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The road to drain or gain: Dutch private investment and economic development in late colonial and early independent Indonesia

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Chapter 1. Introduction

According to the agreement made between the Netherlands and Indonesia in 1966 about compensation for the nationalisation of private Dutch firms by Indonesia in 1959, Indonesia had to pay f600 million to the Dutch state (f689 million including interest, or the equivalent of nearly 2 billion euro in 2020).¹ Some of it was designated for individuals who had suffered a financial loss after the nationalisation of Dutch companies operating in Indonesia until the late 1950s. Another part was used to pay off the remaining state bonds and securities. Indonesia started these payments to the Dutch government after the transfer of sovereignty on 27 December 1949. However, Indonesia stopped paying in 1956, when Indonesia unilaterally abrogated the union with the Netherlands due to the continuing conflict over West New Guinea.²

It is interesting to note who became eligible for compensation. The so-called Bureau Schadeclaims (Bureau for Indemnification Claims in Indonesia) was entrusted with the task of distributing the money to individuals, legal bodies and corporations. In 1973, Indonesia paid the first instalment and in 2003 the last one was paid to the Dutch state.³

After more than 50 years since the initial agreement and after the final payment has been done, many people were still not aware of the fact that Indonesia had been paying a considerable amount of compensation money to the Dutch state. In 2003, both in Indonesia and the Netherlands people expressed disbelief that an emerging economy, which had been considered a developing country for many years, should pay large sums of money to an advanced rich state. This underscores that more detailed information is urgently needed about the colonial past. The debate about the question whether the Dutch presence in the Indonesian archipelago was eventually beneficial for Indonesian economic development is still ongoing. Did the Indonesians receive anything in return for the exploitation of their land and

¹ J.J.P. de Jong and D.M.E. Lessing-Sutherland, *“To forget the past in favour of a promise for the future”*: *Nederland, Indonesië en de financiële overeenkomst van 1966: onderhandelingen, regeling, uitvoering* (Den Haag: Ministerie van Buitenlandse Zaken, 2004) 7; International Institute of Social History, *Value of the Guilder versus Euro* (<https://iisg.amsterdam/en/research/projects/hpw/calculate.php>) last accessed, February 28, 2022.

² Jan Luiten van Zanden and Daan Marks, *An economic history of Indonesia 1800–2010* (London: Routledge, 2012) 138.

³ De Jong and Lessing-Sutherland, *“To forget the past in favour of a promise for the future”*, 39.

Introduction

resources? There is a need for scholars to address such issues and shed light on the legacy left behind by Dutch colonialism in Indonesia.

1.1 Research project and main question

This dissertation is part of a larger project entitled 'Foreign capital and colonial development in Indonesia'. My part of the project focuses on Dutch private investment in the Netherlands Indies. The relationship between economic development in the Netherlands Indies and foreign direct investment (FDI), in particular Dutch investment, forms the core of my analysis. My research question is as follows: To what extent did Dutch private investment contribute to the economic development of the Netherlands Indies and Indonesia between c. 1910 and the late 1950s?

The effects of the operations by foreign business enterprises on the development of the indigenous economy still raises many questions. Any statement about Dutch contributions to the indigenous economy inevitably generates criticism and refutations from either side of the argument. FDI in the Netherlands Indies took place in the first place in order to get access to raw materials not available at home. Three different topics are central to the analysis: investment, profits and linkages.

1. The first topic is investment and I will seek to gain an insight into private Dutch investment in the Netherlands Indies. The focus is on macroeconomic effects of private Dutch investment in the colonial setting. Were there significant differences by sector of the economy? Another issue concerns the time period of examination. When and why did the volume of private investment begin to increase? Did the economic depression of the 1930s lead to a decline in investment? The aim here is to find out if the total volume of investment coincided with the macro economic development of colonial Indonesia. It is also relevant to establish whether there was a measure of continuity in the colonial setting after the Second World War up to the takeover of Dutch companies in 1957–1959.

2. The second topic is about profits, the transfer of profits and drain. I will compare the profitability of Dutch firms in the Netherlands Indies with the growth of the economy of the Netherlands Indies. Colonial drain was all about extracting profits and resources by the Dutch. It is important to find out whether the colonial drain prevented Indonesia from developing a balanced economy necessary for sustainable economic development. Did the economy fare worse when Indonesia became independent as compared to during the colonial period? Reinvestment of profits intersects with the first-mentioned topic. Which proportion of the profits flowed out of the Netherlands Indies

Introduction

and which part was reinvested? Economic development in the immediate post-colonial era may also have been impaired by an insufficient transfer of knowledge to Indonesians.

3. The third topic is about linkages. My aim is to apply the linkage theory to private corporations in the Netherlands Indies. Below, I discuss these linkages in detail, in particular forward, backward and fiscal linkages. Forward linkages exist when the output of a company requires or attracts other companies that further process the output of the first company. Backward linkages occur when an industry requires other industries in order to start the core business of the company. Fiscal linkages emerge when taxes paid by a private business firm are used for productive public investment, for instance education or infrastructure. Final demand linkages can exist in the form of wages and compensation for land use. They generate new consumptive demand.

Almost all companies in the Netherlands Indies required some specific kind of equipment. A higher productivity in industrial activities led to an increase of production in other branches. To what extent did the presence of the mining sector provide employment in manufacturing producing equipment? It is hazardous to formulate a plausible hypothesis about this topic, but it seems likely that especially large and highly specialized companies required a certain kind of equipment that was not readily available in the Netherlands Indies. This equipment could be produced by a new company in the Netherlands Indies, but it could also be imported from the Netherlands or another country. This topic is especially relevant, since the interaction between different sectors has not yet been examined intensively for the Netherlands Indies.

Time frame

This research starts around 1910 and ends in 1959. After the abolition of the Cultivation System in 1870, the door was open for FDI. This was the beginning of an era of *laissez-faire* and economic liberalism, but it took several decades before private investment rose to a significant level. This occurred around 1910. By that time more than 1,500 foreign incorporated companies were active in the Netherlands Indies with a total combined equity of more than f1 billion.⁴ This year is an appropriate starting point for my analysis. The growth of the economy just before and just after Indonesian independence needs to

⁴ J. Thomas Lindblad, 'Ondernemen in Nederlands-Indië c. 1900–1940', *Bijdragen en Mededelingen betreffende de Geschiedenis der Nederlanden*, Vol. 108 (1993) 699–710, in particular 700.

Introduction

be examined in order to find out if new investment came to a halt and if this had repercussions for the economic development of Indonesia. In 1959 the nationalisation of the Dutch companies took place.

1.2 Historiography

The history of the Netherlands Indies is a much discussed theme. Without dealing with the broader topic of the justification of the presence of the Dutch in Indonesia, I will focus on debates dealing with the economic aspects. Dutch private investment in the Netherlands Indies, the transfer of profits and the economic effects of investment in the Netherlands Indies are the most important issues discussed.

The debate about the influence of the Dutch presence in the Netherlands Indies was already present in the mid-nineteenth century before the Netherlands Indies was opened for private investment. Wolter Robert van Hoëvell, the Dutch minister, politician and writer, criticized the abuses of the colonial government and the slave trade. In 1849, he wrote an article about the plan of the Dutch government to sell land in Java to private Europeans.⁵ He supported the idea for the sale of land and argued that this would be beneficial to the development of Java, but he also endorsed the Cultivation System, stating that these two systems could exist next to each other.⁶ Eduard Douwes Dekker, known as Multatuli, published his novel *Max Havelaar* in 1860 in which he exposed abuses of Dutch colonialism and exploitation by Javanese regents.⁷ Nearly 20 years later, in 1878, Pieter Brooshooft wrote *Geef Indië wat Indië's is* (To give what belongs to the Netherlands Indies) where he discussed exploitation in the Netherlands Indies.⁸

⁵ Wolter Robert van Hoëvell, *De beschuldiging en veroordeling in Indië en de regtvaardiging in Nederland van W.R. van Hoëvell* (Zaltbommel, Noman, 1850); Wolter Robert van Hoëvell, *De emancipatie der slaven in Neerlands-Indië: Eene verhandeling* (Groningen: C.M. van Bolhuis Hoitsema, 1848); Wolter Robert van Hoëvell, *Bedenkingen tegen de mededeeling van den Minister van Koloniën aan de Tweede Kamer der Staten-Generaal, omtrent den verkoop van landen op Java* (Groningen: Van Bolhuis Hoitsema, 1849).

⁶ J.W.F. Eggink, 'Wolter Robert van Hoëvell (1812–1879): Een 'ethisch' liberaal en de koloniale politiek' (MA thesis, University of Utrecht, 1982).

⁷ Multatuli, *Max Havelaar, of de koffij-veilingen der Nederlandsche Handel-Maatschappij* (Amsterdam: Jacob van Lennepe, 1860).

⁸ Arnold Pieter Hendrik Berkhuysen, *De drainagetheorie voor Indonesië* (Den Haag: Techn. Vertaal- en Type-inr, 1948) 87–88; P. Brooshooft, *Geef Indië wat Indië's is!: De "bijdrage" als sluitpost verdwijne van de Indische begroting, het Indisch "batig slot" uit de Nederlandsche schatkist: Koloniaal staatkundige beschouwingen* (Semarang: Van Dorp, 1878).

Introduction

In the nineteenth century, debates about exploitation were related to the economic activities of the colonial government. After 1900, more research was done about the economic significance of the Netherlands Indies for the Netherlands,⁹ despite assertions to the contrary. Numerous books appeared that discussed the economic influence of the trade between the Netherlands and colonial Indonesia.

Most early researchers focused on Java. One of the earliest traditional views of the Indonesian economy was provided by the economist J.H. Boeke. In 1910, he formulated a theory about dualism which he reiterated until 1956.¹⁰ His idea was rather basic, depicting a dichotomy in the Javanese economy and society between the modern and traditional sectors. The theory stated that Western activity in the Netherlands Indies, which was more developed, remained separate from the less developed indigenous society, while existing next to each other. In this view, the indigenous economy remained stagnant; however, it is not likely that this was true in colonial Indonesia to the extent described by Boeke.¹¹

Boeke also briefly discussed colonial drain in 1951 and explained the impact of private investment which was flowing into the Netherlands Indies before the economic depression of the 1930s. Reinvestment of profits was an important device to finance business undertakings. This amount exceeded the paid-out profits during times of expansion. According to Boeke, investments in the Netherlands Indies depreciated quickly, making it difficult to properly estimate the total amount of money invested in the colony. With regard to the colonial drain, Boeke argued that the development of the Netherlands Indies was not possible without Western entrepreneurs. Despite this drain, the Netherlands Indies became richer instead of poorer. The loss of mineral resources from mining did not weigh against the large profits made in this sector, which also benefitted the indigenous population. Profits were not excessive and the risks the entrepreneurs had to deal with should not be underestimated. Boeke even went as far as to claim that there was a drain away

⁹ Although Pierre van der Eng states that the importance of Indonesia for the Dutch economy after 1870 was not visible prominently in the modern Dutch economic historiography, Pierre van der Eng, *Economic benefits from colonial assets: The case of the Netherlands and Indonesia 1870–1958* (Groningen: Groningen Growth and Development Centre, 1998) 3.

¹⁰ J.H. Boeke, *Tropisch-koloniale staathuishoudkunde: Het probleem* (Amsterdam: De Bussy, 1910); J.H. Boeke and James S. Holmes, *Indonesian economics: The concept of dualism in theory and policy* (The Hague: Van Hoeve, 1961) 167–192.

¹¹ J. Thomas Lindblad, 'Colonial rule and economic development: A review of the recent historiography on Indonesia', *Jahrbuch für Wirtschaftsgeschichte*, Vol. 36 (1995) 9–22, in particular 10; J.H. Boeke, *Indische economie. I: De theorie der Indische economie* (Haarlem: Tjeenk Willink, 1940) 1–21.

Introduction

from the Netherlands due to the high costs of educating the entrepreneurs, by which the Netherlands Indies benefitted more than the Netherlands. Indigenous smallholder production was significant, which shows that the indigenous population did not depend on employment provided by foreign firms.¹²

Some scholars followed up on Boeke's work, but were often more concerned with the effects of colonialism on the Netherlands than on the Netherlands Indies. The banker Daniël Crena de Iongh wrote that the Dutch influence on the development of the Netherlands Indies was significant. However, he only cited one work by J.J. Tichelaar about the sugar industry without exploring this topic in more depth.¹³ J.J. Tichelaar, in turn, devoted a large part of his research to the influence of the sugar industry on indigenous society.¹⁴ Clifford Geertz applied Boeke's theory of economic dualism to his own concept of agricultural involution. Geertz stated that the Javanese peasant was caught in a traditional system with low productivity, in which a growing population competed for scarce land. On the other hand, there was the Western sugar sector which also competed for the same land.¹⁵

Early titles examining the macroeconomic impact are less numerous. One notable exception is a brief article written by the late Nobel Prize Laureate Jan Tinbergen and an associate J. Derksen. In it, they discussed the overall importance of the Netherlands Indies and its contribution to the Dutch national income shortly before the Second World War. Special attention was paid to private investment, interest on government loans, shipping, export and employment.¹⁶ Regrettably, the influence of the Dutch presence on the economic development of the Netherlands Indies is underexplored in this

¹² Boeke, *Indische economie. I*, 204–218; J.H. Boeke, *Economie van Indonesië* (Haarlem: Tjeenk Willink, 1951) 205–218.

¹³ D. Crena de Iongh, 'Nederlandsch-Indië als beleggingsgebied van Nederlandsch Kapitaal', in: F.C. Gerretson (ed.), *De sociaal-economische invloed van Nederlandsch-Indië op Nederland* (Wageningen: Veenman, 1938) 95–114, in particular 110–111.

¹⁴ J.J. Tichelaar, *De Java-suikerindustrie en hare beteekenis voor land en volk* (Surabaya: N.V. Boekhandel en drukkerij v.h. H. van Ingen, 1927); the book by Henri van der Mandere, *De Javasuikerindustrie in heden en verleden, gezien in het bijzonder in hare sociaal-economische beteekenis* (Amsterdam: Bureau Industria, 1928) is a similar publication, which also pays attention to the effects for the indigenous population.

¹⁵ Clifford Geertz, *Agricultural involution: The process of ecological change in Indonesia* (Berkeley: University of California Press, 1963) 69–83.

¹⁶ J.B.D. Derksen and J. Tinbergen, 'Berekeningen over de economische betekenis van Nederlandsch-Indië voor Nederland', *Maandschrift van het CBS*, Vol. 40 (1945) 210–216.

Introduction

branch of the literature.¹⁷ The fact that Tinbergen and Derksen wanted to measure the multiplier effect is especially relevant to my own analysis.

In doing so, they included the increase in unemployment in the Netherlands, the interests of shareholders and the falling demand for various products in the Netherlands, which would occur if the colony was to become independent. The multiplier effect implied a drop of an additional 70% on top of the direct loss. In total, this meant a decline of 14 per cent of the national income of the Netherlands.¹⁸

In 1943 the Dutch economist J.J. Polak made a pioneering effort to estimate the national income of the Netherlands Indies during the 1920s and 1930s. He differentiated between incomes of the indigenous population and foreigners and used a large body of statistics for his publication.¹⁹ In 1947, J. Haccoû offered a different perspective, writing about the significance of export production for the Netherlands Indies. Although he also discussed colonial drain, he agreed with Boeke and M.W.F. Treub that if there had been no drain, colonial Indonesia was better off overall with the Dutch presence.²⁰ More interesting is the part of his study that deals with the importance of export crops for the Netherlands Indies. On the whole, this author gave a generally positive view of the Dutch presence in the Netherlands Indies without much criticism, except for saying that during the economic crisis of the 1930s, the Dutch should have done more to support the sugar industry in Java.

In his PhD dissertation of 1948, A.P.H. Berkhuisen examined colonial drain in the Netherlands Indies. He agreed with earlier authors, stating that, although the colonial era did have some drawbacks for the indigenous population, it was better for the colony to have had access to some investment capital (which also included the inevitable negative side effects of colonial drain) than to have had no capital at all.²¹ The negative effects of colonial drain are not discussed in detail, apart from the lower wages and income for the indigenous population during the economic depression of the 1930s.²²

¹⁷ According to Van der Eng, this is still one of the most authoritative studies in the field of the overall importance of the Netherlands Indies to the Dutch economy in the late colonial period, Van der Eng, *Economic benefits from colonial assets*, 3.

¹⁸ Derksen and Tinbergen, 'Berekeningen over de economische betekenis van Nederlandsch-Indië voor Nederland', 16.

¹⁹ J.J. Polak, *The national income of the Netherlands Indies, 1921–1939* (New York: Netherlands and Netherlands Indies Council of the Institute of Pacific Relation, 1943).

²⁰ J.F. Haccoû, *De Indische exportproducten, hun beteekenis voor Indië en Nederland* (Leiden: Stenfert Kroese, 1947) 72, 83–84.

²¹ Berkhuisen, *De drainagetheorie voor Indonesië*, 129.

²² *Ibid.*, 105.

Introduction

Colonial drain

Colonial drain received new attention by scholars in the 1970s.²³ In 1976, Frank H. Golay wrote an article about colonial drain in Southeast Asia, discussing not only Indonesia, but also Thailand, French Indochina, British Malaya and the Philippines. He reviewed an extended time period from the early twentieth century up to and after decolonization.²⁴ From the 1980s onwards, more research was carried out on the colonial drain by, amongst others, Angus Maddison and Anne Booth. Maddison, in particular, paid attention to the 1930s when discussing the drain and compared the Netherlands Indies with other colonies. He noted that the Chinese remitted a large part of their income to China as well. This 'double drain' was mentioned by Booth. She claimed that the drain was very large by contemporary standards. If more funds had been retained in the colony, the economic position of Indonesia could have been very different after independence.²⁵ Maddison stated that the drain from India and other colonies in Asia was smaller than the drain from Indonesia in the period 1913–1938.²⁶

Since the 1990s, the debate about colonial drain seems to have been dominated by Pierre van der Eng and Alec Gordon. Van der Eng started his research on the long-term economic growth of Indonesia by arguing that the colonial and the indigenous economy did not develop differently. The economic sectors in which foreign companies were likely to be present only explained part of the total growth.²⁷ For want of better alternatives, Maddison and Booth use the commodity balance of trade as a proxy for colonial drain. Van der Eng applies a different method using a macroeconomic approach and

²³ P.J. Drake, 'Natural resources versus foreign borrowing in economic development', *Economic Journal*, Vol. 82 (1972) 951–962.

²⁴ Frank H. Golay, 'Southeast Asia: The "colonial drain" revisited', in: C.D. Cowan and O.W. Wolters (eds), *Southeast Asian history and historiography: Essays presented to D.G.E. Hall* (Ithaca, NY: Cornell University Press, 1976) 368–387, in particular 369.

²⁵ Anne Booth, 'Exports and growth in the colonial economy, 1830–1940', in: Angus Maddison and Gé Prince (eds), *Economic growth in Indonesia 1820–1940* (Dordrecht: Foris Publications, 1989) 67–96, in particular 80; Angus Maddison, 'Dutch colonialism in Indonesia: A comparative perspective', in: Anne Booth, William Joseph O'Malley and Anna Weidemann (eds), *Indonesian economic history in the Dutch colonial era* (New Haven, CT: Yale Center for International Studies, 1990) 322–335, in particular 322–328; Anne Booth, *Agricultural development in Indonesia* (Sydney: Allen and Unwin, 1988) 20, 222.

²⁶ Maddison, 'Dutch colonialism in Indonesia', 326, 331.

²⁷ Pierre van der Eng, 'The real domestic product of Indonesia, 1880–1989', *Explorations in Economic History*, Vol. 29 (1992) 343–373, in particular 344, 355.

Introduction

theoretical concepts for economic modelling. He argued that the commodity trade balance cannot be accepted as a proxy for colonial drain.

According to Van der Eng, the long-term development of the Indonesian economy was not affected by colonial drain. It was not a cause of economic underdevelopment when Indonesia achieved independence.²⁸ Van der Eng stated that the Dutch economy benefitted from its relations with the Netherlands Indies, but was not entirely dependent on the colonial relationship. On the other hand, he admits that the Dutch economy depended to a higher degree on foreign trade in general than did Indonesia.²⁹ Booth disputes Van der Eng's views about the economic history of colonial Indonesia. She claims that his views are incorrect and misleading and that he did not sufficiently adjust his data for use in a long-term analysis.³⁰

At the end of the twentieth century, Gordon questioned the data and methods used by Van der Eng for calculating the GDP of Indonesia. In addition, he argues that the commodity balance of trade alone is inadequate when calculating colonial drain. Gordon has published a number of articles in which he criticizes both Van der Eng and Booth.³¹ He asserts that the returns on capital mentioned by Van der Eng are too low and don't compensate for the increase in share prices.³² Several aspects of this discourse resurface in this dissertation.

²⁸ Pierre van der Eng, *The 'colonial drain' from Indonesia, 1823–1990* (Canberra: Research School of Pacific Studies, 1993) 3–4, 37.

²⁹ Van der Eng, *Economic benefits from colonial assets*, 5, 32.

³⁰ Anne Booth, 'Real domestic income of Indonesia, 1880–1989: A comment and an estimate', *Explorations in Economic History*, Vol. 32 (1995) 350–364, in particular 350.

³¹ Alec Gordon, 'Industrial development in colonial Indonesia, 1921–1941', *Journal of Contemporary Asia*, Vol. 28 (1998) 3–26, in particular 5–12; Alec Gordon, *The necessary but impossible task: The Netherlands Indies factory commission and promotion of industry in colonial Indonesia's economy 1901–1926* (Saarbrücken: LAP Lambert Academic Publishing, 2014); Alec Gordon, 'How big was Indonesia's "real" colonial surplus in 1878–1941?', *Journal of Contemporary Asia*, Vol. 42 (2012) 560–580; Alec Gordon, 'Netherlands East Indies: The large colonial surplus of Indonesia, 1878–1939', *Journal of Contemporary Asia*, Vol. 40 (2010) 425–443; Alec Gordon, 'Reverse flow foreign investment: Colonial Indonesia's investment in metropolitan countries', *Journal of Contemporary Asia*, Vol. 44 (2014) 108–124; Booth, 'Real domestic income of Indonesia, 1880–1989'; Alec Gordon, 'A last word: Amendments and corrections to Indonesia's colonial surplus 1880–1939', *Journal of Contemporary Asia*, Vol. 48 (2018) 508–518, in particular 511.

³² Gordon, 'Netherlands East Indies: The large colonial surplus of Indonesia, 1878–1939', 438–439; Gordon, 'How big was Indonesia's "real" colonial surplus in 1878–1941?', 567.

Introduction

New perspectives on general economic development

Another important shift in the literature is the increasing attention given to the Outer Islands. The book series *Changing economy in Indonesia (CEI): A selection of statistical source material from the early 19th century up to 1940* was initiated in the 1970s and led to new research, eventually embracing 16 volumes of annotated statistics. This project was started by P. Creutzberg drawing on pre-war work by W.M.F. Mansvelt. These 16 volumes contain a wealth of data, although figures for the twentieth century are more complete than for the earlier period. Volume 12b discusses trade in Java and in the Outer Islands as well.³³ The 1980s saw a revival of the debate about the colonial past of the Netherlands.³⁴

In 1988, J. Thomas Lindblad analysed the economic development of Southeast Kalimantan, a region which was often overlooked in the literature.³⁵ According to Lindblad, there was a separation between foreign-owned companies and indigenous rubber smallholder activities, but the interactions between various groups and the social economic aspects of this are less clear. In another volume, edited partly by Lindblad as well, various case studies of companies and regions are presented by young researchers.³⁶ Although the articles of the case studies are brief and vary in quality, there is a great deal of statistical data and an extended bibliography about economic development in the Outer Islands.

In 2001, another scholar, Jeroen Touwen, wrote his dissertation about the economic development of the Outer Islands, distinguishing between three types of economic development: European dynamics, indigenous or Asian dynamics, and little or no dynamics, according to the type of economic development predominant in a particular region. In order to measure the

³³ A.H.P. Clemens, J. Thomas Lindblad and Jeroen Touwen, *Changing Economy in Indonesia (CEI): A selection of statistical source material from the early 19th century up to 1940. Vol. 12b: Regional patterns in foreign trade 1911–1940* (Amsterdam: Royal Tropical Institute, 1992).

³⁴ Gé Prince, 'Introduction', in: Angus Maddison and Gé Prince (eds), *Economic growth in Indonesia 1820–1940* (Dordrecht: Foris Publications, 1989) 1–14, in particular 1–9; the published PhD dissertation of Thee Kian Wie, *Plantation agriculture and export growth: An economic history of East Sumatra, 1863–1942* (Jakarta: LEKNAS-LIPI, 1977) is an earlier example of research not focusing on Java.

³⁵ J. Thomas Lindblad, *Between Dayak and Dutch. The economic history of Southeast Kalimantan, 1880–1942* (Dordrecht: Foris, 1988).

³⁶ A.H.P. Clemens and J. Thomas Lindblad (eds), *Het belang van de buitengewesten. Economische expansie en koloniale staatsvorming in de buitengewesten van Nederlands-Indië, 1870–1942* (Amsterdam: NEHA, 1989).

Introduction

influence of foreign trade, Touwen made use of the linkage concept from Hirschman, something that will be done in this dissertation as well.³⁷

At the close of the twentieth century, a new series of literature was emerging in which the overall economic development and investment in colonial and independent Indonesia was discussed. In a comprehensive study by Booth, estimates and statistics about output growth and the change of the economy are given for the period between 1800 and 2000, although she focuses less on the rise and decline of various individual sectors.³⁸ She pays more attention to the distribution of income and development of living standards. Nonetheless, she also touches on investment and entrepreneurship, demonstrating why Indonesia had difficulties developing into a stable, modern nation after independence. Lack of industrialisation and an excessive dependence on exports of primary export products, such as oil and rubber, were the main culprits.

A volume compiled by four scholars – Howard Dick, Vincent Houben, Lindblad and Thee Kian Wie³⁹ – also aims at the big picture. The role of government and the failure of democracy, as well as the exploitation and suppression of initiatives, receive due attention, whereas Booth sees the lack of open markets, foreign capital and large remittances as reasons why Indonesia did not succeed in achieving stable economic development.

More recently, Jan Luiten van Zanden and Daan Marks provide a different perspective, with new data on prices, wages and inequality using a database that is widely accessible. The authors attempt to measure total factor productivity (TFP) in order to examine technological growth and the efficiency of the Indonesian economy. Overall, economic growth was usually achieved through more labour and capital, but TFP was responsible for some growth in the first three decades of the twentieth century.⁴⁰

Van Zanden and Marks also discuss FDI and its importance has been described extensively by Lindblad as well. Lindblad also examined other Southeast Asian countries such as Malaysia, the Philippines, Thailand and Vietnam.⁴¹ However, due to its ambitious scope, there is not much room for

³⁷ Jeroen Touwen, *Extremes in the archipelago. Trade and economic development in the Outer Islands of Indonesia, 1900–1942* (Leiden: KITLV Press, 2001).

³⁸ Anne Booth, *The Indonesian economy in the nineteenth and twentieth centuries. A history of missed opportunities* (London: Macmillan, 1998).

³⁹ Howard W. Dick, Vincent J.H. Houben, J. Thomas Lindblad and Thee Kian Wie, *The emergence of a national economy. An economic history of Indonesia, 1800–2000* (Crows Nest, NSW: Allen and Unwin, 2002).

⁴⁰ Van Zanden and Marks, *An economic history of Indonesia 1800–2010*.

⁴¹ J. Thomas Lindblad, *Foreign investment in Southeast Asia in the twentieth century* (London: Macmillan, 1998).

Introduction

in-depth research. Nevertheless, the fact that Lindblad covers both the colonial and the post-colonial era makes it valuable for comparisons between different countries and time periods.

A later publication by the same author deals specifically with the comparison before and after independence in Indonesia.⁴² This brings a fresh view to the process of economic decolonization, which, in fact had already begun during the Japanese occupation. After the Pacific War, however, political independence was reached before economic independence and this became a cause for instability in Indonesia.

In another volume, edited by Lindblad and Peter Post, economic decolonization is seen in both a more regional and international perspective.⁴³ A similar approach is seen in another work by Booth,⁴⁴ where she tries to find out if there was a continuation during the 1950s of the economic development in various countries in Southeast Asia following independence. Her conclusion is that, overall, their colonial legacies were no driving force for most economies in this region. Comparisons with other investors and with colonial and colonizing countries have been done elsewhere in the literature.⁴⁵

One area of comparison is with Africa. Graziella Bertocchi examined the consequences of colonial domination for the underdevelopment of countries in Africa. In order to do so, she created a model which describes the economy before, during and after colonization.⁴⁶ Colonization could lead to a higher output, while depressed living standards and decolonization would have negative consequences for economic development, yet she emphasizes that this is a difficult issue where many factors influence the outcome.

Explicit comparisons between Africa and Asia have been made and although much of that literature focuses on the post-colonial period,⁴⁷ a book

⁴² J. Thomas Lindblad, *Bridges to new business: The economic decolonization of Indonesia* (Leiden: KITLV Press, 2008).

⁴³ J. Thomas Lindblad and Peter Post (eds), *Indonesian Economic Decolonization in Regional and International Perspective* (Leiden: KITLV Press, 2009).

⁴⁴ Anne Booth, *Colonial legacies: Economic and social development in East and Southeast Asia* (Honolulu: University of Hawaii Press, 2007).

⁴⁵ Reinier Ernst Smits, *De beteekenis van Nederlandsch-Indië uit internationaal-economisch oogpunt = The Netherlands East Indies and world trade* (Batavia: Landsdrukkerij, 1931); Helmut G. Callis, *Foreign capital in Southeast Asia* (New York: Institute of Pacific Relations, 1942).

⁴⁶ Graziella Bertocchi, *Colonialism in the theory of growth* (Brown University Working Paper No. 94–14, 1994); Graziella Bertocchi and Fabio Canova, 'Did colonization matter for growth? An empirical exploration into the historical causes of Africa's underdevelopment', *European Economic Review*, Vol. 46 (2002), 1853–1871.

⁴⁷ Bernard Berendsen et al. (eds), *Asian tigers, African lions: comparing the development performance of Southeast Asia and Africa* (Leiden: Brill, 2013); David

Introduction

edited by Ewout Frankema and Frans Buelens comparing Belgian Congo and the Netherlands Indies is especially relevant.⁴⁸ For my research, contributions dealing with the rubber sector, foreign investment and taxes are the most useful parts. The cooperation between Buelens and Frankema also resulted in an article presenting new returns to investment in the Netherlands Indies using data from the Brussels stock exchange. The authors constructed a model to compensate for rising stock prices.⁴⁹

Scholars have also analysed British colonies in Asia, in particular India and Malaysia. I will use some publications discussing sectors like rubber and sugar.⁵⁰ The branch of literature dealing with the Chinese deserves special attention. In his categorisation by degree of alienness, Lindblad labels ethnic Chinese as Indonesians who are considered ‘foreigners’. Although in 1930 only 4% of incorporated companies in the Netherlands Indies were registered with ethnic Chinese owners, their total equity is likely to have been underestimated. It is highly likely that the reported equity was understated and also that large numbers of Chinese-owned firms did not opt for incorporation under Western law. The ethnic Chinese also acted as intermediaries between the indigenous population and foreign investors, a function endorsed by the Dutch.⁵¹ Investment by Chinese Indonesians will not be discussed in detail here, although a few works on the subject deserve to be mentioned.⁵² The PhD

Bevan, Paul Collier and J.W. Gunning, *Nigeria and Indonesia* (Washington D.C.: World Bank, 1999); Peter Lewis, *Growing apart oil, politics, and economic change in Indonesia and Nigeria* (Ann Arbor: University of Michigan Press, 2009); David Henley, *Asia-Africa development divergence: A question of intent* (London: Zed Books, 2015).

⁴⁸ Ewout Frankema and Frans Buelens (eds), *Colonial exploitation and economic development: The Belgian Congo and the Netherlands Indies compared* (London: Routledge, 2013). Another publication dealing with fiscal states in Asia and Africa is noteworthy too: Ewout Frankema and Anne Booth, *Fiscal capacity and the colonial state in Asia and Africa, c. 1850-1960* (Cambridge: Cambridge University Press, 2020).

⁴⁹ Frans Buelens and Ewout Frankema, ‘Colonial adventures in tropical agriculture: New estimates of return to investment in the Netherlands Indies, 1919–1938’, *Cliometrica*, Vol. 10 (2016) 197–224.

⁵⁰ G.C. Allen and Audrey G. Donnithorne, *Western enterprise in Indonesia and Malaya: A study in economic development* (London: Allen & Unwin, 1957); Nicholas J. White, *British business in post-colonial Malaysia, 1957–70: Neo-colonialism or disengagement?* (Abingdon: Routledge, 2004); John H. Drabble, *Malayan rubber: Interwar years* (Basingstoke: Macmillan, 1991).

⁵¹ Lindblad, *Bridges to new business*, 22–23.

⁵² M.R. Fernando and David Bulbeck (eds), *Chinese economic activity in Netherlands India: Selected translations from the Dutch* (Singapore: Asean Economic Research Unit, 1992); Peter Keppy, *Hidden business: Indigenous and ethnic Chinese entrepreneurs in the Majalaya textile industry, West Java, 1928–1974* (PhD thesis, Free University Amsterdam, 2001); J.A.C. Mackie (ed.), *The*

Introduction

dissertation by Alexander Claver is particularly noteworthy, as finance and company networks figure as prominent themes.

Individual companies and sectors

This brings my survey to the last branch of literature focusing on individual companies or sectors. Several older books were published by or with the assistance of private companies or former employees. Without doubt, they express strongly biased views of the company.⁵³ Nevertheless, these books do offer useful factual and statistical information and also give insights into daily activities. Some of these books also make use of works by other scholars, for instance the history of Handels Vereeniging Amsterdam (HVA, Trading Association Amsterdam) as described by the firm's one-time director.⁵⁴

Fortunately, academic works about individual companies do exist next to more biased works. One early example (from the 1970s) is a PhD dissertation by J. Weisfelt,⁵⁵ which discusses the Deli Spoorweg Maatschappij (DSM, Deli Railway Company) and its role in the economic development of North Sumatra. This dissertation is noteworthy for its focus on North Sumatra rather than Java, although the regional development is not examined in great detail. Nor is the impact of the DSM on the economic development of North Sumatra discussed to the extent one would expect.

A later and far more elaborate study by J.N.F.M. à Campo concerned the Koninklijke Paketvaart Maatschappij (KPM, Royal Packet Company), a major Dutch shipping company.⁵⁶ The original Dutch version of the book

Chinese in Indonesia: Five essays (Melbourne: Thomas Nelson, 1976); Alexander Claver, *Dutch commerce and Chinese merchants in Java: Colonial relationships in trade and finance, 1800–1942* (Leiden: Brill, 2014).

⁵³ Examples are: E. Enthoven, *N.V. Deli-Maatschappij, gedenkschrift bij gelegenheid van het zestigjarig bestaan aansluitende bij het gedenkboek van 1 november 1919* (Amsterdam: De Bussy 1929); P.H. Ledeboer, *Gedenkschrift aangeboden aan den heer Herbert Cremer, directeur N.V. Deli-Maatschappij* (Amsterdam: De Bussy, 1941); Jarig Cornelis Mollema, *Gedenkboek Billiton, 1852–1927. I.* (Den Haag: Nijhoff, 1927); Mart Kind, *Van kippenveren tot dieselmotoren. De geschiedenis van de technische handelmaatschappij Lindeteves N.V.: In relatie tot: R.S. Stokvis & Zonen, Nieuwe Afrikaansche Handels-Vennootschap, Oost-Afrikaansche Compagnie, Jacobson Van den Berg, OGEM, Gulf International* (Schoorl: Pirola, 2000); *Lindeteves-Stokvis 1889–1939* (n.p., 1939).

⁵⁴ A. Goedhart, *Eerherstel voor de plantage: Uit de geschiedenis van de Handelsvereniging 'Amsterdam' (HVA) 1879–1983* (Amsterdam: Albini, 1999).

⁵⁵ Jacobus Weisfelt, *De Deli Spoorweg Maatschappij als factor in de economische ontwikkeling van de Oostkust van Sumatra* (Rotterdam: Bronder-Offset, 1972).

⁵⁶ J.N.F.M., à Campo, *Engines of empire: Steamshipping and state formation in colonial Indonesia* (Hilversum: Verloren, 2002).

Introduction

covered the period 1888–1919, whereas the later English translation also included a chapter on the period 1945–1958. The three decades in between are left out, which is most unfortunate. The company is described in great detail for the early period, which makes the book vital for my research.

Royal Dutch Shell is another company which has been generating interest among scholars over the years. One of the more well-known early volumes is by the Utrecht economist F.C. Gerretson. In 1932, he published the first volume in Dutch; 20 years later, he was still writing about the same company.⁵⁷ Some parts are very biased, providing a narrative rather than an analysis of the company. Also it is not always clear which sources he used. Nearly half a century after this English version appeared, Joost Jonker and Van Zanden published a company biography in cooperation with Stephen Howarth and Keetie Sluyterman.⁵⁸ However, here the Dutch perspective in particular is presented and a critical analysis of the operations of the business is not always obvious, although the authors had prioritized access to archives facilitating good statistical records.

In addition, the Nederlandsch-Indische Handelsbank (NIHB, Netherlands Indies Trading Bank) has been covered by W.L. Korthals Altes.⁵⁹ This work gives a good overview of the development of this bank, but networks and relations with other enterprises and banks could have been dealt with in greater depth.

Other scholars such as Ulbe Bosma and Roger Knight focus on a specific sector, notably sugar cultivation in Java, which was one of the most important branches of export production during the early twentieth century.⁶⁰ These authors discuss several sugar companies, financial aspects, markets and technological development in the industry and form a valuable source. Comparisons with the sugar industry in India and the Caribbean have shed new light on the existing literature.

⁵⁷ F.C. Gerretson, *History of the Royal Dutch* (Leiden: Brill, 1958).

⁵⁸ Joost Jonker and Jan Luiten van Zanden, *A history of Royal Dutch Shell: From challenger to joint industry leaders, 1890–1939* (Oxford: Oxford University Press, 2007).

⁵⁹ W.L. Korthals Altes, *Tussen cultures en kredieten: Een institutionele geschiedenis van de Nederlandsch-Indische Handelsbank en Nationale Handelsbank 1863–1964* (Amsterdam: NIBE-SVV, 2004).

⁶⁰ Roger G. Knight, *Commodities and colonialism: The story of Big Sugar in Indonesia* (Leiden: Brill, 2013); Ulbe Bosma, *The sugar plantation in India and Indonesia: Industrial production, 1770–2010* (Cambridge: Cambridge University Press, 2013); Ulbe Bosma, Juan Giusti-Cordero and G. Roger Knight, *Sugarlandia revisited. Sugar and colonialism in Asia and the Americas, 1800 to 1940* (New York: Berghahn Books, 2007).

1.3 Theoretical issues, methodology and analytical framework

Investment

For my research FDI is highly important and this term needs some explanation. FDI is defined as an investment involving a long-term relationship and reflecting a lasting interest of an individual or a business in another country than where the investor is residing.⁶¹ The qualification 'long-term relationship' and 'lasting interest' shows that a foreign direct investor wants to have a say in the management of the enterprise abroad, which is less the case with portfolio investment.⁶²

An aspect to take into account with FDI is the difference between the accumulated stock of investment and the annual incoming private flow of capital. For colonial Indonesia this accumulated stock was much higher than could be justified by the annual flow. This meant that a major part of FDI was realized through reinvestment of profits. On top of this are fluctuating prices, especially for the long period discussed in this dissertation. In economic studies it is common to convert money values. This poses a problem for FDI data, since the accumulated stock data reflects neither current nor constant prices, but a combination of both. The option which is adopted in the literature is to use current prices, but this can be problematic for comparisons over long time periods. Comparisons with data per capita or compensating for inflation is hazardous as well.⁶³

There is also the distinction between market value and book value. According to C.D.A van Lynden the market value based on stock prices is less usable, since they are more subject to monetary fluctuations and other variables. The book value based on the financial statements of the company itself is preferred since information on earnings and losses are recorded. In my research both book value and market value will be examined, since reinvestment of profits was an important way of financing new activities and usually this cannot easily be derived from the books of the company.⁶⁴

Korthals Altes dealt with this issue as well. He discussed the problems of reinvested earnings and carefully examined the complications which occur when analysing dividend payments. He argued that by not paying out profits,

⁶¹ Lindblad, *Foreign investment in Southeast Asia in the twentieth century*, 1.

⁶² Ibid, 1, 6–8; J. Thomas Lindblad, 'Foreign investment in late-colonial and post-colonial Indonesia', *Economic and Social History of the Netherlands*, Vol. 3 (1991) 183–208, in particular 185.

⁶³ Lindblad, *Foreign investment in Southeast Asia in the twentieth century*, 1, 6–8.

⁶⁴ C.D.A. van Lynden, *Directe investeringen in het buitenland* ('s-Gravenhage: Boucher, 1945) 108, 118.

Introduction

the value of the company may increase, but this need not be stated in the balance sheet. Instead, it can show up as dividend payments, which is misleading. For this reason, Korthals Altes did not look at years of payment, but examined the years when these dividends were earned. He contends that such a method results in a greater tendency towards equilibrium, because these figures show a higher correlation between earnings and dividend payments.⁶⁵

The definition of FDI also gives us another problem. How foreign was Dutch investment and how can we categorize investment by overseas Chinese residing in Indonesia? It can be considered as domestic investment because the investor is not a resident abroad, but this is debatable, since Chinese can be perceived as foreigners as well.⁶⁶

With Dutch investment this problem occurs too and especially after 1900 there was an increase in permanent residing Dutch people in the archipelago. Therefore, Dutch enterprises were less foreign than for instance companies from Britain or the United States. Lindblad applied a fourfold classification of foreign firms in colonial Indonesia. First, there are Asian but non-Indonesian firms, with their headquarters in Indonesia, primarily Chinese. Second, the Netherlands-Indies firms, with headquarters in colonial Indonesia and with a European character. Third, Dutch firms with their headquarters in the Netherlands and subsidiaries in colonial Indonesia and sometimes in other countries as well. Fourth, truly foreign firms with headquarters outside Indonesia or the Netherlands, in particular American, British or Japanese enterprises.⁶⁷

Under the third category we can also identify free-standing companies. Basically, a free-standing company was founded in one country and had its head office there (for example in the Netherlands) but was immediately active in another country (in this case, the Netherlands Indies) and did not start with domestic operations. It could sell their output in the home country but in other countries as well. The term free-standing is to indicate the difference between a multinational that starts its operations at home and moves abroad later with a related type of business.⁶⁸ Free-standing companies were embedded in the informal networks of people who shared knowledge and information and

⁶⁵ W.L. Korthals Altes, *De betalingsbalans van Nederlandsch-Indië 1822–1939* (PhD thesis, Erasmus University Rotterdam, 1986) 48.

⁶⁶ Lindblad, *Foreign investment in Southeast Asia in the twentieth century*, 6.

⁶⁷ Lindblad, 'Foreign investment in late-colonial and post-colonial Indonesia', 185.

⁶⁸ Mira Wilkins, 'The free-standing company revisited', in: Mira Wilkins and Harm Schröter (eds), *The free-standing company in the world economy, 1830–1996* (Oxford: Oxford University Press, 1998) 3–64, in particular 3.

Introduction

these people were looking for new opportunities to invest their money.⁶⁹ The free-standing companies often were grouped in clusters and organisations which the companies founded themselves. Certain people had activities in multiple businesses and different roles. This sometimes led to conflicts of interest.

The free-standing company was subject to the law where its headquarters reside and the directors were mandated to monitor the overseas operations which reduced the vulnerability of their operations.⁷⁰ However, the necessary activities in the home country were very small and, therefore, many of these companies in Britain were referred to merely as a brass nameplate in the City.⁷¹ For the Netherlands, it was argued, that the headquarters played a more important role.⁷²

Economic development and economic growth

In this dissertation the focus is rather on economic development than economic growth. These terms are often used interchangeably but there is a slight difference between these two. Economic growth comes down to creating more output and increasing efficiency, whereas economic development also includes changes in educational, technical and institutional arrangements.

When economic growth occurs, there is a real sustained increase in national income per capita. The causes of this process are a higher productivity in all sectors of the economy, increasing production and consumption. Regional differences and changes in income distribution are often neglected, but are important for this research.⁷³ The main emphasis in this study will be on the increasing production of foreign private companies as a cause for economic development. An economy that grows is likely to develop as well, growth of gross domestic product (GDP) is one of the key issues in this dissertation. Growth without development can occur when increases in export take place in foreign enterprises while there is an absence of structural

⁶⁹ See also: Arjen Taselaar, *De Nederlandse koloniale lobby: Ondernemers en de Indische politiek, 1914–1940* (Leiden: Research School CNWS, 1998).

⁷⁰ Keetie E. Sluyterman, *Dutch enterprise in the twentieth century. Business strategies in a small open economy* (Abingdon: Routledge, 2005) 12, 41.

⁷¹ S.J. Nicholas, 'British Multinational Investment before 1939', *Journal of European Economic History*, Vol. 11 (1982) 605–630, in particular 606.

⁷² Ben P.A. Gales and Keetie E. Sluyterman, 'Dutch free-standing companies, 1870–1940', in: Mira Wilkins and Harm Schröter (eds), *The free-standing company in the world economy 1830–1996* (Oxford: Oxford University Press, 1998) 293–322, in particular 313.

⁷³ Touwen, *Extremes in the archipelago*, 18–19.

Introduction

changes to make this economic growth possible in other sectors as well or institutional changes necessary for the distribution of income are lacking.⁷⁴

There are a few terms that will be used in this dissertation dealing with economic development. GDP measures the value of all goods and services produced in a certain period and region or country. This is slightly different than gross national product (GNP) which also includes income received from residents abroad minus income paid out to non-residents working in the country. This means that in order to calculate the GNP of the Netherlands, income from Dutch people working in colonial Indonesia has to be added to the GDP of the Netherlands. Net national product (NNP) is GNP minus depreciation of capital from investment. In order to calculate NNP it is necessary to know the exact increase of capital stock and its depreciation. Finally, to achieve the national income of a country, indirect taxes – the sales tax paid by consumers to producers – has to be deducted from NNP and subsidies paid to firms has to be added to NNP.⁷⁵

From the 1980s onward, scholars tried to apply economic growth theory to colonial economies. Many estimations and assumptions are necessary because macroeconomic data for colonies is scarce and incomplete compared with Western countries in the modern period. Usually, data was collected for the assessment of payments of duties and taxes. Taking these shortcomings into account Lindblad applied a theoretical model from Lawrence Klein when researching economic growth of Southeast Kalimantan. However, he mentions that one should be careful with making conclusions because of the lack of data a complete application of the model is not possible to this region.⁷⁶

For my research about FDI in the Netherlands Indies, two topics in particular are important. First, the debate about the influence of the Dutch presence on the economy of Indonesia, especially the issue of colonial drain and, second, the linkage theory. I will be investigating both the macro and micro perspectives of these issues. Case studies provide detailed information about various corporations, which will be examined on a micro level. Next, statistics on the economic development of the Netherlands Indies will be reviewed in macro perspective, while case studies on individual corporations illustrate the overall economic development. I will first provide a general

⁷⁴ Charles Kindleberger and Bruce Hale Herrick, *Economic development* (New York: McGraw-Hill, 1977) 3.

⁷⁵ Olivier de la Grandville, *Economic growth. A unified approach* (Cambridge: Cambridge University Press, 2009) 8.

⁷⁶ Lindblad, *Between Dayak and Dutch, 202–205*; Touwen, *Extremes in the archipelago*, 17–18.

Introduction

picture and then turn to the colonial involvement of Dutch companies and the integration of these companies into the economy of the Netherlands Indies.

A major intention of mine is to question accepted positions in the existing debate on the economy of the Netherlands Indies. For instance, arguing that the transfer of sovereignty had worse consequences for Indonesia than for the Netherlands may be construed to imply that colonialism was in the end beneficial to Indonesia.⁷⁷

Comparisons about the influence of colonialism on both mother country and colony will be examined in detail. Based on case studies of selected firms, the effects of Dutch private investment on the economic development of the Netherlands Indies will be explored and this requires comparisons both between companies and with respect to the overall economic development of the Netherlands Indies. Another important aspect of comparative historical research has been described by James Mahoney. He discusses that research about case studies on a micro level can be useful for studies with a macro level analysis.⁷⁸ This is particularly important, since case studies of companies will be compared to the macroeconomic growth of the Netherlands Indies.

My research is based on a small sample of case studies which were not randomly selected. The data from the case studies is compared with a database which has information on a very large number of private firms. Conventional methodology for qualitative research will be used, including formulation of hypotheses and collecting and analysing data, documents and understanding patterns from time series. Detailed information on business accounts and shareholder meetings appears more relevant, when answering the why and how questions.⁷⁹ Mathematical models and regression analysis will be far less used in contrast to statistical data, but a mixed approach with a combination of quantitative and qualitative approaches is inevitable.⁸⁰

When analysing the data it is useful to look for statistical relationships between the performance of the individual companies and the macroeconomic growth of the Netherlands Indies. Correlations between volumes of investment, levels of profitability and evidence of economic development of

⁷⁷ Jaap van der Zwaag, *Verloren tropische zaken: De opkomst en ondergang van de Nederlandse handel- & cultuurmaatschappijen in het voormalige Nederlands-Indië* (Meppel: De Feniks Pers, 1991) 303.

⁷⁸ James Mahoney and Dietrich Rüschemeyer, *Comparative historical analysis in the social sciences* (West Nyack: Cambridge University Press, 2003) 305–336.

⁷⁹ Catherine Marshall and Gretchen B. Rossman, *Designing qualitative research* (Thousand Oaks, CA: SAGE, 2010) 137.

⁸⁰ Abbas Tashakkori and Charles Teddlie, *Handbook of mixed methods in social & behavioral research* (Thousand Oaks, CA: SAGE, 2003) 51.

Introduction

the Netherlands Indies are to be explored. Identifying patterns and company-specific features will be necessary as well. I shall also examine causal connections between investment and profitability. One presumes that more investment leads to more profit. A key question is whether more profits led to a higher rate of reinvestment, benefiting the economy of the Netherlands Indies as well as the mother country. Or did company profits flow only into the pockets of shareholders? I will seek to find out what kind of companies benefitted from the economic development of the Netherlands Indies. This requires more theoretical information about dividend payments and business structures, such as free-standing companies.

Colonial drain

As mentioned earlier, Berkhuisen devoted a study to the issue of colonial drain and although his book is from 1948, some of his concepts can still be used. Just like Korthals Altes, Berkhuisen examines aspects of the balance sheets and argues that authors approach this in different ways. In addition, the movement of capital is discussed quite extensively. The issue of export of capital is particularly relevant to my research. First, a distinction is made between short- and long-term capital export. Long-term capital export implies that a considerable part of the national income is moved from one country to another and used for more productive purposes, instead of short-term capital, which is basically meant to solve liquidity problems.⁸¹ Therefore, most attention in my thesis will be given to long-term capital movements. The second important issue is why and when investors decide to invest in foreign countries, which is also discussed by Van Lynden. An easy explanation is that this happens when the domestic market is saturated and profits and prices abroad are good, while risks are low. Solving the lack of capital in a particular foreign country does not seem to be decisive for investors, but political reasons can be important, which was the case for the Netherlands Indies and might have contributed to enhance Dutch investment there.⁸²

The topic of colonial drain forms a major part of his book. Berkhuisen discusses this topic in detail and shows how to incorporate this issue into new research. In order to speak of colonial drain, there needs to have been an export surplus. It is implicitly assumed that the economy would benefit more if there was no drain. In addition, it is implicitly assumed that the colonial economy would be better off without colonial drain. Of course, there are numerous difficulties in measuring and calculating this. An aspect which is

⁸¹ Berkhuisen, *De drainagetheorie voor Indonesië*, 6–30.

⁸² *Ibid.*, 36–45.

Introduction

often mentioned, is that the Netherlands Indies did not have a capital market. Therefore, these authors claim that in order to make use of its rich natural resources, foreign capital was required. By implication they argue that any contribution to the economic growth of the Netherlands Indies was caused by foreign capital.⁸³ This is something that needs to be examined in greater detail.

In order to address the issue of colonial drain, one usually looks at the volume of profits that flowed back to the mother country, in the form of dividends, private trading profits and bonuses. One should also include the loss of resources and tax reports can provide valuable information when combined with balance sheets. When comparing the volume invested in the Netherlands Indies with the payments of dividend by various companies, it should be possible to calculate how much money returned to the Netherlands and how much remained in the Netherlands Indies. Naturally, it is impossible to calculate this for every individual company in the Netherlands and it should be kept in mind at all times that estimates and generalizations will have to be made. Similar studies have been done for different sectors, like the sugar sector, and these results can be used for complementing my research in order to find out if there was a colonial drain and how large this drain was.⁸⁴

To measure profits and losses for the cultivation of land, one should take into account the costs for reclaiming waste land which must be balanced against the increase in value of the land. Eventually, the foreign capital invested in this land will result in the production of indigenous products, and weighing the benefits and costs is an important aspect in measuring colonial drain. A statement such as that rich natural resources could only be made profitable with the help of foreign capital needs to be examined critically. The last important aspect concerns the wages of the indigenous labourers working for foreign companies. These wages can be compared with other sectors and the indigenous economy.⁸⁵

Van der Eng mentions the issue of wages as well and has made use of some interesting models discussing earlier concepts to measure colonial drain. Van der Eng, however, makes use of many variables when examining the effect of colonial drain: domestic consumption, gross domestic investment, export of commodities, exports of services, imports of commodities, imports of services, net transfers abroad, gross national product and gross domestic product.⁸⁶ Applying his methodology to the individual

⁸³ Crena de Iongh, 'Nederlandsch-Indië als beleggingsgebied van Nederlandsch Kapitaal', 108–112; Berkhuisen, *De drainagetheorie voor Indonesië*, 88–89, 128.

⁸⁴ Van der Mandere, *De Javasuikerindustrie in heden en verleden*; Berkhuisen, *De drainagetheorie voor Indonesië*, 98.

⁸⁵ Berkhuisen, *De drainagetheorie voor Indonesië*, 87–111.

⁸⁶ Van der Eng, *The 'colonial drain' from Indonesia, 1823–1990*, 6–7, 22–24.

Introduction

companies in my study is not feasible, but his data combined with information of the company archives will shed a new light on colonial drain and this makes it possible to see the flow of profits and if certain sectors were more prone to drain than others.

Linkages

The analysis of the relationship between FDI and economic development is here supported by a systematic identification of linkages. Linkages and spillover effects are very relevant for this research in the sense that they tell a great deal about the relationship between investment and distribution of income. Hirschman has written a lot about forward and backward linkages, and Touwen used several of these concepts in his study of the Outer Islands. According to Hirschman, linkages are connected with input-output analysis. But input-output analysis is usually more synchronic, whereas linkage effects need time to unfold.⁸⁷ His definition of these linkage effects is as follows: 'The linkage effects of a given product line as investment-generating forces are set in motion, through input-output relations, when productive facilities that supply inputs to that line or utilize its outputs are inadequate or nonexistent. Backward linkages lead to new investment in input-supplying facilities and forward linkages to investment in output-using facilities.'⁸⁸

Therefore, Touwen states that a forward linkage exists when investment in a specific sector requires or attracts investment in other stages of the production process. Backward linkages, on the other hand, occur when an industry sector makes use of other industries in order to start up or create the industry itself. Processing industries are an example of forward linkages. Usually, they are established near the growing areas where they are indispensable for preparing the harvested product for export.⁸⁹

Hirschman states that this is probably done more for pragmatic reasons than as an entrepreneurial choice and shows this with the example of sugar cane. In order to maximize the yield, it needs to be crushed as soon as

⁸⁷ Albert O. Hirschman, 'A generalized linkage approach to development, with special reference to staples', *Economic Development and Cultural Change*, Vol. 25 (1977) 67–98, in particular 70.

⁸⁸ Hirschman, 'A generalized linkage approach to development, with special reference to staples', 71; Albert O. Hirschman, *The strategy of economic development* (New Haven, CT: Yale University Press, 1958) 98–103.

⁸⁹ Touwen, *Extremes in the archipelago*, 32–33.

Introduction

possible after cutting and the crude sugar cane is too bulky for transport abroad.⁹⁰

Nevertheless, the linkage effects can be applied to both manufacturing and primary production. For the latter category, the staples thesis is an important theory as well, since primary products are exported to the world markets. The incomes which are derived from this staple production and export can be spent on imports, but eventually these imports can be substituted by domestic industries when the economy becomes more developed. Hirschman calls this the 'consumption linkage', whereas the backward and forward linkages are described as 'production linkages'. During the first phase of export expansion, the destruction of handicraft or artisan activities is an important effect of the exporting country.

Another important approach considers the ability of the state to generate income out of exports. Fiscal linkages exist when taxes are used for more productive investment. The mining and petroleum sectors are good examples of this, as they can be enclave economies, not involved with the rest of the economy. It is important to look for examples of this for the Netherlands Indies. Hirschman states that fiscal linkages are likely to emerge when the enclave resources are owned by foreigners. A state is more likely to tax this, because the enclave is less involved with the rest of the country. In a nation-state, foreign enterprises are likely to be taxed more heavily than domestic firms.⁹¹

For my research, however, this poses a problem, since the Netherlands Indies was administrated by foreigners. On the other hand, it is possible that mining and oil generated both large profits and reasonable tax revenues accruing to the state. Therefore, I will explore whether proceeds of these taxes flowed to the Netherlands or remained in the Netherlands Indies.

Touwen has discussed these linkages for the Outer Islands and examines backward and forward linkages of European firms. With backward linkages, a specific industry sector can make use of other industries for their production and he gives an example of the oil industry. The oil sector in the Netherlands Indies required pipelines and these could have been offered from other countries or be produced locally. If these were produced in the Netherlands Indies, this can be seen as beneficial for the economic development of this country, but if these pipelines were shipped from the Netherlands or another country, the economic benefits were not likely to be visible in the Netherlands Indies. Touwen also gives some examples of forward

⁹⁰ Hirschman, 'A generalized linkage approach to development, with special reference to staples', 78.

⁹¹ *Ibid.*, 72–74.

Introduction

linkages. If the output of an industry sector is used by other industries, then forward linkages occur. Refining raw oil in a local refinery before it is exported to other countries is such an example. In the Netherlands Indies, various refineries were present and they generated demand for local goods as well. The last category is final demand linkages or consumption linkage effects and Thee Kian Wie used this term in his PhD dissertation on North Sumatra. In general, this occurs if an export industry is attracted to a particular place and will result in a better income distribution and increase consumer spending.⁹²

In my research, I have applied linkages in order to see the influence of FDI. One sector that will be studied is export agriculture. Over the years, estate companies were responsible for improvements in irrigation works, which were not only beneficial for the companies themselves, but for the indigenous population as well.⁹³ As Derksen and Tinbergen showed with the multiplier effect for the national economic development,⁹⁴ the presence of foreign companies can have additional effects for employment in other sectors as well. This could lead to an expanded demand of various products among the indigenous population, resulting in a higher national income.

Examples of specific and real improvements need to be identified, based on archival research. For instance, it is possible that a Dutch industrial company in the Netherlands Indies required specific equipment, which was not directly available in the Netherlands. Therefore, a factory which produced this equipment and was founded with the purpose of serving the other industrial company would be a good example.

1.4 Source material

This research relies on a variety of source materials. One of the most important sources consists of documents and annual reports found in the business archives deposited at the National Archives in The Hague, in particular the archives of the Deli Maatschappij, Billiton, and HVA. Regional reports by the colonial authorities can be found in the *Memories van Overgave* in the National Archive.

The National Archive provides information on the developments of different companies. Information about different banks is needed, too. The Javasche Bank (DJB, Java Bank), in particular, is the most important one. In

⁹² Touwen, *Extremes in the archipelago*, 32–34; Thee, *Plantation agriculture and export growth*, 49–51.

⁹³ Berkhuisen, *De drainagetheorie voor Indonesië*, 116.

⁹⁴ Derksen and Tinbergen, 'Berekeningen over de economische betekenis van Nederlandsch-Indië voor Nederland', 7–13.

Introduction

Jakarta, in the Arsip Nasional Republik Indonesia (ANRI, National Archives of Indonesia), the archives of the Algemene Vereeniging van Rubberplanters ter Oostkust van Sumatra (AVROS, General Association of Rubber Planters in East Sumatra) are available as well.

Next to these archives, the Koninklijk Instituut voor Taal-, Land- en Volkenkunde (KITLV, Royal Netherlands Institute of Southeast Asian and Caribbean Studies) collection at Leiden University provides much documentation on different companies and additional statistics. The collection of the Koninklijk Instituut voor de Tropen (KIT, Royal Tropical Institute) has been incorporated into the Leiden University catalogue. This collection provides statistics about the imports and exports of the Netherlands Indies, regional trade statistics and agricultural produce for the period of 1910 to 1940.

More information about individual companies and sectors, their profitability and dividend payments is found in the *Handboek voor Cultuur- en Handelondernemingen in Nederlandsch-Indië* (Handbook of Plantation and Mercantile Enterprises in the Netherlands Indies) available for the years 1888–1940. Supplementary information is gathered in *Van Oss' Effectenboek* (Van Oss' Securities Book) from 1903 to 1978 and digitalized for selected years in the period 1910–1940⁹⁵ and *De Nederlandsche naamlooze vennootschappen* (The Dutch Limited Companies) by Van Nierop and Baak for the years until 1948. Information about stock prices from the *Prijscourant der effecten* (Price list of stocks) is provided by the foundation Capital Amsterdam. Various newspapers and magazines will be used as well. One example is the *Economisch Weekblad voor Nederlandsch-Indië* (Economic Weekly for the Netherlands Indies) available for the 1930s and 1940s. In addition, different reports from the Centraal Kantoor voor de Statistiek and later the Centraal Bureau voor de Statistiek (Central Bureau of Statistics) provide relevant statistics.

With this material a solid and comprehensive study is possible and financial statistics from individual companies can be linked with stock prices and comparisons with the macroeconomic development can be made. The majority of these sources are written in Dutch or originating from Dutch authors and the case studies are selected for pragmatic reasons. Data for the companies had to be available for 1910 until the date of nationalisation and, therefore companies were chosen that didn't go bankrupt during the 1930s. One note should be made; these sources are 'Euro-centric' and have to be used with caution. It is not possible to write about Dutch investment in Indonesia

⁹⁵ Colonial Business Indonesia, *CBI Database ID* (<https://www.colonialbusinessindonesia.nl>) last accessed, December 16, 2021.

without relying on Dutch sources, although scholars rightly argued that a more 'Asia-centric' perspective needs to be adopted in research in order to limit stigmatization.⁹⁶

1.5 Chapter topics

This dissertation contains five substantive chapters. Within these chapters I have opted for a chronological structure. Chapters 2–5 cover the late colonial period, from about 1910 up to the Japanese occupation in 1942, whereas chapter 6 deals with the immediate independence period of Indonesia from 1945 until about 1960. In this way, it is possible to discuss each topic in a different chapter. At the conclusion of each chapter, I relate the findings to the central research question.

– Chapter 1 is a general introduction.

– Chapter 2 discusses FDI with regard to colonial Indonesia. Special attention is given to the volume of Dutch private investment in the colony over time. Details are provided about the development of the corporate network in the colony.

– Chapter 3 focuses on profits and drain. The chief topic in this chapter is colonial drain. The profitability of Dutch-owned firms is assessed in order to find out whether profits can be considered to have been excessive. Flows and transfer of profit will get particular attention.

– Chapter 4 is geared toward the linkage effects, regarding effects of private Dutch investment on various linkages and to find out how business and the society in the Netherlands Indies benefitted from the presence of various industries.

– Chapter 5 discusses the three case studies: Billiton, Deli Maatschappij and HVA for the period 1910–1942. In this chapter investment, profits and linkages will be discussed for these three companies.

– Chapter 6 is about post-independence developments. Here I examine the various themes of the previous chapters, but confined to the time period 1942–1960.

– Chapter 7 is the main conclusion.

Statistics on volumes of investment, gross domestic product, profitability and individual companies are found in the appendices. In this book I use the

⁹⁶ Touwen, *Extremes in the archipelago*, 36; Heather Sutherland, 'Writing Indonesian history in the Netherlands: Rethinking the past', *Bijdragen tot de Taal-, Land- en Volkenkunde*, Vol. 150 (1994) 785–804, in particular 788, 797; Jaap Vogel, *De opkomst van het Indocentrische geschiedbeeld: Leven en werken van B.J.O. Schrieke en J.C. van Leur* (Hilversum: Verloren, 1992) 19–22.

Introduction

standard modern Indonesian spelling for place names, unless they have been changed altogether after independence such as with Batavia becoming Jakarta.