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What the Chettiar Story Reveals about Caste and Business

By: CJ Kuncheria

Tracing the rise and decline of Chettiar businesses across Asia challenges the idea that caste-based capital can always deliver fortunes.

At the height of the Chettiars' economic domination in the 1920s, they held vast investments across South and Southeast Asia. Heads of families from towns in Chettinad in the Madras Presidency sent out young men of their caste as agents into towns in Ceylon, Burma, Malaya, and Vietnam, where they lent money to peasants growing rice and rubber, and miners digging up tin, all products destined to flow through the then new Suez Canal to feed the unbounded appetites of industrialised Europe.

In Malaya, Chinese and Malay businessmen tapped Chettiar credit to build an indigenous capitalist class. Chettiar loans to Burmese peasants made the colony the world's largest exporter of rice, and one of the richest provinces of the British Empire.

Then came the fall. The Depression, soon followed by Japanese occupation and the age of decolonisation and nationalism, expropriated much of the Chettiar overseas wealth, sending them back to their hometowns, by now in Tamil Nadu in independent India. Many Chettiars gave up on risk and entrepreneurship, opting instead for salaried employment. The only 'big Chettiar' businessman that many Indians today might remember is A.C. Muthaiah, and that is mainly because he served as the president of the Board of Control for Cricket in India (BCCI) from 1999 to 2001.

Raman Mahadevan, who has been following the Chettiar story for nearly 40 years now, has written a definitive account of the community. At first glance, a history of the rise and fall of the Chettiars, Mahadevan's work also does well as a lesson on what we can learn from a history of failures.

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Business histories and popular accounts of business people, families, and communities usually focus on their successes. These accounts often suggest that sheer determination, a knack for seizing opportunities, or the traditional wisdom and resources of the community were the main reasons for their growth and expansion. Indeed, some [business gurus](#) would persuade us that the kind of caste networks that the Chettiars relied on might serve India well to produce an indigenous business class that would propel the economy to new heights.

Mahadevan's account gives us sobering caveats. Entrepreneurial communities do not necessarily push the envelope to become pioneers, and community networks that serve to circulate capital, risk, and agents have a use-by date. A romantic attachment to an "Indic" (or, more baldly, caste) way of doing business may be an anachronism.

Out of Chettinad

The Chettiars, like many business communities in India, emerged in a dry ecological region in the Tamil country. Historians have observed a contrast between settled and mobile societies. River deltas and areas with regular rainfall tended to create sedentary agricultural communities. In contrast, dry regions produced groups whose strength lay in their mobility—such as warriors, pastoralists, and merchants. The Marwadis are the most well known of such communities; moving from arid western India to all regions of the country and becoming a metonym for Indian businessmen. So too the Chettiars, from the dry region of Ramanathapuram district and the princely state of Pudukottai in the southern part of the Madras presidency.

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In modern times, we encounter the Chettiars in the 18th century as traders of rice, arrack, and opium across Ceylon and southern India. Moving money around required the Chettiars to build a banking network of their own. When the British replaced the Dutch in Ceylon and loosened trade restrictions, Chettiar banking systems facilitated the movement of money and goods from the interiors to the port.

After European banks entered the export trade market, the Chettiars shifted their focus and began lending to Sinhalese peasants who were cultivating crops like coconut, coffee, and tea. Unlike the European banks, which refused to do business with these local farmers, the Chettiars provided them with the loans they needed.

A similar story unfolded in southern India as British control expanded. Local chieftains who were now made zamindars often lacked the cash to pay their taxes. The Chettiars lent money to these zamindars, using their estates as collateral. When the zamindars could not repay, the Chettiars ended up becoming the new landowners.

Lending to clients whom European banks refused to serve—using land that produced commodities needed by the industrialising West (and, to some extent, by new consumers elsewhere) as security—and eventually becoming landlords themselves, was a recurring pattern in Chettiar activities across Asia during the late 19th and early 20th centuries.

After the British Expeditionary Force annexed Lower Burma in 1852, the Chettiars established agencies throughout the region. When British ships anchored at Singapore and Penang in the early 19th century, the Chettiars extended their operations into Malaya. From Malaya, they took a rare step beyond British territories, moving into French-controlled Vietnam as well.

Mahadevan tells us what the push factors were for this outward expansion. Nineteenth century Madras was hardly an attractive location for the Chettiars. European banking and businesses dominated, with institutional and racial barriers keeping out indigenous businessmen. In the spaces that were afforded to them, the Chettiars had competition from the Marwadis and other 'outsider' business castes. In the countryside, the legal system slowed down Chettiar moneylenders from taking over assets from defaulting debtors.

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Outside of India, it was a different story. With the colonial expansion into Burma and Malaya and the opening of the Suez Canal in 1869 quickening the integration of Asia into the world economy, colonial authorities were more welcoming of a group like the Chettiars who could direct credit into the countryside, to the peasants and prospectors producing the commodities the West required.

The Chettiars were not new in some of these regions; their presence in the trade up and down the Bay of Bengal had anchored them across the littoral, allowing for the lineaments of their banking system. What transformed them from a south Indian caste of merchants into a pan-Asian banking class was British expansion and political control. British Asia might not have been integrated into the new economic order of the day by the Chettiars, but their banking systems certainly accelerated the pace.

Caste Capital

In his eponymous 1929 survey of indigenous banking in India, L.C. Jain, then an economist teaching at the University of Allahabad, was convinced that “of all the indigenous bankers the Nattukottai Chettis are the most perfectly organised”. Historians since have analysed why Chettiar firms were successful in building an empire spanning the Bay of Bengal. Mahadevan was a pioneer and this book puts his extensive research and that of others such as the anthropologist David Rudner in one place.

Chettiar boys were groomed early to become bankers, learning how to calculate interest and record accounts in ledgers even before they became teenagers. They would be apprenticed at a young age to one of the many agencies their families or richer men of their caste operated across the colonies. These young men formed the backbone of the Chettiar banking system. They spent three-year terms working as agents in towns such as Jaffna, Galle, Akyab, Moulmein, Penang, Malacca, Singapore, Cochin China, and many other locations across Asia. In each place, they managed and advanced the business interests entrusted to them by their *mudalali*, the patriarch back in Chettinadu.

As Mahadevan notes, the training and circulation of these trained young men did much to build “traditions of co-operation, sodality and mutual accommodation”. Chettiars lived close to each other, fixing their lives around temples and lodging houses they established in

their main cities of operation. Caste collaboration was vital. The general interest rates were set and market intelligence circulated between the agents during their monthly meetings in places like Moghul Street in Rangoon, the centre of the Burmese operations.

In Ceylon, the Chettiers found space in trade, including in construction material. In Malaya, they put the rubber plantations they had acquired to good use, taking advantage of an uptick in prices after the Depression.

“Their association acts as a general information bureau. It maintains a blacklist and passes on information to all Chettiers likely to be affected,” a Burmese moneylender told the provincial banking enquiry committee of 1930 (the Burmese lenders hated each other, he added).

Other things were passed on too. The top Chettiar firms were trusted by European banks and rich Marwadi bankers, and capital flowed from the Imperial Bank in Madras through men like Sir Muthaiah Chetty (a grand uncle of Muthaiah, the cricket boss) to smaller firms, and ultimately to the peasants. Interlocking financial networks and caste panchayats that mediated between members (and presumably determined who a sound Chettiar was) gave the community the ability to access credit and assess risk.

Things were good as long as things were going well. The Chettiers would normally not hound their debtors as long as interest payments were made regularly. Their rates of interest were lower than other moneylenders. Defaults were not always a problem for the Chettiers. Owning rice paddies could be advantageous for them, especially when they were also investing in rice mills and when the demand for rice in Madras was high.

Then the Depression hit Asia. Even before it was recognised as such, Chettiar firms in Ceylon had had a crisis when European banks, anticipating a fall in commodity prices, began to call in loans in the mid 1920s. This precipitated the collapse of large and small Chettiar firms alike. As the depression intensified, in Burma, the collapse of paddy prices led to peasants to forfeit their landholdings to the Chettiers. In Malaya, tin and rubber prices collapsed as the American cars they went into no longer sold. Mine owners and plantation owners found themselves unable to repay the Chettiers, and their assets too passed into the hands of the moneylenders.

In the place of circulating capital, the Chettiers were now in possession of illiquid assets. Their credit system seized up, and when European banks called in loans to the larger Chettiar firms, it set off another train of collapses.

While it is traditionally believed that the Depression led to the Chettiers turning towards the safety of India, Mahadevan shows that it was not so. For those who lived through the crisis, it was a temporary phase, a hard one no doubt and one that ended the age of great profits. But the larger Chettiar firms stayed on, and by the mid 1930s had recovered to manoeuvre into fresh opportunities.

In Ceylon, the Chettiers found space in trade. In Malaya, they put the rubber plantations they had acquired to good use, taking advantage of an uptick in prices after the Depression. Indeed, Mahadevan sees a pattern—the Chettiers whose wealth was concentrated in Malaya managed to do relatively well into the future.

Burma was a different story. The Depression came at a time of growing Burmese nationalism, aimed as much against the British as the Indians. (Burma was an Indian province until 1937, and Indians were a visible outsider group who had, in the eyes of the Burmese, become colonialism’s cat paw.) Rising foreclosures of peasant landholdings at a time of economic hardship sharpened resentment against the Chettiers.

Many of the Chettiers thought that they would be able to survive the nationalistic surge in Burma, but the Japanese invasion put an end to such hopes. Looting by the Burmese, followed by wartime Japanese economic policies (which included the unrestrained printing of currency notes, which were used to repay loans) broke the Chettiers. The post-war period was no better. As in much of the Bay of Bengal littoral, Burma clamped down on free movement, and joined Malaya in imposing capital repatriation.

A Loss of Heart?

In his book, Mahadevan quotes a resident of Pudukottai, the heart of Chettiar country, remarking in 1921 on the “rise and progress of the Chetty community from the status of local traders to the position of great bankers of the country profoundly influencing many of the Indian and even of the international markets”. But apart from the effect (and newness) of this rise, what the Pudukottai resident called attention to was “the vast possibilities which it offers for the industrial salvation and economic amelioration of India”.

Fear of the taxman might also have kept Chettiar wealth abroad. Income tax rules would have taxed any repatriation, a provision that the Chettiars resented.

Mahadevan tells us why this hope was mostly misplaced. By and large, the Chettiars were not very keen on redirecting their overseas wealth to India and spur industrial development. Even when the Depression hit their fortunes in Burma and Malaya, they preferred to stick on, hoping to weather the crisis.

Some Chettiars chose to redirect their investments by moving into trading businesses or purchasing plantations. However, it was only with the onset of World War II—when production for the war created vast opportunities for profit—and later, after Independence, that significant changes occurred.

Mahadevan suggests there were two main reasons for this delay. First, shifting from banking to industry was not easy for the Chettiars. Second, by the time they did enter, others such as the Marwadis had already gained a strong advantage and established themselves in these fields.

Fear of the taxman too might also have kept Chettiar wealth abroad. Income tax rules would have taxed any repatriation, a provision that the Chettiars resented. Mahadevan wonders what might have happened if this were not the case and if Chettiar capital had flowed into south India and gone into building its industrial sector.

Counterfactual histories can, of course, yield any outcome one desires. One might wonder if, outside British India, Chettiar capital could have been drawn to the princely states of southern India, which had ambitious industrial plans under progressive rulers and diwans. Why did not this happen more often? Alagappa Chettiar, one of the boldest Chettiar businessmen, was persuaded by Shanmukham Chetty—also from the Chettiar community and serving as Diwan of Cochin—to invest in a textile company in the princely state. The list of incentives that Mahadevan records would have appealed to any modern investor: lower taxes, lower wages, relaxed labour regulations, reduced production costs, and, most importantly, generous financial support from the state.

Yet, even in these situations, caste and regional biases could influence opportunities and decisions. Aparajith Ramnath, who wrote a biography of M. Visveswaraya, describes an instance where the Diwan of Mysore was wary of “well-organised and resourceful ‘outsiders’” who dominated the state’s business. Whether he would have preferred the Chettiars to replace the Marwadis in Mysore remains an open question.

And, finally, Mahadevan astutely notes, the Chettiars were largely conservative in their business decisions. They avoided political risk, the sort that attached itself to [funding swadeshi enterprises](#). This included the Swadeshi Steam Shipping Company, explicitly established to challenge British shipping companies; but we must remember the princely states’ ventures were also ways of carving out autonomous spheres for themselves in a colonial world.

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Mahadevan’s work shows that much of Chettiar diversification was into “safe” ventures at home they were familiar with—banking and other financial firms—or plantations and industries that made super profits during the war, such as textiles. It was only after independence that the handful of marquee Chettiar businesses that remained took to the diversified ventures they are known for today.

Mahadevan points out that the Chettiar banking system was a product of its time, shaped by its specific constraints. It was well suited to an era when options for raising capital were limited. The larger Chettiar firms recognised that change was coming, and chose to separate themselves from the traditional caste-based financial networks. They showed great foresight in abandoning old methods of managing capital and risk, and in adopting modern business practices.

Examining a survey of Chettiar firms, Mahadevan notes that the major surviving firms by 2003 were mainly those that had restructured themselves after the “Chetty crisis” of the 1920s, which had been triggered by falling commodity prices. This restructuring allowed them to escape the risks tied to their obligations and informal partnerships with smaller firms.

In contrast, small and medium Chettiar firms that stuck to their traditional ways were left behind. Lacking new opportunities, their young men began attending colleges and universities established by the community. Many joined professional careers, and, later, like their peers in the liberalisation era, eventually made their way abroad.

Model for the Future?

Chettiar elders in today's Tamil Nadu bemoan the loss of entrepreneurial zeal among their youth, and Mahadevan records instances of caste organisations attempting to revive a period when “nearly 90% of community members were entrepreneurs”. He is (rightly, I think) sceptical whether these ambitions can succeed in a vastly changed world.

“Is the dividing line between success and failure thin?” Mahadevan asks. The answer, which hinges on what he calls contextualising the mortality of firms, tells us more about the nature of business, of investments, and of risk appetites. Minor miscalculations make all the difference between wealth creation and commercial collapse.

Can we draw a general theory of success from the experience of the Chettiars? Probably not. History is not a vast database for economists and business strategists to create models from. Still, it is worth reflecting on a few lessons.

Some ... argue that caste is a benign institution—originally non-hierarchical—which promoted economic advancement by enabling the sharing of risk, opportunities, and entrepreneurship within a group.

It is not necessarily true that those with surplus capital will choose to invest in cutting-edge sectors or help build the foundations of a modern economy, such as research and training. We should also consider how Indian businesses, when perceived overseas as seeking unfair advantage, might actually harm themselves (and spark off negative attitudes towards India). The Chettiars' experience in Burma can be compared to other Indian diaspora business groups—like the *dukawalas* in East Africa, the [Gupta family in post-apartheid South Africa](#), or the Adanis in present-day [Kenya](#) and [Bangladesh](#).

Most importantly, a clear-eyed analysis of the Chettiar system undermines the idea that caste, by itself, can be a uniquely Indian path to economic growth. Some, such as former Indian Institute of Management (IIM) Bangalore professor R. Vaidyanathan, argue that caste is a benign institution—originally non-hierarchical—which promoted economic advancement by enabling the sharing of risk, opportunities, and entrepreneurship within a group.

According to this view, caste-based business clusters, especially small and medium enterprises that rely on relationships rather than formal rules, act as engines of economic growth—supported by networks of family and caste connections. However, the Chettiar story suggests that this interpretation is too simplistic.

Supporters of these ideas—which are gaining more attention today—should read Mahadevan's work. It serves as a reminder of how caste-based capital is shaped by its specific circumstances and limitations, and warns of the risks involved in building a nation's economic development on such a foundation.

C.J. Kuncheria is Deputy Editor, The India Forum.

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