altruistic and calculative trust" to the fore, and the fact that altruistic trust was never the form of credit that characterized indigenous systems.

The lenses through which the British economic and legal experts viewed this system may have rendered it irrational and based not on documented histories, but personal ties. However, as Markowitz describes and Bishara has enlivened, transactions and legal proceedings were widely documented and circulated, creating a regional system based on obligation, trust, credit, and law. Fahad Ahmed Bishara paints a vivid picture of the ties that bound subjects, states, and families to each other through webs of paper trails and obligation. The Hundi system as described by Martin and the paper world of the Waraqa have not been placed in direct conversation with one another.

Bishara shows how a "juridical renaissance" was taking place in the realm. Scholars from the region would compose texts on a variety of subjects, including law and commerce in light of the changing world around them. Embedded in the thinking of legal scholars was a sort of economic thought, a political economy that included reflections on nature, trade, wealth, taxation and power. He shows that what Sugata Bose termed the arena of the Indian Ocean was thus not only borne of connections across the sea, but of the circulation of wealth and ideas which constituted a political economy, documented by scholars and enacted through trade and institutions. The waraqa were paper trails that acted as the "ties that bound" commercial, economic, and trade relations across Arabia and east Africa, "tethering itself to the natural rhythms" of commercial and economic life, and giving form to the realms of religion, law, and trade while ever changing to meet the demands of global capitalism.[130]

These instruments of trade and law were deployed across oceans, states, and jurisdictions – taking on a dynamic and negotiable nature and lacking the cohesion of centralized bureaucracy of British institutions. These were embedded in systems of Islamic law and varied in language and form. Islamic law operating within the world of the bazaar was one that was fluid and changing. Jurists and scribes often wrote documents drawing on the lexicon of Islamic law, then mediated with local muftis to make it legible in the Islamic episteme. These documents constitute a dynamic and mobile world, latching on to law and moving across jurisdictions along with the forms of jurisprudence that they produced. In examining these documents, Bishara helps us to understand how "property is working", demonstrating how the instruments and practices that resemble options and mortgages were central to political and economic life in the region. As in Western legal traditions, there is a language of "usus' and "fructus" at work, differentiating production and exchange value from use value. However, the paper world outlined by Bishara is less characterized by distinct institutions than a common language. At the moment of interaction with western modes of exchange and legal categories, the language adapts accordingly, resulting in overlapping and intertwined hybrid and discrete systems.

The imperial subject thus had a fractured nature with regards to the law in the process of the rethinking jurisdiction, sovereignty, justice and legality, not just as intellectual constructs but concepts grounded in local practices. Colonial rule helped, like in the realm of finance, to create a plurality of platforms within which legal experts could navigate and create alternate systems

[130] Bishara, *A Sea of Debt*, 11.

grounded in the current state of affairs, borrowing from different traditions and shaping a new juridical order. [131] The waraqas supplied a unified language of exchange in the face of burgeoning modern capitalism. In the twentieth century, commercial actors and merchants were the driving forces behind determining how new commercial opportunities would be captured and thus inscribed. As the British regime increases oversight in the region, cases are brought to courts and the role articulating trade moves to the realm of British judges, lawyers, and courtrooms.[132] The discourse furnished the intellectual underpinnings of this world, providing a philosophy to the nature and shape of the commercial obligations that ran through it, and as a modality of rule- a medium of expression of "multiple and overlapping sovereignties". Law was essential to the process by which a range of actors negotiated, established and contested jurisdiction over communities and commerce, and was intimately linked with capital and markets that underpinned the worlds of Hundi and the Bazaar. Translation projects and the undoing of Islamic legal texts, the replacement of native agents in the trucial states, and the establishment of banks and transfer of commercial cases to British tribunals are key elements in the establishment of protectorate status and new form of imperialism that was to take hold in the interwar era.

[131] Shannaugh Dorsett and John McLaren, ed. *Legal Histories of the British Empire: Laws, Engagements and Legacies,* (New York and London: Routledge, 2014), 55. More than this, it inserted them into an "Islamicate landscape" and endowing parties with the necessary socio-legal capacity to engage in property and debt transactions. Embedding ones into this system rendered the actor legible to the system. However, Islamic Law did not recognize the existence of companies as legal persons, and the predominant economic actors of the region, Indian merchants, operated largely through mercantile firms. The katib's response was to reduce the multi generational firm and its conglomeration of assets and constitutive persons into the persona of the founder. By ascribing personhood to the firm, the katib granted the entity the capacity to operate within the system, but also to make sustain debt claims after the contracting parties had passed away. Similar to the common law tradition, where corporation is granted legal personhood through the legal system and representatives. The notions of subjectohood tied into this fabric did not extend to all groups. Slaves, for example, their capacity to incur obligations was weaker (being both person and property), and would only be able to incur debt based on their assets or on their person-as-commodity. See Bishara, "A Sea of Debt," 71.

[132] Bishara, *A Sea of Debt*, 172.

Chapter 2: Banks

Banking and Empire

> The transformation of numerous modest intermediaries [banks] into a handful of monopolists represents one of the fundamental processes of the transformation of capitalism into capitalist imperialism[133]

In Lenin's *Imperialism*, he describes a process of the centralization of capital and revenue streams via the consolidation of national and multinational banks. Where there were once thousands of economic enterprises, the process of consolidation transformed the landscape into a "single, national, capitalist, and then into an international, capitalist, economic unit" in the nineteenth and early twentieth centuries.[134] He draws this argument from prominent German bankers and economists, who make the salient point that in the post-1873 environment and the buildup of imperialism, "the stock exchange is steadily losing the feature which is absolutely essential for national economy…that of being an exact measuring-rod and almost automatic regulator of the economic movements which converge on it".[135] He describes a transitory process by which a new form of capitalism characterized not by free competition, but by state sponsored enterprise driven by the establishment of international and multinational banks. This process of centralization and consolidation is something that was widely resented by industrialists and capitalists, who saw the establishment of such institutions as limiting competition and the natural or "automatic" regulation performed by capital. Amidst these shifts, capitalists became dependent on the bank due to the knowledge that the bank acquires in discounting bills and other accounting

[133] Vladimir Lenin, *Imperialism: The Highest Stage of Capitalism* (1939), (New York: International Publishers), 31.
[134] Ibid., 34.
[135] Dr. Riesser, *The German Big Banks and Their Concentration with the Development of the General Economy in Germany* (4th edition, original 1911), 629, taken from Lenin, *Imperialism*, 40.

or market operations.[136] This in turn led to close cooperation and ties between the great industrialists (and rail and steam companies in the case of the French and English) and bankers, and intimate linkages between each of them and the state.

The consolidation of capital and close cooperation amongst “officials” from both the “public” and “private” sectors (a line which is blurred in this process) meant that banks could now engage in large fixed investments across vast spaces, and fund technical research and large scale infrastructure projects, bringing about technical change and “new conditions for national economy”.[137] Lenin and his contemporaries within the banking system diagnose a very specific shift in the nature of the capitalist economy.[138] They readily admit that they are somewhat perplexed and averse to banking’s engagement and intervention in industry and the shifting of its role from simple intermediary to financing large scale projects in conjunction with industry and state interests. This development, what Lenin describes as the turning point from “the domination of capital in general to the domination of finance capital”, is one that can be traced precisely to the turn of the twentieth century.[139]

Banks did not function in the same manner across nations nor specific types of banks. Commercial banks had existed for a long time and operated in ways that transcended state boundaries. Facilitated by European imperialist powers, the banks allowed capital to flow from the core of one state to finance ventures across the globe. These were the predecessors to international banks. The development of multinational in the 1830’s was a uniquely British phenomena at the

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[136] Lenin, *Imperialism*, 41-42.
[137] Ibid., 45.
[138] Lenin references largely German bankers, capitalists, and economic theorists, and thus, in this case, is making direct reference to the German banking system.
[139] Ibid., 46.

time. Banks based in the Isles, namely the City of London, began opening branches in India, Oceania, East Asia, and elsewhere in the commonwealth in order to transact with merchants on the ground. Most historians concerned with the strategies and nature of banks at the turn of the twentieth century hold that the conglomeration of banks at the time marked a shift away from free enterprise to what Alfred D. Chandler called managerial capitalism.[140] As is usually the case, the banking panic's of the 1890's catalysed this drive toward centralisation, regulation, and conglomeration. However, with regards to establishing a subsidiary of an exchange bank to Bahrain, financial panic and the drying up of credit would act as an inhibitor. Perhaps then, a better way to characterize and explain part of the politico-economic processes and institutions of modern capitalism and state formation in the region is the rise of the specific form of finance capitalism described by Lenin in conjunction with managerial capitalism as described by Chandler.

During the late nineteenth and early twentieth centuries, centralization of capital within banks was accompanied by a rise of separation between owners of industry (banking, now an industry in and of itself, included) and managers organized hierarchically. Coordination among managers, entities, and the state began to drive industry and commerce, as well as underpin the emergent multinational banking system. Britain adapted slowly to this change relative to Germany and the US, thus had a harder time achieving the rates of growth in certain industries and retained a more family-oriented ownership and organizational structure. However, in the latter quarter of the nineteenth century, the number of British banks dropped by more than fifty percent followed by radical reconfiguration of their operations and governing structures. As is often the case, directorships of separate British banks were often held by the same individuals, many of whom

[140] Alfred D. Chandler, *Strategy and Structure*, (Cambridge: Harvard University Press, 1962); and Chandler, *Scale and Scope*, (Cambridge: Harvard University Press. 1990).

had close ties to government and colonial officials.[141] During this period, the other European and Japanese Empire-States were developing multinational banking capabilities under protectionist policies.[142] In light of rising competition, loose and adaptable organizational structures, and support from the British Empire (whether directly or through its imperial holdings), British banks began venturing into the direct financing of primary products and general revenue diversification. Britain maintained its huge advantage but encountered competition in the two decades leading up to World War One.

The banking panics of the early 1890s led to a sharp decline in investor confidence and rendered a large number of banks across the British realm insolvent. However, even amidst rising geopolitical tension, the latter half of that decade saw a sharp increase in trade and capital flows. This was also the era of international gold standard, where there was a theory and firm belief that this system, with gold as numeraire, would achieve an equilibrium and allow for trade balance in perpetuity.[143] The gold standard and new system of international finance that underpinned the prewar era resulted in a standardization of monetary policy across developed states, accumulation of gold reserves at central banks (thus allowing for government oversight of reserves), and a money supply driven primarily by joint stock banks. Thus, the process of centralization meant that banks, rather than industry, became the primary engines of economic growth, investment, and speculation. This resulted in a drastic decrease of the amount of public money (physical currency in circulation), a growth of bank "deposits", and unparalleled expansion of the economic sphere.[144] This growth went hand in hand with the emergence of increasingly powerful financial oligarchy.

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141 Jones, *British Multinational Banking*, 17.
142 Ibid., 55.
143 Cunliffe Report, 1919, Printed in De Cecco, *Money and Empire*, 14.
144 Calling bank holdings deposits is somewhat devious because it implies that the bank is holding your money or deploying it through intermediation or direct investment. In reality, banks conjure up money and credit through loans creating deposits as a function of IOU's, AKA, out of thin air.

The remaining banks used their power to squeeze the Bank of England and older merchant bankers, adopting many of their primary functions.[145] By 1914, the majority of capital flows across British industry and empire were in the hands of these bankers. One such banking house stands out, not in the sense of being the most prominent or wealthiest, but by virtue of the provenance of their primary shareholders.

The Sassoon commercial and banking dynasty were Baghdadi Jews who came to prominence as long-distance traders and financiers in Southern Iraq and Persia. They went on to serve as chief treasurer for local Pashas in Iraq during the eighteenth and nineteenth centuries and cemented their positons as global financiers brokering trade in opium between India and China. The family set up operations across Asia and once they secured enough capital and power, set up shop in London. They invested heavily in the (British) Imperial Bank of Persia and, in 1909, the Sassoon's were to become the first non-European commercial house to acquire a position within the City of London.[146]

The family established Eastern Bank LTD. in London in 1909 and quickly opened branches across Mesopotamia, India and the Far East, engaging in an extensive array of business ventures in the region with direct access to European capital, technology and hardware.[147] They grew rich and powerful, taking advantage of the lack of exchange laws and their vast fortune to speculate on rubber, hedge silver markets amidst depleting gold reserves as wartime approached, and a multitude of other ventures and strategies.[148] However, the banks headquartered in London always had to work in line with state interests to ensure that their charters were sustained. The Imperial

[145] De Cecco, *Money and Empire*, 125.
[146] Jones, *British Multinational Banking*, 77.
[147] Stanley Jackson, *The Sassoons: Portrait of a Dynasty,* (Postsmouth: Heinemann Publisher, 1968), 138.
[148] Ibid., 139.

Bank of Persia and Eastern Bank, both owned in large part by the Sassoon family, had deep roots in the region and worked in tandem with the state.[149] Due to its strategic significance, geographic position, and being the central node that it was, it followed that opening a branch of the Imperial Bank of Persia at Bahrain seemed like a natural development.

The first attempt at establishing a multinational exchange bank in Bahrain was in 1900 when the branch manager of the Imperial Bank of Iran managed to open an office in Bahrain. The office was shut down within two months after prominent Indian traders pressured the British into revoking its charter. While European powers were encroaching on Gulf ports, the Sheikh was becoming less amenable to British control and, according to the British, "getting a little out of hand."[150] British jurisdiction on the island was hotly contested and negotiated amongst a wide variety of actors, including the Turks, various clan leaders, the wali of Basra, and others who held influence over various elements and recognized different and shifting claims to sovereignty over the island.[151] The previously mentioned 1892 agreement requiring British consent in prior to selling land and granting concessions, and British influence on the Sheiks and prominent actors on the island were seen as under threat. Russian, Belgian and Persian officials and experts routinely toured the island and meeting with Khalifa clan members and establishing personal relations there.[152] Lord Curzon, Viceroy of British India, took particular interest in the Gulf and was adamant about securing the British foothold in Gulf ports and "not allowing the customs of any Gulf port to be handed over or collected by any agent of a foreign power."[153] Curzon met

[149] Jones, *British Multinational Banking*, 82, 125.
[150] Minute by Lee Warner, 10 May, 1900. No. 2064 in Farah, *Protection and Politics in Bahrain*, 137.
[151] Farah, *Protection and Politics in Bahrain*, 116.
[152] Complex legal, political and economic webs were at play during prospective transactions with foreign powers. See Farah, *Protection and Politics in Bahrain*.
[153] Curzon to Broderick. 21 November 1903, BL Middleton Papers, Add 50075, in Farah, *Protection and Politics in Bahrain*, 121.

personally with the Sheikh and made clear that by no means could be turn over custom collections to non-British powers. He placed the blame of the inadequacies on the acting political agent and sought his replacement. In April 1904, the like-minded Major Percy Zachariah Cox was installed as political officer on the island.

At this time, it was noted that absent formal protectorate status, the British could not exert the requisite control over the customs house and the island. However, "forcible measures would be liable to arouse unnecessary suspicion as to our intentions in the Gulf".[154] In order to overtly call for his acquiescence, the British demonstrated their willingness to use force by sending a small guard of sepoys to accompany the new agent. Around the same time, the French were attempting to establish a bank on the island to transact with prospective pearling ventures off the island. This did not go over well with Cox, who immediately understood that this could mean influence over customs collections, and the presence of a French warship in the Gulf to ensure the protection of French vessels.[155]

During the so-called disturbances of 1904-1905, where a legal case involving a German trader and different legal systems allowed for the British to apply pressure on Sheikh Isa by leveraging his cousin Ali's claims to the throne. To ensure that the establish order was upheld, British claims for protecting trade needed to be upheld. The administration began to engage in local retributive practices in such cases and expel those who engaged in deviant and criminal acts. This show of force was the first firm move by Cox to control the Sheikh and centralize power on

[154] Govt. of Indian, F.C., to Secretary of State to India. 1904 Curzon papers. In Farah, *Protection and Politics in Bahrain*, 128.
[155] Ibid. P. 129.

the island. Cox continued the push to gain control of the customs house, but could not achieve his aim absent coercive measures, which were ruled out due to how they may be perceived. [156]

The British were able to successfully negotiate with global imperial powers such as Germany Russia, France, and Belgium, and local rulers such as the resurgent Wahhabis to establish a position of relative dominance in the region. A changing geopolitical landscape brought about by the Russo- Japanese war, the Moroccan crisis and other significant events allowed the British to tilt the table in their favor. The main concern of the British (and Cox in particular) were the Germans, whose rapid economic development and political power prompted Cox to view them as a “menace”, and whose designs in the Gulf would set the stage for permanent political and economic competition required the British “killing it in its infancy if possible...”[157]

The Germans attempted to work the contradictions of the legal order in place to help undermine the British image and clout on the island by asking for protection of their traders, whom were sworn to be protected under British governance, simultaneously stepping on the toes of local authorities. In doing so, the hope was that the question of jurisdiction would be raised and the multilateral and unofficial structure would be laid bare, demonstrating the inability of the British to produce any written legal documents granting them jurisdiction.[158] As German commercial encroachment continued, the British began using the rhetoric of forceful resistance against any power who might attempt to establish a permanent fort in the Gulf. As the British Government of India had noted, “commercial prosperity inevitably leads to political hegemony”.[159]

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[156] Ibid. P. 164.
[157] Cox to Sec. to Govt. of India, 1906. In Farah, *Protection and Politics in Bahrain*, 169.
[158] A similar issue was raised with regards to the Jewish population on the island, who were taxed and tried not as subjects of the Sheikh, but as foreign merchants under British protection.
[159] British trade and shipping tonnage dwarfed that of Germany in the region by nearly 20:1. It was the rate of growth and the establishment of railway projects, such as the Berlin to Baghdad, which gave cause for concern.

> At every step we take in Bahrein we are haunted by the dread: What will Turkey say? What will Persia say? And Germany? What will….th pearl divers say? They all have the right of direct access to the Sheikh…our political officer does not always know what passes between the Sheikh and these foreigners. He has to find out before he can give effective advice to the Sheikh – that is, effective in the sense of British interests.[160]

Toward the end of the first decade of the twentieth century, the informal treaty relations that granted Britain forms of jurisdiction over the island were routinely being called into question on legal grounds. Burgeoning international legal discourse rooted in the types of informal agreements was taking shape, and the government of India wanted to place themselves on more concrete legal footing rather than proceed informally. They first entered into written agreement regarding jurisdiction over foreigners, then began the push for a formal protectorate. Tensions with the Turks began mounting in 1910 and 1911, and it was relayed that if concessions were made, they should exclude any jurisdiction over Bahrain.[161] Come 1913, the Turks had relinquished all claims to the island. By the time the war broke out in Europe, Britain had reached its apex of geopolitical supremacy in the Gulf. From here on out, the British moved toward a colonial relationship with Bahrain.

During this period, many other foreign banks attempted to open branches at Bahrain but would be shut down by the British. The British Foreign Office, realizing the political benefits in terms of exerting influence and keeping foreign banks and thus foreign clout at bay, began to push for the establishment of a British bank at Bahrain. However, the task would be one riddled with

[160] Gulf Sub Committee Report, 2 March 1908, "The Cross examination of Ritchie".
[161] Farah, *Protection and Politics in Bahrain*, 180-191.

opposition and would take years before it would come to fruition.[162] It is important to note that during the correspondences regarding the bank, the conversation stems largely from high ranking British government agents. While the 'indigenous' traders, British commercial interests and the Shaikh are frequently alluded to, their motivations and ambitions can only be assessed by the words of British government officials who claim to be representing said interests. The loudest proponent for the establishment of a Gulf bank was acting Gulf Political Resident Percy Cox.[163]

Eastern Bank, LTD.

As articulated above, Percy Cox was the Political resident in the Persian Gulf and represented Curzon's hawkish stance in the region. Amidst growing tensions with the Turks and sustained rivalry with Germany, Cox solicited the Secretary to the Government of India in the foreign department, Sir Henry McMahon, on the June 27, 1911, asking whether his government "...would find it worthwhile to examine the present condition with regards opening bank business in the Gulf Ports, especially Bahrain…"[164] His letter expresses a slight concern over previous "political objections" raised against the bank, but that Foreign Department might nonetheless want to informally suggest to a large bank in India that the prospect for a bank in Bahrain are sound. Attached was a letter by a H.G. Chick, the Commercial Advisor to the residency concerning the establishment of either a branch of the Imperial Bank of Persia or a rupee denominated bank- "as most trade with the Trucial States is with India and not Persia." Cox's inclusion of the supportive voice of a British "economic expert" in the note might say nothing on its own, but concern over

[162] File T/8 C 62 Banks at Gulf Ports: Bahrain, Eastern Bank Ltd', British Library: India Office Records and Private Papers, IOR/R/15/1/198, in *Qatar Digital Library*, https://www.qdl.qa/archive/81055/vdc_100000000193.0x0000ab, 18-22/72.
[163] Ibid.
[164] Cox to McMahon, 27 June, 1911. File T/8 C 62 Banks at Gulf Ports: Bahrain, Eastern Bank Ltd', British Library: India Office Records and Private Papers, IOR/R/15/1/198, in *Qatar Digital Library* http://www.qdl.qa/en/archive/81055/vdc_100023614487.0x000013.

rival banking interest and control over custom houses in the Gulf littoral demonstrate the likely intent behind this support of this push. Chick's note provides a brief overview of commodity and capital flows, most notably pearls and specie, in the major ports in the region – with Bahraini flows outweighing all others by large multiples.[165] Chick supported the establishment of the bank for both commercial and strategic purposes.[166] His unanimous support for the establishment of an Indian bank on the island is sustained in his proclamation that at Bushier, rates were in advance of the Bazaar rate, and that a "European bank could very profitably start a branch at the present time".[167] With regards to strategic interests, he expresses concern over the establishment of a bank by a rival and being subject to "the prospect of the imperial bank of Persia becoming the sole banking medium in all gulf ports."[168] While they do not yet explicitly state their geostrategic imperatives, as tensions mount during the war and during the postwar era with the rise of nationalism and of Wilsonian principles, the push for the bank as well as the willingness of the government to intervene grew in tandem. The foreign office would respond asking Cox if he considered the initial rejection of the charter of the Imperial Bank of Persia ten years earlier.

As noted above, the British position in the Gulf and Bahrain had drastically changed from 1900 to 1911, and, in addition to the British holding more sway over the Sheikh and in the region, other British firms were operating on the Island. Cox was one of the orchestrators this new dynamic. He did however understand that there was an inherent mistrust regarding British designs on the island, assuming that the Sheikh would "scent something official and reply that he saw no

[165] By as much as 20:1 relative to certain commodities and ports.
[166] Hasan Khaldoun Al-Naqeeb, *Society and State in the Gulf and Arab Peninsula: A Different Perspective*, (London: Routledge, 1990), 74.
[167] Cox to McMahon, 27 June, 1911.
[168] Ibid.

need for a bank" if he were to be approached by British officials, proposes using an indigenous "tactful representative" to sway his opinion.[169]

The plan did not come to fruition for years as contention regarding the establishment of the bank was presciently vocalized by a variety of actors. These actors were in large part indigenous traders that conducted business across the Indian Ocean, who held a virtual monopoly on inland trade in the region in conjunction with the BISN, who had a monopoly on freight. These two monopolies were under direct threat by the establishment of a British bank in Bahrain that would be accompanied by the "free transport of specie in the region" as well as inland penetration- two important sources of income for the indigenous traders and BISN freighters.[170] However, one critical element of opposition came from within the British Government - this was the note of Noel Paton of the department of commerce and industry on October 31, 1911. Paton's short but comprehensive note demonstrates a profound understanding of the system of commerce, trade, and finance that connected London to Persia and major trading hubs of the Persian Gulf and India through the business of forward selling, hundi exchanges, and inland transport. He paints a picture of a well-oiled machine, largely "native" working in conjunction with the finance capital of the world. In his opening paragraph, he blatantly states that "all evidence is unfavourable" for the establishment of a British bank in the Gulf. [171]

Paton makes this assertion after discussing the matter with representatives of the National and Chartered Banks at Bombay and Karachi as well as with merchants in towns, both "European

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[169] Ibid.
[170] 'File T/8 C 62, Banks at Gulf Ports: Bahrain, Eastern Bank Ltd'.
[171] F. Noel Paton. Note. October 31, 1911. 'File T/8 C 62 Banks at Gulf Ports: Bahrain, Eastern Bank Ltd' [9r] (30-32/72), British Library: India Office Records and Private Papers, IOR/R/15/1/198, in Qatar Digital Library http://www.qdl.qa/en/archive/81055/vdc_100023614487.0x00001f.

and native".[172] He then proceeds to describe how "considerable trade is done by Indian merchants at Bandar Abbas", the largest Persian port on the Gulf which did not contain agencies of the Imperial Bank of Persia. The goods that arrived at Bandar Abbas were destined for interior markets, sold for delivery at "the said upcountry places, the risk in transit being on the seller. The ultimate payments for them are often encashed upcountry. There are, I understand, no European merchants at Bandar Abbas."[173] The subsequent description he offers is one that is very much in line with Ray's Bazaar economy and Bishara's histories of Indian Ocean commerce, and is important as it offers a detailed glimpse into how trade was conducted in the region during the early twentieth century. The system that Paton outlines is one in which trade is conducted by middle men who:

> ...pay cash to the importing firm and sell the goods to traders at rates designed to cover interest and risk. In fact these traders discharge the functions of guarantee broker and a good deal more. The credit given by them or their principals is often large in proportion to the standing of the dealer who receives it. The risk is considerable and would be prohibitive to any person who knew the standing and position of the individual dealer less intimately than the native middle man knows them. A European would not possess the requisite knowledge. For this reason no Western bank would give delivery of goods on credit. It would want cash down; and this ready cash would have to be paid by the native middle man. He would want his profit or commission as at present. Therefore the intervention of the bank would have for its most obvious effect the addition of the bank's commission to

[172] Ibid.
[173] Ibid.

> the charges now incurred. Trade would not pay an additional commission: therefore this section of the banking business would go past the bank.[174]

This concise statement made at the beginning of Paton's note presents an argument against the establishment of a bank that is not rebutted by any of the related correspondences in the archive. In essence, he is stating that due to the extension of credit by the trader often being at amounts that surpass their debtor's ability to pay, Western banks would not extend loans without substantial down payment that would have to be supplied by these same traders who are active in the 'indigenous' credit system, rendering the bank uncompetitive and therefore not a profitable venture. The note makes it quite clear that, as is always the case with credit networks – to issue loans and credit extension entails the requisite information and 'credit' calculated through these networks. Because the information in this case is embedded within personal relationships and systems bound through long standing ties, capital would not venture out where it is not needed, and profit seeking investors most certainly will not. Thus the indigenous merchants capitalizing on information gaps between the littoral ports and interiors would not face any competition. Paton's portrayal of a hybrid trading structure that ties together indigenous merchants from the South Asia and the Persia Gulf to London elucidates his awareness of a multifaceted and truly global network financed largely by 'indigenous' merchants involving forward contracts, credit extension and exchange, using the Persian port city of Bandar Abbas as a case for his claim:

> …Piecegoods are bought on speculation by, say, a Shikarpuri merchant from an importing house in Karachi. The goods are shipped direct from England to Bandar Abbas and the documents representing them are posted from England to the importing house in Karachi.

[174] Ibid. The inclusion of interest into the price of trade is often assumed to get around usury laws in Islamic legal traditions. Bishara, "A Sea of Debt," 143.

The Shikarpuri pays cash and the documents are sent to a representative or consignee, named by him, at Bandar Abbas. The nominee takes delivery of the goods and distributes them. When he receives the goods and desire to remit it to his principal in India, he buys hundis in the Bazaar. These hundis are drawn on a merchant or a Shroff in Bombay or Karachi in respect of goods exported from Persia. It must be borne in mind that most of the hundis are not drawn and sold at Bandar Abbas itself, but in the greatly more important trade centres of the interior. It sometimes happens that there are not enough hundis at the Bandar Abbas Bazar; and in that case specie is sent up from Bandar Abbas to those inland centres and given in exchange for hundis. On other occasions when exchange is favorable, or there is likely to be a glut of hundis in the ports, Indians go up the Gulf taking rupees with them and buy the hundis...When there are not enough hundis, either in the ports or the interior, to meet the value of imports, an inducement arises to export goods, and the balance is thus maintained…Native firms can draw against these credits and sell their drafts; and the money can, by arrangement, be made payable in London or India. The intricacy of mobility and exchange are such that we cannot expect the incomings and the outgoings of any one port or group of ports to balance. From what I have said it will be clear not only that the distribution of this trade is and must, for the present , remain in the hands of natives, but also that there has grown up under similar control a fairly complete and efficient organization for financing the business. It does not appear that a bank can work more cheaply than this organization does…There is no evidence, so far as I can find, that a bank would be able to do this more cheaply and yet clear a profit.[175]

[175] Paton, Note, 30-32/72.

Here, Patton describes how imports in the region, and the political economy of the Bazaar, work in some detail: the merchant will pay for goods in cash directly to Europe, have a distributor pick them up on consignment, and receive payment through a bill of exchange drawn up in trading centers in the interior against other imports, where Europeans have little to no access even in proxy markets. The expertise that Patton demonstrates in his detailed descriptions of regional trade, the Bazaar, and Hundi systems is unparalleled in the English source material. Patton understands that the efficacy of the existing system, which has "grown…a fairly complete and efficient organization for financing the business." His note goes on to address H.G. Chick's assertion of growing competition amongst European powers and demands for subsidies, specifically concerning the threat of a German bank in the Gulf:

> The bankers are unanimously of the opinion that there is at present no room for a bank in the Gulf ports…They contend further that if a German bank went there under the current conditions, it would be welcome to do so, and would only burn its fingers… Finally, they say that being the first in the field does not always count for so much as Mr. Chick believes, and they are quite right. Being the first in the field is advantageous only at the psychological moment. Pioneering is notoriously risky unless the time is well chosen. They hold that the present is not the right time, and that a British and German bank would not be reciprocally exclusive.[176]

In light of the evidence provided in Patton's letter, the Foreign office would reply to Cox the following year and decline the request.

[176] Ibid, 32/72.

Aside from an initial rebuttal presumably written by Cox, the records of correspondence regarding the establishment of a bank in the Gulf cease for five years. The correspondence would continue in the midst of the First World War when the Eastern Bank at Basrah applied for permission to open a branch at Bahrain. Cox sent a telegram to the British foreign office on the July 26, 1916 inquiring what arrangements the government would take to facilitate this process and that "On political and commercial grounds I am strongly of opinion that we should encourage the bank to open at Bahrain at once and that we undertake to give them the custody of such government monies as there are there…".[177] Being the Political Agent in the Gulf for over a decade, Cox knew that to maintain a healthy relationship with the Sheikh it would be necessary to obtain his consent, something that the Sheikh had refused several times in the past.[178] One of his proposed methods for wooing both the Sheikh and bankers was for the State to provide them with "facilities for shipping rupees free of freight by government vessels." Acknowledging that:

> This…provision necessarily conflicts with the petty financial interests of the B.I.S.N. Co… who consider it in their interest to get as much as they can out of freight specie from Bahrain, but I am very strongly of the opinion that we should do all in our power to make the bank independent of this matter of the B.I.S.N. Co whose high freights on specie and present monopoly of regular shipping facilities are detrimental to our commercial and therefore our political interests. [179]

Cox's continued push for state intervention and subsidies for shipping in order to get both the bankers and Sheikh Khalifa on board with the bank project presented a conflict between the 'enlightened economic liberalism' of the British Empire and her "political interests" in the region.

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[177] Cox to Foreign, File B/13 Eastern Bank, 5/182.
[178] Lorimer, *Gazeteer of the Persian Gulf, Oman and Central Arabia*, 972-976.
[179] Cox to Foreign, 5/182.

While it is widely assumed that capitalist intuitions and the state operated in a loose sort of harmony in the region, it becomes clear that local colonial officials within the offices of the agencies had one objective in mind – achieving geopolitical supremacy. This meant that individual corporate interests would conflict with each other as well as with the state. From 1914 to 1920, British Policy in the region would become more domineering, even more so during the interwar period as nationalist tensions and competition over how the Ottoman Empire would be parceled out were on the rise. WW1 saw Germany and the Ottomans slowly retreat from the tensions in the Gulf and focus on their home fronts. The war also had an adverse impact and financing of the pearl trade and regional exchange in general, with credit drying up and many Banias leaving the island for other ventures. This glut in financing may have proven to be an opportune justification for the establishment of a bank. [180] Two years after the outbreak of war, the British government advanced an initial approval for extending funds for the bank, but would renege on further proposed intervention.[181] It is telling that even at this opportune moment, the bank relied on financing from government subsidies.

On 29 September 1916, Cox's recommendations would be approved by the Government of India "except as regards for the shipment of specie by government vessels." The Foreign office would argue that any such "concessions would bring government into direct competition with commercial enterprise and constitute awkward precedent." The solution offered in the case of the

[180] John Slight, "Global War and its impact on the Gulf States of Kuwait and Bahrain, 1914–1918," *War & Society* 37, no. 1 (2017), 24-28.
[181]The British state would only overstep her boundaries when her strategic interests were in peril. Al-Naqeeb, *Society and State in the Gulf and Arab Peninsula*, 54-7; Sugata Bose, "Space and Time on the Indian Ocean Rim," in *Modernity and Culture: form the Mediterranean to the Indian Ocean*, ed. Chris Bayly and Layla Tarazi Farwaz, 365-386, (New York: Columbia University Press, 2002), 370-371.

costs of specie shipment becoming an issue, the "Government of India will be prepared to consider the question of negotiating with BISN with a view to reduction in rates."[182]

While the Foreign Office authorized the establishment of a bank at Bahrain, Cox and his counterparts continued to press for an extension of an Indian bank and not a branch of the imperial bank of Persia by being the first to get the Sheik's consent. The agent from the "Eastern Bank" would arrive to begin negotiations with the Sheikh in February 1917.[183] Multilateral negotiations between 'local' leaders, the Sheikh, Cox and other British officials ensued.[184] Following the negotiations, Cox wrote to the Sheikh, "I hope…your Excellency will approve of their proposal."[185]

On 25 April, 1917, Cox advised the Foreign Office to hold off on the bank for "a month or two" owing to the Sheikh's reluctance to the acceptance of a branch on "partly on religious grounds" but mainly owing to opposition of some "principle merchants," and that the charter should be established within months.[186] However contention concerning the banks establishment ran deeper than that of a few "principle merchants." This contention did not stem from religiosity but from members of an indigenous commercial enterprise that was larger and more entrenched than the British had previously assumed. An enterprise that relied heavily on those same services that the bank would offer and that Noel Paton described in his note.

[182] Foreign to Cox, 7/182.
[183] Trevor to Cox, 44/72; Cox to Trevor, 46/72.
[184] Including Sir Mark Sykes.
[185] Cox to Sheikh Isa, 13/182.
[186] Cox to Foreign, 54/72. While these 'principle merchants" are not identified, it might be assumed that these merchants were those who held a monopoly in conjunction with the BISN.

With some local merchants making concerted efforts to thwart the establishment of the bank, Cox continued on his mission of appeasement of the Sheikh.[187] When contending with the issue of adherence to Islamic principles, Cox expressed a genuine lack of understanding, "I write to inform your excellency that you need have no fear that any of the principles of…Islam will be broken through the establishment of the bank…" while he writes letters garnished with compliments and nicety, explaining how the bank will usher in prosperity, he never addresses the issue of usury.[188] The Sheikh continually denied the request.

On Dec. 3, 1917, a memorandum was sent from Bahrain to the Deputy Civil Commissioner of Baghdad reporting that "opposition to the bank seems very strong" and that the question has not yet been reopened.[189] It turned out that opposition to the bank had not only been voiced by "…principle merchants who did business in deposits and loans", but also amongst "…the people who finance the pearling as they fear that loans from a Bank would enable many small men to set up on their own and thus break up what is a virtual monopoly in the hands of a few big men."[190] Those involved in the indigenous banking system saw the bank as a direct threat to their interests and used religion as a way to garner support against the bank amongst the local population. In addition to vocalizing their discontent to the Sheikh, these indigenous businessmen even offered to pay higher taxes if he would oppose the bank, prompting Cox to advise that, "…the bank must wait, as it could only be forced on the place at present."[191] The agency along with less prominent

[187] There was also an effort amongst smaller merchants that wanted the bank established to break up the current monopoly held by the entrenched Bahraini traders.
[188] Cox to Sheikh, 35/182.
[189] Cox to Civil Commissioner of Baghdad, 58/72.
[190] Ibid.
[191] Ibid.

local traders wanting to dissolve the current finance monopolies would take crucial steps in realizing the project.

In 1917, economic conditions in Bahrain were dire and famine set in. Low on funds and facing political turmoil, the Sheiks position at the bargaining table was now constrained.[192] As the plans for the establishment of Eastern Bank at Bahrain were taking shape, the Imperial Bank of Persia began taking steps to undercut Eastern Bank. However, the Government of India took steps in blocking this venture due to their obvious preference for a rupee denominated bank. That said, the market for specie on the island (due to state finance and 'natural' capital flows) was leveraged toward rupees.[193] This process of 'undercutting' involved agents of the state - not formal agents, but representatives claiming to represent private interests - informing Eastern Bank of the Imperial banks designs in order to incentivize them to make haste. Simultaneously, officials worked on gaining consent from the Sheikh to acquire leverage and attenuate the push from the Imperial bank.[194] The Sheikh issued another refusal in 1917, justified once again on religious grounds and prompting Cox to address the Sheikh directly, assuring him this time that the issue of "persons wanting interest" would be subject to the laws and customs of the religion of Islam. This was followed by a less-than-thorough 6-point list of why a bank would facilitate trade in the region. This list, including elements such as specie transport and insurances, does not take into account the argument made by Patton, nor an even basic understanding of local networks of exchange, which include both discounting as well as insurance.

British colonial officials and military officers proceeded to find and coerce prominent individual merchants who were attempting to dissuade the Sheikh in establishing the bank. One

[192] Slight, "Global War," 30.
[193] Trevor to Cox. April 2, 1917, 'File T/8 C 62 Banks at Gulf Ports: Bahrain, Eastern Bank Ltd' [16r], 44/72.
[194] Ibid.

such vocal proponent against the establishment of the bank was Yusuf Kanoo of the Kanoo family and founder of Yusuf Bin Ahmed Kanoo Group. He would be one of the primary "double dealers," secretly voicing their opposition to the Sheikh while being friendly to the British proposing the idea. Now having sway over the custom houses and the agency, the British approached Kanoo and "give him a sound talking to," threatening to cut him off from the agency. Once dissenting voices had been silenced, the road to the establishment of the bank was cleared.[195]

The initiative of setting up a bank on "the Arab side of the Persian Gulf" prior to the end of the war was further relayed to the residency by the Civil Commissioner in Bagdad. When offering support to the political residency in the Gulf and expressed concerns regarding the Sheiks and merchant objections, the deputy political resident would retort that he had no opinion in the matter other than "the project of establishing a bank at either Bahrain or Kuwait seems to me to be one for which government support should be eminently cautious and discreet."[196] He notes that if bank managers get wind that they are performing a "patriotic duty," they may proceed to make exorbitant demands on the agency. Similarly, if the local rulers and mercantile communities had been led to believe that the project was state driven, they would likely oppose it. The residency officials understand that the bank should be seen as an instrument for the "general interest of trade," and will thus benefit them as well as the bank operators. "In fact, it should be made clear to all concerned that the bank stands on its own bottom as a commercial concern, and is not in any way a government institution." The residencies other major concern is with the BISN and their monopoly on trade.[197] Thus, it was well understood that the political

[195] Cox to Resident, 160-161/182. However, in the late 1920's Kanoo would return with his own designs for banking on the island.
[196] 'File 60/20 I, Imperial Bank of Iran: Bahrain, 43/409.
[197] 'File T/8, Banks at Gulf Ports: Bahrain, Eastern Bank Ltd' [16r].

designs of the state needed to be couched in the language of economic prosperity. A hand written note from an Eastern Bank representative that affirmed their agreement to practice banking with respect to the jurisdiction of the Sheiks and Islamic law was drawn up and sent to the Sheikh:

> The Eastern Bank promise to conduct their business on principles in accordance with the precepts and practice of Islam and that they will abide by the laws and usages of the local courts of Bahrain – that is to say, the Shara' court of Islam and the customary court.[198]

In August of 1918, the Sheikh would give final approval of the bank so long as the British were to concede him the jurisdiction over his subjects and any confects that may arise vis-à-vis the institution:

> I would request your honour kindly to instruct the manager of the said bank to give me an assurance, through your honour in the sense which we verbally discussed, namely, that the bank will not deal with my subjects (in giving large loan without previously informing me as I know best about , the financial position of my subjects). Further, if a claim if a claim should arise between the representative of the bank and any of my subjects, the case should be dealt with…courts in my country in accordance with the existing laws and rules…[199]

"With reference I had with your honor…regarding the establishment of a bank [in Bahrain], I now write that I am fully satisfied with your proposed arrangements for opening the bank which

[198] File B/13 Eastern Bank' [37r], 75/182. It must be said that this was likely an empty promise. While the remittance vehicles and other aspects of banking could be conducted through flat fees, it is unlikely a bank could work outside of the rubric of other institutions in the region and headquarters in Europe. This avenue requires further exploration and is outside the scope of this study.
[199] Sheikh to Cox, August 1918, 89/182.

I am very glad to approve of."[200] The Sheikh would grant his full consent and the branch officially opened its doors by 1920. Once his mission had been accomplished, Cox triumphantly wrote:

> After gradually breaking down opposition of merchants by personal interviews I have at last obtained Shaikh's full consent to establishment of bank in Bahrain. Earnestly beg that representative be sent with as little delay as possible to open business and that facilities …Also suggest that whole of yearly subsidy for Bin Sa'ud be deposited in Bahrain. At first I hope bank will be guided by my advice in connection with local business in order to gain public confidence. …[201]

The banks operation began with subsidies and guarantees from the government of India.[202] However, the establishment of this bank would not propel the Bahrainis to "prosperity," as the agreement between Sheikh Isa and the British government entailed that "…the bank will not deal with any of my subjects..." and other official and unofficial addendum's that increased oversight and restricted capital mobility and thus free trade. In the years after the First World War, the negotiated space and the actors involved would contract, and the grip of the British State would tighten around the island, beginning with the deposition of Sheikh Isa and resulting in the usurpation of Bahraini sovereignty.[203]

The debate concerning the establishment of the British commercial bank at Bahrain demonstrates the negotiated and multilateral reality of relationships in the gulf in the early twentieth century. While officially a British protectorate from 1873 until 1920, the establishment of a bank on the island was by no means a one-directional imposition. Though the reasons for the

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[200] Shaikh Isa to Cox, Translated 'File B/13 Eastern Bank' [43r], 87-89/182.
[201] Ibid.
[202] 'File B/13 Eastern Bank, 132-154/182.
[203] Louis Allday, "Britain's "Interest" in Bahrain: Legal Fiction and the Logic of Empire," http://www.jadaliyya.com/pages/index/21284/britains-interest-in-bahrain_legal-fictions-and-th

establishment of the bank were mainly under auspices of commercial modernization and "prosperity," the correspondences offer enough insight to establish that commercial enterprise on the island had been running perfectly well, for groups of 'indigenous' merchants and for the largest British shipping interest in the region, the BISN. Without the British State subsidizing the bank, they would not have been competitive and thus, may not have been realized until much later on. This is not to allude to the idea that the forces of modern capitalism would have been kept at bay if not for British state intervention, but to open the floor for a more equitable distribution in terms of agency in the historical process and rethink capitalism. Beyond doubt, geopolitical imperatives of the British resulted in competition with other European powers that that drove the Bahraini bank ordeal.

At the same time, changes in governance and mapping of territories result in British protectorates establishing firmer holds on their territory, culminating in the treaty of Darin in 1915. This resulted in shrinking cosmopolitanism and shifting relations between cities, states, and subjects. Commercial and industrial capitalism, as articulated by Marx, Braudel, and others, was in many ways already operating in the region without Western banks. The development of finance and managerial capitalism acting within the framework of imperial grand strategy drove the process. The work of economy, in the managerial and state-capitalist sense, led to the establishment of this institution and concomitant colonial encroachment on the island.[204]

The backdrop of increased competition in the gulf between Britain and Germany and the subsequent purchasing of 51% of Anglo-Persian oil Company in May of 1914 catalysed the processes of imperial domination and state formation. In 1919, London issued the Bahrain Order-

[204] John C. Wilkinson, *Arabia's Frontiers: the Story of Britain's Boundary Drawing in the Desert*, (New York: I.B. Tauris, 1991), 133–139.

in-Council, which expanded the powers of the British resident at the expense of the Sheikh, followed by the establishment of a municipal council (nominal shared sovereignty) in 1920. While the sheikh's sovereignty was being chipped away on all sides, by domestic unrest of the Shia population, merchant families, and the British whose discovery of oil and other factors increased the need to tighten grip in the Gulf.[205] The Shia protests would invite intervention from regional players such as Saudi Arabia and Iran, each supporting various factions within the country. The council would be eradicated by 1923, when Isa announces his retirement and succession of his son. These were the threads that bound the burgeoning Bahraini state to the British Empire until 1971.

Conclusion

The establishment of this bank occurs within the rubric of significant shifts in the global political, economic, and financial order. These shifts lay bare the increasingly enmeshed roles of finance capital, politics, and sovereignty. They also help to explain the acceleration of state formation initiatives in the gulf, and the rift that occurs between European capital and networks and the indigenous system of the Bazaar. It is evident that economic logic alone could not justify the establishment of a bank. Thus the rift between the two systems, rather than one that is a result of the natural progression of modern capitalism subsuming other forms of life and exchange, is one that is constructed at attempts at domination and of a variety of interests (the most domineering of which are without doubt the British State) clamouring to stay afloat amidst changes in global governance. In order to fit within the new imperial order, the Island and its institutions would need to be legible and calculable to the state apparatus. This would include the

[205] Commins, *The Gulf States*, 140-142.

peripheralization of not only forms of economic and political life, but the instruments, juridical systems, and institutions to which these lives were tethered. What results is the increasing restrictions on freedom of movement and exchange, homogenization of the populous, and the restriction of territorial sovereignty and ramping up of formal colonialism in the region.

The idea of empty space indicative of nationalist histories and of a one directional progression of 'homogenous empty time" allow for a particular narrative structure and allows for overarching categories to obscure and erase the processes and lives that exist outside these blinders. The arrival of the neo imperial setup has its roots in the prewar era, and the wedge driven between politics and economics, allowing the latter to become a normative form of governance is evidenced in the push for the establishment of Eastern Bank at Bahrain. While politics and the forceful removal of the native agency are prescient matters in terms of asserting dominance on Bahrain, the establishment of seemingly innocuous or peripheral institutions such as a branch of a multinational exchange bank are often seen as profit driven initiatives and, thus, overlooked unless acting in the service of specific individuals looking to exploit and control a region via economic imperialism.[206] What we see here is a far more subtle form of domination. The intent in this case is simply to secure and have oversight over capital flows, to be able to accumulate data, calculate, rationalize, and in a sense translate economic processes into the language of their respective financial system. The initiative to access the flows of capital and commodities are indicative of what Carl Schmitt described as:

> Territorial sovereignty transformed into an empty space for socio-economic processes. The external territorial form with its linear boundaries was guaranteed, but not its

[206] Bankers engaging in exploitation and imperialists is something that has been well documented in James Landes, Peter James Hudson, and many others.

substance, i.e., not the social and economic content of territorial integrity. The space of economic power determined the sphere of international law.

The distinction between the social and anthropological concepts of the marketplace (exchanging) and abstract object of the economy or market (mechanism by which of supply and demand confront and adjust in search of compromise) - is useful in helping to understand the dynamics at play in this story. The distinctions (often binary) between worlds and domains underpin the intellectual undercurrents guiding thought and governance in the region - Public and private spheres, civilised and uncivilised peoples, modern and pre-modern, universal and local, and of course, formal and informal economies. The latter dichotomy is central to the story.

The tension between the hundi system and the arrival of modern banking is one that necessitates further exploration than is possible in a short thesis. It is certain that in the context of imperial rivalry in the Gulf, the formation of 'modern' banks were seen as necessary in the establishment of a secure foothold in the region. However the debate at hand here allows one to see how this tension is not one that is 'natural'. The rift between European banking and indigenous systems is not one that is innate, but one that is constructed in the face of these attempts at domination. The arrival of 'modern' finance did not necessarily conflict with this system, in fact it was through the use of this system that the British were able to establish their Indian and thus global empire.[207] When the British began to conduct large-scale scientific studies of the Indian economy in the 1930's, it was concluded that use of this indigenous medium of exchange (hundi) remained widespread even after the introduction of modern financial instruments, modern banking and legislation in support of the Western system. Only during the era of Indian liberalization in

[207] Subramanian, *Indigenous Capital and Imperial Expansion*, 300-306.

the late 1970's and 1980's were hundi forcibly relegated to an informal role through stringent currency exchange laws and monetary reform.[208]

The British needed to render this world legible in order for it to fit into the state formation initiatives of the time. However, the confusion over enforcement mechanisms, the drive for a homogenized system of capital and exchange, and the illegibility of the legal documents which formed the paper world of the Bazaar proved impenetrable for the British. As burgeoning global markets in the nineteenth century establish a new impetus for trade, local merchants clamour to fill gaps left in financing commodity production and distribution operations. The mechanisms through which these networks operate are both financial (as shown above), social, and legal - they bound debt and obligation across oceans, and create longstanding bonds of circulation and servitude.

In common law and in the burgeoning discourses of economic theory, the complexities surrounding the subject and context are removed from the equation so that a universally applicable body of knowledge emerges through which the world can be abstractly explained and governed.[209] In the context of the Western Indian Ocean and the Persian Gulf in general, and Bahrain in particular, the long-standing systems of exchange, law, and governance, while underpinned by rational and efficient methods for economic exchange, are inherently bound to individuals and the wider legal, social, economic, familial, clan and other networks to which they are entangled. The instruments deployed in this trade had proven to be highly adaptable to meet the demands of modern capitalist development in the area and were able to work in conjunction with the influx of

[208] Marina Martin, "Project Codification," 82.
[209] Foucault, *The Order of Things*, chap. 4; Timothy Mitchell, "Economentality: How the Future Entered Government," *Critical Enquiry* 40, no. 4 (2014), 479-507, and other related works; Callon, ed., *The Laws of the Markets*; Mazower, *No Enchanted Palace*; Pederson, *The Guardians*; Schmitt, *The Nomos of the Earth.*

European capital and law. The issue seemed to be that the European could not directly penetrate this realm, rendering it opaque to the imperial apparatus in the region.

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