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CHAPTER ONE

INDONESIA AND VIETNAM: PRE-WAR ECONOMIC CONDITIONS

'Within a sound colonial system, colonial production must be limited to suppling the mother country with raw materials or with non-competitive products'. - Méline, the Director of the Association of French Industry and Agriculture.

Introduction

Comparisons between Indonesia and Vietnam invariably begin in the darkest period in the histories of the two countries when they were still subject to Western colonialism and later to the Japanese military occupation.[1] A number of studies have pointed out the similarities and differences in the models of colonial rule and administration implemented by the Dutch in Indonesia, the French in Vietnam, and later by the Japanese in both countries. Social orders and political culture have sometimes been used in an attempt to explain the dynamics of nationalism and the process of decolonization in the two countries.[2] What I found important, and still missing in literature, is a comparative analysis

[1] This does not include the article by Cao Xuân Phổ, who claims that the victories of Daiviet and Java against the Mongol invasion in the thirteenth century were the first historical coincidence of the two nations. Cao Xuân Phổ, 'Vietnam-Indonesia concurrences', 154.

[2] See, for instance, Stein Tønnesson, 'Filling the power vacuum', 110-114; Magenda 'The Indonesian and Vietnamese revolutions', 53-66; William H. Frederick, 'Brothers of a kind', 277-280.

of the economic systems implemented by the colonial and fascist powers in Indonesia and Vietnam. The ways in which the imperialist powers exploited their colonies certainly had a strong impact on the paths taken by the nationalist movements and on the process of economic decolonization. This chapter sketches the main features of the colonial economies of Indonesia and Vietnam and examines the impact of the Japanese rule on economic structure and future development of economic nationalism in the two countries.

1. The Colonial Period

The best description of the economy of colonial Indonesia is a 'plural economy'. This concept was coined by the British colonial official J.S. Furnivall in his attempt to define the socio-economic structure of tropical and temperate regions, using the Netherlands Indies as an example. Furnivall argued that the term plural economy signified the economic aspects of a 'plural society', comprised of 'two or more elements or social orders, which live side by side, yet without mingling, in one political unit.' The mutual relationship between these social orders 'tends to be governed solely by the economic process with the production of material goods as the prime end of social life.'[3] The consequences of the emphasis on production rather than social ends were a sectional division of labour and conflicts of economic interests between racial groups. The organization of economy of the Netherlands Indies is depicted as a pyramid with the top layer dominated by Western private enterprises, and the Indonesian indigenous people relegated to forming the basis. The Chinese and Arab minorities acted as intermediaries between the two.[4]

Furnivall's plural economy was developed from the famous theory of economic dualism, first expounded by J.H. Boeke in his 1910 Leiden University dissertation. Boeke believed that Western economic theories could not be applied validly in the tropical colonies. Therefore, he suggested 'a double, or

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[3] J.S.Furnivall, *Netherlands India; A study of plural economy* (Cambridge: Cambridge University Press 1939) 446, 450-451.

[4] Lindblad, *Bridges to new business,* 15; Golay, Anspach, Pfanner, and Ayal, *Underdevelopment and economic nationalism*, 116-117.

even threefold theory: one theory for the Western part, one for the oriental part and one theory with a combined basis for the phenomena, which appear in the contact between the two parts.' There was a radical division between the Western and the Eastern sectors. The former, governed by European law and by Europeans, was modern, dynamic and capitalistic, whereas the latter, administered under a mixture of modern and customary law through indirect rule, was traditional, backward and stagnant.[5] After his examination of the active participation of the Chinese and Javanese in various businesses in the Netherlands Indies, Furnivall cast doubt on Boeke's emphasis on an unbridgeable separation between the Western and Asian sectors and the economic passivity of the local community. Furnivall argued instead that in a plural society, any social elements were organized for economic purposes rather than social ends.[6]

1.1. Racial Dimension

In 1930, the population of the Netherlands Indies was 61 million, with indigenous Indonesians accounted for more than 97 per cent. The Chinese formed the largest non-indigenous ethnic minority, accounting for almost 1.2 million (2 per cent), alongside only 240,000 Europeans (0.4 per cent) and 115,000 other Foreign Asiatics (*anderevreemde Oosterlingen*) (0.2 per cent) (Table 1). The total registered labour force in 1930 was 20.8 million, of whom 20.3 million were indigenous people and fewer than 100,000 were Europeans. More than 60 per cent of the indigenous workers were engaged in agriculture, whereas only 5 per cent took part in trade and scarcely more than 1 per cent in transport and professional services. This is in sharp contrast to the Chinese the majority of whom, 37 per cent, worked in the single most profitable sector, commerce and 30 per cent of Chinese workers were employed in the industrial

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[5] J.H. Boeke, 'De economische theorie der dualistische samenleving', *De Economist* 1 (1935) 800-801; J. H.Boeke, *The structure of Netherlands Indian economy* (New York: Institute of Pacific Relations, 1949) 3-13.

[6] Furnivall, *Netherlands* India, 456-460.

sector and mining and only 12 per cent in agriculture.[7] About 27 per cent of the Europeans in Java and 23 per cent in the Outer Islands were employed in the public sector.[8] Despite being a tiny minority, the combined 1.5 million of non-indigenous population dominated the economic and political life of colonial Indonesia.

Table 1: Population composition of the Netherlands Indies in 1930

	Total population	**Indonesians**	**Europeans**	**Chinese**	**Other Asians**
Netherlands-Indies	60,727,233 (100%)	59,138,067 (97.4%)	240,417 (0.4%)	1,233,214 (2%)	115,535 (0.2%)
Java and Madoera	41,718,364 (100%)	40,891,093 (98%)	192,571 (0.5%)	582,431 (1.4%)	52,269 (0.1%)
Outer Islands	19,008,869 (100%)	18,246,974 (96%)	47,846 (0.3%)	650,783 (3.4%)	63,266 (0.3%)

Source: Patrica Tjiook-Liem, *De rechtspositie der Chinezen in Nederlands-Indië 1848-1942* (PhD dissertation, Leiden University, Leiden, 2009) p. 19; Ong Eng Die, *Chineezen in Nederlandsch-Indië; Sociografie van een Indonesische bevolkingsgroep* (Assen: Van Gorcum, 1943) pp. 14-15.

The contrast was much greater in the distribution of national income. J.J. Polak says that in the interwar period (1921-1939) indigenous Indonesians received 70 per cent of total national income compared to 20 per cent for Europeans and 10 per cent for residents of Chinese or Arab origin. Taking into account the difference in the size of the population groups, this estimate translates into average per capita incomes where one European earned as much as eight Chinese or forty-five indigenous Indonesians.[9] Angust Maddison gives

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[7] George L.Hicks (ed.), *Overseas Chinese remittances from Southeast Asia 1910-1940* (Singapore: Select Books, 1993) 135.

[8] Van der Eng, *The 'colonial drain' from Indonesia,* 15-17.

[9] J.J. Polak, 'The national income of the Netherlands Indies 1921-1939'in: P.Creutzberg (ed.), *Changing economy in Indonesia;* Vol. V. *National income* (The Hague: Nijhoff, 1979) 27-101; Dick, Houben, Lindblad, and Thee, *The emergence of a national economy*, 141-142.

an even wider gap. In 1929, for instance, a European had a real income of 4,017 guilders, 13 times higher than the 301 guilders of an Asiatic and 68 times the 58.7 guilders of an Indonesian.[10] A recent estimate prepared by Jan Luiten van Zanden, using data on the income of different ethnic groups of households, suggests a more moderate picture of the unequal distribution of income. In 1925, the average income of 7,114,000 Indonesian households was 201 guilders, while 129,000 Foreign Asiatics households averaged 1,179 guilders and each of 63,000 European households had 6,150 guilders. The Indonesian share in the national income declined from 88 per cent in 1880 to 72 per cent in 1925, whereas the share of the Chinese and other Foreign Asiatics increased from 5 per cent to 8 per cent. The share of the tiny European community rose from 6 per cent in 1880 to 20 per cent in 1925. With five persons to a household on average a European had an income 5 times as high as an Asiatic and 29 times that of an Indonesian.[11]

The situation in Indonesia leads to the question of to what extent can the concept of 'plural society' be applied in the case of colonial Vietnam? The population of Vietnam fluctuated between 16 and 23 million between 1921 and 1945.[12] Of this number, the Viet (the ethnic Kinh) made up about 87 per cent. The Europeans were a small minority, numbering 30,000 in 1930 and 35,000 in 1937, accounting for about 0.7 per cent of the total population (Table 2). Half of the European community was in the age group 20-40 years, hence in the labour force group, with 53 per cent serving in army and navy and 19 per cent employed as government officials. The rest of the French community were employees of big French companies in Indochina, notably in trade (7.4 per

[10] Angus Maddison, 'Dutch income in and from Indonesia, 1700-1938', in: Angus Maddison and Gé Prince, *Economic growth in Indonesia, 1820-1940* (Dordrecht: Foris Publicans Holland, 1989) 35.

[11] Jan Luiten van Zanden and Daan Marks, *An economic history of Indonesia, 1800-2010* (New York: Routledge, 2012) 117-118.

[12] Nguyễn Văn Khánh, *Cơ cấu kinh tế xã hội Việt Nam thời thuộc địa 1858-1945* [Socio-economic structure of colonial Vietnam 1858-1945] (Hanoi: Đại học Quốc gia, 2004) 137, Lê Mạnh Hùng, *The impact of World War II on the economy of Vietnam, 1939-1945* (Singapore: Eastern Universities Press, 2004) 61.

cent), mining and industry (5.7 per cent) and transportation (2 per cent).[13] The number of the Chinese in Vietnam was estimated at 195,000 in 1921 and 267,000 in 1931.[14] In 1937, there were 217,000 ethnic Chinese in Vietnam, accounting for 4.3 per cent of the total population, of whom three-thirds lived in Cochin China (South Vietnam) (Table 2)[15], where they concentrated in large cities, such as Cholon, Saigon, Hanoi, Hải Phòng and Nam Định.[16] Their major business was commerce (56 per cent), but some of them were employed in the French factories (28 per cent). Only a small number of the Chinese (16 per cent) was engaged in irrigating rice farms and fishing in the Mekong delta provinces, such as Trà Vinh, Sóc Trăng and Hà Tiên.[17] In 1920, there were 289 Chinese employees in agricultural projects in the whole of Tonkin, and 3,779 in the mines there, against a total of 1,906 in commercial and industrial firms.[18] The French were unable to recruit the Chinese for their plantations. The Việt from the deltas of the North and Javanese coolies made up the majority of labour in European plantations in Tonkin and Central Vietnam.[19] Apart from those who found employment on European plantations and in mining and construction, the majority of the Vietnamese community was engaged in the traditional sectors of agriculture and handicrafts.

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[13] Charles Robequain, *Economic development of French Indo-China* (Oxford: Oxford University Press, 1944) 21, 27, 29.

[14] Kỳ Lương Như, *The Chinese in Vietnam; A study of Vietnamese-Chinese relations with special attention to the period 1862-1961* (PhD dissertation, University of Michigan, Ann Arbor, 1963) 42; Trần Khánh, *The ethnic Chinese and economic development in Vietnam* (Singapore: Institute of Southeast Asian Studies, 1993) 25.

[15] Under the French politics of 'divide and rule', unified Vietnam was divided into three parts with different regimes. Tonkin (North Vietnam) and Annam (Central Vietnam) were French 'protectorates', whereas Cochin China (South Vietnam) was a colony proper. These three regions were incorporated with Laos and Cambodia when the French Indochina Federation was formed

[16] In 1931, for instance, there were 100,000 Chinese residents in Saigon and Cholon, 19,000 in Hải Phòng, 5,000 in Hanoi. See: Victor Purcell, *The position of the Chinese in Southeast Asia* (New York: Institute of Pacific Relations, 1950) 31; Tran, *The ethnic Chinese*, 25.

[17] Hicks (ed) *Overseas Chinese remittances*,135.

[18] Alain G. Marsot, *The Chinese community in Vietnam under the French* (Lewiston: The Edwin Mellen Press, 1993) 142.

[19] Tạ Thị Thúy, *Đồn điền của người Pháp ở Bắc Kỳ 1884-1918* [French plantations in Tonkin 1884-1918] (Hanoi: Thế giới Publishers, 1996) 233; Tạ Thị Thúy, *Việc nhượng đất khẩn hoang ở Bắc Kỳ từ 1919 đến 1945* [Land concessions in Tonkin from 1919 to 1945] (Hanoi: Thế giới Publishers, 2001) 233-234.

Table 2: Population of colonial Vietnam by nationality in 1937

	Total population	**Europeans (1)**	**Chinese**
Vietnam	18,972 (100%)	39,272 (0.7%)	217,000 (4.3%)
Tonkin	8,700,000 (100%)	18,171 (0.21%)	35,000 (0.4%)
Annam	5,656,000 (100%)	4,982 (0.09%)	11,000 (0.19%)
Cochin China	4,616,000 (100%)	16,084 (0.35%)	171,000 (3.7%)

Source: Charles Robequain, *Economic development of French Indo-China* (Oxford: Oxford University Press, 1944) pp. 21,34

(1) This includes both Europeans and 'assimilés', the latter were people who enjoyed the legal status of Europeans, although they were not necessarily of European origin, for instance, the Japanese.

In 1937, the GDP of the whole of Indochina was estimated at 1,128 million piastres, equivalent to an income per capita of 48.6 piastres. Compared to the Netherlands Indies, the distribution of the income among the ethnic groups in Indochina was far more unequal. In 1931, at a time when the French population and the richer Chinese and Vietnamese enjoyed an income of about 5,000 to 6,000 piastres per annum, the income of a manual worker was only 44 piastres per year in Tonkin, 47 piastres in Annam and 55 piastres in Cochin China. The peasants earned even less. The average budget of a poor peasant family of five persons in Cochin China in 1931 was 154 piastres, which corresponded to 30.8 piastres per person.[20] The peasants barely subsisted on their small plots of land and could hope to provide only for their most immediate needs. When hit by bad years or caught by an unpredictable expense such as illness or accidents, poor peasants were forced to borrow from richer landowners at an usurious rate

[20] Lê Mạnh Hùng, *The impact of World War II*, 41, 56.

of more than 100 per cent.[21] Since many failed to redeem their debts, eventually they had to relinquish the ownership of their land to their rich creditors. They became tenants or sharecroppers on what once had been their own land. This discriminatory situation eventually fuelled the inherent class conflict between Vietnamese peasants and Vietnamese landlords, which simmered alongside the national conflict between the Vietnamese community and foreign powers.

1.2. Economic Structure

It was not 'the lack of economic motive', in the words of Boeke, but the policies of the colonial authorities which restrained the local community from participation in the modern sectors of economy. In French Indochina, the economic theories of the colonial government were dominated by the view that, 'within a sound colonial system, colonial production must be limited to supplying the mother country with raw materials or with non-competitive products'. Moreover, the metropolis deemed that the colonies needed to be reserved as 'an exclusively French market'.[22] As a result, the whole structure of the economy of French Indochina was geared towards primary production rather than manufacturing. The bulk of French private investment was poured into agriculture and mining, leaving the internal trade largely dominated by the Chinese.

An investigation ordered by the French government in 1943 revealed that, from 1896 to 1940, total French private investment in Indochina was 38.5 billion francs at 1940 value.[23] Including the preceding period since 1859, total investment amounted to 52 billion francs, of which private capital accounted for 73.9 per cent.[24] Figure 1 presents the distribution of French investment in Indochina by sector from the first year of colonization until the arrival of the Japanese in 1940. Before the First World War, two-thirds of French investment

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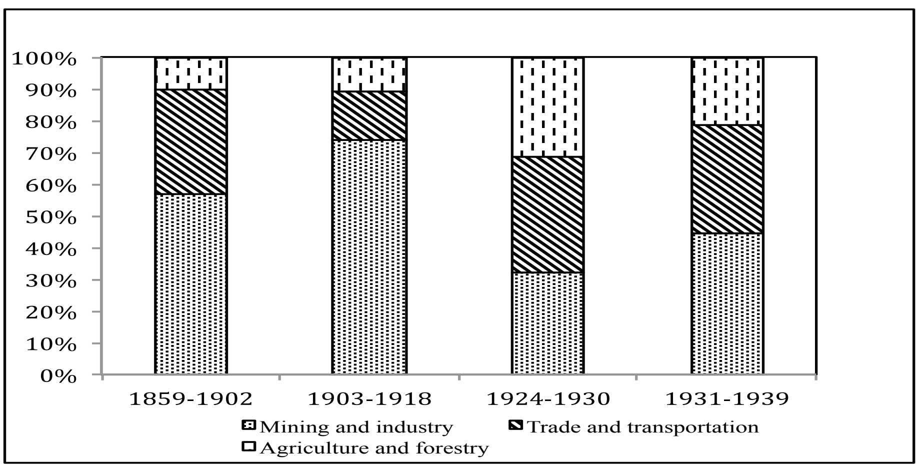
[21] Đoàn Trọng Truyền and Phạm Thành Vinh, *L'édification d'une économie nationale indépendante au Vietnam (1945-1965)* (Hanoi: Éditions en Langues Étrangeres, 1966) 34.
[22] Quoted from Robequain, *Economic development*, 129.
[23] Lê Mạnh Hùng, *The impact of World War II*,46.
[24] Văn Tạo, 'Công cuộc khai thác thuộc địa của thực dân Pháp ở Việt Nam và sự phát triển của giai cấp công nhân Việt nam' [The French colonial exploitation in Vietnam and the development of the worker class in Vietnam], *Nghiên cứu Lịch sử* 11 (1955) 56.

went into mining and industry. After the war, the priorities of French companies shifted to agriculture, which then took up one-third of total investment. Between 1924 and 1930, investment in agriculture was 1,272 million francs, corresponding to the combined capital of mining and industry, each about 600 million francs.[25] Although mining did continue to receive more investment, manufacturing remained largely static. Only a few projects in heavy and chemical industry launched by the colonial government in the late 1930s, including the construction of ammunitions factories in preparation for the impending war with Japan. The Japanese occupation frustrated any further French efforts to industrialize. By the end of 1940, the economy of Indochina was still largely based on primary production. In 1937, for instance, the traditional sectors, namely agriculture, forestry and handicrafts, made up 66.6 per cent of GDP. Trade, transport and other services accounted for 13.5 per cent and mining and industry for 19.6 per cent.[26]

Figure 1: Distribution of French capital in Indochina by sector, 1858 -1939 (percentage)



Source: Nguyễn Văn Khánh, *Cơ cấu kinh tế xã hội Việt Nam thời thuộc địa 1858-1945* (Hanoi: Đại học Quốc gia, 2004) p. 80.

[25] Martin J. Murray, *The development of capitalism in colonial Indochina (1870-1940)* (Berkeley: University of California Press, 1980) 125.

[26] Nguyễn Văn Khánh, *Cơ cấu kinh tế xã hội Việt Nam*, 169; Jean Pierre Aumiphin, *Sự hiện diện tài chính và kinh tế của Pháp ở Đông Dương 1895-1939* [The financial and economic presence of the French in Indochina 1895-1939] (Hanoi: Hội Khoa học Lịch sử Việt Nam, 1994) 63.

French investment in agriculture was concentrated on plantation and export crops, particularly rice. In 1900, the area covered by French estate plantations had reached 322,000 hectares, 78,000 in South Vietnam and 98,000 in North Vietnam. In 1907, North Vietnam alone had 476 French plantations, 150 of them small-scale (fewer than 50 hectares) and 312 large, accounting for 99.4 per cent of a total of 417,650 hectares.[27] The area under plantations expanded greatly after the First World War, reaching more than one million hectares in 1930, half of these in South Vietnam.[28] Although tea, coffee and corn were all cultivated on French plantations, rice and rubber were the leading export crops (Table 3). By 1941, the total area under rubber cultivation in Indochina had increased to 325,000 acres or 130,010 hectares (one-tenth compared to the area in the Netherlands Indies), producing 76,000 tons of rubber per year.[29] The export of agricultural products accounted for two-thirds of export value of Indochina, with rice representing 65 per cent up to 1931. Each year Indochina exported around 1.5 million tons of rice and rice products.[30] Corn accounted for 2.9 per cent of the total export value between 1913-1917, but increased to 14 per cent between 1932 and 1936, whereas rubber amounted 8.4 per cent. Dried fish, pepper and raw untanned hides represented 8 per cent.[31]

The majority of the investment in mining went into the extraction of coal, tin and zinc in the northeast regions of Tonkin (Cao Bằng, Thái Nguyên, Bắc Cạn, Quảng Ninh and Ninh Bình) and gold in southern Annam (Quảng Nam). Coal was the key mining product in Indochina, accounting for 89 per cent in 1932 and 63 per cent in 1937 of the total mining output.[32] The production of coal rose from 500,000 tons in 1913 to 1,972,000 tons in 1929

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[27] Tạ Thị Thúy, *Đồn điền của người Pháp ở Bắc Kỳ,* 100-101; Tạ Thị Thúy, *Việc nhượng đất khẩn hoang ở Bắc Kỳ*, 84.

[28] André Touzet, *L'économie Indochinoise et la grande crise universelle* (Paris: Giard, 1934) 3.

[29] Andrew McFadyan (ed.) *The history of rubber regulation 1934-1943* (London: George Allen&Unwin, 1944) 224.

[30] Nguyễn Văn Lợi, *L'économie commercial du riz en Indochine* (Paris: Les éditions Domat-Montchrestien, 1938) 27; Touzet, *L'économie Indochinoise*, 10.

[31] Robequain, *Economic development*, 308-309, Nguyễn Văn Khánh, Cơ cấu kinh tế xã hội Việt Nam,116.

[32] Robequain, *Economic development*, 252.

and 2,615,000 tons in the peak year of 1939.[33] The bulk of the mining output was used for export, most going to France, China and Hong Kong. Between 1930 and 1945, Indochina exported 28,154,000 tons of coal, 598,000 tons of iron ore, 760,000 tons of zinc and 533,000 tons of tin, lead and phosphate.[34] The share of mining products in total exports increased from 1.3 per cent (1899-1903) and 3.5 per cent (1913-1917) to 7 per cent in the total 1937 exports. Of this 7 per cent, coal alone represented 5.6 per cent.[35] It is important to note that almost 50 per cent of the export products from Indochina were reserved for France.Other important destinations included Hong Kong, Singapore, China and the United States.[36]

Table 3: Distribution of plantations in Indochina in 1930 (in hectares)

	Total	**Rice**	**Tea**	**Coffee**	**Rubber**
Tonkin	134,400	30,300	200	4,150	-
Annam	168,400	2,500	3,510	5,900	1,874
Cochin China	606,500	253,400	-	650	97,804
Cambodia	113,500	12,960	-	-	26,729
Laos	2,800	40	-	50	-
Total	**1,025,600**	**289,900**	**3,710**	**10,750**	**126,407**

Source: Nguyễn Văn Khánh, *Cơ cấu kinh tế xã hội Việt Nam thời thuộc địa 1858-1945* (Hanoi: Đại học Quốc gia, 2004) p. 87.

During the first two decades of the twentieth century, about 50 per cent of imports in Indochina originated from France and other French colonies. In 1937, this proportion rose to 60 per cent.[37] The principal imports consisted of

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33 Cao Văn Biền, *Công nghiệp than Việt Nam thời kỳ 1888-1945* [Coal mining in Vietnam, 1888-1945] (Hanoi: Khoa học Xã hội Publishers, 1998) 136-137; Murray, *The development of capitalism*,324.
34 Viện Kinh tế, *Kinh tế Việt Nam từ cách mạng tháng Tám đến kháng chiến thắng lợi, 1945-1954* [Vietnam's economy from the August Revolution to the end of the second Indochina War, 1945-1954] (Hanoi: Khoa học Xã hội Publishers, 1996) 15.
35 Robequain, *Economic* development, 318; Murray, *The development of capitalism,* 329.
36 Nguyễn Văn Khánh, *Cơ cấu kinh tế Xã hội*, 106, 117-120.
37 Nguyễn Văn Khánh, *Cơ cấu kinh tế Xã hội*, 117-120; Touzet, *L'économie Indochinoise*,114-115.

manufactured products, accounting for 62 per cent of the total in 1937.[38] These commodities included cars, petrol, cotton fabrics, paper and various food products, including milk, canned fruits and beverages. Machinery and metal products made up only a small proportion, 1.5 per cent in 1915, and reached a peak in 1931 at 8.8 per cent.[39] In 1938, the value of imported industrial equipment was 6.4 per cent of the total imports. Industrial raw materials amounted to 6.5 per cent of total imports qua value in 1938. The principal imported goods in that year were raw cotton representing 4 per cent and chemical products together 2.5 per cent of total imports. Cars, oil and kerosene took up another 9.8 per cent of total imports.[40] Most import-export activities were controlled by the French, but the Chinese also had a hand in them, albeit a smaller one. The Vietnamese served as contractors or middlemen for foreign companies. In the years 1923-1927, there were 449 Vietnamese contractors in Tonkin with a combined capital of 4.4 million piastres. By comparison 155 Western firms had assets worth 1.9 million piastres.[41]

As it intended to keep the Indochina market exclusively for French manufactured goods, the French colonial government did not encourage the development of industry in Vietnam. In Cochin China, the dynamic economic centre of Indochina, for instance, in 1906 there were no more than thirty-six European industrial enterprises.[42] The most important industry was mining, dominated by two French companies, *Société des Charbonnage du Tonkin* and the *Société des Charbonnage du Dong Trieu*, both specializing in coal extraction. The *Société des Ciments Portland Artificiels de l'Indochine*, founded in 1899 when a factory was opened in Hải Phòng, was the most important company in the field of manufacturing and processing industries. Textile manufacturing was controlled by the *Société Cotonnière de l'Indochine,* which

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[38] Robequain, *Economic* development, 319.
[39] Viện Kinh tế, *Kinh tế Việt Nam*, 24.
[40] Lê Mạnh Hùng, *The impact of World War II*, 37.
[41] Tạ Thị Thúy, *Sự biến chuyển của các giai cấp trong xã hội Việt Nam những năm 20 của thế kỷ XX* [The social classes' transformation in Vietnam in the early 1920s (Hanoi: Advanced Political thesis, Hồ Chí Minh Academy, 2007) 45.
[42] Pierre Brocheux, Daniel Hémery (eds), *Indochina; An ambiguous colonization, 1858-1954* (Berkeley: Univesity of California Press, 2009) 118.

had mills in Hanoi, Nam Định, Hải Phòng and Saigon. The production and distribution of alcohol were monopolized by the *Société Francaise de Distilleries de l'Indochine.* There were a few small sugar refineries, rubber processing mills and tobacco processing factories. Only in the agricultural processing industries were there concerns not dominated by French interests. In 1932, although the two largest were French owned, seventy-three of the seventy-five rice-processing mills in Cholon were Chinese owned.[43] There were also numerous small rice-mills installed by the Vietnamese in the countryside. Modern industries such as power, transportation and chemicals were exclusively in the hands of French companies.

The structure of the economy of colonial Indonesia was also highly traditional in which priority was placed on primary production. The colony was opened up to private capital investment in the 1870s, but it was only at the beginning of the twentieth century that foreign investment in Indonesia could be said to have reached a significant volume. In 1900, the total foreign investment in Indonesia was estimated at 750 million guilders. It increased to 1.7 billion guilders in 1914, culminating in 4 billion guilders in 1930 and subsequently hovered around 3 billion during the 1930s. About two-thirds of the foreign capital invested in colonial Indonesia was of Dutch origin, with British and American investors ranking second and third, respectively. As was French investment in Indochina, a large part of Dutch investment in the Netherlands Indies went into primary production. Nevertheless, unlike their counterparts in Indochina, Dutch investors concentrated more on agriculture than on mining, with a portion of the total investment of 45 and 20 per cent, respectively. The remainder went into services and manufacturing. The Dutch firms occupied a dominant position in sugar, tin and transport, but British and American firms were more firmly in the saddle in tobacco, rubber and oil. The bulk of the extraction and production of oil was in the hands of the Royal Dutch Shell, an alliance between Royal Dutch (*Koninklijke*) and British-owned Shell.[44] By and

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[43] Murray, *The development of* capitalism, 451.

[44] Jean Bush Aden, *Oil and politics in Indonesia, 1945 to 1980* (PhD dissertation, Cornell University, Ithaca, NY, 1988) 25-32; J. Thomas Lindblad, 'The economic relationship between

large, about 48 per cent of firms in the Netherlands Indies were engaged in estate agriculture, compared to 35 per cent in trade and 17 per cent in mining and industry. West and East Java were the most populous locations for the business operations of modern Western firms, whose main offices were often located in Batavia, Surabaya or Semarang.[45]

The total number of foreign corporations operating in the Netherlands Indies was about 2,800 in 1914. This figure increased to 3700 in 1920, and then declined to 3,300 in 1925, 2,800 in 1930, and a bare 2,155 in 1940.[46] These companies can be divided into four categories. The largest category was composed of Netherlands Indies firms, accounting for 51 per cent of the total number in 1914, 43 per cent in 1930 and 44 per cent in 1940. These companies were operated by permanent Dutch residents in the colony. The second group consisted of genuinely Dutch firms whose headquarters were in the Netherlands, with a share rising from 23 per cent in 1930 to 29 per cent in 1940. Truly foreign firms, run by investors from third countries, ranked third. The final category was made up of Asian but non-Indonesian firms, the largest number owned by ethnic Chinese. The Asian firms were generally small as were the many Netherlands Indies firms. In fact, the companies run from outside the colony were larger and hence less susceptible to short-run movements of business cycles. In 1930, for instance, genuinely Dutch companies claimed more than 70 per cent of the total registered equity against 14 per cent for Netherlands Indies firms and only 4 per cent for Chinese firms, whereas British-owned enterprises alone occupied 10 per cent of the total equity. In the corporate network of the colony a small number of large firms managed from abroad operated alongside a large number of small firms with a strong local entrenchment.[47]

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the Netherlands and colonial Indonesia, 1870-1940', in: Jan Luiten van Zanden (ed.) *The economic development of The Netherlands since 1870* (Cheltenham: Elgar, 1996) 114.

[45] J. Thomas Lindblad, 'Foreign investment in late-colonial and post-colonial Indonesia', *Economic and Social History in the Netherlands* 3 (1991) 189-190.

[46] J. Thomas Lindblad, *Foreign investment in Southeast Asia in the twentieth century* (London: Macmillan, 1998) 72-79; Lindblad, *Bridges to new* business, 22.

[47] Lindblad, *Foreign investment in Southeast Asia,* 72-73; Lindblad, 'The economic relationship', 115.

One example of a large firm owned by an ethnic Chinese is the Oei Tiong Ham Concern (OTHC), a sugar-based conglomerate founded by a *peranakan* Chinese named Oei Tiong Ham.[48] It was the parent company of numerous firms based in Semarang and Surabaya on the north coast of Java. The Handel-Maatschappij Kian Gwan (Kian Gwan Trading Company) was a sugar-centred international trading company, founded in 1863 by Oei Tiong Ham's father, Oei Tjie Sien. It had agents in various parts of the world, including Calcutta, Bombay, Karachi, Shanghai, Hong Kong, Amoy, Singapore, London, New York, San Francisco, Rotterdam, Hamburg and Sydney. The General Development Company of Oei Tiong Ham Sugar Factories (Algemeene Maatschappij tot Exploitatie der Oei Tiong Ham Suikerfabrieken) focused on sugar manufacture, operating five plantations and mills in Java. Besides sugar, the company also owned a rubber estate and the Krebet Tapioca Factory in Malang in East Java. Other important companies under the control of the OTHC included the Heap Eng Moh Steamship Co. Ltd, the Bank Vereeniging Oei Tiong Ham, the Bouw-Maatschappij Randoesarie and the Midden-Java Veem.[49] As a consequence of its involvement in diversified businesses, OTHC became one of the largest commercial enterprises in the Netherlands Indies and was probably one of the largest privately owned companies in the world during the first decades of the twentieth century.

In 1929 about 2 billion guilders were invested in the plantation industry, three-quarters of which were Dutch.[50] Since tobacco was steadily losing ground, foreign investment diversified into other export crops, notably rubber, sugar, coffee and palm oil. The number of tobacco plantations in the East Coast of

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[48] All the information about the Oei Tiong Ham Concern (OTHC) in this study is based on the personal recollections of Oei Tjong Tjay, one of the heirs to OTHC. His recollections are kept at the library of the Sinological Institute at Leiden University. I am grateful to Professor Leonard Blussé for allowing me to use the recollections.

[49] KKA, *The story of Krebet*, published by Handel Maatschappij Kian Gwan in 1932.*The Oei Tiong Ham-Concern; A short survey of its development and progress*, published by Handel Maatschappij Kian Gwan in 1934. OTHC, inventory number 14.

[50] P. Creutzberg (ed.), *Changing economy in Indonesia; A selection of statistical source material from the early 19th century up to 1940*, Vol. III. *Expenditure on fixed assets* (The Hague: Nijhoff, 1977) 25.

Sumatra fell from 114 in 1904 to only forty-five in 1940.[51] The total planted area of tobacco in 1940 was 195,000 hectares. As tobacco floundered, the rubber estates expanded enormously from 110,000 hectares in 1910 to 1.4 million hectares in 1940, more than 1 million hectares of which were in Sumatra. In 1938, there were 207 rubber plantations in the East Coast of Sumatra. Sugar dominated Java when it covered an area of 149,000 hectares in 1910, rising to 200,000 hectares in 1930. Thereafter it declined to about 100,000 hectares in the late 1930s. The total number of sugar plantations in Java remained steady at about 180-190 between 1910 and 1930. The combined coffee and tea estates covered 400,000 hectares in 1910 and 500,000 hectares in 1940. Other important perennial crops included palm oil (110,000 hectares) and coconuts (1.5 million hectares). Land reserved for such food crops as rice, maize and cassava amounted to 5 million hectares in 1910 or 7 million hectares in 1940. These calculations included both the large plantations owned by the Europeans and lands held by Indonesian smallholders.[52]

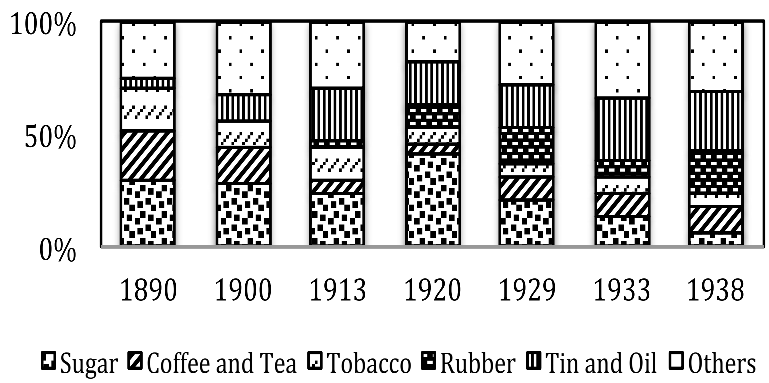
Figure 2 shows the composition of export production in colonial Indonesia from the end of the nineteenth century to the late 1930s. Agricultural commodities accounted for more than 70 per cent of total export earnings. Sugar was the most profitable export crops, occupying almost 30 per cent in 1900, reaching a peak at 47 per cent in 1920. Rubber had also commenced its steady climb by the second decade of the twentieth century and had even replaced sugar by the end of the 1930s. Tobacco, coffee and tea, which had been principal export crops in the Archipelago in the late nineteenth century, underwent a gradual decline in the total export earnings in the next century. Among the various other products, copra and cinchona shared about 10 per cent. Beside these agricultural products, the Netherlands Indies introduced new products that were generally termed industrial materials. Tin was mined on

[51] Karl J. Pelzer, *Planter and peasant; Colonial policy and the colonial struggle in East Sumatra 1863-1942* (Leiden: KITLV, 1978) 52.

[52] William J.O'Malley, 'Plantations 1830-1940; an overview', in: Anne Booth W.J. O'Malley and Anna Weidemann (eds), *Indonesian economic history in the Dutch colonial era* (New Haven, Yale University Press, 1990) 136-170; Colin Barlow, 'A comparison of factor influencing agricultural development in Malaya and Indonesia, 1870-1940', in: Maddison and Prince (eds), *Economic growth in Indonesia*, 250.

Bangka and Billiton, coal was extracted from mines in West Sumatra (Ombilin), South Sumatra (Bukit Asam) and Kalimantan (Pulu Laut), and oil was found in North and South Sumatra and East Kalimantan. The share of mining in total export values rose enormously after 1910. Less than one-third of Indonesian exports went to the Netherlands, whereas Asia, including Singapore, received over 40 per cent. By 1925, these percentages were 15 and 50, respectively. The share of the United States in Indonesian exports increased remarkably, keeping pace with the expansion of rubber and oil production in Indonesia in the late 1930s.[53]

Figure 2. Share of main products in Indonesian exports, 1890-1938 (in percentage)



Source: G.H.A. Prince and H. Baudet, 'Economie en beleid in vooroorlogs Nederlands-Indië', in: H. Baudet, M. Fennema et al., *Het Nederlands belang bij Indië* (Utrecht: Spectrum, 1983) p. 33.

Late colonial Indonesia was also becoming less dependent on imports from the Netherlands. In 1910, the proportion of imports from the Netherlands was 32 per cent. This figure declined sharply to 20 per cent in 1925, dropping to only 13 per cent in 1935. Most other imports were received either directly from

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[53] Anna Booth, 'Foreign trade and domestic development in the colonial economy', in: Booth, O'Malley and Weidemann (eds), *Indonesian economic history*,278; Booth, *The Indonesian economy*, 208-211.

other European countries or through Singapore. The European share remained at about 50 per cent of all imports in the first two decades of the twentieth century, but declined dramatically to only 36 per cent by 1935. Japan ranked second after Singapore as the most important trading partner of colonial Indonesia in Asia, and by 1935, the Japanese share in Indonesian imports had surpassed Singapore, accounting for 32 per cent of total import value. Most Japanese exports to Indonesia consisted of cheap consumer goods, including cotton cloth, household utensils and bicycles.[54] The American share rose remarkably after the First World War, touching 8 per cent in 1935. This was a partial reflection of the improved trans-Pacific shipping routes, but undeniably income growth and industrial development in Indonesia were also stimulating a growing demand for both capital and consumer goods produced by the United States.[55]

The growth of trade, above all the economic expansion of colonial Indonesia, in the early twentieth century was attributed to the liberal economic policy pursued by the Netherlands Indies government from the 1870s. Free trade fostered a climate favourable to foreign investment, maximizing the scope for the expansion of export products. Initially, this liberalism was intended to safeguard market outlets for Dutch manufacturing at home, particularly the textile industry. Nevertheless, as the Archipelago was increasingly integrated into the world economy, the true beneficiaries of the colonial liberal trade policy were third-country exporters. Not the Netherlands, but Great Britain and Japan emerged as the leading suppliers of various manufactured products in Indonesia, particularly textiles. On the home front, free trade also exposed embryonic efforts at domestic manufacturing to international competition.

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[54] Peter Post, *Japanse bedrijvigheid in Indonesië 1868-1942; Structurele elementen van Japan's economische expansie in Zuidoost Azië* (PhD dissertation, Amsterdam Free University 1991) 20.

[55] Anna Booth, 'Foreign trade and domestic development in the colonial economy', in: Booth, O'Malley and Weidemann, *Indonesian economic history*,278, Booth, *The Indonesian economy*, 208-211

However, in the face of fierce competition, manufacturers, whether indigenous Indonesians, Chinese or Dutch, found themselves at a disadvantage.[56]

As an export-led country, colonial Indonesia was among those hardest hit by the worldwide Depression in the 1930s as prices of primary products collapsed. As an instrument to deal with the offensive led by Japanese manufacturers of low-price products, liberalism was no longer an appropriate policy. In 1933, the Dutch colonial authorities introduced the Crisis Import Ordinance (Crisisinvoerordonnantie), a step which marked their switch to protectionism. Quotas were introduced as a regulatory instrument to curb foreign imports, especially from Japan.[57] Protection against Japanese imports benefited not only the more expensive imports from the Netherlands but, unintentionally, also domestic production set up to promote import substitution. The restrictive trade policy coincided with unprecedented initiatives launched by the colonial government to promote manufacturing industries and agricultural production. Such small-scale industries as textile, sugar processing, confectionary, the manufacture of rubber sandals, coconut oil and margarine developed rapidly in Java, especially in West Java, in the late 1930s. The number of weaving mills rose from about twenty in 1930 to almost 2,000 in 1938. The number of modern handlooms rose a thousand-fold during the 1930s, reaching 50,000 looms by the end of 1941, taking their place alongside with 10,000 mechanical looms.[58] In Kudus, Central Java, indigenous and Chinese producers competed with one another in the booming *kretek* cigarette industry. Nor were foreign firms left behind in this accelerating industrialization. Philips had a light bulb factory in Surabaya, General Motors opened an assembly line for motor cars in Batavia, Goodyear established Indonesia's first tyre factory, Bata began producing shoes for the local market, and Unilever introduced locally produced margarine into Indonesian households.[59] The best evidence of

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[56] Lindblad, *Bridges to new business,* 25-26.

[57] A. Taselaar, *De Nederlandse koloniale lobby; Ondernemers en de Indische politiek*, 1914-1940 (Leiden: Research School CNWS, 1998) 462.

[58] P.H.W. Sitsen, *Industrial development of the Netherlands Indies* (New York: Institute of Pacific Relations, 1943) 33.

[59] Lindblad, *Bridges to new business*, 26.

emerging industrialization is that the manufacturing share of GDP jumped from 8 per cent to 12 per cent between 1931 and 1939.[60] By 1938 the Netherlands Indies was almost self-sufficient in cigarettes, frying pans, paint, toiletries, beer, shoes and confectionery and the local production of biscuits, margarine, batteries and bicycles was not insignificant.[61] After 1936 the emphasis shifted from light industry and consumer goods to heavy industry and the production of industrial goods. In early 1940, the colonial government announced an industrialization programme which would favour heavy industry. By the time of the Japanese invasion in 1942, the Dutch authorities had already established some of these planned heavy industries, notably for the production of metals, machinery and chemicals.[62]

1.3. Colonial Drain

Post-independence discourses on the economic effects of colonialism have been dominated by the theory of colonial drain. This theory is based on the fact that many colonies generated a trade surplus. The extent to which the value of exports in merchandise exceeded that of imports is regarded as a loss to the colonies and a gain for colonizers.[63] 'Colonial drain' is also the preferred argument by which to explain the poverty in and underdevelopment of post-colonial economies.[64] Historians in Indonesia have assumed that fabulous riches from the colony poured into the Dutch economy.[65] In Vietnamese historiography, the process of French colonization is described in terms of two

[60] Booth, *The Indonesian economy*, 41, 88.
[61] Dick, Houben, Lindblad, and Thee, *The emergence of a national economy*, 160-161.
[62] H.Baudet and R.C. Carriere, 'Het Nederlandse bedrijfsleven in Nederlands-Indie/Indonesie, 1945-1958', *Oost-West: tijdschrift ter voorlichting over de Oost-West verhouding* 9 (1970) 65-70.
[63] F.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: Cornell University Press, 1976) 368-387; Van der Eng, *The 'colonial drain' from Indonesia,* 3.
[64] See, for instance, Rama Dev Roy, 'Some aspects of the economic drain from India during the British rule', *Social Scientist* 3 (1987) 39-47; T.Mukerjee, 'The theory of economic drain; The impact of British rule on the Indian economy, 1840-1900', in K.E. Boulding and T.Mukerjee (eds), *Economic imperialism; Abook of readings* (Ann Arbour: Michigan University Press, 1972) 195-212.
[65] This view was strongly supported by Maddison, who assumed that the trade surplus in the Indonesian merchandise could be equated to the 'drain' of funds from Indonesia to the Netherlands. A. Maddison, 'Dutch income', 645-670; Maddison, 'Dutch colonialism in Indonesia', 322-35.

phases of colonial exploitation: the first phase from 1897 to 1914 and the second from 1919-1929. Notwithstanding the essential fallacy which identifies colonial profits with trade surplus without deducting the services provided by foreign capital and labour[66] and the profits reinvested in the colony,[67] the 'drain' theory did substantiate the arguments for an immediate abolition of the colonial system of economy after independence. Fear of a continued 'economic drain' by Dutch colonialism was the main ideological basis behind the nationalist justifications for a radical nationalization of 'alien giant capital' in Indonesian in the early 1950s.[68]

Although the balance of trade of colonial Indonesia did change over time, throughout the entire late colonial period, the Netherlands Indies experienced a trade surplus of 38 per cent,[69] which rose as high as 75 per cent between 1913 and 1938.[70] The surplus of exports over imports was converted into a substantial surplus on the current account of the balance of payments, and this in turn financed the outflow of profits, interest and dividends. In the 1920s, the surplus on the current account amounted to 5 per cent of the estimated national income of the Indonesian Archipelago.[71] The bulk of the profits were remitted to the Netherlands, where they contributed about 9 per cent of the Dutch net domestic product (NDP),[72] that is as high as 14 per cent of the national income of the Netherlands.[73]

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[66] Van der Eng, *Economic benefits from colonial assets; the case of the Netherlands and Indonesia 1870-1958*. Groningen: Research Memorandum, Groningen Growth and Development Centre, 1998, 2; Van der Eng, *The 'colonial drain' from Indonesia*; P. van der Eng, 'Exploring exploitation; the Netherlands and colonial Indonesia 1870-1940', *Revista de Historia Económica* 16 (1998) 291-321.

[67] Golay, 'Southeast Asia', 371-372; P.J.Drake, 'Natural resources versus foreign borrowing in economic development', *Economic Journal* (82 (1972) 953-954 (951-962)

[68] Sutter, *Indonesianisasi,* 1124.

[69] Dick, Houben, Lindblad, and Thee, *The emergence of a national economy*, 143.

[70] Maddison, 'Dutch colonialism in Indonesia', 326.

[71] Dick, Houben, Lindblad, and Thee, *The emergence of a national economy*, 143.

[72] Maddison estimates that the total benefits remitted from abroad contributed 8.8 per cent of the Dutch NDP in 1911-1915, 10.9 per cent in 1926-1930, and 8.6 per cent in 1921-1938. A. Maddion, 'Dutch income', 645-670.

[73] J.B.D. Derksen and J. Tinbergen 'Berekeningen over de economische betekenis van Nederlandsch-Indië voor Nederland', *Maandschrift van het Centraal Bureau voor de Statistiek* 40 (1945), 210-216; S.L. van der Wal (ed.), *Officiële bescheiden betreffende de Nederlands-Indonesische betrekkingen, 1945-1950*, Vol. VIII (The Hague: Martinus Nijhoff, 1979) 52.

In the reciprocal trade between colonial Indonesia and the Netherlands, the mother country always showed an important trade deficit and Indonesia a considerable surplus. The share of Indonesia in Dutch imports amounted to 14.5 per cent by the end of the First World War but dropped to 5.5 per cent during the 1920s and the 1930s, whereas exports to the colony from the Netherlands constituted only 3.5 per cent in the first decade of the twentieth century, reaching a peak at 9.5 per cent in the second decade, but falling to 7 per cent in the third decade. The share of the Netherlands in the total of Indonesian exports ranged from 16.5 to 32 per cent between 1900 and 1939. Imports from the Netherlands to Indonesia accounted for about 26.5 per cent between 1900 and 1930 and 17 per cent in the 1930s.[74] By 1914 Dutch imports from colonial Indonesia approached 200 million guilders, while the reverse flow of trade amounted to 150 million. In the five-year period 1915-1919, over 150 million guilders worth of merchandise flowed to the Netherlands, but Dutch exports to Indonesia were valued at only 80 million guilders. Even during the short period of Dutch trade expansion in the early 1920s, the surplus of the westbound flow of capital over the eastbound exceeded 20 million guilders.[75]

The commodity trade surplus of Indochina was much smaller. Between 1913 and 1938, the surplus of exports over imports was 23 per cent compared to the 75 per cent of the Netherlands Indies. Until 1913, the trade balance of Indochina was often in deficit, or displayed only a small surplus. By the end of the first period of colonial exploitation, the surplus was 31 million francs. This was on account of the large inflows of capital to Indochina in the late nineteenth and early twentieth century on both government and private accounts for the purpose of developing infrastructure and supporting the growing French bureaucratic presence. During the First World War the surplus increased fourfold, amounting to 86 million francs.[76] The most remarkable period of export expansion was between 1933 and 1937 when the surplus accumulated to

[74] Van der Eng, *Economic benefits from colonial* assets, 6.
[75] Lindblad, 'The economic relationship', 110-11.
[76] Nguyễn Văn Khánh, *Cơ cấu kinh tế xãhội*, 56.

49 million piastres or 490 million francs (in the 1930s, the official rate was 1 piastre to 10 francs).[77] As noted above, about 50 per cent of exports from and 60 per cent of imports into Indochina originated from France. However, exports from Indochina accounted for only 4.1 per cent of the total French imports in 1938. In the same year, Indochina purchased 3.1 per cent of the total exports of the mother country.[78] The dependence of Indochina on the mother country was far greater than in the case of the Netherlands Indies.

The Chinese share in the 'drain' is difficult to calculate because of the long-standing Chinese settlement in Southeast Asia and hence a considerable part of the profits accruing from their businesses was ploughed back into them. Nevertheless, based on the remittances which the overseas Chinese sent to their families in China, a rough estimate can be made of the Chinese 'drain' on colonial Indonesia and French Indochina. By the Pacific War, the total investment of the Chinese in the Netherlands Indies and Indochina was respectively 5,600 million yen and 1,800 million yen, out of a total of 14,500 million yen for the whole of Southeast Asia.[79] In 1930 the Chinese remittances from Indonesia were estimated to be about 25 million guilders or 5.8 per cent of foreign Asian income in Indonesia.[80] In 1937, the overseas Fukienese in the Netherlands Indies and Annam (Central Vietnam) sent home remittances worth 5.5 million Yuan and 1.1 million Yuan, respectively. The next year, the amount increased to 10.8 million Yuan and 687,000 Yuan. The amount of the Amoy Chinese remittances was similar, those from the Netherlands Indies amounting to 8.7 million Yuan in 1936, 5.3 million Yuan in 1937 and 8.5 million Yuan in 1938. In contrast, the Amoy Chinese remittances from Annam were much smaller, reaching 331,000 Yuan in 1936, 133,000 Yuan in 1937 and 23,000 Yuan in 1938. The Bank of China, which had branches and agencies in Saigon, Hanoi, Batavia and other major cities in Southeast Asia, showed the greatest

[77] Nguyễn Văn Khánh, *Cơ cấu kinh tế xãhội*, 114; Robequain, *Economic development*, 306.
[78] Robequain, *Economic development*, 340.
[79] Hicks (ed), *Overseas Chinese remittances*, 190.
[80] Maddison, 'Dutch colonialism in Indonesia', 333.

absorption of the overseas Fukienese remittances. In 1936, for instance, the Bank of China received 5 billion Yuan from the Netherlands Indies and 632 million Yuan from Saigon.[81], Jean-Pascal Bassino argues that outward-bound remittances from the Chinese were an important factor in producing a large current account surplus for Indochina in the years 1936-1944.[82] The Chinese overseas remittances added to the massive amount of capital flows accruing to Europe creates the impression of a 'double drain', thwarting opportunities for economic growth in the colonies in the early twentieth century. Had more of these funds been retained in the colonies for investment in productive infrastructure and in education, the economic positions of Indonesia and Vietnam at independence might have been very different.[83]

2. The Japanese Occupation

Even before the Japanese attack on the Pearl Harbor on 7 December 1941, signalling the beginning of the Pacific War, the balance of imperial power in Southeast Asia had already changed. In September 1940, the Japanese army invaded the northern parts of Vietnam. This disruption was soon followed by an agreement with the French which allowed the Japanese to station troops in Indochina. The Japanese invasion of the Netherlands Indies took place in early 1942, despite desperate sporadic efforts to resist them by the Dutch colonial army. The Japanese deployed different strategies to govern the occupied territories. The French colonial administration was retained under Japanese command until March 1945,[84] whereas in the Netherlands Indies, Dutch

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[81]Hicks (ed), *Overseas Chinese remittances*, 287-288, 303-304.

[82] Bassino, Jean-Pascal, 'Public Finance in Vietnam under French rule, 1895-1954'in: Bassino, Jean-Dominique Giacometti and K.Odaka (eds), *Quantitative economic history of Vietnam, 1900-1990* (Tokyo: Hitotsubashi University, Institute of Economic Research, 2000) 335.

[83] The idea of 'double drain' is presented by Maddison and Anna Booth in the case of colonial Indonesia. This concept and their assumption of the future development of the colony without suffering colonial drainage are also appropriate to French Indochina. See: Anna Booth, 'Foreign trade and domestic development in the colonial economy', in: Booth, O'Malley and Weidemann (eds), *Indonesian economic history*, 284; Dick, Houben, Lindblad, and Thee, *The emergence of a national economy*, 151.

[84] Various factors explain the Japanese decision to retain French authorities in Indochina. The fall of France to Nazi Germany in May 1940 resulted in the establishment a French government in Vichy which collaborated with the Axis powers of Germany and Japan. Because the French colonial authorities in Indochina recognized the Vichy government, the Japanese authorities

officials were replaced by Japanese administrators or by Indonesians in some posts. During the short period of occupation, the Indonesian entrepreneurs were given the chance to participate in the economy which had hitherto been almost exclusively dominated by foreign nationals. The situation was different but it does not mean that in comparison to Vietnam, Indonesia suffered less during the Japanese occupation. Under the Japanese war economy, the strategic natural resources of all colonies were exploited to meet military needs. The economic exploitation by the Japanese worsened economic conditions in Vietnam and Indonesia. Compounded by the severe damage wreaked by warfare, this placed both Indonesia and Vietnam in an appalling economic condition at the time of independence.

2.1. Vietnam

Japan had already established diplomatic and commercial relations with the feudal regimes of Vietnam long before the intrusion of French colonialism in the late nineteenth century. During the colonial period, relations between Japan and Vietnam were hampered by the protectionist policy of the French colonial authorities. The upshot was that the economic activities of the Japanese in Vietnam and the trade between the two countries were both fairly insignificant. In the 1930s, there were only about 300 Japanese in Indochina, most of them were engaged in trade and transportation.[85] Coal, rubber, salt and occasionally rice were the principal Japanese imports from Vietnam, whereas only a small quantity of the Japanese industrial goods was exported to Vietnam. In 1939,

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were able to apply diplomatic pressure in both France and Indochina. Once the agreements allowing the Japanese to station troops in Indochina had been made, the Japanese saw no need to change the basis of their occupation even after December 1941. By then they were preoccupied with establishing their presence in other areas. Consequently, the Japanese continued to recognize the French administration and maintain diplomatic relations with it, as long as diplomatic pressure was sufficient to ensure that Japanese military needs were fully met. This situation lasted until March 1945, even after the fall of the Vichy government in August 1944.

[85] Murakami Sachiko, *Japan's thrust into French Indochina 1940-1945* (PhD dissertation, New York University, New York, 1981) 41.

Indochina accounted for only 0.1 per cent of Japanese exports and 0.9 per cent of imports.[86]

Vietnam became a country of strategic importance to Japan during the Second Sino-Japanese war, which broke out in 1937. Most war materials were supplied to China through Vietnam by two routes, the Haiphong-Yunnan railway and the Hanoi-Đồng Đăng railway. Repeated demands by the Japanese to close the transit of military supplies to China were rejected by the French authorities. Fighting eventually broke out when the Japanese attacked the French garrisons in Đồng Đăng and Lạng Sơn on 22 September 1940. Fighting lasted several days before the French Vichy government signed an agreement allowing Japanese troops to be stationed in northern Vietnam. The Japanese advance into southern Vietnam was carried out in mid-1941, resulting in another agreement, recognizing the occupation of Japanese troops of southern Vietnam. Finally, in December 1941, the French Vichy colonial government in Hanoi signed a new agreement with the Japanese on a common defence of Indochina. Accordingly, the Japanese forces were given the right to use all the facilities of the French forces throughout Indochina in their operations, maintenance and installations. The French forces would take all possible steps to co-operate with the Japanese forces for the defence of Indochina. Specifically, the French forces took charge of the defence of northern Indochina, while the defence of southern Indochina was the responsibility of the Japanese forces.[87] The headquarters of the Southern Region Army, commanded by General Terauchi Hisaichi, was based in Saigon. Although the French maintained the sovereignty in Indochina, the agreement of December 1941 guaranteed that the country was now under control of the Japanese army. Forthwith, the existing administrative system of French colonialism in

[86] Andrew Roth, *Japan strikes South; The story behind French Indochina's change of masters* (New York: Institute of Pacific Relations, 1941) 108.
[87] Sachiko, *Japan's thrust into French Indochina*, 366.

Indochina had to be tailored to satisfy all Japanese demands, whether military or economic.[88]

Before its occupation of the northern parts of Vietnam, Japan had already drawn up a plan for the exploitation of Indochina resources. The 'Outline of Economic Counter-Plans for the Southern Region', issued by the Japanese government on 6 August 1940, stressed the necessity of achieving a self-sufficient Greater East Asia Co-Prosperity Sphere led by Japan. Indochina was considered part of the 'vital zone', in which Japan endeavoured to use local capital and materials as far as possible to acquire goods and materials. By and large, the Japanese economic policy in Indochina was twofold. The principal aim of Japan was to obtain essential foodstuffs and such raw materials as rubber, coal and other strategic materials in exchange for the Japanese manufactured products with which it was then overstocked because of the trade embargo on it imposed by the United States and Great Britain. No less importantly, Japan also wanted to establish a strong economic foothold in Indochina in preparation for the realization of its dream: the autarkic Greater East Asia Co-prosperity Sphere.[89] The role of Indochina in the Greater East Asia Co-prosperity Sphere was clarified in a document entitled 'Policy Measures for Economic Expansion in French Indochina', issued on 3 September 1940. It called for a guarantee of Indochinese exports of rice, coal, apatite, manganese, industrial salt, tin rubber, zinc and silica, which would allow it to achieve independence in resources from the United States and Britain. To secure financing for the import of these goods, Japan persuaded the Bank of Indochina to offer credit on advantageous terms.[90]

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[88] For a detailed process of the Japanese occupation of Indochina, see: Sachiko, *Japan's thrust into French Indochina*; John E. Dreifort, 'Japan's advance into Indochina, 1940; The French response', *Journal of Southeast Asian Studies* 2 (1982) 279-295.

[89] Sachiko, *Japan's thrust into French Indochina*, 386-387; Yukichika Tabuchi, 'Indochina's role in Japan's Greater East Asia Co-prosperity Sphere'; A food-procurement strategy', in: Motoo Furuta, Takashi Shiraishi (ed.) *Indochina in the 1940s and 1950s* (Ithaca:Cornell University Press, 1992) 87-103.

[90] Lê Mạnh Hùng, *The impact of World War* II, 107.

One of the first things the Japanese did after entering Vietnam was to confiscate those Chinese businesses which had been trading with China.[91] The Japanese pressured the French authorities to allocate a portion of local revenue to support the Japanese forces in Indochina, an extraction which had accumulated to 723 million piastres by March 1945.[92] In May 1941, a series of documents was signed which gave Japan a most favoured nation status, both as a customer for Indochinese products and as a supplier of goods into Indochina.[93] The French agreed to export 700,000 tons of rice and 15,000 tons of rubber to Japan in 1941, the payment to be offset by exports from Japan to Indochina.[94] A group of 150 Japanese technicians was sent to Vietnam charged with the mission of reorganizing agricultural, forestry, mining and hydroelectric power enterprises and investigating the possibility of the construction of a railway between Saigon and Rangoon.[95] The outbreak of the Pacific war obliged Japan to modify its economic policy towards Vietnam. Self-reliance was emphasized with the exception of the trade with Japan. Measures were taken to restrict and control consumption, as well as to encourage import substitution to offset the consequences in the Allied embargo. All imports and products manufactured from imports were placed under tight government control.

By May 1942, after the successive surrenders of the Americans in the Philippines, the British in Malaya and Burma, and the Dutch in the Netherlands Indies, the Japanese had essentially gained control of all of Southeast Asia. Many of the natural resources of Vietnam, including rubber, tin and zinc could now be obtained more easily and cheaply from Malaya and the Netherlands Indies. Rice continued to be the principal products Japan required from Vietnam, supplemented by a number of other products unavailable in other

[91] Later, when the Japanese moved to southern Vietnam, many Chinese firms there were also taken over by the Japanese army. It was reported that thousands of Chinese residents in Saigon left for Singapore and Taiwan in late 1941 to escape the Japanese anti-Chinese actions. Virginia Thompson, 'Japan in Indochina', *Far Eastern Survey* 10 (1941) 271-272.

[92] David G. Marr, 'World War II and the Vietnamese revolution', in: Alfred W.McCoy (ed.) *Southeast Asia under Japanese occupation* (New Haven: Yale University Press, 1980) 133.

[93] Sachiko, *Japan's thrust into French Indochina*, 223.

[94] The total production of rubber in 1941 was estimated at 60,000 tons. Le, *The impact of World War II*, 109; Sachiko, *Japan's thrust into French Indochina*, 221-222.

[95] Marr, 'World War II and the Vietnamese revolution', 133.

colonies. Moreover, in preparation for the realization of an autarkic Greater East Asia Co-Prosperity Sphere, the Japanese government tightened its control over the occupied territories. In December 1942, the Japanese signed a new agreement with the French authorities, which allowed the Japanese to become more directly involved in the exploitation of Vietnamese economic resources.[96] Japanese firms were encouraged to invest in Vietnam.

Significant amounts of investment by the Japanese in Vietnam began in 1941 with a total capital of 49 million piastres for the whole of Indochina compared to 12.5 million piastres in the previous year. This amount was reduced to 6.5 million piastres in 1942 as a consequence of the isolation of the country because of the escalation in hostilities, but rose again to 43 million piastres in 1943, which accounted for one-quarter of the total investment in Indochina in that year.[97] The number of Japanese firms operating in Indochina increased from fourteen by 1940 to twenty-four in August 1941, and thirty-six at the beginning of 1942. The largest company was probably Mitsui Bussan Kaisha, strongly linked to the Japanese Navy, which was given the monopoly on rice imports to Japan and was engaged in various manufacturing activities, including timber, shipbuilding and foundry.[98]

The purpose of the majority of the manufacturing activities launched by the Japanese in Vietnam was to supply the needs of the Japanese armed forces. Timber-getting was given the highest priority, as the Japanese needed wood to construct ships, bridges, buildings and railway links. In May 1941, six Japanese companies, including Mitsui, Mitsubishi, Sanko, Ataka, Taitaku and Nakamura, formed a consortium to invest in the timber industry, bringing total timber production to 3 million cubic metres in 1941. Production increased to 3.5 million cubic metres in 1942, but declined to around 1 million cubic metres in 1943 and 1944, supplemented by about 4,000 tons of pine resin.[99] Timber and pine resin were principally used in shipbuilding, an industry which the Japanese

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[96] Lê Mạnh Hùng, *The impact of World War II*, 183.
[97] Sachiko, *Japan's thrust into French Indochina*, 404.
[98] Lê Mạnh Hùng, *The impact of World War II*, 187-188.
[99] Lê Mạnh Hùng, *The impact of World War II*, 128, 232.

government was trying to stimulate in order to replace the ships lost to enemy action. In 1943, the Japanese government drew up a shipbuilding programme for Vietnam, stating that ships were to be constructed as sailing vessels of 250 tons with an auxiliary power. Another programme was implemented in early 1944 and involved four companies, Ataka, Misubishi, Mitsui and Koan Docks. It planned to construct 165 ships with a total capacity of 27,200 tons. The sites chosen to build these ships were Haiphong, Vinh and Saigon. However, because of the shortage of capital investment only a small number of ships had been completed by the end of 1944.[100]

Apart from the timber industry, Japanese companies invested in little else in the manufacturing sector in Vietnam. In April 1943, the Japanese government did draw up a programme for the expansion of the cotton industry in Indochina. It was designed to make the army and the people of Indochina 50 per cent self-sufficient in clothing. Japan decided to supply Indochina with 80,000 Japanese spinning machines and 3,000 looms. Apparently it languished as by the end of 1943 only one Japanese spinning-mill and one weaving-mill had been built in Saigon and Tonkin respectively. More Japanese investment went instead to the manufacture of the jute bags required for the transportation of rice. The rubber industry also attracted some attention from the Japanese. In May 1944, three Japanese companies, Mitsui, Mitsubishi and Nomura, prepared plans to produce tyres. Other factories founded by the Japanese included a steelworks in Saigon established by Mitsui to produce parts for the Japanese Navy in 1943.[101] In a few instances, the Japanese co-operated with the French and the Vietnamese in the setting up of small manufacturing concerns and retail shops to compete with the Chinese.

Unsurprisingly, given their war machine, the Japanese were particularly interested in mining. Nevertheless, they only took over those enterprises in which production was still below par for their requirements, including the extraction of phosphate, manganese, chromite and apatite. The old-established

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[100] Lê Mạnh Hùng, *The impact of World War II*, 209-210.
[101] Lê Mạnh Hùng, *The impact of World War II*, 206, 212.

minerals, such as coal, zinc and tin were left in French hands.[102] Generally, the Japanese were content to co-operate with the existing French mining companies. For instance, in 1941, the *Compagnie Indochinoise de Commerce et d'Industrie* co-operated with the French companies in establishing three joint ventures, namely the *Compagnie de Chrome de l'Indochine* (CHROMIC), the *Compagnie Indochinoise d'industrie minière* (CIM) and the *Société d'exploitation des phosphates de l'Indochine* (SIPI). These companies concentrated on exploiting such strategic minerals as chromium, manganese and iron ore, as well as some phosphate to export to Japan. Other Japanese enterprises active in the mining sector included the South Seas Fertilizer, Great Japan Phosphate and the Taiwan Fertilizer Companies.[103] The production of iron ore rose from 53,300 tons in 1941 to 82,000 tons in 1943, and the mining of phosphate rock reached a high point of 98,8000 tons by the end of 1942.[104]

Nevertheless, the prime source of interest for the Japanese in Vietnam was rice. The Mitsui Bussan Kaisha collected about 1 million tons of rice annually from Indochina. The grain was exported not only to Japan, but also to other parts of Greater East Asia. In fact, Vietnam was the largest supplier of rice to Japan, accounting for 37 per cent of Japanese rice imports in 1942 and 56 per cent in 1943.[105] In 1942, the Japanese companies began to increase their investment in the cultivation of such fibre-yielding plants as cotton, jute and flax. The area under cultivation with cotton increased from 20,000 hectares in 1942 to 52,000 hectares in 1944.[106] To encourage the cultivation of jute, which was indispensable to the transportation of rice, a Japanese Jute Cultivation Association was established in early 1943 with twenty-two associated Japanese companies under the direction of the Japanese embassy in Hanoi. The Association was said to have cultivated about 10,000 hectares in 1943. This area was expanded to 15,000 hectares in 1944. The Japanese also forced Vietnamese

[102] Sachiko, *Japan's thrust into French Indochina*, 391.
[103] Lê Mạnh Hùng, *The impact of World War II*, 187.
[104] Lê Mạnh Hùng, *The impact of World War II*, 193, 233.
[105] Bùi Minh Dũng, 'Japan's role in the Vietnamese starvation of 1944-1945', *Modern Asian Studies* 29 (1995) 597.
[106] Bùi Minh Dũng, 'Japan's role', 591.

peasants to grow jute at the expense of their maize and rice crops, arousing resentment among the indigenous population. Turning to hemp and flax, Japanese production in 1943 was said to be about 6,000 tons from about 2,210 hectares. The area was expected to expand to 3,300 hectares in 1944.[107] To obtain vegetable oils, Japanese companies also invested in such oil-yielding plants as the castor beans, sesame plants and peanuts. The two largest companies cultivating oleaginous plants were the Taiwan Takushoku and Mitsubishi. The area under the cultivation with peanuts, castor beans and sesame plants grew rapidly from 33,000 hectares in 1940 to 65,000 hectares in 1942, reaching 85,000 hectares by the end of 1944.[108] The increasing cultivation of fibrous and oleaginous plants at the expense of rice and maize fields, rising demands for rice by the Japanese authorities, aggravated by bad weather, were the main reasons for the shortage of rice in Vietnam in 1944 and 1945. The terrible famine in North and Central Vietnam in early 1945 cost the lives of about 2 million people.[109]

This summary leaves no doubt that Japan had become the foremost trading partner of Indochina. In 1942 and 1943, it bought about 95 per cent of all Indochinese exports and provided about 77 per cent of all imports into Indochina. The total value of exports to Japan jumped 25 per cent between 1941 and 1943, from 160 million piastres to 200 million, while imports from Japan in the same period increased almost fourfold from 34 million piastres to 126 million. From late 1943, Indochinese trade with Japan declined steeply, dropping to only 79 million piastres of export value and 34 million of import value in 1944.[110] Apart from Japan, Indochina pursued only a little trade with Thailand and China. Trade with France had been completely halted since late 1941 as the result of intensified embargo by the Allies.

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[107] Sachiko, *Japan's thrust into French Indochina,* 189.
[108] Bùi Minh Dũng, 'Japan's role', 459.
[109] There are different reports about the total number of deaths caused by the starvation in Vietnam in 1944 and 1945. Some indicate 2 million people, others estimate the total to be fewer than 1 million victims. See the discussion on the 1945 famine in Vietnam in: Bui, 'Japan's role', 573-618.
[110] Lê Mạnh Hùng, *The impact of World War II*, 193-194, 239-241.

Except for the take-overs of the Haiphong Cement Factory and two distilleries in Saigon-Cholon in early 1944, the Japanese did not try to control French businesses during the occupation. Nevertheless, because of the isolation of the country, the economic activities of the French in Indochina depended entirely on trade with Japan. Furthermore, the lack of imported materials and equipment forced the French companies to switch to the production of import substitutions, especially industrial alcohol as a replacement for petrol. Alcohol production jumped from 5,000 tons before the war to 15,500 tons in 1942.[111] Other products attracting the French investment included coal, charcoal, zinc, salt, gypsum, soda and other chemicals used in manufacturing soap and matches. Under such conditions the handicraft sector grew significantly and developed rapidly. Indigenous handicraft activities concentrated on textile fabrics and such small consumer objects as stationery, pens, and ink and oil lamps. The intensive Allied bombing of North and South Vietnam in 1944-1945 caused not only a great loss of life, but also severe damage to economic establishments and a disruption of the communication system. By February 1945, the Vietnamese economy was in a state of imminent collapse.[112]

On 9 March 1945, the Japanese army staged a *coup de force*, overthrowing the French in Indochina. Two days later, on 11 March, the Japanese asked Bảo Đại, the Emperor of Annam, to declare the independence of Vietnam. By this action, Vietnam formally became independent, but in reality the Japanese retained the old French political structure essentially intact, simply replacing all of the top French officials with the Japanese. Middle-and lower-ranking French officials, especially in technical services, were allowed to keep their positions until July 1945.[113] Even after its formation in April 1945, the Trần Trọng Kim government initially controlled only Annam. North Vietnam was not returned to the Vietnamese government until May and South Vietnam

[111] Marr, 'World War II', 134.
[112] Lê Mạnh Hùng, *The impact of World War II*,227.
[113] More information about the Trần Trọng Kim government see Phạm Hồng Tung, *Nội các Trần Trọng Kim; Bản chất, vai trò và vị trí lịch sử* [Trần Trọn Kim's cabinet: Its nature and historical role] (Hanoi: Chính trị Quốc gia Publishers, 2009); Phạm Hồng Tung, *Lịch sử cuộc cách mạng Tháng Tám năm 1945 ở Việt Nam* [A History of the August Revolution of 1945 in Vietnam] (Hanoi: Đại học Quốc gia, 2013) 146-153.

remained under direct Japanese rule until August 1945. Control of the economy remained in the hands of the Japanese, a fact clearly underlined when the Bank of Indochina was taken over by the Yokohama Specie Bank. All principal French industrial concerns were put under Japanese supervision with directives to convert all available equipment to satisfy the production of material of use to the Japanese forces.[114]

2.2. Indonesia

In contrast to the situation in French Indochina, Japan had enjoyed a close economic relationship with the Netherlands Indies during the colonial period. The evidence for this is the large share of Japan in the external trade of the Netherlands Indies cited above, as well as the important position of colonial Indonesia in the Japanese economy. By 1926, there were thirteen Japanese firms operating in the Archipelago with a total capital of 1.2 million yen or 1.4 million guilders. Indonesia accounted for 10.7 per cent of the total export value of Japanese textiles, 9.8 per cent of ceramics and 7.2 per cent of knitted articles. Japanese imports of sugar and oil depended heavily on the supply from the Netherlands Indies. In 1926, 82.8 per cent of Japanese imports of sugar, 55.1 per cent of petroleum and benzine and 23.4 per cent of kerosene came from Indonesia.[115] Although the protectionist policy adopted by the Dutch colonial government in the 1930s did diminish the volume of imports from Japan,[116] the Japanese economic activities in the Netherlands Indies appeared to be little affected. The total number of the Japanese spread over the Archipelago was 6,800 in 1930 and 6,500 in 1939.[117] Japanese exports to the Netherlands Indies

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[114] Ralph B. Smith, 'The Japanese period in Indochina and the Coup of 9 March 1945', *Journal of Southeast Asian studies* 2 (1978) 285.
[115] Post, *Japanse bedrijvigheid in Indonesië*, 116, 312-313.
[116] For example, the cement imports from Japan to Indonesia between 1932 and 1936 fell from 96.5 per cent to 58 per cent and cambric imports from 81 per cent to 42.5 per cent. Japanese sarongs were almost shut out of the market. By 1937, the Japanese share of imports in the Netherlands Indies had been cut from 31.9 per cent to 15 per cent. Dick, Houben, Lindblad, and Thee, *The emergence of a national economy*, 158-159.
[117] Post, *Japanse bedrijvigheid in Indonesië*, 112, 250.

still exceeded 6 million guilders in 1939 and the reverse flow of trade amounted to 1.2 million guilders.[118]

Raw materials, especially oil, bauxite and rubber became increasingly vital for the Japanese war efforts. At the outbreak of the Pacific War, it was estimated that Japan would require 7.9 million tons of oil per year in order to wage a war with the Allied forces. However, by 1941, Japan had a reserve of only 9.4 million tons of oil, barely enough for one year.[119] In preparation for a protracted war against the Allies, Japan wanted to raise the level of its oil reserves by demanding a bigger share in the oil export of the Netherlands Indies. Following the German occupation of the Netherlands in Europe, in September and again in December 1940, Japan sent missions to negotiate this matter in Batavia. Not only did the Dutch colonial government not acquiesce in the demands, it threatened sever trading ties with Japan. In July 1941, Japan decided to continue its expansion to the south. South Indochina immediately came under Japanese occupation, and the Japanese pressed on. The Netherlands Indies, rich in strategic materials, was the main target on which the Japanese military had set its sights.[120] It should surprise nobody that the oil installations at Tarakan and Balikpapan in Kalimantan and Palembang in South Sumatra were the first locations in the Netherlands Indies captured by the Japanese in January and February 1941. The Japanese landings in Java took place on 1 March 1942 after their triumph over the Allied Navy in the Battle of the Java Sea on 27 February 1942. The armed resistances by the Royal Netherlands Indies Army (Koninklijk Nederlandsch-Indisch Leger, KNIL) lasted ten days before the Dutch Commander-in-Chief, Lieutenant-General H.ter Poorten surrendered to the Japanese army on 9 March 1942.[121] With the exception of some sporadic guerrilla activities by soldiers of the Dutch colonial army, by the

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[118] BI, *Het handelsverkeer tussen Nederland en Japan*, inventory number 1587.

[119] L.de Jong, *The collapse of a colonial society; The Dutch in Indonesia during the Second World War* (Leiden: KITLV Press, 2002) 29.

[120] H.J.van Mook, *Nederlandsch-Indie onder de Japansche bezetting;Zeven toespraken gehouden over Radio Oranje in den zomer van 1944* (London: The Netherlands Publishing Company, 1944) 16-17.

[121] De Jong, *The collapse of a colonial society*, 39.

end of 1942 the Japanese the Japanese had by and large completed their conquest of the Netherlands Indies.[122]

The administration of the Netherlands Indies was entrusted to three Japanese military organizations, the 16th Army in Java and Madura, the 25th Army in Sumatra, and the Navy in Kalimantan and the Great East (Sulawesi, Maluku, the Lesser Sunda Islands and West New Guinea).[123] Following the strategy set out in such official documents as the 'Outline of Economic Counter-Plans for the Southern Region' and the 'Principles for the Administration of the Occupied Areas', the general task facing these occupation forces was to facilitate the acquisition of resources vital to the prosecution of the war and to establish an autarkic Greater East Asia Co-Prosperity Sphere.[124] Everything had been prepared for the administration of the economy in the newly occupied areas. An Instruction entitled 'Principles of the Disposition of Military Administration in the Occupied Areas' dated 14 March 1942, laid down that enemy property, namely that belonging to Americans, British and Dutch, was to be impounded and taken into custody. Enemy property was identified as businesses, services and investments owned by public bodies, nationals of the enemy states, including those of mixed blood, namely Eurasians, and legal bodies with head offices based in the enemy countries. The control of enemy property in Java and Sumatra was entrusted to an administrative organization, the Military Administrator's Department or *Gunseikanbu*. This Department was organized along the lines of the sectors of the economy, including finance, industry, agriculture and transportation. In the Navy-controlled areas, the Navy co-operated with the *zaibatsu* (Japanese state-led conglomerates) in its efforts to deal with matters impinging on production and trade.[125] There were 333 *zaibatsu* out of the total of 726 companies

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[122] De Jong, *The collapse of a colonial society*, 29.
[123] De Jong, *The collapse of a colonial society*, 80.
[124] Shigeru Sato, *War, nationalism and peasant; Java under the Japanese occupation 1942-1945* (London: Allen&Unwin, 1994) 11.
[125] Peter Post, William H.Frederik, Iris Heidebrink, and Shigeru Sato (eds), *The encyclopedia of Indonesia in the pacific War* (Leiden: Brill, 2010) 222.

operating in the Navy areas, in comparison with 266 *zaibatsu* and another 263 companies of various kinds in the Army areas.[126]

The sector most immediately affected by the Japanese policy was oil. All oil installations in the Netherlands Indies were placed under the direct management of the armed forces. Attempts were made to resume oil production by summoning people who had been employed at the oil installations back to work. Some Dutch and other European engineers were even temporarily released from internment.[127] In April 1942, the Japanese government sent 4,600 technicians to the oil-fields in the Netherlands Indies to repair the damages caused by the Dutch scorched-earth tactics. Within a few weeks, the Japanese authorities were able to resume the operations at the oil installations in Tarakan, Balikpapan and Palembang. Oil production between April 1942 and March 1943 amounted to 4 million tons, of which 40 per cent were exported to Japan. From April 1943 to March 1944, the Japanese produced 7 million tons of oil, almost reaching the pre-war level of 7.9 million tons. Over 30 per cent of this amount was shipped to Japan. The remaining oil, plus 5.5 million tons produced in the period April 1944-March 1945, failed to reach Japan on account of the intensification of the oil held back to supply the Japanese administration and armed forces in the Netherlands Indies, as well as in other occupied territories.[128]

Although oil production was exclusively controlled by the Army and Navy, private Japanese companies were encouraged to invest in other mining industries. Mitsubishi ran the tin-mines on Bangka and Belitung, Mitsui was involved in coal and bauxite mining, and Sumitomo was assigned the nickel-mines in Sulawesi. Diamond cutting in Martapura, South Kalimantan, was controlled by Nomura, which had been present in the region for several years.[129] Bauxite, the bulk of which was produced on the islands belonging to Riau and

[126] Hikita Yasuyuki, 'Japanese companies' inroads into Indonesia under Japanese military domination', in: Peter Post and Elly Touwen-Bouwsma (eds), *Japan, Indonesia and the war; Myths and realities* (Leiden: KITLV Press, 1997) 160-161.
[127] They were interned again in early 1944 after the arrival of Japanese officials and the course of the war had turned clearly against Japan.
[128] De Jong, *The collapse of a colonial society*, 236.
[129] Lindblad, *Bridges to new business,* 52.

Johor was vital to the Japanese aluminium industry. During the occupation, Mitsui produced 1.4 million tons of ore, most of which was shipped to Japan.[130] Both the Ombilin and Bukit Asam coal-mines were placed under control of Mitsui. Nevertheless, owing to the shortage of manpower, the output of these mines was very low. In 1942, the Ombilin mine produced 228,724 tons of coal, but its production dropped drastically to 92,878 tons in 1943, 72,780 tons in 1944, and only 50,324 tons in 1945.[131] A substantial quantity of the coal produced in Sumatra was exported to Java and Malaya, mainly for the use in gasworks and on the railways.[132] As coal was vitally important to the war economy, the Japanese authorities made vigorous attempts to recruit engineers in Japan, as well as finding European internees and indigenous labourers to work in the coal-mines. Many machines in Bangka tin-mines were transferred to coal- mines.

On 11 April 1942, the military administration closed all financial institutions owned by foreign nationals in Java. These included four Dutch banks (De Javasche Bank, Nederlandsch-Indische Handelsbank, Nederlandsch-Indische Escomptobank and Nederlandsche Handel-Maatschappij), two British-owned banks (the Chartered Bank and the Hongkong & Shanghai Banking Corporation) and three Chinese owned banks (Bank of China, Overseas Chinese Banking Corporation and Bank of Batavia. Their assets and activities were taken over by the Yokohama Specie Bank, the Taiwan Bank, Mitsui Bank and the Kanan Bank.[133] The Algemeene Volkscredietbank (People's Credit Bank) and the Post Office Savings Bank were allowed to do business, albeit under a Japanese name, the Syomin Ginkō and Chokin Ginkō, respectively. Both the Yokohama Specie Bank and the Taiwan Bank acted as agents for the Nanpo Kaihatsu Kinko (Southern Development Bank), which had been founded in March 1942 and served as the central bank in the Greater East Asia Co-prosperity Sphere. In August 1943, the Yokohama Specie Bank was

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[130] De Jong, *The collapse of a colonial society*, 236.
[131] Post, Frederick, Heidebrink, and Sato (eds), *The encyclopedia of Indonesia,* 263-266.
[132] Miyamoto Shizou, 'Economic and military mobilization in Java, 1944-1945', in: Anthony Reid and Oki Akira (eds), *The Japanese experience in Indonesia, 1942-1945* (Athens: Ohio University Press, 1986) 238.
[133] BI, Report of the liquidation production of enemy banks in Java, inventory number 2977.

commissioned as the bank of issue in Java and Sumatra, the Taiwan Bank provided the same service in the Navy-occupied areas.[134]

The Japanese applied different strategies to manage agricultural estates. Because rubber industry had a vital military function, initially the military administration kept its direct management in its own hands. In July 1942, the management was handed over to the Agricultural Estates Management Corporation (Saibai Kigyô Kanri Kôdan, SKKK), an organization responsible for the supervision of all plantations, except sugar. Nevertheless, the army continued to exercise tight control over rubber production. The tapping of rubber trees was prohibited unless it had been ordered by the local military commanders.[135] It was only in May 1944 that the army granted control of rubber and other agricultural estates under the supervision of the SKKK to private Japanese enterprises.[136] The small number of Dutch managers, who had been retained to supervise day-to-day operations of rubber estates, were now completely replaced by the Japanese.[137] The poor management of the Japanese military authorities and the professional ignorance of the Japanese about the rubber industry were the main reasons for a sharp decline in rubber production in Indonesia, falling from 99,000 tons in 1940 to only 24,000 ton in 1944.[138]

Since sugar played a less direct role in the war economy, the Japanese army exercised less direct control over its production. Initially, sugar estates were managed by the Federation of the Sugar Industry Corporation (Tōgyō Rengōkai, TRK). In November 1942, the TRK transferred the control of all sixteen former Dutch sugar estates in Java to six Japanese corporations.[139] These six companies, in conjunction with the Oei Tiong Ham and two other Indonesian sugar estates, controlled the entire production of sugar in Java.[140] As

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[134] Shibata Yoshimasa, 'The monetary policy in the Netherlands East indies under the Japanese administration', in: Peter Post and Elly Touwen-Bouwsma (eds), *Japan, Indonesia and the war; Myths and realities* (Leiden: KITLV Press, 1997) 117-202.

[135] Lindblad, *Bridges to new business*, 49.

[136] Peter Keppy, *Sporen van vernieling; oorlogsschade, roof en rechtscherstel in Indonesië, 1940-1957* (Amsterdam: Boom, 2006) 140-141; Post, Frederik, Heidebrink, and Sato (eds), *The encyclopedia of Indonesia,* 225.

[137] Peter Keppy, *Sporen van vernieling,*142.

[138] Post, Frederick, Heidebrink, and Sato (eds), *The encyclopedia of Indonesia,* 227.

[139] Peter Keppy, *Sporen van vernieling*, 142.

[140] The share of sugar production in Java was as follow: Dai Nippon Seito Kaisha (31.52 per cent), Taiwan Seito Kaisha (21.41 per cent), Meiji Seito Kaisha (17.81 per cent), Ensuiko Seito

on rubber estates, Dutch supervisors were ordered to remain and continue running the sugar estates until new managers arrived from Japan. As the transfer of management could be achieved very quickly, by August 1943, all Dutch employees on sugar estates had been interned.[141] Under the management of the Japanese companies, sugar production declined dramatically, from 1.3 million tons in 1942 to 680,000 tons in 1943, 500,000 tons in 1944 and a paltry 30,000 tons in 1945.[142] Many sugar refineries were converted so that they could produce butyl alcohol from sugar-cane. This substance was mixed with petrol to power aeroplane engines. The Japanese also converted land previously used for growing sugar-cane to plant food crops and cotton. Tobacco fields were switched to the cultivation of hemp, needed to manufacture jute bags. These efforts corresponded with the general policy of the Japanese military authorities which was to encourage self-sufficiency at each level of administration.[143]

Japanese investment in manufacturing served no purposes other than to achieve self-sufficiency and to meet the needs of the armed forces.[144] The manufacture of textiles was especially important as the local production of cloth could reduce imports from Japan. After the pacification of Java, the *Gunseikanbu* took over all four textile factories and entrusted their management to Japanese companies. The *Gunseikanbu* also tried to expand these factories by introducing machines and experts from Japan, and to raise textile production by concentrating on plain manufactured textiles and by encouraging the cultivation of cotton. Military requirements had number one priority and what was left was used to meet civilian needs.[145] As the import of materials from Japan gradually became impossible, the Japanese authorities were forced to release stockpiled

Kaisha (12.32 per cent), Nanyo Kohatsu Kaisha (7.29 per cent), and Okinawa Seito Kaisha (2.92 per cent), Oei Tiong Ham Concern (3.14 per cent), Mangkoenergaran (2.94 per cent) and Tjandi (0.65 per cent). T.F.H.Postma, J.W.d'Hane and J.V. Von Meijenfeldt, *De Javasuikerindustrie gedurende de Japansche bezetting* (Batavia: Departement van Economische zaken in Nederlandsch-Indië, 1946) 16.

141 Postma, d'Hane and Meijenfeldt, *De Javasuikerindustrie*, 10.

142 Postma, d'Hane and Meijenfeldt, *De Javasuikerindustrie*, 14.

143 Lindblad, *Bridges to new business,* 48.

144 Hikita Yasuyuki, 'Japanese companies' inroads into Indonesia under Japanese military domination', in: Peter Post and Elly Touwen-Bouwsma*, Japan, Indonesia and the war; Myths and realities* (Leiden: KITLV Press, 1997) 139.

145 W.H. Frederick, *Visions and heat; The making of the Indonesian revolution* (Athens: Ohio University Press, 1989) 127-128.

reserves. Since virtually none of the existing stock remained in the hands of indigenous people, the textile shortage reached a point at which the population had to utilize gunny sacks for clothes.[146] As the economic situation was so bad, looting and robbery were not uncommon during the Japanese occupation. It was reported that in 1944, the factories in West Java were deprived of thousands of handlooms.[147] The rice-mills and shops owned by the Chinese were also the frequent targets of Indonesian attacks.[148]

The Japanese authorities desperately needed wooden ships both for the transportation of military supplies and raw materials to Japan and for carrying supplies within the Archipelago. The plan was to construct 700 ships in Java, 130 ships in Sumatra and eighty ships in Northern Kalimantan whose total tonnage would add up to 138,000 by 1944. Factories to produce engines for the ships were also built in Java and 215 engineers from Japan were recruited to come to Java to work in them. However, because of the shortage of engines for the ships and the dearth of skilled labourers, by June 1944, only twenty-four ships had been completely finished, 282 launched and 106 were still under construction.[149] Other Japanese investments in manufacturing in Indonesia included a small steel works in Kalimantan, a number of printing houses and beverage factories in Java and, importantly, enlarged investment in the cement factory in Padang, West Sumatra.[150]

The war economic policy of the Japanese at war undoubtedly struck a fatal blow at the heart of the Netherlands Indies economy, which had hitherto depended heavily on the world market. The traditional export markets in Europe and North America were cut off and Japan could only absorb a small proportion of Indonesian output. The reverse trade suffered even more damage since Japan was in no position to provide machines and spare parts, or indeed any

[146] Shizou, 'Economic and military mobilization', 248.
[147] Lindblad, *Bridges to new business,* 51.
[148] Sato, *War, nationalism and peasant*, 115; Mary Somers Heidhues, 'Anti-Chinese violence in Java during the Indonesian revolution, 1945-1949', *Journal of Genocide Research*, 3-4 (2012) 383.
[149] Shizou, 'Economic and military mobilization', 241.
[150] Post, Frederick, Heidebrink, and Sato (eds), *The encyclopedia of Indonesia,* 242.

intermediate materials, such as chemical products, to help develop manufacturing. Textiles and clothing were the main products imported from Japan to the Netherlands Indies with 57 per cent of total imports in 1942 and 40 per cent in 1943. The second biggest group consisted of guns, vehicles and metal production, accounting for 19 per cent in 1942 and 26 per cent in 1943. Trade was far more intensive the other way around. Oil occupied 67 per cent of Japanese imports from the Netherlands Indies in 1942 and 47 per cent in 1943. Bauxite and metallic ores accounted for about 16 per cent of exports from the Netherlands Indies to Japan in 1943. In that year, Japan obtained 80 per cent of the trade surplus of the Netherlands Indies. Trade between the two countries became difficult in 1944 and had ground to a virtual halt by 1945.[151]

The seeds of the destruction of the colonial economy were also present in the enforced crop conversion. As the market outlets for perennial crops dried up, many tea, coffee, rubber, sugar and other plantations in Java, Sumatra and Borneo were converted to cultivate food crops or to grow the ramie, hemp and castor beans required by the Japanese. The acreage of land used for cultivating tobacco shrank by three-quarters.[152] By comparing with the years 1937-1941, Burger summarizes the collapse of production in the Netherlands Indies as a result of the Japanese occupation as follows: ‘Commercial agriculture came to a virtual halt. Tree crops were severely affected by years of neglect, although rubber was an exception because the trees benefited from not be tapped. Of all the cash crops grown by the local population, 75 per cent of the pepper was lost on South Sumatra and 99 per cent on Bangka. […] Of the kapok trees planted, 30 per cent were felled and the rest deteriorated. On South Celebes half of the coffee was lost through neglect. The Western agricultural concerns were practically all closed down. The cultivation of annual crops, such as sugar, was almost entirely halted. […] Many commercial plantings of perennial crops were lost because they were cut down by the local people so that the land could be used for growing food. The worst affected were the tea and coffee plantings, of

[151] Post, Frederick, Heidebrink, and Sato (eds), *The encyclopedia of Indonesia,* 238.
[152] De Jong, *The collapse of a colonial society*, 229.

which 30 per cent and 25 per cent were lost, respectively. In the case of oil palm and rubber plantings, 14 per cent and 10 per cent were felled respectively. Livestock decreased by about one half during the war years. The fishing fleet declined by 30 per cent.'[153]

The living conditions of the Indonesian people during the Japanese occupation were extraordinarily bad. The policy of self-sufficiency did not help to increase food production, and textiles and clothing were already in very short supply. Indeed, during the Japanese occupation, rice production fell by one-third, the output of cassava by more than one-half and that of maize by two-thirds, whereas sweet potatoes production declined by one-quarter.[154] Farmers were forced to surrender a substantial part of their rice production to the Japanese authorities. In Kediri, for instance, farmers cultivating land with an area of up to 2 hectares were assessed at 20 per cent, between 2 and 5 hectares at 50 per cent and over 5 hectares at 70 per cent of their production. In 1945, the quota for farmers operating in Bogor cultivating up to 1 hectares was 40 per cent, between 1 and 3 hectares 50 per cent, between 3 and 5 hectares 60 per cent and over 5 hectares 75 per cent. In some provinces, such as Semarang, the purchase of paddy was fixed according to the estimated yields per sub-district.[155] The Japanese authorities controlled both the supply and price of rice. All rice producers were obliged to sell part of their paddy to the Chinese brokers or deliver it to the government mills. The local distribution system of rice collapsed into a dysfunctional nightmare. The price of rice on the black market in the cities was often two or three time higher than the price in the black markets in rural areas.[156] The food shortage caused the average daily intake of calories of Indonesians to fall from 2,000 kcal in 1940-1943 to 1,500 kcal in 1944-1945. In early 1945, there were signs of impending famine. The

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153 Quoted from de Jong, *The collapse of a colonial society*, 232. See also: D.H.Burger, *Sociologisch-economische geschiedenis van Indonesia*, Vol. 2: *Indonesia in de 20^e eeuw* (Leiden: KITLV, 1975) 160-161.
154 D.H.Burger, *Sociologish-economische geschiedenis van Indonesia*, Vol. 2: *Indonesia in de 20^e eeuw* (Leiden: KITLV, 1975) 160-161; Lindblad, *Bridges to new business*,53.
155 Van de Eng, P. *Food supply in Java during war and decolonization, 1940-1950* (Hull: University of Hull, 2008) 10-13.
156 Sato, *War, nationalism and peasant*, 116-119.

subsequent high inflation was reinforced by a steady, irresponsible expansion the money supply, during which the number of bank notes allegedly rose sevenfold between 1942 and 1945.[157]

Conclusion

During the colonial period, Indonesia and Vietnam experienced different types of colonial rule. The vast Archipelago was integrated into one unit, the Netherlands Indies, whereas unified Vietnam was divided into three separate parts, each with a different administrative system and these were incorporated with Laos and Cambodia in the creation of a French Indochina. In the wake of the liberal policy pursued by the Netherlands Indies government after 1870, colonial Indonesia developed into a typical plural society, with a multi-ethnic composition, in which each ethnic group occupied a different political and economic position. The tiny Dutch and other Western community were at the top of the pyramid, and the indigenous Indonesian people formed the base. The Chinese and Arab minorities served as intermediaries between the two. Although relations between the Netherlands and the colony were relatively strong, late colonial Indonesia gradually began to depend more heavily on the world market. This was the logical outcome of the Dutch colonial policy of expanding the capacity of the Archipelago to produce export commodities. Tobacco, sugar, rubber, tea, coffee and palm oil were the main agricultural export crops. The mining sector contributed such minerals as oil, tin and coal. Very little investment was made in manufacturing and imports were regulated by a free trade policy. The lack of government protection in the fray of fierce international competition led to the stagnation of indigenous manufacturing.

The composition of the population of colonial Vietnam was less diverse than that of the Netherlands Indies. Nevertheless, the proportion of foreigners, namely the French and Chinese, and their economic superiority over the indigenous population were far higher. The unequal distribution of income

[157] Lindblad, *Bridges to new business*, 53.

between the French and the rich Chinese and Vietnamese manual workers and peasants could be as high as 100 and 150 times, respectively. Just as the Dutch, French private investors were not interested in manufacturing, preserving the colony as an exclusive market for French industrial products. The primary French concerns were mining, including coal, tin and zinc. In the 1920s, the French companies began to invest in plantations and export crops, particularly rubber and rice. In comparison with the European plantations in the Netherlands Indies, French commercial plantations were much larger and there was a higher concentration of lands in the hands of a few companies.[158] Another major difference had to do with the over-dependence of colonial Vietnam on the French economy. This led to the assumption that, whereas the Netherlands Indies benefited the world economy, Vietnam served France exclusively.

The Japanese occupation brought fundamental changes in the economic systems of the Netherlands Indies and Indochina. First, there was a shift in economic power away from Western companies and the Chinese to the Japanese, albeit in different degrees. The French companies continued to operate in Vietnam under Japanese command after 1940. In contrast, the operation of Dutch enterprises in the Netherlands Indies was immediately taken over by the Japanese military authorities. Second, in pursuing their dream of an autarkic Greater East Asia Co-Prosperity Sphere, the Japanese adopted different strategies in Indochina and the Netherlands Indies. Rice was the main product they required from Vietnam, although there was also quite an interest in textiles and vegetable oils. The products of overriding interest to the Japanese in the Archipelago were raw materials, notably oil, bauxite and rubber. Third, the embargo by the Allies and the Japanese self-sufficiency policy stimulated development of new industries and local handicrafts and the cultivation of new crops in Vietnam. Nevertheless, for an export-led country, as colonial Indonesia

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[158] In 1937, for instance, 68 per cent of the cultivated land belonged to twenty-seven companies, controlled by French holdings. Three large financial and industrial groups controlled close to two-thirds of the production in 1944: the Rivaud-Hallet groups (31 per cent), the Michelin group (11 per cent) and the group of Banque de L'Indochine (29.6 per cent); Hémery (eds), *Indochina,* 127.

was, the conversion to self-sufficiency entailed the almost complete disruption of the economic system.

Irrevocably, the transformation towards a national economy in Indonesia, for better or worse, began during the Japanese period. The shift away from perennial export crops to the cultivation of cotton and food crops made the country less dependent on the world market. The economic role of the Chinese was significantly diminished, except for those enterprises such as the Oei Tiong Ham concern in Semarang, which enjoyed a good relationship with the Japanese authorities. Much more important was the elevation of indigenous Indonesians into higher positions in the economy. As the European managers were detained by the Japanese, many Indonesian senior staff were appointed to manage companies. This trend was also followed in the state administration. As will be discussed in the next chapters, a relatively large number of Indonesians were given responsibility in economic administration during the Japanese occupation. These officials, with the legacy of the practical experience they had built up, would become the principal leaders of the Republic of Indonesia.