



Universiteit
Leiden
The Netherlands

Genesis of a growth triangle in Southeast Asia

Xu, X.

Citation

Xu, X. (2015, November 4). *Genesis of a growth triangle in Southeast Asia*. Retrieved from <https://hdl.handle.net/1887/36062>

Version: Corrected Publisher's Version

License: [Licence agreement concerning inclusion of doctoral thesis in the Institutional Repository of the University of Leiden](#)

Downloaded from: <https://hdl.handle.net/1887/36062>

Note: To cite this publication please use the final published version (if applicable).

Cover Page



Universiteit Leiden



The handle <http://hdl.handle.net/1887/36062> holds various files of this Leiden University dissertation

Author: Xiaodong Xu

Title: Genesis of a growth triangle in Southeast Asia : a study of economic connections between Singapore, Johor and the Riau Islands, 1870s – 1970s

Issue Date: 2015-11-04

Chapter 3

Trade Connections: Commerce and Merchants

It was suggested in the introduction that mutual connections between Singapore, Johor and the Riau Islands can be observed in three spheres: trade, shipping and capital. This chapter focuses on the trade flow between the three regions. In this regard, external trade refers to trade between the Singapore-Johor-Riau Islands region and other places, whereas internal trade means the movement of commodities between Singapore, Johor and the Riau Islands. The main attention of this chapter is paid to the internal connections, which stimulated internal integration within the triangle area.

As far back as the early nineteenth century, trade development had been stimulated by the free port policy in both British-colonized Singapore and Dutch-controlled Riau Islands. As the most important participants of trade, the Europeans and Chinese dominated all international and regional trade. Their complementary roles stimulated internal integration based on a pattern of mutual benefit. Under these conditions, both international and regional trade experienced rapid growth. However, from the 1860s onwards, new elements, such as a more aggressive colonial expansion, the opening of the Suez Canal, the arrival of steamships and the laying of submarine telegraph cables, changed the pattern of trade. The new factors, together with the rise of Hong Kong in the trade between China and the West, gave Singapore a more important role in the Southeast Asian network. In

this system, the Malay Peninsula and the Netherlands Indies served as the hinterland of Singapore. Regional agricultural and mining products were shipped to Singapore in large quantities, and from there further transported to Western countries.¹ In exchange, manufactured goods from the West were imported into Singapore and distributed to its hinterland. This pattern is characterized as East-West trade. Meanwhile, the position of Singapore as an entrepôt for regional trade was maintained, especially for transshipment of rice from Thailand, Vietnam and Cambodia to British Malaya and the Netherlands Indies, designated as intra-South China Sea trade.

As the closest neighbour of Singapore, Johor and the Riau Islands reacted differently to these changes. Johor performed exclusively as the hinterland of Singapore. Most of its products were directly transported to the Singapore market. In return, rice, textiles and other daily necessities were imported from Singapore for local consumption. The dependence of Johor on Singapore fitted into British colonial policy in unifying the entire Malay Peninsula. By contrast, in the Netherlands Indies, the Dutch colonial government adopted a different attitude. Instead of full cooperation, the Dutch regarded Singapore as their main rival. In order to attract trade flows from Singapore to ports in the Netherlands Indies, the Dutch colonial government made the whole of the Riau Islands as free trade region. On the one hand, the Riau Islands became the hinterland of Singapore for the trade of agricultural products because of geographical proximity. On the other hand, it also performed a role as an entrepôt in domestic interinsular trade in the Netherlands Indies. Such differences in trade within triangle region existed throughout the entire period of this study.

Departing from this context, the chapter begins with an overview of general trade development individually, followed by an analysis of mutual trade connections within the triangle. Part three pays attention to the main actors of trade and analyses the role of the Europeans and Chinese in regional trade development. Two different methodologies are applied. Quantitative analysis is applied to describe the general development of trade and the structure of exports and imports, whereas an analysis of hinterland and foreland is used to identify trade connections.

¹ For more discussion see Wong, *The Trade*. CSAR (1960), 17-8.

1. General trend of trade development

1870s-1910s

It is commonly agreed that the last forty years of the nineteenth century constituted a period of relatively liberal world trade.² Benefiting from it, the trade of Singapore in this period achieved a rapid growth at an average rate of 3.4% per annum, although deeply influenced by the depreciation of the Mexican dollar that traditionally was widely used in Southeast Asia (Figure 3.1).³ This growth rate was given in current prices, but it did not show considerable difference with the growth rate in real terms. Deflated with the Sauerbeck-Statist overall price index, real annual average growth rate of Singapore merchandise exports between 1870 and 1910 was estimated at around 3.3% by Huff.⁴ Also Sugimoto's estimate of price indices between 1900 and 1910 does not show much deviation from the trend in current prices.⁵ Our hypothesis of rapid growth in Singapore can therefore be accepted. Characterized as entrepôt trade, there was little difference in the structure of imports and exports but with a net import surplus. Traded commodities in this period can be classified into two categories. The first category included products for daily consumption, such as rice, cotton piece goods and opium, imported from the international market and distributed to the regional hinterland. The second category included commercial products from the hinterland destined for Western countries, such as tin, pepper, gambir, copra and other agricultural products.

The relative importance of these commodities changed dramatically during this period. The share of rice and opium in total imports rose slightly due to the growth of the population in Southeast Asia. The share of cotton piece goods, however, declined sharply from around 10 per cent in 1885 to only three per cent in 1910. The same trend can be observed in the trade of gambir and pepper. The combined share of the two was more than 13 per cent in 1885, but by 1910 this figure had dropped to 5 per cent. They were replaced by tin, rubber and copra. In 1885, the trade of tin only had a share of four per cent of total imports. But from the early twentieth century, Singapore imported a large amount of tin ore, and exported tin products after being smelted locally. The total share of tin and tin ore was nearly 20 per cent in the first decade of the twentieth century. Another newly emerging commodity was rubber,

² Courtenay, *A Geography*, 18.

³ Original statistics on prices in Singapore and Johor are recorded in different kinds of dollars (Mexican dollar, Straits dollar, etc.). The growth rate of 3.3% is based on the pound value. If calculated in dollar currency, the growth rate is around 5.5% per annum.

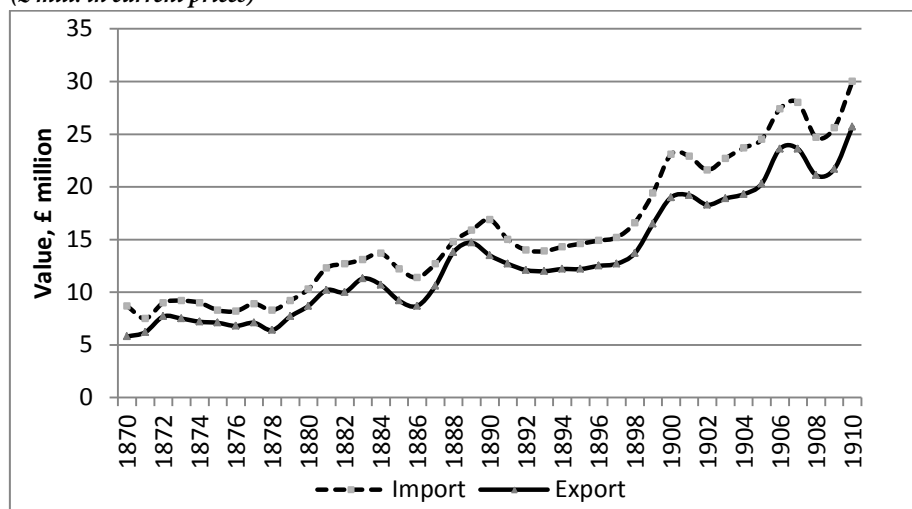
⁴ Huff, *The Economic Growth*, 44.

⁵ Sugimoto, *Economic Growth in Singapore in the Twentieth Century: Historical GDP Estimates and Empirical Investigations*, 136.

which, however, had not gained much importance yet. In 1910, its share was still below 5 per cent of total exports (Table 3.1).

Figure 3. 1. Imports and exports of Singapore, 1870-1910.

(£ mill. in current prices)



Source: Appendix iv.

Table 3. 1. Structure of imports and exports in Singapore, 1885-1910.

(percentage share)

	Import			Export		
	1885	1900	1910	1885	1900	1910
Gambir and Pepper	13	5	4	16	7	6
Cotton goods	11	5	4	9	5	3
Rice and opium	16	15	22	16	14	18
Tin and tin ore	2	15	13	7	19	17
Gutta-percha	2	5	1	4	8	2
Copra	2	2	5	2	2	6
Rubber	-	-	-	-	-	5
Others	54	53	48	46	45	43

Note: "Others" include rattan, fish, etc.

Source: Appendix v.

In Johor, a rapid growth of trade also took place, but it was characterized by an export surplus, unlike Singapore. Akin to Singapore, the growth rate was recorded at 3.7% per annum, but with fluctuations (Figure 3.2). Like in Singapore, although this

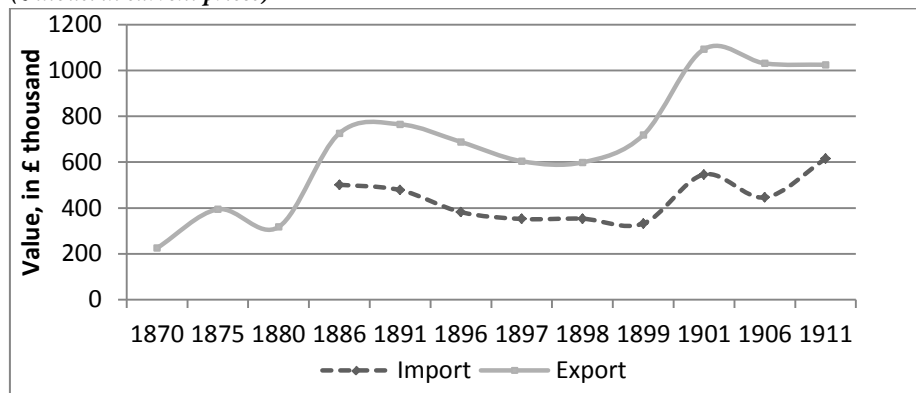
estimate was also in current prices, limited influence of inflation was expected on the real growth of trade in Johor as governed by Straits Settlements.

With regard to trade structure, Johor differed markedly from Singapore. Although there is no detailed information about imported commodities into Johor, fragmentary evidence shows that imports were dominated by food and other basic products for daily consumption. In 1886, rice imported into Johor amounted to 368,093 piculs, valued at £200,000, about 40 per cent of total imports into Johor.⁶ Concerning exports, during the heyday of the plantation economy in the second half of the nineteenth century, a large volume of pepper and gambir was produced and exported from Johor. Pepper and gambir remained the only regional products of significance until the early twentieth century when other commodities gained more importance, such as tapioca, copra and rubber, contributing to the diversity of trade in Johor (Table 3.2).

These products were planted or collected not only by smallholdings, but also by large European estates concentrated in Batu Pahat, Pulo Kokob, Panti, Johor Bahru and Pengerang.⁷ Moreover, traditional fisheries were still in the hands of indigenous people, but were without economic importance. The single largest change that took place was the emergence of rubber, which became the most profitable product for Johor in the following half-century. In 1910, total exports of rubber from Johor amounted to £175,000, 21 per cent of the total exports.

Figure 3. 2. General trend and export structure of Johor, 1870-1911.

(£ thous. in current prices)



Source: Appendix vii.

⁶ Courtenay, *A Geography*, 104.

⁷ Great Britain, *Trade and Shipping of South-east Asia*, 78.

Table 3. 2. Structure of exports in Johor in 1890 and 1910.
(percentage share)

	Gambir	Pepper	Rubber	Tapioca	Areca nuts	Copra	Fish
1890	56	44	-	-	-	-	-
1910	26	14	21	8	17	14	-

Source: Appendix viii.

The Riau Islands from 1873 onwards also benefited from a liberal economic policy, just like elsewhere in the Netherlands Indies. The influx of foreign investment stimulated the plantation sector and exports of various commercial estate products, such as pepper, copra and rubber, both by the local population and European firms.⁸ In exchange, rice and other stuff for daily use were imported and re-exported to other places in the Netherlands Indies. The general trend of trade development is given in Figure 3.3, indicating a net export surplus and a growth rate of 1% per annum based on current prices. Bart van Ark's estimate shows that export indices in the Netherlands Indies during this period deflated by 12 per cent over these forty years.⁹ The annual average deflation rate was hence estimated at only 0.3%, which had a very limited impact on the growth rate in real terms. We adjust the real average growth rate to 1.3% per annum, much lower than that of Singapore and Johor. Rather than a steady growth, the regional process showed sharp fluctuations, implying the vulnerability of the Riau Islands to outside influence.

Concerning the structure of imports, a limited range of products was imported. Rice, clothes, textiles, sugar and opium were the most dominant and this picture did not change throughout the whole period. Industrial manufactured goods, iron, machines and oil products were not imported until the twentieth century and in very small volumes (Appendix xiv). This reflected the small scale of industrial activity both in the Riau Islands and in the Netherlands Indies in general. The structure of exports showed many similarities with Johor (Table 3.3), notably the predominance of gambir and pepper in the late nineteenth century and increasing diversification into the twentieth century, when a number of other agricultural products were also exported, such as pineapple, sago, copra, etc.

⁸ Touwen, *Extremes*, 90.

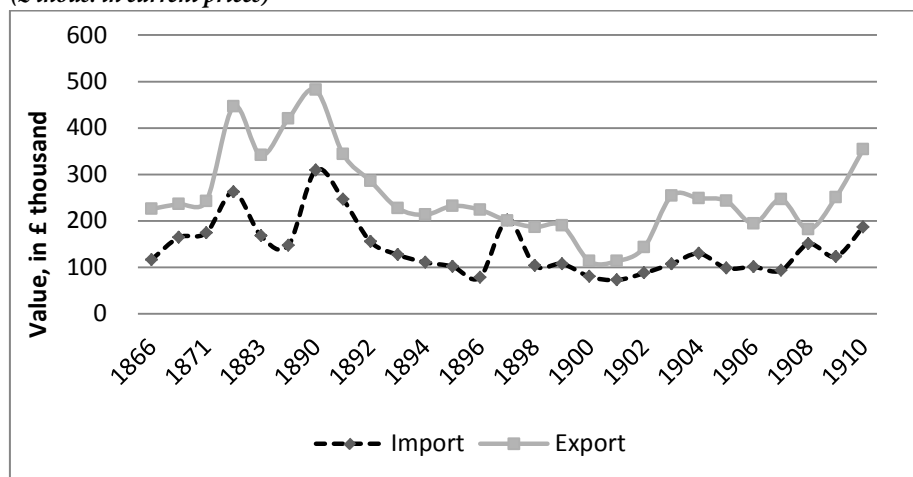
⁹ Van Ark, 'The Volume and Price of Indonesian Exports, 1823 to 1940: The Long-Term Trend and its Measurement'.

Table 3. 3. Structure of exports in Riau Islands, 1866-1909.
(percentage share)

	Gambir	Pepper	Sago	Copra	Other
1866	60	35	-	-	5
1879	61	34	-	-	5
1895	70	22	-	-	8
1909	39	8	14	25	14

Source: Appendix xv.

Figure 3. 3. Imports and exports of Riau Islands, 1866-1910.
(£ thous. in current prices)



Source: Appendix xi.

1910s-1940s

Liberal world trade since the early twentieth century was adversely affected by growing protectionism which reached its peak in the 1930s. Although the trade of Singapore during this period was marked by a growth rate of 2.1% per annum in current prices. During this period, import and export price indices deflated by 27.4 per cent and 29.1 per cent respectively.¹⁰ Influenced by the estimated annual deflation rate of 1%, the real annual growth rate of trade of Singapore can therefore be set at around 3.1% during this period. Similar to the fluctuations of price indices (Appendix 1), the volume of trade was severely influenced by both political and economic instability, especially the First World War (1914-1918), restriction schemes and the worldwide economic depression in the 1930s (Figure 3.4).

¹⁰ Sugimoto, *Economic Growth*, 136.

The First World War resulted in global political instability and economic unrest, but it also stimulated tyre manufacture, which generated a large demand for natural rubber. Regional trade was thus to a large extent stimulated by the export of rubber products. Rubber, as well as tin products, constituted the main part of Singapore's trade. However, the production and trade of them were both regulated and limited by various restriction schemes from the 1920s to the 1940s. The output of rubber in British Malaya was restricted by the Stevenson Restriction Scheme in the years 1922-1928, and the International Rubber Regulation Scheme from 1934 to 1937, that also applied to the Netherlands Indies. These interventions intended to stabilize declining rubber prices resulting from excess supply. The International Tin Control Scheme, aiming at restricting supply by export quota, became operative on 1 March 1931. It was renewed several times, notably in 1934 and 1937. These intensive interventions by government not only reflected the new character of regional trade, but also the integration of regional economy with the world market. They also resulted in drastic fluctuations of trade in the 1920s, as both production and prices of rubber and tin were rather unstable. The decline after 1930 was due to the world economic crisis, the influence of which was so far-reaching that trade of Singapore did not recover its earlier levels before the Pacific War.

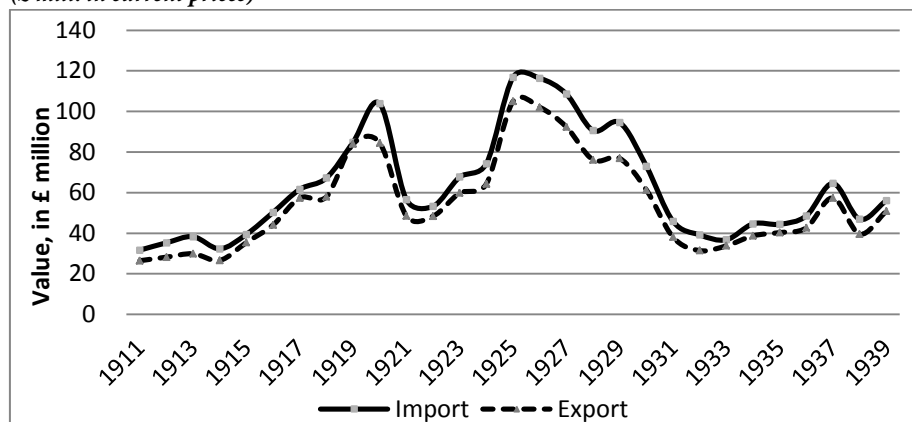
Change also occurred with regard to trade structure. On the export side, the once important gambir and pepper lost their previous significance. They were replaced by rubber, canned pineapple and petroleum (Table 3.4). Instead of being refined in the region, the oil products were mainly transported from the Netherlands Indies. They were stored and redistributed through the island of Pulau Bukom by Royal Dutch Shell. These products did not have much impact on the Singapore economy as they created little new employment, with installations confined to Singapore's offshore islands.¹¹ The share of tin and other minerals remained stable. Among imports, the structure began to show a difference compared to exports. Imports of tin products were replaced by imports of tin ore, which was smelted in Singapore before being exported. The same pattern was also observed in other processing industries such as rubber, canned pineapple and palm oil, which were based on primary products imported from adjacent regions.

These subtle changes demonstrate the emergence of industries for semi-manufactured products, which gave Singapore the character of a staple port.¹² Nevertheless, its position as an entrepôt for regional distribution of rice, cotton piece goods and other manufactured items remained and was reinforced.

¹¹ Huff, *The Economic Growth*.

¹² *Ibid.*, 71.

Figure 3. 4. Imports and exports of Singapore, 1911-1939.
(£ mill. in current prices)



Source: Appendix iv.

Table 3. 4. Structure of exports in Singapore, 1911-1939.
(percentage share)

	Rubber	Canned pineapple	Tin	Petroleum	Other
1911	6	1	18	-	75
1920	32	1	10	-	57
1929	28	1	12	7	52
1939	41	1	16	12	29

Source: Appendix vi.

A much faster growth of trade was achieved in Johor. Both imports and exports more than quadrupled at a growth rate of about 6% per annum in current prices. Applying the annual deflation rate of 1% in Singapore, we estimate the real annual trade growth rate at around 7%. The depression of the 1930s also deeply affected regional trade, which, however, recovered immediately after the crisis. The net export surplus continued in this period (Figure 3.5).

The steep rise of trade from the 1920s onwards was due to exports of tin, iron and bauxite ores, which radically altered the export structure of Johor. Under the tin restriction schemes, exports of tin ore from mines near Kota Tinggi were governed by the tin quota release each quarter of the year. This created a difference between the amount of tin ore produced and the amount held by miners as 'permissible stocks', representing a percentage of the assessment of each mine. Iron ore was mined in the vicinity of towns of Endau and Yong Peng by Japanese companies. Bauxite mining began only on a small scale in 1936 (only 36 tons); after that year, the excavating and

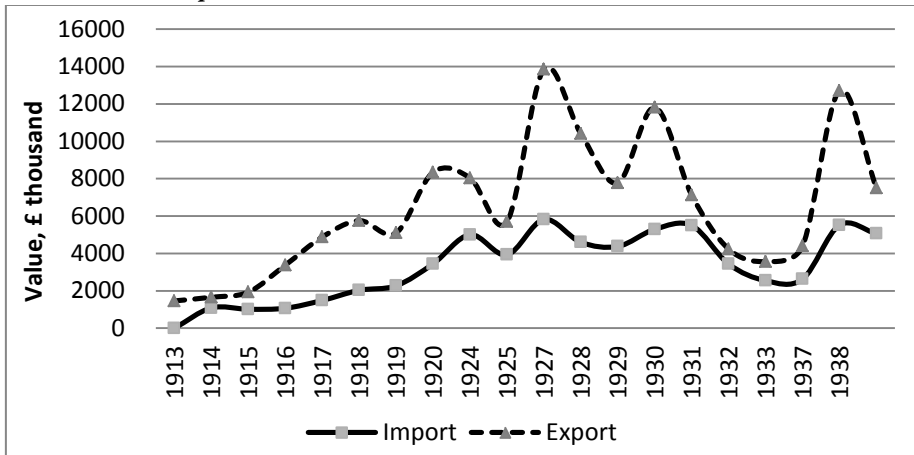
washing plants in the mine were enlarged and output increased. All iron and bauxite ores were exported in its crude state to Japan, where they were processed.¹³

Another contribution to export diversity came from rubber and palm oil. From the beginning of the twentieth century, all planters, whether European, Malay or Chinese, and whether capitalists or not, had devoted their efforts to rubber.¹⁴ The share of rubber in total exports increased from 32 per cent in 1913 to 71 per cent in 1939. From the 1930s onwards, exports of palm oil also gradually gained importance, although its share was only two per cent of total exports in 1938. By contrast, exports of traditional agricultural products declined. In 1913, although gambir, pepper and other agricultural products still had a significant share in total exports, they faded out completely after the 1920s (Table 3.5).

Rising production of tin and rubber required the import of materials for exploration and processing. This was reflected by a change in the structure of imports. Different from the import of daily necessities in the former period, the imports of manufactured products included textiles, metals and machinery, other construction equipment. The growing value of this category of imports indicated a growth of regional industry as well as technological improvement.

Figure 3. 5. Imports and exports of Johor, 1913-1938.

(£ thous. in current prices)



Source: Appendix vii.

¹³ JAR. (1938), 14.

¹⁴ Ibid. (1910), 6.

Table 3. 5. Structure of imports and exports in Johor, 1913-1939.
(percentage share)

Imports						
	Food, drinks, opium	Raw material	Manufactured material	Other		
1913	80	6	11	3		
1920	69	9	17	5		
1928	52	7	41	-		
1939	43	5	51	1		
Exports						
	Rubber	Gambir, pepper	Tin, iron, bauxite ore	Areca nuts, copra, tapioca, timber	Other	
1913	32	21	4	34	9	
1920	69	2	6	20	4	
1930	66	-	7	-	-	
1939	71	-	9	-	-	

Source: Appendix viii.

Apart from Pulau Bukom in Singapore, another distribution centre of Royal Dutch Shell was Pulau Sambu, one of the small islands in the Riau Islands situated very near Singapore. Since 1911, it had been selected as a storage and distribution centre of the *Bataafsche Petroleum Maatschappij* (BPM, the Batavian Oil Company, a subsidiary of Royal Dutch Shell) after a year-long negotiation between the company and the sultan of Riau-Lingga.¹⁵ The transshipment of petroleum brought recovery to the once prosperous entrepôt trade in the Riau Islands. Although the register of the value of oil products from Pulau Sambu in the Riau Islands is only available for a brief period between 1911 and 1922, Pulau Sambu has kept operating up to the present day. The total value of oil products was far higher than the total of other exports from the Riau Islands, although compared with other oil ports such as Balikpapan in Borneo and Pangkalan Branden in Suatra, the value of exports from Pulau Sambu was insignificant (Appendix xii). Because of the incomplete records of oil products transhipped from Pulau Sambu, we do not include them in the description of the trade of the Riau Islands. Growth rates of imports and exports showed at 3.7% and 2.9% per annum respectively in current prices. According to Van Ark's calculation, export price indices in Indonesia deflated by 53 per cent from 1911

¹⁵ Lindblad, 'The Petroleum Industry in Indonesia before the Second World War'.

to 1938. The annual deflation of export price was hence estimated at 2.6%.¹⁶ We thus adjust the real growth of import and export to 6.3% and 5.5% per annum respectively. They are lower than in Johor, but higher than in Singapore (Figure 3.6).

The structure of non-oil trade also experienced much change elsewhere in the region. Although rice, cloth, and textiles remained the most important import products in the beginning of this period, their share fell from 38 per cent in 1911 to 20 per cent in 1938. By contrast, the combined share of machines, iron and oil products rose from four per cent in 1911 to 33 per cent in 1938, which may be attributed to demand from construction in Pulau Sambu and the development of other industries (calculation based on Appendix xiv).

Diversification also took place in the structure of exports. As in Johor, gambir and pepper lost their former importance and were replaced by rubber, copra, wood and tin ore (Table 3.6). But unlike the preponderance of rubber in the total exports of Johor, the structure of exports in the Riau Islands was more balanced. Although the rubber boom had also performed its magic in the Riau Islands from the 1920s, the export of rubber was rather negligible compared to Indragiri.¹⁷ The export of forest and marine products constituted another part: logging for production of lumber and charcoal, and both fresh and salted fish. Their economic importance was not as large as rubber and copra. Apart from agricultural and forest products, tin ore also held a large share. Tin exploitation had begun as early as in 1887 by the Singkep Tin Company. The ore was not smelted in Singkep, an island in the Lingga archipelago, but transported to Singapore by the own steamships of the company (Straits Trading Company).¹⁸ Since then, the share of tin in total exports increased steadily.

Table 3. 6. Structure of exports of Riau Islands, 1911-1938.
(percentage share)

	Rubber	Gambir, pepper	Tin ore	Sago	Copra	Other
1911	-	44	-	7	45	4
1920	67	5	6	4	16	2
1929	29	4	20	5	19	23
1938	21	5	22	2	12	38

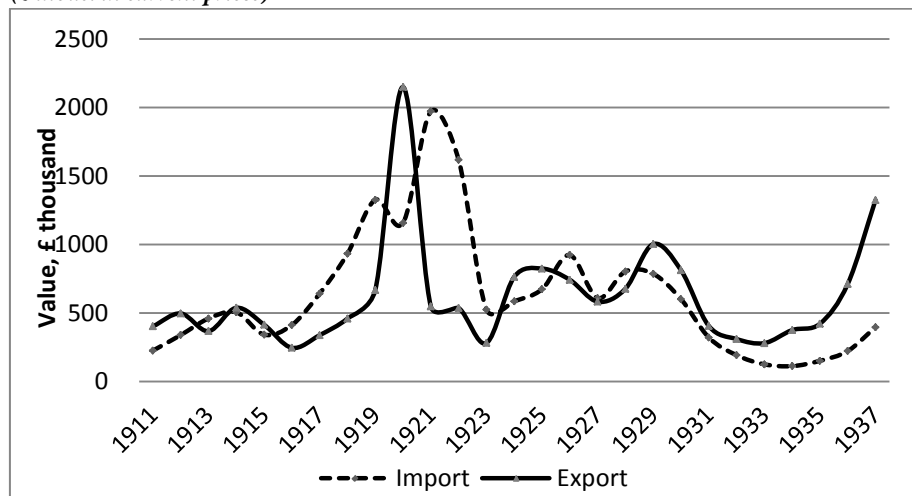
Source: Appendix xv.

¹⁶ Van Ark, 'The Volume'.

¹⁷ Touwen, *Extremes*, 91.

¹⁸ KV (1899), 209.

Figure 3. 6. Exports and imports of Riau Islands (excluding oil), 1911-1937.
(£ thous. in current prices)



Source: Appendix xi, Appendix xiii.

1940s-1970

The Japanese invasion of Malaya brought a sudden halt to regional trade. Although no detailed statistics about trade during the war are available, it can be assumed that a sharp decline took place. Restricted by the Japanese to control economic resources as part of its planned Co-Prosperity Sphere, all international trade was cut off completely except with Japan.¹⁹ On the other hand, regional inter-island trade grasped the opportunity to develop, especially after 1943 when the liberal trade policy was abandoned and the Syonan Import-Export Control Association, run by Mitsubishi and other Japanese firms in Malaya and Sumatra, was set up. Under these conditions, the only commodities produced and exported were in the category of minerals, petroleum and rubber. However, Japanese wartime requirements were largely below production capacity. This difference led to a sharp decline in regional exports of these commodities.

Recovery took place immediately after 1945 when the development of trade showed a new pattern compared to the previous period. In the 1950s Singapore regained its position as the main commercial centre of Southeast Asia, indicated by the rapid expansion of trade with Peninsular Malaysia as a result of general Malayan expansion programmes and the stepping-up of capital investment and purchase of equipment.²⁰ From 1947 to 1971, exports from Singapore increased more than six times and imports increased about five times. Average growth rates per annum were

¹⁹ Twang, *The Chinese Business Élite*, 78.

²⁰ CSAR (1950), 54, 79.

8.2% and 7.3% for export and import respectively, the highest since 1870 (Figure 3.7). Since the price indices did not deviate very much in the 1950s and 1960s,²¹ our estimated growth rates reflect growth in real terms.

The rapid development was accompanied by a change in the trade structure. Rubber still remained very important in the total export, but its share declined from 47 per cent in 1950 to only 24 per cent in 1970. The same trend applied to the export of tin. The decline was rather obvious immediately after 1945.²² These commodities, which were traditionally imported from adjacent Malaya and Indonesia for re-export, underscored the decline of Singapore's entrepôt trade. By contrast, the export of manufactured goods and petroleum formed the main part of exports (Table 3.7).

Changes in the pattern of trade reflected the difference between the traditional entrepôt trade and the currently developing trade with a higher proportion of retained imports and domestic exports.²³ In general, both political and economic changes have affected Singapore since 1960, transforming the country from an entrepôt of regional trade of very limited value into an entrepôt-manufacturing centre for industrialization through the policies of import substitution and later export orientation.²⁴

Table 3. 7. Structure of exports in Singapore, 1950-1970.
(percentage share)

	Rubber	Petroleum	Manufactured good	Copra, palm oil, canned pineapple, tin	Other
1950	47	5	-	10	38
1960	41	8	26	4	21
1965	22	14	41	3	30
1970	24	17	48	3	8

Source: Appendix vi.

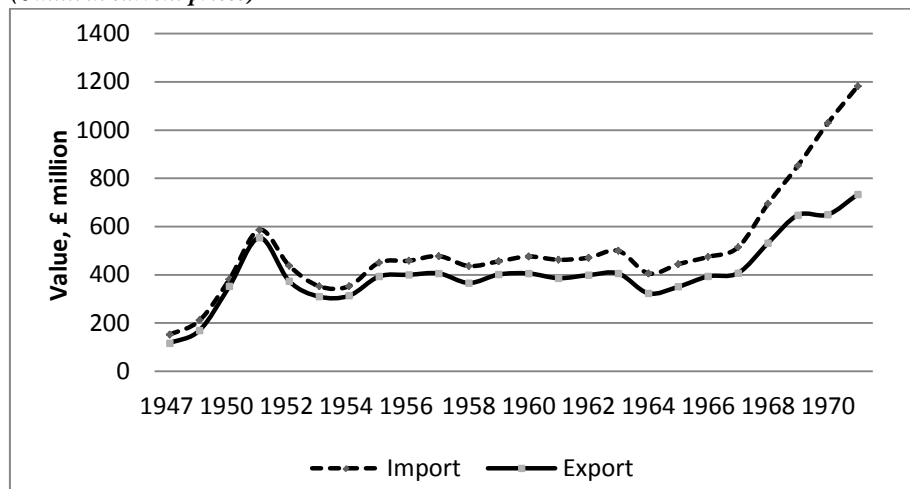
²¹ Sugimoto, *Economic Growth*, 129.

²² *Ibid.*, 135.

²³ Courtenay, *A Geography*, 236.

²⁴ *Ibid.*, 238.

Figure 3. 7. Imports and exports of Singapore, 1947-1970.
(£ mill. in current prices)



Source: Appendix iv.

Immediately upon the conclusion of the Japanese occupation, recovery took place in all domains and output quickly exceeded pre-war levels in Johor. The general trend is observed at the national level as Johor formed an important part of the Malaysian national economy. There was a good performance immediately after the war in the early 1950s as a result of the Korean War, which resulted in a large demand for natural rubber. After that, there was a mild growth of both imports and exports. Considering its geographical location and tradition, Johor's trade probably followed the same trend of bilateral trade as between Malaysia and Singapore, which, however, did not record much growth after the mid-1950s. Later on, exports did stagnate, while imports actually declined per annum, albeit with a limited inflation. Therefore, the trade of Johor in this period was not as satisfactory as before, with an average growth rate of 5% per annum under limited impact of inflation (Figure 3.8).

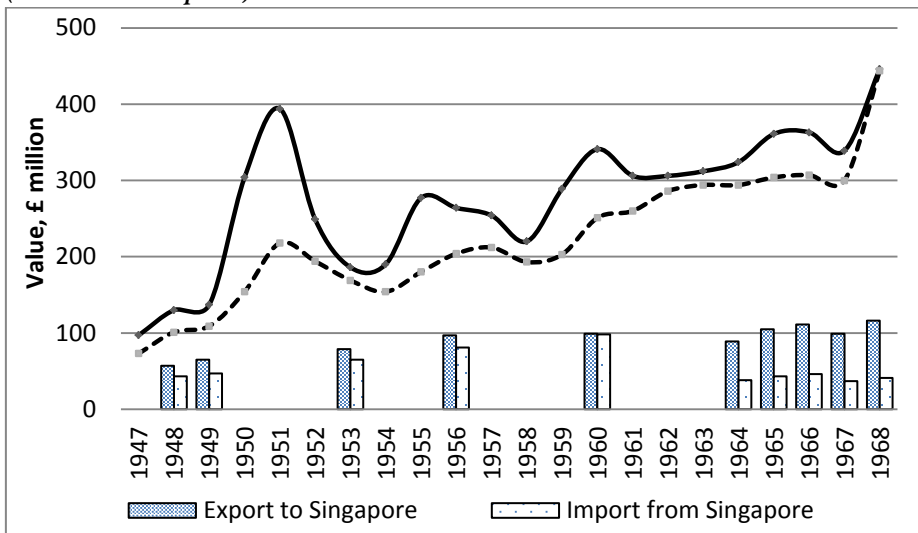
Although industrialization came to be regarded as the means to generate productive employment and to diversify the economy, the effect of related government policies, such as import substitution was somewhat limited before the adoption of the NEP in 1971. Changes in the structure of trade immediately after were not noticeable, in spite of the intention of government policies to diversify the national economy.²⁵ In Muar, the major plantation area of rubber in Johor, the regional economy still largely depended on the export of raw rubber without processing in the first two decades after the war.²⁶ This could also be observed in

²⁵ Mohamed, *Export Trade and the West Malaysian Economy: An Enquiry into the Economic Implications of Export Instability*, 15-9.

²⁶ Lee Yih-yuan, *An Immigrant Town: Life in an Overseas Chinese Community in Southern*

other towns in Johor. Up to the late 1960s, exports of products from the primary sector stayed above 76 per cent of the total, whereas exports from the secondary sector only had a share of about 12 per cent. Rubber, palm oil, canned pineapple, tin, iron, bauxite, timber and fish remained the most important commodities in Johor. As a newly emerging export product, canned pineapple increased from £285,000 million in 1947 to £5.9 million in 1970. Similarly, exports of palm oil became the main component of regional exports replacing rubber. Exports of timber also grew in importance.

Figure 3. 8. Trade of Peninsular Malaysia, 1947-1968.
(£ mill. in current prices)



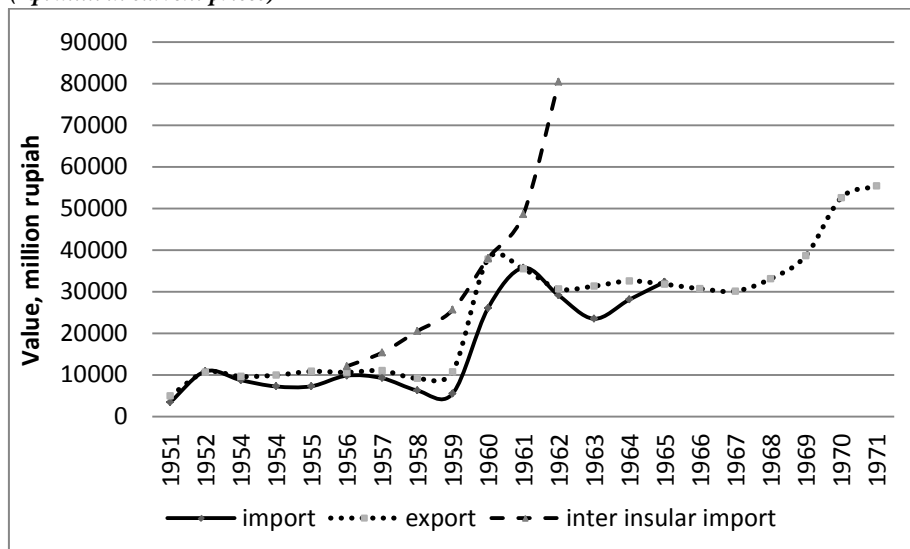
Source: Appendix ix.

Like in Johor, the general development in the Riau Islands in this period is also difficult to observe at the regional level. On the national level in Indonesia, the quest for independence and decolonization took a long time and the process was not completed until the late 1950s. Moreover, the colonial influence did not vanish easily, causing much difficulty in the struggle for economic recovery and independence. Although a recovery took place after the war, the general development of trade showed a slight decline up to 1960. After a jump in the late 1950s, trade fell into stagnation throughout the 1960s and did not improve until the 1970s (Figure 3.9). But we have to bear in mind that the Indonesian rupiah had been in a long-term

depreciation since the early 1950s. The real trade development was even worse if expressed in international currency.

Figure 3. 9. Imports and exports of Indonesia, 1951-1971.

(Rp. mill. in current prices)



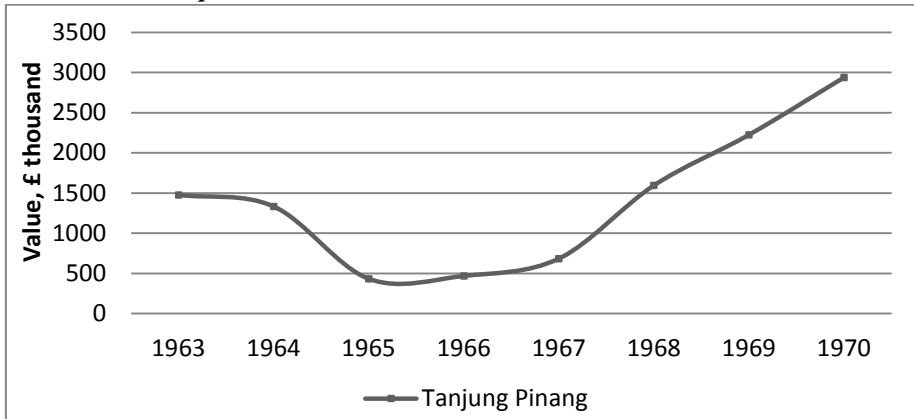
Source: Appendix xi.

Although it is hazardous to assume a correlation between all of Indonesia and the Riau Islands, it seems likely that the unstable political situation and changing government policies at the national level had a negative influence on regional trade. Although regulations were made in 1950 to permit a freer export of produce from its 'duty free' area of the Riau Islands to Singapore,²⁷ there were no optimistic expectation until the late 1960s after the ending of Indonesian-Malaysian Confrontation. From the mid-1960s, when the situation had improved, there were signs of recovery of trade as shown by the growth of trade in Tanjung Pinang, which was internationally oriented (Figure 3.10). In 1973, total exports from Riau amounted to £10.8 million in current prices, far higher than the pre-war figures.²⁸ It is difficult to estimate an accurate growth rate, but it is safe to say that there was a 'slow recovery'.

²⁷ *Singapore Free Press*, 12 April 1950.

²⁸ Lampiran (1973-1974).

Figure 3. 10. Exports in Tanjung Pinang, 1963-1970.
(£ thous. in current prices)



Source: Appendix xvii.

The structure of exports did not differ much from previous period. In 1950, major export commodities still consisted of fish, rubber from the Riau estates, copra from the Pulu Tujuh Islands, gambir from Bintan Island, and timber from Karimun. Tin and bauxite were prohibited from export, but all other produce could be exported in small quantities provided an export permit was obtained at Tanjung Pinang, Belakang Padang and Tanjung Balai.²⁹ Pulau Sambu was still used for transshipment for oil products. The limited export of industrial products suggested that regional economic development had not yet achieved significant transformation and was still at a low level. By 1975, at least, no real change had taken place (Table 3.8). It was only much later that Indonesia underwent an increasing integration with the world economy, profound structural changes and intense diversification.³⁰

Forced by the blockade on international trade and the cut-off of their traditional trade route to Singapore, the Riau people had to rely on shipments of foodstuff from Java. Domestic trade flows between these two islands expanded quickly (Table 3.9). The goods, mostly rice, textile, fish, copra, and coconut oil, were first sent to Tanjung Pinang and from there transported by boat to Java, Borneo and mainland Sumatra. This port was thus transformed into a domestic port for the interinsular entrepôt trade and developed quickly in the 1960s. However, these poor-quality goods did not bring structural change to this pattern of domestic trade compared to the colonial period. The Riau Islands was the last of three regions to experience industrialization. This story only starts seriously with the emergence of the SIJORI Growth Triangle.

²⁹ 'Indies Relaxes Export Rules.' *Singapore Free Press*, 12 April 1950.

³⁰ Frederick and Worden, *Indonesia: A Country Study*, 1.

Table 3. 8. Exports from various ports in Riau Islands, in 1975.
(£ thous. in current prices)

	A	B	C	D	E	F	G	H	I
Tanjung Pinang	76	1,083	-	12	-	-	4	77*	321
Batu Ampar	47	-	1,211	1	-	-	-	406**	1,149
Pulau Sambu	-	-	-	-	25,677	5,555	-	-	-
Tanjung Uban	-	-	-	-	3,210	1	-	-	-
Dabo Singkep	-	-	-	-	-	-	-	5,098***	-
Pasir Panjang	-	-	-	-	-	-	-	17****	-

Note: A: live animals, fish and shrimps, food, copra cake, tobacco; B: rubber and rubber products; C: carbonate; D: gambir, seaweed, jelutung; E: oil products; F: wax; G: wood; H: mineral products, metal and machinery, instruments (* bauxite; ** blowlamps, strongboxes; *** tin and ore; **** granite); I: mangrove charcoal, agar-agar and other.

Source: RdA (1975).

Table 3. 9. Interinsular trade of Riau Islands in 1961.
(Rp. thous. in current prices)

	Rice	Fish	Copra	Coconut oil	Textile	Cement
Import	683	8	-	18	1,714	46
Export	66.3	5,435	370	619	-	-

Source: SI (1961).

To sum up, from a long-term perspective, the gloomy development of the Riau Islands was largely attributed to its peripheral position in the Netherlands Indies and its limited export commodities, whereas the rapid expansion of Johor trade in the period of the 1910s-1940s was attributed to the exports of rubber. Post-war performance of Singapore was better than Johor and the Riau Islands as a result of several factors. First, Singapore moved gradually away from fully depending on entrepôt trade to based on domestic manufacturing. Second, the export of raw materials was replaced by value-added industrial products. Third, complete political independence resulted in a greater flexibility in governing trade than before. In Johor and the Riau Islands, the export structure was still dominated by traditional agricultural and mining products long after the war. Belated and slow industrialization left them lagging behind Singapore. Singapore's trade composition mirrored, not simply an urban-rural dualism, but more a tripartite division; this broadly corresponded to the domestic, Malay and extra-Malay markets.³¹

³¹ Huff, *The Economic Growth*, 115.

2. Trade connections of Singapore-Johor-Riau Islands

Trade connections within the triangle are formed by the trade flows between Singapore, Johor and the Riau Islands, including exports of primary products from Johor and the Riau Islands to Singapore and imports of basic consumer goods from Singapore into Johor and the Riau Islands.

1870-1910

Singapore has developed various trade connections since its establishment as a free port in 1819. Although up to 1870 the advantage of a free port was no longer the monopoly of Singapore, its trade did not suffer from competition, since it still possessed the advantage of a superior geographical location and probably possessed the best facilities for trade compared to other ports in this region.³² By means of its entrepôt position, Singapore established a wide trade network on account of its pivotal position in regional trade. Concerning intra-South China Sea trade, the entrepôt trade in foodstuff (rice in particular), connected Singapore with European colonies in Asia, such as India, Burma, Vietnam, Malaya and the Netherlands Indies. The latter two had a share of around 20 and 30 per cent respectively in Singapore's re-export of Western manufactured goods around 1900.

This regional network with Singapore at the centre was gradually extended and intensified as trade grew and more regions were incorporated. Johor was fully included in this network by exporting gambir, pepper, copra, sago and importing rice and cotton goods. This pattern was the result of political unification. In the Riau Islands, by contrast, exports of regional agricultural commodities were also entirely transported to Singapore, even including those destined for Java. However, this pattern rather went against the intention of the Dutch colonial government to attract trade from Singapore. It was because trade in the Riau Islands was completely in the hands of Chinese businessmen from Singapore. Imposition of taxes on trade with Java forced these exports to Singapore, where another group of businessmen transported them to the Netherlands Indies. But for the imports of foodstuff, they did not entirely come from Singapore. Some regional traders also conducted direct trade between the Riau Islands and Thailand and Vietnam.³³ Still, these external connections declined as Singapore became the chief supplier of imports destined for the Outer Islands of the Netherlands Indies.

The intensity of internal trade connections can be seen by the importance of the Singapore market for Johor and the Riau Islands. The statistics indicate gradually intensified trade between Singapore and the others, as exports of gambir and pepper

³² Wong, *The Trade*, 199.

³³ SHS (1866, 1870).

kept growing in the nineteenth century, but the low percentage of trade of Johor and the Riau Islands in the total of Singapore indicates that, trade between Singapore and Johor-Riau Islands was important for the latter, but not for Singapore. However, from the 1890s onwards, the influx of agricultural products from Sumatra and the decline of gambir reduced the competitiveness of Johor and the Riau Islands in Singapore's market. The emergence of rubber in Johor created another connection with Singapore, but this did not materialize in the Riau Islands until a decade later. Therefore, during the expansion of Singapore's trade network, Johor's links with Singapore was maintained and even intensified, first by pepper and gambir, and later by rubber, but the delay of structural change in the Riau Islands resulted in a slightly loosened connection with Singapore in the early twentieth century. The geographical advantage of the Riau Islands was offset by the rise of other regions in the Netherlands Indies due to the lack of diversity of exports. This was also the reason for a limited expansion of the foreland both of Johor and the Riau Islands, since imports of foodstuff also depended on Singapore. And this dependency was possibly stronger than expected, because a large proportion of the coastal trade was carried by Chinese junks and other small craft, the owners of which, through ignorance or to avoid trouble, did not report their arrival and departure.³⁴ Therefore, the trade of the three regions showed more characteristics of a regional rather than international orientation.

1910-1940

The boom of rubber and tin industries resulted in an expansion of the international market for both British Malaya and the Netherlands Indies. Singapore was transformed from a precarious entrepôt into a confident hub of expanding regional economy.³⁵ Although Johor and the Riau Islands also expanded the trade with other regions except Singapore, their internal connections were still intensified during this period.

Johor still served as the hinterland of Singapore's agricultural exports. Gambir and pepper were for the last time booming. New business was created and intensified by exports of rubber and tin ore. The emergence of the canned pineapple industry further diversified the regional export structure. The same products were exported from the Riau Islands to Singapore for the world market. In 1915, the export structure of Johor showed much similarity with the import structure of Singapore, and the share of import commodities stayed at a high level in the Singapore market: rubber (53 per cent), tin ore (five per cent), gambir and pepper (100 per cent), copra (19 per cent). Exports of forest products also emerged in this period despite of serious attempts to conserve valuable timber and other products of the state forests. Most

³⁴ ARSS (1871).

³⁵ Turnbull, *A History*, 7.

timber from Johor was exported, while a number of sawn softwood plants were imported from Sumatra and the Riau Islands. Even into the 1930s, the share of commercial agricultural products from Johor retained a stable share in Singapore's market. The situation in the Riau Islands was different because the cultivation of rubber had not yet begun on a large scale. The export structure of the Riau Islands was still dominated by gambir and copra: both gradually lost their market in Singapore. However, the importance of the Riau Islands for Singapore maintained because of the growth of transshipment of oil products from Pulau Sambu by a subsidiary of Royal Dutch Shell which were destined for Singapore.

In short, the bilateral connection between Singapore and the other two states was a continued process of intensification. In the Riau Islands, this process was slower because of the limited scale of the smallholder economy, but Singapore was still the sole market for regional produce from the Riau Islands. It was also from this period that Singapore was not the only outlet for regional export from Johor and the Riau Islands. Their outward connection had been established and reinforced.

Japanese occupation and revolutions

The Japanese occupation of this region lasted only three and a half years, but it completely destroyed existing trade networks by its aim of restructuring the pre-war economic system in order to exploit Malaya's and Indonesia's economic resources for the benefit of Japan. Externally, all international trade connections were cut off. Allied forces evacuated their vessels and blockaded the Japanese maritime connection to the international market. Under this influence, Singapore, which was controlled by Japan, lost its position as a trade centre in Southeast Asia, as well as in the world. The sole international connection with Japan, however, was also full of obstacles. Although the Japanese military government attempted to lay the groundwork for future development along these routes to Japan, the occupation was primarily a time of expedients designed to overcome short-term difficulties.³⁶ Japanese attempts to impose central control over trade received little support from the local population, and were impeded by corruption and inefficiency. In the first place, this was because Malaya was an integral part of a larger economic system, a segment of the British Empire which lacked the resources to operate in isolation. In the second, the autarchic economic policy practised in the entire region did not allow sufficient amounts of foodstuffs to be exported to Singapore.³⁷ Even the internal Asian trade suffered from transport shortages which impeded plans for industrial expansion and made it difficult to obtain supplies from overseas sources.

³⁶ Kratoska, *The Japanese Occupation*, 206.

³⁷ Twang, *The Chinese Business Élite*, 95.

The blockade of the external exports forced the Japanese military administration to focus on internal trade. As a result, the Singapore-Johor-Riau Islands region became the core of the Japanese military unit, within which the economic boundary between the former Dutch and British spheres disappeared.³⁸ Therefore, raw materials, including bauxite, tin and rubber, were produced and exported on a modest scale in Johor and in substantial quantities in the Riau Islands for Japan.³⁹ By the end of 1943, Chinese merchants from Sumatra and Singapore were in full control of the trade across the Straits of Malacca.⁴⁰ There was a remarkable local political and economic integration, especially between Sumatra and Singapore.⁴¹ Alongside the legal trade, smuggling across the Straits reached a peak. It was facilitated by the settling of *kumiai* (co-operatives), grouping of firms in the same line of business which were given quasi-monopolies over certain types of wholesale and retail trade.⁴² They were engaged in cross-Straits trade to reduce wasteful competition by forming local companies.⁴³ Karimun Island in Riau managed to evade in the trade web controlled by the Japanese. It became the unofficial trade centre of Malaya, Sumatra and Java, and was the hub of smuggling, tax evasion, and black marketeering. In March 1945, when the war was close to its end, a revealing move was made by the *Syonan-to* authorities: a Karimun branch of the Syonan Rice Import Kumiai was founded on Singapore to serve to ease the distribution of imported rice.⁴⁴

This pattern of cross-border trade remained intact in the immediate post-colonial period due to the strong demand in Singapore for items from the islands, including coconut, copra, rubber and fish. People from surrounding islands travelled frequently to Singapore to purchase goods and services. Due to the military confrontation between newly-independent Indonesia and the Netherlands, this trade had very much the character of illegal smuggling carried out by a small number of private traders. Invisible exports of rubber from the Riau Islands to Singapore were recorded at 5,825 tons in 1947, 7,919 ton in 1948 and 8,518 tons in 1949.⁴⁵ Later, the Chinese import-export organizations (e.g. the Singapore Overseas Chinese Importers-Exporters Association (SOCIEA) established after the war on 1 January 1946) were one of the most striking post-war inventions in the region. Such organizations were established not only in major entrepôt cities such as Singapore and Penang, but also in various parts of Sumatra and Java. Of crucial importance for

³⁸ *Ibid.*, 93.

³⁹ Kratoska, *The Japanese Occupation*, 4.

⁴⁰ Twang, *The Chinese Business Élite*, 90.

⁴¹ *Ibid.*, 91.

⁴² Kratoska, *The Japanese Occupation*, 165, 95.

⁴³ Kalir and Sur, *Transnational Flows and Permissive Polities: Ethnographies of Human Mobilities in Asia*, 93.

⁴⁴ Twang, *The Chinese Business Élite*, 95.

⁴⁵ *Ibid.*, 201-3.

the smuggling trade in the region were not only those in Indonesia, but also the one in Singapore.⁴⁶ Awang, a Malay teacher from Tanjung Balai Karimun, recalled that during the 1950s he was one of the richest men in his community because of the high prices his copra attracted. He would ship coconuts from Sumatra to the islands and manufacture copra, which was then sent by ship to Singapore.⁴⁷

Purposely or not, this was the period when internal connections within the Singapore-Johor-Riau Islands triangle reached its strongest momentum in political terms. Johor and the Riau Islands enhanced their positions from the periphery of British Malaya and the Netherlands Indies to the core of the 'Southern Territory'. However, in the meantime, their international connections were almost blocked. This resulted in an imbalance between regional and international trade for Johor and the Riau Islands, and an economic decline.

1947-1970s

The impact of the Japanese occupation was so far-reaching that it took a long time for post-war Malaya and Indonesia to complete the task of attaining independence and realizing decolonization. The period between the late 1940s and the mid-1950s were full of disputes, confrontation and rivalry.

In Johor, regional economic development also guided the general policy of Malaysia, which aimed at developing national economy. Trade from Johor was politically intended by the Malaysian government to be directed via domestic ports, but geographically and economically it was still passing through Singapore. At the same time, a substantial proportion of imports into Johor went to the Federation.⁴⁸ As the chief port of the Federation of Malaya, 73 per cent of total imports and 63 per cent of total exports in Malaya passed through Singapore in 1950.⁴⁹ Rubber, canned pineapple, palm oil and tin ores still retained their importance and were exported through Singapore.

Indonesia's trade experienced a similar pattern of transformation. International trade were re-created and recovered rapidly in the post-war period. Total Indonesian trade with Singapore reached a record value in November 1950. This was mainly attributable to higher prices drawing more rubber into Singapore.⁵⁰ However, Singapore exports to Indonesia showed an unsatisfactory performance in the remainder of the 1950s. Following monetary and trade reforms in Indonesia in

⁴⁶ *Ibid.*, 205-7.

⁴⁷ Kalir and Sur, *Transnational Flows*, 93-6.

⁴⁸ CSAR (1956), 79.

⁴⁹ *Ibid.* (1950), 54.

⁵⁰ CSAR (1950), 56.

August 1960, when import policy was to some extent liberalised, there was hope that Singapore's exports to Indonesia would increase. However, it appeared that import restrictions against Singapore were being lifted.⁵¹ This hope was finally shattered by the Confrontation in the early 1960s when the Riau Islanders were cut off from 'their paddies and fields' in Singapore and Malaysia. The decline of international trade did offer opportunities for the development of domestic interinsular trade. Therefore, the trade pattern of the Riau Islands showed much similarity with the situation in the nineteenth century. External links were limited to Singapore and Malaysia, but its position as a domestic entrepôt was strengthened. However, it is doubtful whether government policy had a much effect in the Riau Islands, since regional agricultural products still relied on Singapore for export, such as rubber, tin and copra. This intensification was to large extent attributed to smuggling, as well, especially during the Confrontation. It is estimated that at least 5-10 per cent of the total exports from the Riau Islands were smuggled to Singapore.⁵² It was not until 1968, when relations between Singapore and Indonesia were normalised, that things began to improve again as a result of restored cross-border mobility.⁵³ Nevertheless, 'it is hard to stop smuggling because it is traditional,' as the governor of the Riau Province, Mr Subrantas Siswanto said.⁵⁴

From a political perspective, regional connections were loosening, as indicated by the change in trade structure and the implementation of divergent government policies. This continued until the late 1960s. The pattern of trade showed a continuity with the colonial period, in disregard or violation of government intentions. Johor and the Riau Islands continued to depend on Singapore as a hinterland of export, but the trade of Singapore relied less on Johor and the Riau Islands.

3. The actors of trade connections

Both international and regional trade connections could not have been realized without the participation of people of different ethnic groups. The shift of their power in trade reflected the change of these connections. Regional trade of Singapore, with its strategic geographical position, was for a long time in the hands of Asians before the coming of British, who established it as a free port.⁵⁵ Chinese, not only the main labourers on the plantations, but also traders, were the most important among the Asians. From the 1870s, Chinese businessmen collected and transported agricultural products to Singapore where they purchased consumer goods and sold them in Singapore and adjacent Johor and the Riau Islands. In global trade,

⁵¹ Ibid. (1960), 181.

⁵² Esmara, 'An Economic Survey'.

⁵³ Kalir and Sur, *Transnational Flows*, 96.

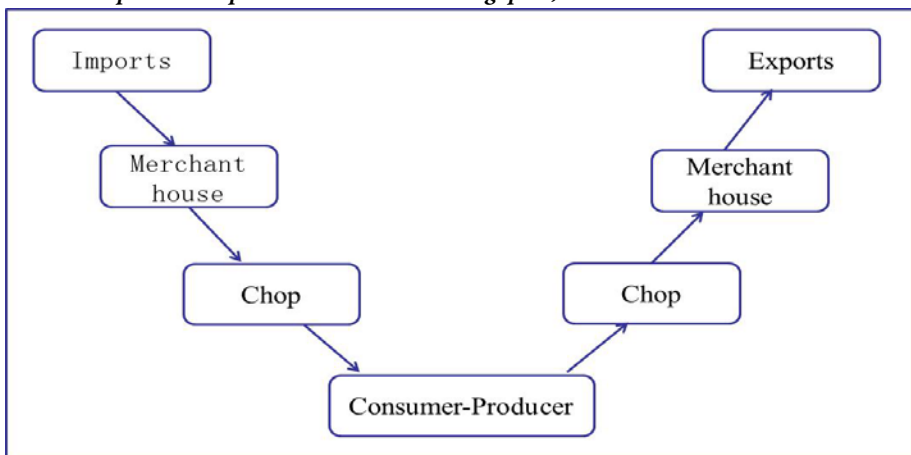
⁵⁴ *Straits Times*, 29 December 1978.

⁵⁵ Wong, *The Trade*, 73.

Europeans had dominated the international trade of Singapore since the early nineteenth century, and then expanded into the world market, acting as intermediaries between the global market and Southeast Asian markets. Manufactured goods were imported in bulk by the larger European import houses either for distribution in smaller quantities to *entrepôt* markets, or on account of local distributors. Similarly, a large percentage of bulk exports of Straits produce, such as rubber copra, forest products, spices, tea and coffee, were also handled by Europeans (Chart 3).⁵⁶

European international trade was operated through merchant firms, known as agency houses or merchant houses. Initially, in the early nineteenth century, the prime business of the agency houses was to buy and sell on behalf of principals in return for commission and other charges. Later these houses also acted as promoters and subsequent managers of joint-stock companies.⁵⁷ In Singapore, these European firms gradually set up branches in the main towns of Malaya, especially in the late nineteenth and early twentieth centuries when the local economy experienced a rapid expansion.⁵⁸ Branches of these trading companies were set up in large cities all over Asia, rather than in small towns in adjacent Johor and the Riau Islands.

Chart 3. Import and export chains in colonial Singapore, 1870s-1940s.



In this chain, the merchant acted as financier to the dealer, who, after the goods reached the consumer (he was also the producer, making payment in kind in Straits produce) in effect makes payment to the merchant in Straits Produce. Source: British Military Administration, *The Entrepôt trade*.

⁵⁶ CSAR (1956), 91.

⁵⁷ Drake, *Currency, Credit and Commerce: Early Growth in Southeast Asia*, 46.

⁵⁸ *Ibid.*, 47.

In 1897, there were 20 European import-export firms engaged in the westward trade, and this number grew to 60 in 1908.⁵⁹ Many of the European merchant houses had a long history. The firm of Guthrie & Co. is believed to be the oldest trading house in Singapore, founded in 1821 by Alexander Guthrie. Most of these companies started their business as general merchants, commission agents, contractors or shopkeepers. In the following decades, their capital penetrated into various fields. In the case of Guthrie & Co., one of its partners, Thomas Scott, took an active part in the development of the harbour works in the late 1860s and early 1870s. He was succeeded by John Anderson in 1902, one of the pioneers of the plantation rubber industry, being a man of great energy and initiative. In 1903, the firm was incorporated as a limited liability company, registered at No. 7 Battery Road.⁶⁰

These European firms were organized by a scale of capital and favoured capital-intensive enterprises. Like industrial enterprises, these firms were also concentrated in Singapore. In 1889, only eight joint stock companies were registered in Singapore. Five of them had nominal capital more than £10,000: The Borneo Steam Ship Company (£11,700), The Mahlembu Mining Company (£17,500), The Jelebu Mining and Trading Company (£26,300), The Pahang Semantan Jellei Syndicate (£40,800) and The Pahang Seran Lipis Syndicate (£221,700).⁶¹ Some trade from the Riau Islands was also conducted by Dutch trading companies. Cooperation between the British in Singapore and the Dutch in the Netherlands Indies was necessary. This was exemplified by the alliance between Royal Dutch and Shell in the exploration of oil products, part of which was transhipped from Pulau Sambu.⁶² It was the product of cooperation between the British and Dutch.

At the regional level, trade was conducted by Chinese businessmen, especially internal trade between Singapore, Johor and the Riau Islands in cooperation with the Europeans through financial credit.⁶³ The organization of Chinese business was through *chop*, a small grocery store with a wide range of activities that one would expect. Many Chinese capitalists in Singapore also extended their business in Johor and the Riau Islands but in different directions. In Johor, the initial Chinese mercantile capital usually came from Singapore, whereas in the Riau Islands, many Chinese capitalists accumulated their capital there and then migrated to Singapore.

⁵⁹ Chiang, *A History of Straits Settlements Foreign Trade, 1870-1915*, 47.

⁶⁰ *World Port Index*, 728.

⁶¹ STDS (1891), 179.

⁶² Forbes and O'Beirne, *The Technical Development of the Royal Dutch/Shell, 1890-1940*, 536.

⁶³ Drake, *Currency*, 55.

The increase of Chinese trade companies was much faster than for European companies. However, in terms of scale, they were not comparable. In Singapore, one of the largest, *Chop Chin Joo* which was established in 1858, employed a total of 26 employees in 1891. The number of employees dropped to only eight in 1907. Kim Seng & Co., founded in 1840, was another notable Chinese company; it kept its 11 employees throughout its operation.

Many of these Chinese firms expanded their branches in British Malaya and the Netherlands Indies and their employees were exclusively Chinese. Most Chinese business was confined to merchants of agricultural products or agents of European companies. In 1891, there were 23 Chinese merchant firms in Muar, involved in opium, betelnut, textiles, and shopkeeper.⁶⁴ In Johor, almost

of these *chops* were engaged in gambir and pepper trading. The recorded number of these firms in Johor was 137 in 1891.⁶⁵ In the Riau Islands, apart from *chops*, they also opened another form of small shop, which was often referred to as *kedi*.⁶⁶ A paper with Chinese red seals indicates there were at least 23 Chinese *chops* operating in the archipelago in the 1870s.

If in the nineteenth century Chinese traders still showed certain dominance because of their trade in gambir and opium, then, since the 1900s, Western firms have infiltrated gradually into the regional trade, threatening the Chinese position by their number, capital and scope. The Straits Trading Company was the sole European venture into the South China Sea until the early twentieth century. But then more Westerns companies started establishing branches in Malaya. The relationship between Europeans and Chinese became both cooperative and competitive. On the



A paper of red seals of Chinese *chops* in the Riau Islands. Source: BPL 2106.28:1

⁶⁴ List of principal Chinese firms in Muar (STDS (1891), 298).

⁶⁵ STDS (1891), 296-7

⁶⁶ MvO: Riouw en onderhorigheden (1908).

one hand, Europeans needed Chinese to get familiar with the local situation. A number of Chinese thus worked as clerks in European companies. On the other hand, many Chinese *chops* had to retreat and were forced to establish their business outside Singapore because of competition. Therefore, in contrast to the long histories of Western companies, the life of Chinese firms was much shorter. Of the 53 Chinese firms in 1891 in Singapore, only 35 were still in operation in 1907. In addition, their business was conducted on a small scale, with fewer clerks and a more limited range of trade than in European firms. This situation between Europeans and Chinese was maintained until the Japanese occupation (Table 3.12), when European business was completely restricted or closed down. Chinese traders were still active, especially in the trade across the Malacca Straits. The seaborne trade between the east coast of Sumatra and Malaya illustrates the cooperation of some Chinese with the Japanese.⁶⁷ Under Japanese supervision, Chinese businessmen who were members of the *kumiai*, were able to engage in the import-export trade between Singapore, Indonesia and Malaya.⁶⁸ Many of them acted as *danbangke* – a small trader personally escorting goods from one place to another, or a travelling trader working on his own – engaged in smuggling, a measure of risk, smallness of scale, irregularity, and non-specialization. These individual one-boat traders were the key to the trade and connected different regions with each other.⁶⁹

From the 1920s, a number of Japanese firms emerged, showing an interest in trade in the Malay Peninsula. In Johor, they dominated all trade with Japan. The Japanese occupation marked the end of dominance of European merchant houses. Based on Singapore and encouraged by the army, various kinds of trans-strait economic organizations were formed to explore natural resources in this area.⁷⁰ As a consequence, tremendous opportunities opened up for a more popular participation in linking the ports scattered throughout the region for the transport of these commodities and to distribute food and other necessities.⁷¹ In September 1942, about 40 pre-war import-export firms were competing in sending vessels to Sumatra and the Riau Islands to buy local produce such as coffee and beans. Four months later, the number of import-export firms was reported to have greatly increased.

Many of these firms were still active in the post-war period in all the three regions with diversified business, such as the finance of industries. As the influence of European trades declined, by Chinese *totok* traders became predominant in the inter-island trade of the wider region of Southeast Asia, in particular Hokkien – whether from Java, Sumatra, the Riau Islands, or Malaya. In the Riau Islands, Jambi,

⁶⁷ Twang, *The Chinese Business Élite*, 99.

⁶⁸ *Ibid.*, 95.

⁶⁹ *Ibid.*, 97.

⁷⁰ *Ibid.*, 94.

⁷¹ *Ibid.*, 93.

and the east coast of Sumatra, the Teochew also played an important, though lesser, part in the maritime economic activities.⁷² This situation did not change much up to the 1970s when most of the trade activities in the Riau Islands was still dominated by ethnic Chinese traders, who relied heavily on the money market of Singapore and Malaysia.⁷³

The Indian community specialised in textiles and sundry goods, and to a lesser extent in fancy goods, spices and foodstuff.⁷⁴ So did the Malays. However, compared to Westerners (including Japanese) and Chinese, Indian and Malay capitalists performed a rather limited role in regional economic development. Many of them were Malay nobles, especially sultans and their fiefs. The Malay rulers not only received an allowance from the colonial government, but also acquired economic benefits by land lease. Therefore, they did not have much incentive to undertake capital investment.

The endeavour to develop national economies in the three countries after the war brought indigenous Malays to the foreground. Nevertheless, their inherent disadvantage in business meant that ethnic Chinese still played a more important role in regional trade, although they were rather identified as the citizens of Singapore, Malaysia and Indonesia.⁷⁵ Despite the heavy influence of Chinese entrepreneurs in business in post-war Singapore, the government did fear the affinity of regional ethnic Chinese with Communist China.⁷⁶ In Johor and the Riau Islands, Chinese and a few indigenous businessmen continued their regional and interinsular trade under political guidance. In Tanjung Uban in the Riau Islands, the lucrative trade of rubber and primary products to Singapore by way of smuggling relied completely on Chinese.⁷⁷ The open economy of Singapore allowed foreign companies to conduct both international and regional trade. A number of historic European trading houses still flew their flags,⁷⁸ such as The Straits Trading Company with its dominance of the Malaya tin trade, and the Metal Box Co. of Malaya Ltd., which dominated canned pineapple export. Concerning the regional entrepôt trade, this was dominated by Chinese merchants who owned medium and small-sized firms (Table 3.10).

⁷² Ibid., 98.

⁷³ Esmara, 'An Economic Survey'.

⁷⁴ CSAR (1956, 1960).

⁷⁵ Lyons and Ford, 'Citizenship and Belonging at Indonesia's Margins'.

⁷⁶ Kwong, *Industrial Development in Singapore, Taiwan, and South Korea*, 13.

⁷⁷ Ng, *The Chinese*, 42.

⁷⁸ CSAR (1956).

Table 3. 10. Expansion of business firms in Singapore in 1891 and 1907.

Name	Description	1891			1907		
		Clerk	Agency	Chinese worker	Clerk	Agency	Chinese worker
Alsagoff & Co. (European)	Merchants, commission agents, land owners	12	-	0	17	-	1
Guthrie & Co. (European)	Established in 1821. Merchants	22	15	13	72	85	51
Katz Brothers (European)	Established in 1864. Merchants, commission agents, storekeepers, watchmakers	22	15	14	72	22	37
The Straits Trading Company (European)	Established in 1887. Merchants, commission agents	20	-	-	97	-	8
Lee Cheng Yan (<i>Chop</i> Chin Joo) (Chinese)	Established in 1858. Merchants, commission agents	26	1	26	8	-	8
Kim Seng & Co. (Chinese)	Established 1842	11	-	11	10	-	10
Little Hohn & Co. (European)	Established in 1845. Merchants storekeepers	25	11	0	44	69	0
Said Marican & Co. (Malay)	Dubashes, contractors, commission agents and stevedores	11	7	0	9	10	0

Source: STDS (1891, 1908).

The different roles of these traders and trade agents in this pattern of commerce created a clear dichotomy between them at different levels. Broadly speaking, the Europeans performed a wholesale trade function and the Asians a retailing one.⁷⁹ European merchant houses and Chinese *chops* were not separated from each other but cooperated extensively. Many owners of Chinese *chops* were also on the board of European firms, or employed as assistants, clerks, etc. The two networks connected at

⁷⁹ Drake, *Currency*, 47.

Boat Quay and the Tanjung Pagar wharves where Westerners and Chinese exchanged their commodities.⁸⁰ Nevertheless, the trading pattern remained stable until the post-war period when there were changes both in the political regime and in economic policies. The rise and fall of these different ethnic groups indicates the changing trade connections. Generally, the Europeans represented the international links with the world market, whereas Chinese carried on internal links with Singapore-Johor-Riau Islands. From this perspective, both international and regional connections were stronger in the colonial period than in the immediate post-war era.

4. Concluding remark

It may be assumed that all trade – local, interregional or international – is carried on because the partners involved all expect to gain some advantage from it.⁸¹ It was the regional comparative advantages that caused the trade flows between Singapore, Johor and the Riau Islands: Singapore's free port policy and market facilities, Johor and the Riau Islands' richness of agricultural produce and mineral deposits, and their geographical proximity. However, such a mutual connection also created an imbalance: intensive trade activities between Singapore and the other two, but very limited trade between Johor and the Riau Islands.

Concerning the type of trade, external and internal trade are distinguished here. The difference between them is reflected by the distinction between Europeans and the indigenous (especially Chinese population). European agent houses dominated all international trade with the Western world, whereas regional trade was handled by Chinese merchants. During the colonial period, the cooperation between these two ethnic groups facilitated both types of trade. The intention to eliminate their economic power in post-war Malaysia and Indonesia destroyed the previous regional network and forced the connections to function with great difficulty. Nevertheless, the pre-war pattern still to a large extent remained. The rise and decline of Western and Chinese capital and capitalists thus mirrored the changes in their relationship. Therefore, as argued by Evers, the feature of regional trade network was precisely reflected by local ethnic and social organization.⁸²

The traded commodities that constituted the trade flows experienced great changes, showing the intensity of trade connections. In the colonial period, gambir and pepper, rubber and minerals successively played an important part in connecting this region with the world market. As a result, the hinterland position for Johor and the Riau Islands was intensified by the booming expansion of the export of these

⁸⁰ Chiang, *A History*, 47.

⁸¹ Courtenay, *A Geography*, 10.

⁸² Evers, 'Traditional Trading Networks of Southeast Asia'.

commodities. Both international and regional connections of the triangle area were strengthened. The outbreak of the Pacific War cut off international connections, but internal connections reached their strongest point under Japanese military administration. After the war, internal connections were gradually loosened, each region seeking its own market access through domestic ports. Nevertheless, trade activities between them could not disappear, showing a continuity of the colonial pattern, either formally or informally.