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

Water, M.P. van de

Chapter 2. Dutch private investment in late colonial Indonesia, 1910–1942

2.1 Introduction

In this chapter, I provide a quantitative survey of private Dutch investment in the Netherlands Indies in the early twentieth century, paying attention to volume, target and sources of capital for investment. The successive accumulation of investment will be examined in detail. First, I'll take a brief glance at the opening up of the colony for private capital from 1870 onwards; however, the period 1910–1942 is the main focus of the chapter. The relationship between domestic and overseas investment, and between public and private investment, serve as guidelines.

With this chapter, I will also offer insights into the volume and direction of private investment in the Netherlands Indies and ask some key questions. My focus is on Dutch private investment. The role of the Dutch colonial government in investment activities in the Netherlands Indies is discussed whenever relevant for the development of private investment. Starting-point is the development of a corporate network as indicated by increasing numbers of firms. This allows for a differentiation by sector and ethnic origin of investors as well as a size distribution of firms. Finally, I also pay attention to the development of the export industries and examine which exports were the most important for the Netherlands Indies.

I address various questions as follows. In which different industries was foreign private investment the most prominent and was there a shift visible over time? Did investment in the Netherlands Indies increase during the 'Roaring Twenties' and decline during the economic depression of the 1930s? And if so, to what extent did investment recover on the eve of the Pacific War and when did foreign private investment reach its peak? From which other countries besides the Netherlands did the Netherlands Indies receive foreign private investment?

2.2 From public to private investment, 1870–1910

Private foreign investment had already emerged in colonial Indonesia in the years before 1910. The quarter of a century between 1870 and 1895 was a period of transition, in the sense that Dutch colonialism grew more intensive, spreading rapidly to territories that had not yet been brought under effective colonial rule.[1]

At the time of the Cultivation System, from 1830 to 1870, the colony was seen as one enormous state-run enterprise, with little room for private or foreign investment. Then, the Cultivation System was dismantled from 1870 onwards, Dutch policies regarding private investment in colonial Indonesia changed. In theory, the doors were wide open for private investment, not only in Java but in the Outer Islands as well. In 1874, the government put an end to the preferential treatment of imports from the Netherlands. Companies from other countries were equally free to invest in the Netherlands Indies as well. Yet, in reality, non-Dutch companies did not always receive the same treatment.[2]

The Aceh War of 1873–1914 marked the beginning of this new era of expansion in the Outer Islands. With various military expeditions, the Dutch occupied areas in Sumatra, Southeast Kalimantan, South and Central Sulawesi, Bali and Flores. Initially, the government did not allow private entrepreneurs to enter areas where their safety could not be guaranteed. The main reason for the extension of Dutch rule was officially politically oriented, but economic interests played a role as well. The introduction of the Ethical Policy in 1901 underscores this. In some regions economic interests were paramount, in particular where oil was discovered.[3] In Jambi in Sumatra, the importance of this economic interest was clear. In neighbouring Palembang, oil was found in the 1880s, and only after intervention from a police force could the issue with the sultanate be solved which made it possible for the government to grant concessions to private companies.[4]

The new economic interest in colonial Indonesia is crucial to my argument here. Even if not necessarily caused by it, economic expansion

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[1] Lindblad, *Bridges to new business*, 21–22; J. Thomas Lindblad, 'Economic aspects of the Dutch expansion in Indonesia, 1870–1914', *Modern Asian Studies,* Vol. 23 (1989) 1–24, in particular 9–16.

[2] J. Thomas Lindblad, 'The economic relationship between the Netherlands and colonial Indonesia, 1870–1940', in: J.L van Zanden (ed.), *The economic development of the Netherlands since 1870* (Cheltenham: Edward Elgar, 1996) 109–119, in particular 110–111; J.N.F.M à Campo, 'Strength, survival and success. A statistical profile of corporate enterprise in colonial Indonesia, 1883–1913', *Jahrbuch für Wirtschaftsgeschichte*, Vol. 46 (1995) 45–74, in particular 52.

[3] Elsbeth Locher-Scholten, 'Dutch expansion in the Indonesian archipelago around 1900 and the imperialism debate', *Journal of Southeast Asian Studies*, Vol. 25 (1994) 91–111, in particular 93, 95, 102, 105; Herman Burgers, *De garoeda en de ooievaar. Indonesië van kolonie tot nationale staat* (Leiden: KITLV Press, 2010) 113–121.

[4] Locher-Scholten, 'Dutch expansion in the Indonesian archipelago around 1900 and the imperialism debate', 102–103.

certainly did take place after more direct colonial control had been introduced.[5] Initially, however, the colonial government had no large-scale plan for economic expansion due to its liberal political stance. Therefore, private foreign investment became indispensable to economic development, especially, in the Outer Islands.[6] On the other hand, the government stimulated and created favourable conditions in order to increase the capacity of export production. This was done by creating infrastructure and monetary policy or providing direct support.[7] Eventually, when safety could be guaranteed, the colonial government offered a favourable investment climate for private capital, in particular that of Dutch origin. The legal system encouraged private investment further and facilitated the creation of business networks.[8]

Even before the end of the Cultivation System, there were private companies active in the Netherlands Indies. With the *Wetboek van Koophandel* (Commercial Code) of 1848, the corporate firm was introduced ten years later than in the Netherlands. Banks, insurance companies and the transportation industry were already developed in the 1850s. Between 1870 and 1900 the number of agricultural and mining companies also increased. Trading companies and many factories started to flourish after 1890. In sheer number of businesses, however, agriculture remained the largest sector from the early 1880s.[9]

In the period 1870–1913, a total number of 3,801 industrial incorporated firms had already been active in the Netherlands Indies,

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[5] Lindblad, 'Economic aspects of the Dutch expansion in Indonesia, 1870–1914', 16.
[6] Locher-Scholten, 'Dutch expansion in the Indonesian archipelago around 1900 and the imperialism debate', 104; Howard W. Dick, 'The emergence of a national economy, 1808–1990s', in: J. Thomas Lindblad (ed.), *Historical foundations of a national economy in Indonesia, 1890s–1990s* (Amsterdam: North-Holland, 1996) 21–52, in particular 36.
[7] J. Thomas Lindblad, 'Economische aspecten van de Nederlandse expansie in de Indonesische archipel, 1870–1914', in: J. van Goor (ed.), *Imperialisme in de marge. De afronding van Nederlands-Indië* (Utrecht: HES Uitgevers, 1986) 227–266, in particular 234.
[8] J. Thomas Lindblad, 'The late colonial state and economic expansion, 1900–1930', in: Howard W. Dick, Vincent J.H. Houben, J. Thomas Lindblad and Thee Kian Wie, *The emergence of a national economy. An economic history of Indonesia, 1800–2000* (Crows Nest, NSW: Allen and Unwin, 2002) 111–152, in particular 116; Booth, *The Indonesian economy in the nineteenth and twentieth centuries*, 258.
[9] Petra Mahy, 'The evolution of company law in Indonesia. An exploration of legal innovation and stagnation', *American Journal of Comparative Law*, Vol. 61 (2013) 377–432, in particular 378, 384–387; À Campo, 'Strength, survival and success', 49, J.N.F.M. à, Campo, 'The rise of corporate enterprise in colonial Indonesia, 1893–1913', in: J. Thomas Lindblad (ed.), *Historical foundations of a national economy in Indonesia, 1890s–1990s* (Amsterdam: North Holland, 1996) 71–94, in particular 75.

although not all of them were still in operation by 1913. The number of annually incorporated firms in the Netherlands Indies gradually increased from 30 in 1890 to 203 in 1910. The number of annually incorporated firms active in the Netherlands Indies with headquarters in the Netherlands rose from 31 in 1890 to 65 in 1910.[10] Therefore, in the period before the First World War, investment in the colonial economy was already in full swing. As À Campo states, the *Gründerzeit* was in the 1870s and 1880s, whereas the boom period of the 1920s, discussed below, can be classified as an Indian summer. During this period, profits were reinvested and consolidation took place.[11]

2.3 Development of a corporate sector

Before focusing on the volume of investment, I will first take a look at the number of companies founded and active in the Netherlands Indies in the period 1910–1940, and see which changes took place by sector and nationality. The data about numbers of companies stems largely from the database available at www.colonialbusinessindonesia.com, which uses the *Handboek voor cultuur- en handelsondernemingen in Nederlandsch-Indië* as its main source.

It should be noted, however, that designations such as *cultuur* ('agricultural' or 'cultivation') and *handel* ('trading') were part of the name of the companies and do not clearly reveal the type of activities undertaken. It was beneficial for firms to legally define a broad range of possible activities. Therefore, it was necessary to examine each case individually when constructing the database.[12]

In the handbook mentioned above, all business companies incorporated under Dutch law and active in the Netherlands Indies are included. It's likely that most foreign-owned incorporated firms are included here as well. This type of legal status was also sought by local residents of

[10] Sluyterman, *Dutch enterprise in the twentieth century*, 40; Dirk Cornelis Renooij, *De Nederlandse emissiemarkt van 1904 tot 1939* (Amsterdam: De Bussy, 1951) 46; W.L. Korthals Altes and Petrus Johannes van Dooren, *Changing economy in Indonesia (CEI): A selection of statistical source material from the early 19th century up to 1940. Vol. 7: Balance of payments 1822–1939* (The Hague: Nijhoff, 1987) 143–144; À Campo, 'Strength, survival and success', 46, 49–50; À Campo has information about 3,801 companies and Sluyterman mentions almost 4,000 companies.

[11] À Campo, 'Strength, survival and success', 67.

[12] J. Thomas, Lindblad, 'Booming business in colonial Indonesia: Corporate strategy and profitability during the 1920s', paper presented at the 23rd International Association of Historians of Asia Conference (Alor Star, Malaysia, 2014) accessible at https://www.colonialbusinessindonesia.nl, 6.

Chinese descent and many of these companies are included, too, but not all of them were incorporated under the same law as other foreign companies.[13] On the other hand, the number of indigenous Indonesian enterprises listed is negligible, since they usually operated under different legal conditions. Indigenous businesses did not officially have access to incorporation under Dutch law until 1917. Only in 1939 was the Indigenous Joint Stock Company created. Then it became easier for indigenous Indonesians to establish a limited liability company with shareholders, but there were more restrictions than in the Dutch variant. Indigenous business incorporation only became widespread after 1945 when Indonesian independence was achieved.[14]

To start with, in the whole period of my research agricultural companies remained the largest group by sheer numbers. This sector was followed by trading and commercial services, as is shown in Figure 2.1 and Appendix 1.[15] One could argue that industrial development became more important in colonial Indonesia, but as reflected in the companies mentioned in the manufacturing category, the exports of primary agriculture products such as coffee, tobacco and especially sugar remained important.[16] The share of agricultural companies declined from 1915 up to the economic depression of the 1930s, whereas in the manufacturing and trading sectors an increase was visible. On the eve of the Pacific War, the share of the trading sector was still lower than before the Depression, but for manufacturing the situation was slightly better.

The share of agricultural companies dropped from 47%, or 791 out of a total of 1,678 companies in 1910 to 39% in 1925, or 1,022 companies out of a total of 2,597. In 1935, its share, however, was even higher than in 1910 with 49%, or 766 out of 1,563 companies. It is noticeable that the number of mining companies showed a gradual but persistent decrease from 194 companies in 1910 to 81 in 1940, but as will be made clear in due course, the average equity of these firms increased rapidly, which implies that smaller companies were taken over by the larger, more profitable, ones.[17]

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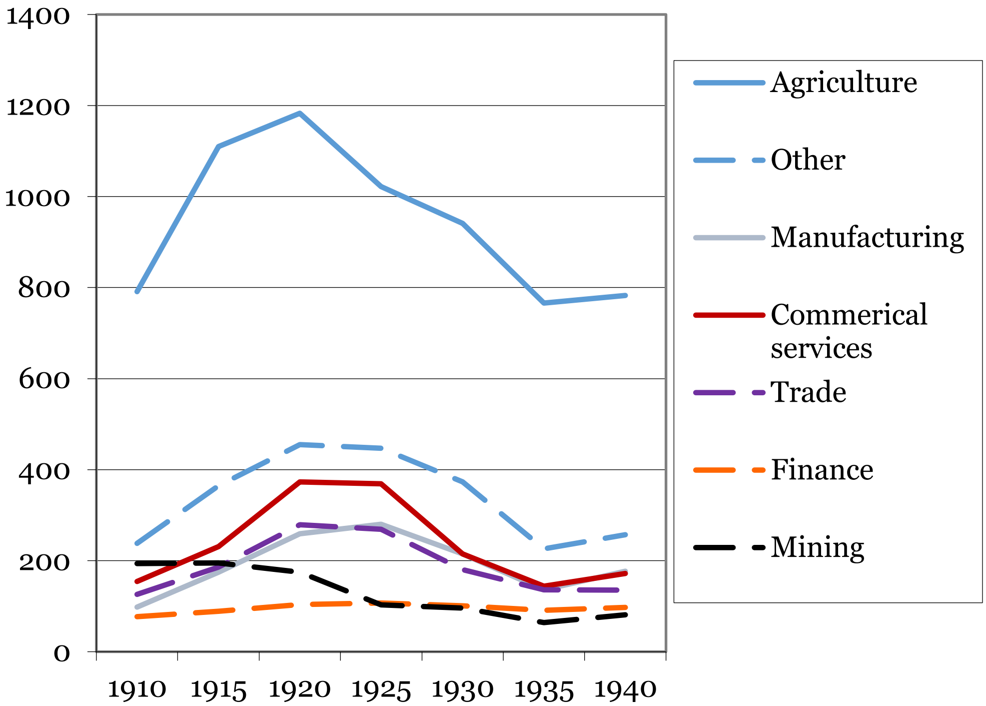
[13] Nono Anwar Makarim, *Companies and business in Indonesia* (PhD thesis, Harvard Law School, Cambridge, MA, 1978) 88–101.
[14] J. Thomas Lindblad, 'Foreign capital and colonial development in Indonesia: A synthesis', *Lembaran Sejarah*, Vol. 14 (2018) 5–27, in particular 5–10; Mahy, 'The evolution of company law in Indonesia', 391–392; Makarim, *Companies and business in Indonesia*, 156–163.
[15] Colonial Business Indonesia, *CBI Database ID*.
[16] J. Thomas Lindblad, 'De handel tussen Nederland en Nederlands-Indië, 1874–1939', *Economisch- en Sociaal-Historisch Jaarboek*, Vol. 51 (1988) 240–298, in particular 286–289.
[17] À Campo, 'Strength, survival and success', 78.

This pattern was clearly visible in the agricultural sector. Eventually, four companies came to produce 97% of the tobacco in Sumatra, and in Java another four companies produced 67% of all tobacco. The Deli Maatschappij, Deli-Batavia Maatschappij, Senembah and Arendsburg Maatschappij were the most famous ones. HVA, Rubber Cultuur Maatschappij Amsterdam (RCMA, Rubber Cultivation Company Amsterdam) and the Belgian-French Société Financière des Caoutchoucs (SOCFIN) produced 75% of all palm oil in 1937. In the sugar industry, 13 companies produced 83% of the Java sugar and of these, the five largest produced 54%, that is, the Nederlandsche Handel-Maatschappij (NHM, Netherlands Trading Association), the Nederlandsch-Indische Landbouw Maatschappij (NILM, Netherlands Indies Agricultural Company), HVA, Cultuur Maatschappij der Vorstenlanden (Estate Company of the Principalities) and plantations belonging to the Colonial Bank. In the coffee, tea and rubber sectors, this concentration was less obvious, although six rubber companies represented 35% of all foreign estate production and twelve companies more than one half.[18] In trading the situation was more diffuse, but the well-known 'Big Five' – Borneo-Sumatra Handel-Maatschappij (Borsumij, Borneo Sumatra Trading Company) Geo. Wehry, Jacobson van den Bergh, Internationale Crediet- en Handelsvereeniging 'Rotterdam' (Internatio, International Credit and Trading Association 'Rotterdam') and Lindeteves – played a major role in trading in the Netherlands Indies.[19]

[18] Taselaar, *De Nederlandse koloniale lobby*, 43–44; J.F. Haccoû and D.A.S. Reid, *Management of direct investments in less developed countries: Report submitted to the international bank for reconstruction and development* (Leiden: Stenfert Kroese, 1957) 194; Touwen, *Extremes in the archipelago*, 111.
[19] Lindblad, *Foreign investment in Southeast Asia in the twentieth century*, 50; Ralph Anspach, *The problem of a plural economy and its effects on Indonesia's economic structure: A study in economic policy* (PhD thesis, University of California, Berkeley, CA, 1948) 53–54.

Figure 2.1. Numbers of incorporated foreign firms in the Netherlands Indies, 1910–1940.



Source: Colonial Business Indonesia, *CBI Database ID*.

The highest number of foreign companies was reached in 1920 when 2,828 different companies were active (Appendix 1). This was a rapid increase from the 1,678 companies in 1910. The large number of incorporated business firms in 1920 reflected widespread optimism in the international economy after the end of the First World War. The early 1920s formed a period of consolidation, but the upsurge in firms was followed by a small contraction in 1925. The reason why the number of firms fell is twofold. Firstly, various enterprises were set up, as I have said, during a period of exuberant optimism which lasted until the beginning of the 1920s, but many failed to become profitable within a few years. Also, many successful companies took over smaller ones, resulting in fewer individual firms.[20]

When the economic depression of the 1930s struck the economy of the Netherlands Indies, the number of firms declined rapidly and continued to

[20] Lindblad, 'Booming business in colonial Indonesia', 6.

drop until 1935. After this economic downturn, a slow growth in the number of companies was visible, but the impact of the economic depression of the 1930s was evident. In 1940, only 1,702 foreign incorporated firms were operating, which was marginally higher than during 1910. Even if we included Chinese and indigenous Indonesian incorporated firms, this number would have been only 2,156 in 1940. In the Netherlands, on the other hand, 4,894 joint-stock limited liability companies were active in 1938, which was even higher than in 1929 when 4,491 firms were stated. This number was larger than the highest figure recorded in the Netherlands Indies, 2,828 in 1920, or 3,736 incorporated firms when Chinese and indigenous Indonesian firms are included.[21]

À Campo warns that the growing number of incorporated companies up to the 1920s alone is not a good indicator for the economic development of the Netherlands Indies as public investment and non-incorporated firms are left out. Also, incorporation of a company did not automatically mean that it was a new company. A company could be taken over, merge with another company or be re-established, but that is difficult to deduce from the source itself.[22]

Another characteristic of companies active in the Netherlands Indies was that they were relatively young. If we divide the firms into seven different time periods based on the year of incorporation, we can see when the majority of companies were founded. For the years 1910, 1920, 1930 and 1940, the number of companies founded in the immediately preceding decade formed the largest group, shown in Appendix 2. Even in 1940, the share of companies founded between 1931 and 1940 was higher than the number of active companies originating in the years 1921 to 1930. Although the economic depression of the 1930s was clearly felt in the Netherlands Indies, this was not reflected in a significantly lower number of companies incorporated during the 1930s. Many firms founded in the first half of the 1930s probably had only a short lifespan or were founded in the second half of the 1930s after the economic depression.

This proves that the gradual decline in the number of companies had already occurred during the 1920s. Of all categories described in Appendix 2, only the first one, containing companies founded before 1870, actually increased its share in the long run. These companies are likely to have started their operations in the Netherlands and only later became active in the

[21] Appendix 11; Renooij, *De Nederlandse emissiemarkt van 1904 tot 1939*, 46.
[22] À Campo, 'Strength, survival and success', 53–54; À, Campo, 'The rise of corporate enterprise in colonial Indonesia, 1893–1913', 78.

Netherlands Indies as well. For the other categories, the share in the total dropped rapidly as time went on.[23]

Of the 171 companies active in the Netherlands Indies in 1910 and founded between 1871 and 1890, only 91 companies, slightly more than half, were still active in 1940. For the later period, these figures were even less impressive. In 1910, for instance, there were 516 companies founded between 1891 and 1900, and by 1940 171 or 33% of these were still active. In 1910, there existed 952 companies which were founded between 1901 and 1910, and in 1940 this dropped to 336, or 35% of the number in 1910. Companies founded between 1911 and 1920 had an even shorter lifespan, which shows that there were definitely risks attached to setting up operations in the colony. In 1920, a total of 1,297 foreign incorporated companies founded in these ten years were active in the Netherlands Indies, but in 1940 only 310 of them were left, a survival rate of only 24%. Of all companies founded between 1921 and 1930 and still active in 1930, 54% were active in 1940 as well, which is a lot considering the economic depression of the 1930s.

If we take a look at the incorporation date per industry, we see that financial companies arrived early and had a longer lifespan (Appendix 2). Of all the companies incorporated before 1870, financial enterprises formed the largest group, accounting for two-thirds of all firms incorporated before 1870. Only one company in agriculture (Deli Maatschappij), one in mining (Billiton Maatschappij) and one in trading (NHM) were established before that year.[24]

In the agricultural sector, most companies were incorporated between 1901 and 1910, followed by the next decade, 1911 to 1920. In mining, 1901 to 1910 was the most popular period as well. Even for the financial industry, with its large share of older companies, 1911 to 1920 proved to be the period when most firms were incorporated. For trading companies, this was the case as well. In the year 1920, this amounted to 454 companies in trading, founded between 1911 and 1920. This represented an impressive share of 62% of all companies in 1920 for which the year of incorporation is known.[25]

If we take a look at the nationality of the foreign companies it is obvious that the Netherlands Indies and Dutch companies, with their headquarters in the Netherlands, or the Netherlands Indies, were dominant. The 1910s and 1920s were the most expansive years. Before the First World War, around 200 companies were incorporated in the Netherlands Indies annually, whereas

[23] J. Thomas Lindblad, 'Het bedrijfsleven in Nederlands-Indië in het interbellum', *Economisch- en Sociaal-Historisch Jaarboek*, Vol. 54 (1991) 183–211, in particular 192.

[24] Internatio and other early founded trading companies are stated under financial enterprises in the database.

[25] See Appendix 2, 7–10.

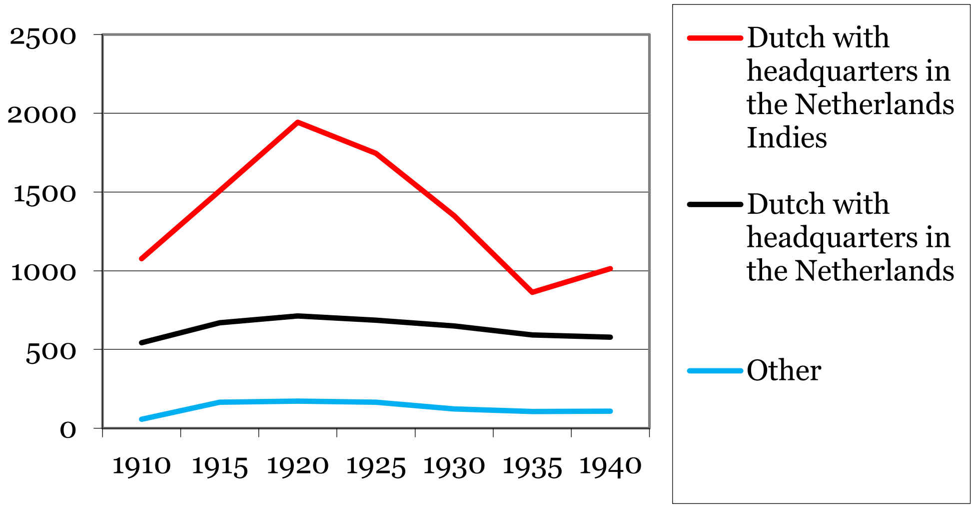
around 50 Dutch companies operating in the Netherlands Indies were established in the Netherlands on average per year. After the First World War, a founding boom occurred in the Netherlands Indies and in the years 1919 to 1921, 593, 655 and 576 companies were incorporated in the Netherlands Indies, respectively. In the Netherlands, on the other hand, only 16, 28 and 23 companies active in the Netherlands Indies were founded in the same years.[26]

The total increase of incorporated companies in the Netherlands, mostly active in the Netherlands alone and not abroad, showed a more stable upward pattern. From 1890 onwards, this number started increasing; between 1890 and 1894, 150 firms were incorporated annually, and by 1912 this had increased to 1,269. Different from the development in the Netherlands Indies, this number continued to grow in the Netherlands in the second half of the 1920s, and in 1929 2,449 firms were incorporated in that year alone. The peak had been reached much earlier in the Netherlands Indies.[27]

Moving back to the Netherlands Indies again, virtually all incorporated firms established before 1870 were Dutch.[28] Officially, until 1890 incorporated companies active in the Netherlands Indies either had to be incorporated in the Netherlands or in the Netherlands Indies.[29] In 1910, the share of companies incorporated in the Netherlands Indies or the Netherlands was still very high, with 96.6% in total or 1,077 and 543 companies incorporated in the Netherlands Indies and in the Netherlands, respectively. The share of these two types of firms combined would never drop below 90%, as shown in Figure 2.2, whereas British firms formed the largest category after the Dutch. However, if we include investment by Chinese and indigenous Indonesians, the share of firms incorporated in the Netherlands Indies and the Netherlands did drop to a low share of 70% in 1930.[30]

[26] Colonial Business Indonesia, *CBI Database ID*.
[27] Renooij, *De Nederlandse emissiemarkt van 1904 tot 1939*, 46.
[28] Colonial Business Indonesia, *CBI Database ID*.
[29] Korthals Altes and Van Dooren, *CEI. Vol. 7*, 46; J.F. Haccoû, 'Nederlands-Indië economisch, een beeld van groei en strijd', in: H. Baudet and I.J. Brugmans (eds), *Balans van beleid. Terugblik op de laatste halve eeuw van Nederlandsch-Indië* (Assen: Van Gorcum, 1984) 239–266, in particular, 239.
[30] Appendix 11.

Figure 2.2. Foreign incorporated private enterprises in the Netherlands Indies by nationality, 1910–1940.



Source: Colonial Business Indonesia, *CBI Database ID*.
Note: 'Other' also includes incorporated companies with headquarters in Austria, Belgium, China, Denmark, Germany, France, Italy, Japan, Malaya, Norway, Sweden, Switzerland, the United Kingdom and the United States.

Nevertheless, if we take a more detailed look at investment per country, we can see a marginal decline of companies with headquarters in the Netherlands Indies. From 64.2% of the total in 1910 to 59.6% in 1940. The largest share was in 1920, with 68.7% and 1,943 companies. This was also the year when most foreign companies were active in the Netherlands Indies, in total 2,828. The proportion of Dutch companies headquartered in the Netherlands remained relatively stable in the long run. In 1910, their share in the total was 32.4%. Although it dropped in the 1920s, in 1940 it was at 34% again. The increasing share of other non-Dutch foreign investors should be noted. Although the numbers in Figure 2.2 are still on the low side, the share of British and other foreign companies gradually increased. While their combined share in 1910 was only 3.4% in 1910, in 1940 it had increased to 6.4%. The 1900s and 1910s saw a particular increase in British companies entering the Netherlands Indies.[31]

Another trend was the growing number of companies active in the Outer Islands. Initially, companies settled in West and Central Java and between one-fourth and one-third of the companies active in these regions

[31] Colonial Business Indonesia, *CBI Database ID*.

during the interwar period were founded before 1910, whereas in East Java and North Sumatra, activity began later. In Kalimantan, one-fourth of the companies active at the end of the 1930s had only been founded after 1930, which means that foreign investment activity here was of a later date than in Java.[32]

À Campo argues that firms with headquarters in the Netherlands were liquidated more often than Dutch companies with headquarters in the Netherlands Indies. As a result, Netherlands-based corporations would become less important in the Netherlands Indies. This could be true for the late nineteenth and early twentieth century. The share of Netherlands-based companies declined until 1925, but then increased again until 1940 when it was then nearly the same as in 1910. On the other hand, the share of Netherlands-Indies companies fell gradually from 1910 onwards. One can argue that Netherlands-based corporations did not become less important, but even more important, especially after the economic depression of the 1930s.[33]

Another common characteristic of Dutch companies was that they were 'free-standing' companies. Wilkins and Sluyterman use this term to describe firms set up in one country with the purpose of doing business in another. These firms differ from multinationals, which start operating in one country and then expand to other countries later. The Netherlands Indies, however, was often seen as part of the Dutch network. Initiatives for setting up companies in the Netherlands Indies often came from the people who were already living there and who saw opportunities for business.[34] The managers in the Netherlands tried to stay up to date with business in the Netherlands Indies using the telegraph to exchange information with the overseas subsidiary.[35]

In reality, local managers could often freely decide how to operate their business, since intervention from afar was difficult. They were also better

[32] Lindblad, 'Het bedrijfsleven in Nederlands-Indië in het interbellum', 191; À Campo, 'Strength, survival and success', 50.
[33] À Campo, 'Strength, survival and success', 50.
[34] Sluyterman, *Dutch enterprise in the twentieth century*, 41; Mira Wilkins, 'The free-standing company, 1870–1914. An important type of British foreign direct investment', *Economic History Review, New Series,* Vol. 41 (1988) 259–282, in particular 261; Gales and Sluyterman, 'Dutch free-standing companies, 1870–1940', 294–297; Wilkins, 'The free-standing company revisited', 3.
[35] Sluyterman, *Dutch enterprise in the twentieth century*, 39–42; Lindblad, 'Economic aspects of the Dutch expansion in Indonesia, 1870–1914', 13; Lindblad, 'Economische aspecten van de Nederlandse expansie in de Indonesische archipel, 1870–1914', 242; Van der Eng, *Economic benefits from colonial assets*, 17; Van Lynden, *Directe investeeringen in het buitenland*, 6, 116–117.

informed about the local situation in the colony. However, they still depended on Dutch capital and so the relationship was tricky. It was not always easy to convince a board in the Netherlands, that was best informed about the possibilities of attracting capital, that certain investments were necessary.[36]

The board of the KPM, for instance, asked its manager in the Netherlands Indies to describe all developments in great detail, and he was obliged to keep in contact regularly with the board. In practice, these reports did not always arrive on time or contain adequate information. Overall, boards in the Netherlands had little control over what was happening in the colony and as long as business was going well, the managers there were less likely to follow strict orders from the Netherlands.[37]

Whether Dutch firms with headquarters in the Netherlands can be considered more foreign than Dutch companies incorporated in the Netherlands Indies, is another issue. It would be speculative to ascribe differences in the impact on the host economy and the society to these two types of incorporation. From an Indonesian perspective, both were foreign. It is likely that the majority of the shareholders were Dutch and lived in the Netherlands and had a significant influence on the management of the company. On the other hand, it is likely that decisions in Dutch companies with headquarters in the Netherlands Indies were made in closer consultation with administrators on the spot.[38]

Lindblad has in earlier research proposed a differentiation by type of investors using a scale from less to more foreign. The first category consists of indigenous Indonesians. Their number and size of incorporated companies was marginal. The next category consists of Chinese entrepreneurs in Indonesia. They were not Dutch citizens, but Dutch subjects, and often perceived by Indonesians as foreigners, although they might have lived in the Indonesian archipelago for generations. Chinese investment can only be considered as truly foreign if the headquarters of the companies were outside the Indonesian archipelago and equity originated from China. Unlike Dutch companies that had headquarters in the Netherlands Indies, the domestic Chinese companies were not directly linked to colonial rule.[39] Chinese-owned

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[36] Sluyterman, *Dutch enterprise in the twentieth century*, 45–46.
[37] Sluyterman, *Dutch enterprise in the twentieth century*, 46; J.N.F.M. à Campo, *Koninklijke Paketvaart Maatschappij. Stoomvaart en staatsvorming in de Indonesische archipel, 1888–1914* (Hilversum: Verloren, 1992) 479–481.
[38] Lindblad, 'Foreign capital and colonial development in Indonesia', 7; Lindblad, 'Booming business in colonial Indonesia', 6.
[39] J. Thomas Lindblad, 'Corporate structure and profit in late colonial Indonesia', paper presented at 17th World Economic History Congress (Kyoto, 2015) accessible at https://www.colonialbusinessindonesia.com, 6; Lindblad, 'Booming business in

companies in the Netherlands Indies therefore possessed a unique character. These firms were not truly foreign but also not fully domestic. However, to all intents and purposes, investment by Chinese residents in colonial Indonesia must be thought of as domestic investment and will not be discussed in detail in this dissertation.

The third group in Lindblad's original classification was called Netherlands-Indies businessmen. These could either be Dutch or have a mixed ethnic origin and lived in the colony. Usually, they kept a bond with a foreign nation, in particular the Netherlands. One step further away were the genuinely Dutch investors in the Netherlands who managed and supervised their businesses at a large distance from actual operations. The fifth and last category consists of investors from third countries, particularly from the United Kingdom, though other European countries and the United States and Japan were also included. The first two categories consisting of Indonesian and Chinese residents in the Indonesian archipelago will not be discussed in detail here.[40]

The Chinese presence in medium-sized enterprises was clearly visible, especially in trading. In the smallholder rubber exports, for instance, the Chinese played an important role as middlemen and in exporting rubber to Singapore. By the early 1920s, there were nearly 1,700 Chinese-owned firms employing more than five people. For Western firms, these numbers were 2,800, while another 870 were owned by indigenous Indonesians.[41]

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colonial Indonesia', 6–7; Lindblad, *Foreign investment in Southeast Asia in the twentieth century*, 14, 72–73; À Campo, 'Strength, survival and success', 51; Mahy, 'The evolution of company law in Indonesia', 387–389; Pierre van der Eng, 'Chinese entrepreneurship in Indonesia: A business demography approach', *Business History,* Vol. 4 (2022) 682–703, in particular 682–685.

[40] Lindblad, *Foreign investment in Southeast Asia in the twentieth century*, 14, 72–73; À Campo, 'Strength, survival and success', 51; Mahy, 'The evolution of company law in Indonesia', 387–389; Lindblad, 'The late colonial state and economic expansion, 1900–1930', 141; J.L., Vleming, *Het Chineesche zakenleven in Nederlandsch-Indië* (Weltevreden: Landsdrukkerij, 1926) 13.

[41] Booth, *The Indonesian economy in the nineteenth and twentieth centuries*, 310; J.L. Vleming, 'The Chinese business community today in the various parts of Netherlands India', in: M.R. Fernando and David Bulbeck (eds), *Chinese economic activity in Netherlands India: Selected translations from the Dutch* (Singapore: Asean Economic Research Unit, 1992) 167–260, in particular 254–259; Bambang Purwanto, 'The economy of Indonesian smallholder rubber, 1890s1940', in: J. Thomas Lindblad (ed.), *Historical foundations of a national economy in Indonesia, 1890s–1990s* (Amsterdam: North-Holland, 1996) 175–192, in particular 185; Ulbe Bosma, *The making of a periphery: How Island Southeast Asia became a mass exporter of labor* (New York: Colombia University Press, 2019) 107–114.

For foreign non-Dutch investors, it was possible to cooperate with Dutch investors in order to get a foothold in the Netherlands Indies. For the year 1913, à Campo mentions 83 such combinations.[42] Royal Dutch Shell was one example. This company resulted from an integration of the activities of the Koninklijke Nederlandsche Maatschappij tot Exploitatie van Petroleumbronnen in Nederlandsch-Indië (Royal Dutch Company for Exploitation of Petroleum Sources in the Netherlands Indies) with those of the British Shell Transport and Trading Company, the latter holding 40% of the shares in the joint subsidiaries.[43]

Although it will be discussed in more detail below, it needs to be mentioned that some foreign non-Dutch companies in the Netherlands Indies were listed as Dutch. The nationality of firms with headquarters in the Netherlands Indies is not always clear. Foreign companies could choose to locate their headquarters in the Netherlands Indies or give the firm a Dutch name.[44] In order to find out the true nationality of all companies, each individual firm would have to be examined separately.

It is improbable that the share of American companies was as low as can be discerned from the source. The highest number stated was only six companies in 1920 and 1925. For overseas Chinese companies, i.e. companies not located in the Netherlands Indies, numbers were not much higher, and only nine of them were mentioned in 1920.[45] It is likely that the actual number of foreign non-Dutch companies was higher than can be ascertained from the database. Although the Dutch government promoted an open-door policy, in practice foreign companies faced opposition, which especially was the case with German and Japanese investors. Dutch enterprises were advantaged with their familiarity of Dutch procedures, institutions and jurisdiction, which produced a well-oiled network with personal contacts.[46]

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[42] À Campo, 'Strength, survival and success', 52; À, Campo, 'The rise of corporate enterprise in colonial Indonesia, 1893–1913', 77; Lindblad, 'The late colonial state and economic expansion, 1900–1930', 116; for more information about the Dutch colonial network see also: Taselaar, *De Nederlandse koloniale lobby*.

[43] Jonker and Van Zanden, *A history of Royal Dutch Shell: From challenger to joint industry leaders, 1890–1939*, 81–85; Sluyterman, *Dutch enterprise in the twentieth century*, 47–48.

[44] Lindblad, 'Booming business in colonial Indonesia', 6–7; Lindblad, 'Corporate structure and profit in late colonial Indonesia', 6; Lindblad, 'Foreign capital and colonial development in Indonesia', 7; Touwen, *Extremes in the archipelago*, 144; À Campo, 'Strength, survival and success', 51–52.

[45] Colonial Business Indonesia, *CBI Database ID*.

[46] À Campo, 'Strength, survival and success', 52; À, Campo, 'The rise of corporate enterprise in colonial Indonesia, 1893–1913', 78; Lindblad, 'The late colonial state and economic expansion, 1900–1930', 116; Smits, *De beteekenis van Nederlandsch-Indië uit internationaal-economisch oogpunt*, 4.

Although restrictions on freedom of investment were few in the Netherlands Indies, before 1900 the Dutch government gave clear preference to Dutch and British capital, discriminating against American investment. From 1922, the administration restricted the establishment of foreign corporations to large concerns. Mining concessions were granted to foreign companies only on condition that their headquarters were in Dutch territory and that the majority of their directors were domiciled there. Metropolitan shipping interests had the advantage of exclusive government contracts for the carriage of persons and goods.[47]

American investors complained that the appropriation of the concessions in the Netherlands Indies was unfair. In 1921, a law was designed that would allow the Nederlandsch-Indische Aardolie Maatschappij (NIAM, Netherlands Indies Petroleum Company) to explore and produce in Jambi and that the Bataafsche Petroleum Maatschappij (BPM, Batavian Petroleum Company) would have first choice at new concessions in the Netherlands Indies. This law was approved by the House of Representatives, with 49 votes against 30. It was claimed by opponents that H. Colijn, involved in both politics and the oil business, abused his position in order to enhance it.[48] This was not unusual. Over time, various network analyses have been carried out for private companies. The situation for firms active in the Netherlands Indies was no different from that in the Netherlands.[49] One such analysis is by Lindblad, who examined all incorporated firms for the year 1920, including Chinese and indigenous Indonesian incorporated businesses. According to his study, 3,737 individual firms were operating and 2,746 different people were in charge of these companies. For 289 companies, no director was known and 702 companies had a director who was also in charge of another company.

The nationality of the directors reflects the nationality of the firms: 71%, or 1,953 persons, were either European, Japanese or American, although

[47] Callis, *Foreign capital in Southeast Asia*, 38.
[48] Peter de Ruiter, *Het mijnwezen in Nederlands-Oost-Indië 1850–1950* (PhD thesis, Utrecht University, 2016) 174; Taselaar, *De Nederlandse koloniale lobby*, 88–90.
[49] For more network analyses see also: J. Thomas Lindblad, 'Ver weg of ter plaatse? Bedrijfsleiders in het Nederlands-Indië van de jaren twintig', in: Anita van Dissel, Maurits Ebben and Karwan Fatah-Black (eds), *Reizen door het maritieme verleden van Nederland* (Zutphen: Walburg Pers, 2015) 305–319; Taselaar, *De Nederlandse koloniale lobby*; J. Dronkers and F.N. Stokman (eds), *Nederlandse elites in beeld. Rekrutering, samenhang en verandering* (Deventer: Van Loghum Slaterus, 1984); H. Schijf, *Netwerken van een financieel-economische elite. Personele verbindingen in het Nederlandse bedrijfsleven aan het eind van de negentiende eeuw* (Amsterdam: Spinhuis, 1993); Meindert and Huibert Schijf (eds), *Nederlandse elites in de twintigste eeuw. Continuïteit en verandering* (Amsterdam: Amsterdam University Press, 2004).

it is likely that most were Dutch. A relatively large share, 26%, or 718 persons, had Chinese names and only 75 persons, or 3%, were unmistakably indigenous Indonesians. Only 396, or 15% of the total, were managers of more than one company, on average being in charge of 2.8 companies. The majority, 256 persons or 65%, were in charge of two companies. 100 or 25% commanded three or four companies and 40 (10%) were in charge of five or six companies. Rare exceptions were K.A.R. Bosscha, who managed seventeen different firms, mostly cultivation companies specializing in tea; E. Helfferich, who led eleven companies, of which nine were rubber companies; J.W.D. Franken and J.H.T. Zimmerman, who both had ten companies. Of the 396 people who managed more than one company, the share of European, Japanese or American leaders was higher, 82% against 71% for the total. The remaining share consisted solely of Chinese businessmen, 73 directors or 18%. Only 30 of all managers were active in both the Netherlands Indies and the Netherlands, including N.J.H. ter Kuile at the HVA, H. Cremer at the Deli Company, C.J.K. van Aalst at the NHM and H.W.A. Deterding at Royal Dutch Shell.[50]

Arjen Taselaar applies a different type of analysis for the years 1913, 1921, 1928, 1935 and 1939. He Included companies that had to have *ƒ*3 million of equity in at least one of those years and had to be active in the Netherlands Indies for a significant part, and the board had to be located in the Netherlands. This brought him to a total of 214 companies. He examined the network of the managers of these companies. 1,500 people in these companies fulfilled a management function during these five years, while 143 of them were active in four or more companies simultaneously in one of the stated years and might have had other functions as director, banker, trader, lawyer or civil servant.[51]

C.J.K. van Aalst, who worked for NHM from 1889 to 1934, was also on the board of the KPM and affiliated with various other companies, including the Nederlandsche Scheepvaart Unie (Netherlands Shipping Union), the Stoomvaart Maatschappij Nederland (Netherlands Steamship Company), Royal Dutch Shell, BPM, the machine factory Werkspoor and the Koninklijk Nederlandsch-Indische Luchtvaart Maatschappij (KNILM, Royal Netherlands Indies Airways), which was founded by NHM and others in 1928. D. Crena de Iongh, who replaced C.J.K. van Aalst as manager of the NHM, was also affiliated with KPM, the Stoomvaart Maatschappij Nederland, KNILM, Royal Dutch Shell, the machine factory Werkspoor, the Java-China-Japan

[50] Lindblad, 'Ver weg of ter plaatse? Bedrijfsleiders in het Nederlands-Indië van de jaren twintig', 312–314; Sluyterman, *Dutch enterprise in the twentieth century*, 48.
[51] Taselaar, *De Nederlandse koloniale lobby*, 50–54.

Line and the Nederlandsch-Indische Suiker Unie (Netherlands Indies Sugar Union).[52] In shipping, the higher staff was usually only involved in positions at another shipping company and not in other companies. The KPM, Rotterdamsche Lloyd and Stoomvaart Maatschappij Nederland founded the Nederlandsche Scheepvaart Unie, which acquired most of the shares of these companies and prevented other foreign shipping companies from dominating the market in the Netherlands Indies. Eventually, they founded the Vereenigde Nederlandsche Scheepvaartmaatschappij (United Netherlands Navigation Company), which opened shipping routes to other parts of the world. Another purpose of this cooperation was to limit competition between the individual shipping companies and to consolidate their own positions through agreements with each other.[53]

In this way, many companies were linked to each other and the colonial network was strengthened. The network grew from 1910 and as it expanded, its sectoral and geographical characteristics, as well as nationality patterns, changed. There was a shift from the primary to the tertiary sector and also from Java to Sumatra and Kalimantan. A business network thus arose, aided by diversification of activities, extension in geographical coverage and a strengthening of the local basis.[54]

The Ondernemersraad voor Nederlandsch-Indië (Council of Entrepreneurs for the Netherlands Indies) was the top lobbying organisation and was established in 1921. All companies active in the Netherlands Indies could participate in the Ondernemersraad. HVA and NHM had their own separate organisations, since they claimed that for their products – oil palm, cassava and sisal – no group existed yet. The *Ondernemersraad* was located in the Netherlands. With the Indische Ondernemersbond (IOB, Netherlands Indies Employers Association) a similar institution was created in the Netherlands Indies.[55] In addition, many branches of industry had their own organisation. Only a few of them can be named here.[56] The sugar industry was a good example of a sector defending its political interests and stimulating the development of new technologies.

The Algemeen Syndicaat van Suikerfabrikanten in Nederlandsch-Indië (ASNI, Syndicate of Java Sugar Manufacturers) had been established as

[52] Taselaar, *De Nederlandse koloniale lobby*, 61.
[53] Taselaar, *De Nederlandse koloniale lobby*, 79; Sluyterman, *Dutch enterprise in the twentieth century*, 43.
[54] Lindblad, 'The economic relationship between the Netherlands and colonial Indonesia, 1870–1940', 114.
[55] Taselaar, *De Nederlandse koloniale lobby*, 112–118.
[56] For a more detailed description of the various organisations see: Taselaar, *De Nederlandse koloniale lobby*, 99–163.

early as 1894, and in 1917 the Bond van Eigenaren van Nederlands-Indische Suikerondernemingen (BENISO, Union of Netherlands Indies Sugar Factories' Owners) followed. When the Vereenigde Javasuiker-Producenten (VJSP, United Java Sugar Producers Association) was founded in 1918, the trade in sugar changed. In the past, individual companies sold sugar without the guarantee of a delivery date, but then the VJSP became responsible for 90% of the sale of the sugar output in Java, with the name of the individual supplier no longer given to the buyer.[57]

Other organisations include the Deli Planters' Vereeniging (DPV, Deli Planters' Association) established in 1879, the chief organisation for tobacco planters.[58] Rubber producers were organized in 1910 with the AVROS in 1910 and supplemented in 1913 by the Internationale Vereniging voor de Rubbercultuur in Nederlands-Indië (International Association for the Rubber Cultivation in Netherlands Indies). In 1935, a network was created with the Federatie van Verenigingen van Nederlands-Indische Bergcultuur-ondernemingen (FEDERABO, Federation of Associations of Netherlands Indies Upland Estate Companies).[59] With all these organisations the Dutch investors managed to strengthen their network.

2.4 Accumulation of foreign-owned assets

The start of foreign investment in colonial Indonesia

The role of FDI as opposed to portfolio investment is the main topic of this chapter. FDI is defined as investment involving a long-term relationship in productive capital like factories or subsidiaries, with a lasting interest in a different economy from the home country of the investor. Unlike portfolio investment, the direct investor wishes to be involved in the management of the company in the host country. In practice, this means that the foreign investor played a major role in founding and operating a company in the Netherlands Indies and usually did not invest in local non-foreign

[57] Vleming, *Het Chineesche zakenleven in Nederlandsch-Indië*, 171; Van Zanden and Marks, *An economic history of Indonesia 1800–2010*, 83, 129; Taselaar, *De Nederlandse koloniale lobby*, 102–107; Anspach, *The problem of a plural economy and its effects on Indonesia's economic structure*, 47–48.
[58] Van Zanden and Marks, *An economic history of Indonesia 1800–2010*, 83.
[59] Taselaar, *De Nederlandse koloniale lobby*, 99–100; Ledeboer, *Gedenkschrift aangeboden aan den heer Herbert Cremer,* 173; Anspach, *The problem of a plural economy and its effects on Indonesia's economic structure*, 47–49.

companies.[60] In my research, foreign direct investment was conceived as private investment originating outside the Netherlands Indies. The Netherlands Indies is perceived akin to a foreign destination, since it had an independent monetary policy and its own balance of trade.[61]

In the last quarter of the nineteenth century, equity for this kind of investment was partly provided by the founder himself. Initially, interest in the Dutch capital market for tropical adventures was limited and self-made businessmen formed networks with banks and trading houses to acquire capital.[62] For ventures founded between 1890 and 1905, the founders themselves brought in an average equity of 25–35%. This percentage varied widely and was significant in agriculture and mining, where early prospecting for resources was necessary for profitable exploitation. The level of this founders' equity also varied and was higher for companies run from the Netherlands. À Campo states that the average was around ƒ0.5 million in 1890 to ƒ0.8 million in 1913.[63] The Royal Dutch oil company was no exception. In 1884, a tobacco planter, A. Zijlker, started explorations in the oil market in East Sumatra. When his firm was incorporated in 1890 with a founding capital of ƒ1.3 million, he himself brought in ƒ371,000 and found additional capital in the Dutch stock market.[64]

Banks also provided capital in the late nineteenth century. Along with the Java Bank, the NHM, the Nederlandsch-Indische Escompto Maatschappij (NIEM, Netherlands indies Escompto Company), the NILM, the Rotterdamsche Bank, NIHB, Internatio, HVA and the Koloniale Bank (Colonial Bank) all made investments for the export production possible.[65]

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[60] Lindblad, *Foreign investment in Southeast Asia in the twentieth century*, 1; Van Lynden, *Directe investeeringen in het buitenland*, 6–7.
[61] Van Lynden, *Directe investeeringen in het buitenland*, 6, 116–117.
[62] Van der Eng, *Economic benefits from colonial assets*, 16; Taselaar, *De Nederlandse koloniale lobby*, 35; Van Zanden and Marks, *An economic history of Indonesia 1800–2010*, 82; Booth, *The Indonesian economy in the nineteenth and twentieth centuries*, 254.
[63] À Campo, 'Strength, survival and success', 60; À, Campo, 'The rise of corporate enterprise in colonial Indonesia, 1893–1913', 80, 84.
[64] Sluyterman, *Dutch enterprise in the twentieth century*, 47–48; Touwen, *Extremes in the archipelago*, 143; Jeroen Touwen, 'Voordeel van veelzijdigheid. De economische ontwikkeling van Palembang en Djambi tussen 1900 en 1940', *Economisch- en Sociaal-Historisch Jaarboek*, Vol. 54 (1991) 135–182, in particular 146; Keetie E. Sluyterman and Hélène J.M. Winkelman, 'The Dutch family firm confronted with Chandler's dynamics of industrial capitalism, 1890–1940', in: Geoffrey Jones and Mary Rose (eds), *Family capitalism* (Abingdon: Routledge, 1993) 152–183, in particular 162–163.
[65] Emil Helfferich, *Die Niederländisch-Indischen Kulturbanken* (Jena: Fischer, 1914) 32–33; Sluyterman, *Dutch enterprise in the twentieth century*, 42.

In 1873, the director of the Java Bank complained that, compared to Europe and British India, almost all equity of the companies in colonial Indonesia was provided by the entrepreneurs themselves or by banks, not through issuing shares. According to the director, it would be much better if more companies could acquire equity in the stock market instead of having to borrow money and pay high interest rates. The effects of this became clear with the economic crisis of 1877 and the sugar crisis of 1884, which hit several banks.[66]

This system was vulnerable to shocks, since the plantations had to pay back credits with profits from their crops. During the sugar crisis of 1884, prices of primary export products dropped, which caused serious trouble for companies that had lent money. One of these was Dorrepaal & Co., which was linked to many plantations. The crisis had bad repercussions for the NIHB and the Koloniale Bank. The NIHB was eventually saved by a committee of six businessmen, including banker A.C. Wertheim and the director of the Deli Railway Company, J.T. Cremer, who brought the activities of the NIHB into a new company, the NILM, in which the NIHB held almost all shares.[67]

The result of the sugar crisis was that industry and banking were reorganized and the bankers increased their influence on business in colonial Indonesia. The large banks formed a crucial link in the network and the NHM was transformed into a major bank with connections to numerous cultivation companies. The sugar industry was saved with help of the colonial government and the Java Bank, which led to a greater reliance on banks, since they were allowed to make heavier demands on the companies. The banks became more reluctant to provide capital to new companies, whereas the capital market in colonial Indonesia was very small. Therefore, it became more common to reinvest profits in the Netherlands Indies than it was in the Netherlands, also because of the higher risks of operations in the colony. Most companies were active in the agricultural sector, prone to pests, diseases, weather conditions and fluctuating prices. It is estimated that between 1925 and 1938, around one-quarter to one-third of profits were ploughed back into the company. It should be noted that this reinvestment was different from new capital flowing

[66] K.D. Bosch, *De Nederlandse beleggingen in de Verenigde Staten* (Amsterdam: Elsevier, 1948) 68; P.A. Lith van der, A.J. Spaan and F. Fokkens, *Encyclopaedie van Nederlandsch-Indië* (Leiden: Brill, 1896) 406.
[67] Van der Eng, *Economic benefits from colonial assets*, 17–18; Sluyterman, *Dutch enterprise in the twentieth century*, 39–40; Lindblad, 'Economic aspects of the Dutch expansion in Indonesia, 1870–1914', 13; Lindblad, 'Economische aspecten van de Nederlandse expansie in de Indonesische archipel, 1870–1914', 242.

into the Netherlands Indies from abroad. This reinvested equity did not leave or enter the country, since it was already there.[68]

Another consequence of the crisis of 1884 was that more companies were converted into *naamloze vennootschappen* (joint-stock limited liability companies) in order to reduce risks.[69] Initially, the purpose of founding joint-stock companies was to acquire large amounts of equity which was not easily possible in another way, for instance by use of *besloten vennootschappen* (private limited liability companies).[70] Dutch companies in the colony were more likely to be joint-stock companies than companies operating only in the Netherlands.[71] Raising money in the Dutch stock market was often not an option for smaller companies, because stock market listings required a minimum of *ƒ*0.5 million subscribed capital.[72] Overall, the Dutch companies active in the Netherlands Indies became more professional and better organized. When smaller companies were bought out, the ownership of these assets usually changed, which led to a relatively small number of companies in the Netherlands with considerable assets.

Indigenous Indonesians, and to a lesser extent Chinese, were disadvantaged compared to Western entrepreneurs. In the beginning of the twentieth century, the financial industry in the Netherlands Indies was poor. Many entrepreneurs relied on capital from the Dutch-owned banks active in the Netherlands Indies. They all required some kind of collateral, which made it nearly impossible for indigenous Indonesians to get credit, although the Chinese were more successful and managed to acquire funding from other foreign banks and trading companies. In fact, many Chinese firms usually got going with capital from family or friends. Only from 1912 onwards did the Volkscredietbank (People's Credit Bank) stimulate indigenous Indonesian business activities, but the results were disappointing, especially compared with foreign investment.[73]

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[68] Booth, *The Indonesian economy in the nineteenth and twentieth centuries*, 258–259; Van der Eng, *Economic benefits from colonial assets*, 23; Van Zanden and Marks, *An economic history of Indonesia 1800–2010*, 129; Anspach, *The problem of a plural economy and its effects on Indonesia's economic structure*, 51–52.
[69] Taselaar, *De Nederlandse koloniale lobby*, 35.
[70] Renooij, *De Nederlandse emissiemarkt van 1904 tot 1939*, 47.
[71] Ibid., 119.
[72] Van der Eng, *Economic benefits from colonial assets*, 16.
[73] Lindblad, *Bridges to new business*, 31; Lindblad, *Between Dayak and Dutch*, 183; P. Creutzberg and Petrus Johannes van Dooren, *Changing economy in Indonesia (CEI): A selection of statistical source material from the early 19th century up to 1940. Vol. 3: Expenditure on fixed assets* (The Hague: Nijhoff, 1977) 31; Touwen, *Extremes in the archipelago*, 123; Vleming, *Het Chineesche zakenleven in Nederlandsch-Indië*, 139–140; David Henley, and Aditya Goenka, 'Introduction: From moneylenders to microfinance in Southeast Asia', in: Aditya Goenka and

Dutch investment in the Netherlands Indies

Although it was much easier for the Dutch, than other nationalities, to invest in the Netherlands Indies, the amounts of equity entering colonial Indonesia were initially relatively small compared to investments done by the Dutch in other foreign countries. A substantial part of total Dutch overseas investment was portfolio investment. More popular among Dutch investors in the Netherlands Indies was the purchase of Indonesian public bonds, guaranteed by the Dutch government. As a consequence, the public debt of colonial Indonesia rose during the first quarter of the twentieth century in order to finance outlays on infrastructure and other expenditures. Even though the Netherlands Indies managed to have a trade surplus, the colonial government still had to borrow money to pay off its debt. Companies could also issue bonds, but this was rather uncommon, on average accounting for not much more than 10% of total equity.

Overall, the share of investment in the Netherlands Indies in total Dutch foreign investment increased from around 20% in 1900 to 46% in 1938. This was not entirely caused by new capital flowing to the Netherlands Indies. Reinvesting profits increased the value of various companies significantly and plantations and companies taken over in the Netherlands Indies from less fortunate owners also resulted in an accumulation of wealth.[74]

Demand for capital in the Netherlands Indies rose significantly in the early twentieth century. Whereas in 1885 between ƒ150 million and ƒ200 million had been invested by private foreign investors, this amount increased rapidly in the following years. Between 1900 and 1914, ƒ750 million to ƒ1 billion was invested in the colony.[75] In late colonial Indonesia, it was estimated

David Henley (eds), *Southeast Asia's credit revolution. From moneylenders to microfinance* (London: Routledge, 2010) 1–17, in particular 4.

[74] Van der Eng, *Economic benefits from colonial assets*, 19–12; Pierre van der Eng, 'Exploring exploitation: The Netherlands and colonial Indonesia 1870–1940', *Revista de Historia Económica*, Vol. 16 (1998) 291–321, in particular 309–310; À Campo, 'Strength, survival and success', 55, 58–59; À, Campo, 'The rise of corporate enterprise in colonial Indonesia, 1893–1913', 83–84; J. Thomas Lindblad, 'Changing destinies in the economy of Southeast Asia', in: Tirthankar Roy and Giorgio Riello (eds), *Global economic history* (London: Bloomsbury Academic, 2019) 337–354, in particular 346–348.

[75] Creutzberg and Van Dooren, *CEI. Vol. 3*, 18, 28; Adriaan Marie de Jong, 'De financiëel-economische verhouding tusschen Nederland en Nederlandsch-Indië vóór den tweeden wereldoorlog en de geschiedenis van het Indische geldwezen gedurende de jaren 1900–1930: een terugblik', *De Economist,* Vol. 94 (1946) 664–713, in particular 668; Booth, *The Indonesian economy in the nineteenth and twentieth centuries*, 254.

that the accumulated stock of FDI in the late 1930s was around *ƒ*3.5 billion or $1.4 billion in current prices. Compared to the balance of payments for the period 1925–1939, the average incoming flow of private capital was only around *ƒ*71 million per year, merely 2% of the stock value.[76]

A more detailed calculation of the flow of Dutch investment in colonial Indonesia shows that of all capital issued in the Netherlands 15% went to the Netherlands Indies in 1904, excluding the oil company Royal Dutch (from 1907 in conjunction with Shell). In the following years, this proportion increased, in 1909 amounting to 31% (around 40% if Royal Dutch Shell is included). Although it declined in the following years to 20.5% in 1911, in 1914 it increased again to 36%.

For the period 1910 to 1920, issued capital for companies active in the Netherlands Indies, including Royal Dutch Shell, was 32.1% of total Dutch issued capital, or an annual average of *ƒ*81.1 million. For the next ten years, it was 21.5%, or *ƒ*54.4 million per year, and for 1931 to 1939 56.4%, with an annual average of *ƒ*19.1 million, but it should be noted that Royal Dutch Shell issued a significant amount of equity in 1939, that could have been partly used outside the Netherlands Indies, thus distorting the picture. Nevertheless, between 1910 and 1939, a total of *ƒ*1,004 million was spent on issued shares of companies active in the Netherlands Indies and including Royal Dutch Shell this would increase to *ƒ*1,609 million, which was 20.1% and 32.3%, or *ƒ*33.4 million and *ƒ*53.6 million per year, respectively, out of a total Dutch investment of *ƒ*4,988 million in current prices.[77] The annual incoming flow of FDI accounted for only 2% of accumulated stock. A large part of the capital used for private investment in the Netherlands Indies was financed through retained profits, which does not show up in incoming FDI flows.[78]

The value of issued equity of incorporated companies must not be confused with expenditures on fixed assets, which were notably higher. Expenditures on fixed assets include all payments made by a company in order to maintain its fixed assets such as buildings, equipment and factories. Therefore, the value of issued equity is not necessarily the same as total foreign investment. Total expenditure for the years 1910 to 1939 was *ƒ*4,120 million in current prices, with an annual average at around *ƒ*250 million during the

[76] Lindblad, *Foreign investment in Southeast Asia in the twentieth century*, 7.
[77] F. de Roos and W.J. Wieringa, *Een halve eeuw rente in Nederland* (Schiedam: Levensverzekering-maatschappij HAV Bank, 1953). 56–57; Renooij, *De Nederlandse emissiemarkt van 1904 tot 1939*, 116; Appendix 12; Korthals Altes and Van Dooren, *CEI. Vol. 7*, 115–133.
[78] Lindblad, 'The economic relationship between the Netherlands and colonial Indonesia, 1870–1940', 114; Lindblad, *Foreign investment in Southeast Asia in the twentieth century*, 7.

1920s and ƒ50 million during the 1930s.[79] It should be noted, however, that these figures include expenditures on plantations, mining companies and other firms owned by the government.[80] However, as Booth writes, in 1913 the corporate capital stock was around 50% of the total, which means that not only the public sector, but other non-incorporated firms as well were responsible for the other half. This explains why a part of the private capital inflow was significantly higher than the value of issued equity.[81] Imports into the Netherlands Indies consisted of less than 20% of capital goods, such as machines and railway materials, and 80–90% of these capital imports were by private firms. Imports of consumer goods remained dominant, and labour-intensive industries remained important in most of the export industries.[82]

In addition, different enterprises were built and operated by the colonial government. This was around 25% of the aggregate value of corporate investment in 1900. The proportion increased to 35% in 1924. Harbours and railways were responsible for a large share, although participation in mining and oil companies increased as well. During the 1920s, the share of the government decreased, as private investment accelerated. Between 1910 and 1939, the cumulative total of new loans in the Netherlands Indies and enlargement of the floating debt were more than twice the private capital inflow, although these loans were mainly used to finance government expenditures, not for capital formation. And so the role of the colonial government must not be overlooked.[83]

It is instructive to compare expenditures on fixed assets to inflows of private capital and issued equity. The share of domestic expenditure was around 55% of total expenditure on fixed assets, but only 45% came from abroad, mostly from the Netherlands. A significant part of the domestic expenditure went to delivery costs, labour and transport. The largest part, slightly less than half of total expenditure, was spent in the plantation

[79] Korthals Altes and Van Dooren, *CEI. Vol. 7*, 88–95; Lindblad, 'The economic relationship between the Netherlands and colonial Indonesia, 1870–1940', 114; Colonial Business Indonesia, *CBI Database ID*.
[80] Creutzberg and Van Dooren, *CEI. Vol. 3*, 9, 11, 23, 33, 44–46, Creutzberg states that his data for foreign companies was based on the *Bureau Schadeclaims Indonesië* (Bureau for Indemnification Claims in Indonesia), which only led to results of 564 concerns. He made extrapolations to make the numbers representative for all investments.
[81] Booth, *The Indonesian economy in the nineteenth and twentieth centuries*, 255; Colonial Business Indonesia, *CBI Database ID*.
[82] Lindblad, 'The late colonial state and economic expansion, 1900–1930', 128; Booth, *The Indonesian economy in the nineteenth and twentieth centuries*, 35; Creutzberg and Van Dooren, *CEI, Vol. 3*, 72–75.
[83] Booth, *The Indonesian economy in the nineteenth and twentieth centuries*, 265–266; Creutzberg and Van Dooren, *CEI. Vol. 3*, 18.

industry, around 15% in the oil and mining industry, and the government was responsible for another 14% in various other sectors.[84] The category expenditure on fixed assets from abroad was not much higher than inflows of private capital, but the value of equity was around half, which can imply that there was a share of smaller non-incorporated companies receiving capital, and that profits were reinvested.[85]

If we consider the same data corrected for inflation, we see that the peak of expenditure on fixed assets during the 1920s was lower, but higher during the 1930s, which leads to a more even trend. This is also visible in total expenditure, inflows of private capital and issued equity. The totals are only slightly lower if we adjust for the price data. The total expenditure on fixed assets only drops from ƒ4,824 million in current prices to ƒ3,970 million in constant prices, which confirms that the extremes of the 1920s and the 1930s were more flattened.

Various other calculations exist about the amount of total capital invested by the Netherlands in the Netherlands Indies and other countries. Derksen made an estimation for 1913 of ƒ3,020 million worth of investment in foreign countries, excluding investment in the Netherlands Indies. For 1934, he gave an amount of ƒ1,013 million, but even with the deflation during the economic depression of the 1930s and the results of the First World War it is unlikely that this difference would have been that big. For instance, another calculation, by Van Soest, shows that in 1936 a cumulated total of ƒ2,247 million was invested abroad by the Dutch, and another ƒ2,265 million was invested in the Netherlands Indies at that time, which confirms that in the second half of the 1930s around half of total Dutch foreign investment was undertaken in the Netherlands Indies. The Central Bureau of Statistics shows similar results, although their data refers to 1938. An estimated amount of ƒ2.1 billion was invested abroad, excluding the Netherlands Indies. It should be noted that Van Soest also includes foreign government bonds. According to his calculations, stocks in the Netherlands Indies were valued at ƒ1,183 million in 1936 and bonds at another ƒ1,082 million in current prices. If we use the stock market figures for 1929, when shares were valued higher than in 1936, a different picture emerges. The total value of shares in the Netherlands Indies would be ƒ2,740 million and bonds at ƒ935 million, which brings the total to ƒ3,675 million.[86] Another estimation comes from Weijer who showed that at

[84] Booth, *The Indonesian economy in the nineteenth and twentieth centuries*, 256–257; Colonial Business Indonesia, *CBI Database ID*.
[85] Colonial Business Indonesia, *CBI Database ID*; Booth, *The Indonesian economy in the nineteenth and twentieth centuries*, 255.
[86] Renooij, *De Nederlandse emissiemarkt van 1904 tot 1939*, 164–165; Jan Jacob van Soest, *Een bijdrage tot de kennis van de beteekenis der Nederlandsche*

least ƒ2 billion was invested by the Dutch in the agricultural sector at the start of the Pacific War and a total of around ƒ5 billion was invested by all foreign investors in the Netherlands Indies. This was around 20% of the total Dutch capital stock.[87]

For a comparison with investment in the Netherlands, we have used the data from Renooij. He shows that the total value of issued bonds and stocks in the Netherlands between 1910 and 1939 have been worth ƒ4,988 million in current prices. Domestic investment was ƒ3,379 million in shares and bonds and investment in the Netherlands Indies was ƒ1,609 million in current prices, of which ƒ604 million was by Royal Dutch.[88] According to Renooij, around one-third of all Dutch investment between 1910 and 1939 went to the Netherlands Indies.

In 1929, there were 15,518 private limited liability companies and 4,491 limited liability joint-stock companies in the Netherlands. Total accumulated equity of the private limited liability companies was ƒ1,475 million; for joint-stock companies this was ƒ5,103 million, totalling ƒ6,578 million. In 1938, the figure for private limited liability companies had increased to 22,046, whereas that for joint-stock companies was slightly higher at 4,894. Yet equity had declined to ƒ1,462 million for private companies and ƒ4,659 million for joint-stock companies, or ƒ6,121 million in total.[89]

In 1913, only 286 Dutch companies were listed at the stock exchange, with a total equity of ƒ837 million. In 1939, this had increased to 424 companies, less than one-tenth of all joint-stock companies, with a total equity of ƒ2,323 million. This was around 38% of the total equity of Dutch companies.

In the first decade of the twentieth century, 102 joint-stock companies active in the Netherlands Indies were listed on the Amsterdam stock exchange. In 1936, this number had increased to 149. The total equity of the listed agricultural companies active in the Netherlands Indies increased rapidly, in 1912 to ƒ171 million and in 1936 to ƒ381 million.[90]

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beleggingen in buitenlandsche fondsen voor de volkswelvaart (Utrecht: Kemink, 1938) 44; Colonial Business Indonesia, *CBI Database ID*.

[87] Bosch, *De Nederlandse beleggingen in de Verenigde Staten*, 609; G.A.Ph. Weijer, ‘De groote cultures’, in: W.H. van Helsdingen and H. Hoogenbeek (eds), *Daar wèrd wat groots verricht. Nederlandsch-Indië in de XXste eeuw* (Amsterdam: Elsevier, 1941) 286–322, in particular 301–306; Buelens and Frankema, ‘Colonial adventures in tropical agriculture’, 202.

[88] Renooij, *De Nederlandse emissiemarkt van 1904 tot 1939*, 116; Appendix 12.

[89] Renooij, *De Nederlandse emissiemarkt van 1904 tot 1939*, 47, 116.

[90] Ibid., 47–49.

In certain years, especially when Royal Dutch Shell issued equity, domestic investment in the Netherlands was less than half of total investment. Therefore, it is valid to say that around half of total foreign investment was done in the Netherlands Indies, or in companies that were active there. Since total Dutch foreign investment was around half of total Dutch investment as well, around one-quarter of all Dutch private investment was done in the Netherlands Indies. In 1938, this provided around 8% of the Dutch GDP, not counting multiplier effects.[91]

Seen from the Indonesian perspective, the total stock of foreign investment (Dutch investment and investment from other third countries) was around 28% of gross domestic product (GDP) in 1913, 30% in 1924, 66% in 1930 and 69% in 1939. If we also include investment by the colonial government, then these numbers would rise to 35%, 46%, 82% and 87%, respectively.[92] Information about the annual flow of investment, including public investment, as a share of GDP of the Netherlands Indies exists for the 1920s and 1930s. In 1921, it started at a peak of 7.2% and gradually decreased to 4% in 1924, recovering in 1927 to 6.5%, before dropping again to 1.5% in 1935. After that it rose to 3% in 1938.[93] GDP is usually expressed as a flow for each individual year, whereas the accumulated investment stated here is a stock over a larger period. Differences between current and constant prices need to be taken into account as well.[94] The flow of investment and GDP can both reflect current or constant prices. For accumulated stock this is not the case, since investments for all years are added up together and this makes it difficult to use either current or constant prices. The total is likely to be a combination of both. Taking inflation into account is important when one wants to make a comparison over time, but this is not always possible. Therefore, it is more practical to use current prices when dealing with patterns of FDI and describe trends and percentages rather than absolute values.[95]

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[91] Van Zanden and Marks, *An economic history of Indonesia 1800–2010*, 129; Derksen and Tinbergen, 'Berekeningen over de economische betekenis van Nederlandsch-Indië voor Nederland', 8–9.
[92] Total GDP of the Netherlands Indies in 1913, 1924, 1930 and 1940 was ƒ3,619 million, ƒ6,034 million, ƒ6,078 million and ƒ5,081 million, respectively, Booth, *The Indonesian economy in the nineteenth and twentieth centuries*, 255.
[93] Creutzberg and Van Dooren, *CEI. Vol. 3*, 22, 88.
[94] Lindblad, 'Foreign capital and colonial development in Indonesia', 10.
[95] Lindblad, *Foreign investment in Southeast Asia in the twentieth century*, 7.

Total foreign investment

Let us now take a look at the database again and see which developments regarding non-Dutch foreign investment are visible in the Netherlands Indies and to what extent similarities and differences show up compared with the literature. This enables us to see how large the share of non-Dutch investment was in the Netherlands Indies and who the main competitors from third countries were.

Total equity of incorporated firms in the Netherlands Indies is extracted from the database, as is shown in Appendix 4. Usually, equity is given for paid-up capital, which means the equity that was already issued. Sometimes nominal equity is shown, which means that not all equity was issued in the year mentioned in the database, but that this would be issued within a certain lapse of time.[96] Using equity data does not resemble foreign investment perfectly, but it is an indication for the development of the presence of foreign companies, which can be used to estimate the effect of these companies on the economic development of the Netherlands Indies.

Totals in Appendix 4 are given in current prices, which means that they are not adjusted for inflation. Therefore, it is not surprising to see that both total and average equity per firm increased in the long run, even during the 1930s. Nevertheless, it is interesting to note that, in current prices, equity of companies run from the Netherlands increased rapidly in the first decades and continued to increase after 1925, whereas the peak for the Netherlands indies companies was reached by 1925. At the end of the 1930s, equity of the former category was already at the same level as before the economic crisis. The importance of other foreign countries increased significantly. In 1940, investment from other countries, except Great Britain, was almost at the same level of investment as companies with headquarters in the Netherlands Indies. However, it should be mentioned that in 1936 the Dutch guilder was devaluated by 20% when the Netherlands abandoned the gold standard.[97] This means that instead of a total of ƒ3,075 million invested in 1940, only ƒ2,460 million was invested in that year. The total value would be slightly lower than in 1925 when it had been ƒ2,559 million. If we roughly apply the devaluation

[96] Rambarran Mangal, *An introduction to company law in the Commonwealth Caribbean* (Kingston: University of the West Indies Press, 1995) 81–83.
[97] Henk Don and Johan Verbruggen, 'Models and methods for economic policy; 60 years of evolution at CPB', *Centraal Planbureau Disccusion Paper*, No. 55 (2006) 21; E. Damsgård Hansen, *European economic history: From mercantilism to Maastricht and beyond*, (Copenhagen: Copenhagen Business School Press, 2001) 244.

by 20% to all other categories as well,[98] it gives an impression that total foreign investment in the Netherlands Indies in 1940 drops from *ƒ*4,643 million to *ƒ*3,714 million.

Therefore, it is reasonable to state that the real value of Dutch and Netherlands Indies companies in 1940 was lower than that shown in Appendix 4. The share of Chinese investors residing in the Netherlands Indies was slightly more than 6% of total investment. This is higher than the 4% usually mentioned for Chinese investment. Compared with other foreign companies, Chinese firms were less likely to have been incorporated, which implies that actual total Chinese investment was much higher.[99]

Nevertheless, companies with headquarters in the Netherlands Indies were smaller in terms of equity than companies run from the Netherlands or Great Britain. This difference continued to increase. Netherlands Indies companies were more vulnerable and more likely to default compared with Netherlands-based companies, which were more diversified.[100] Chinese and indigenous Indonesian firms in the Netherlands Indies were also small. The high average equity per company from other countries is a result of the small total number, and the presence of a few large foreign Chinese banks distorts the picture.[101] The figures of the total investment are slightly higher than is usually mentioned in the literature. Different authors have calculated accumulated equity and come to an estimate of *ƒ*1.7 billion in 1914 and *ƒ*3.7 billion or *ƒ*4 billion in 1930.[102]

Helmut G. Callis, who examined investment by other foreign companies in the Netherlands Indies, shows that in 1937 British investment was $200 million; using an exchange rate of *ƒ*2.5 per $1, this would mean that around *ƒ*500 million of British capital was invested in the Netherlands Indies. This is higher than the results from the database show us, but still British investment in the Netherlands Indies ranked second. This was mirrored in British Malaya, where the Dutch enjoyed a similar position. Investment by other countries amounted to *ƒ*427.5 million, which is more in line with the

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[98] Van Zanden and Marks, *An economic history of Indonesia 1800–2010*, 101. Although this is not a perfectly accurate conversion, since other countries devaluated their currencies earlier, it can give an impression of the effects of the devaluation.
[99] Lindblad, *Bridges to new business*, 22.
[100] Sluyterman, *Dutch enterprise in the twentieth century*, 101.
[101] Colonial Business Indonesia, *CBI Database ID*.
[102] Lindblad, 'Foreign capital and colonial development in Indonesia', 7; À, Campo, 'The rise of corporate enterprise in colonial Indonesia, 1893–1913', 79; Lindblad, *Foreign investment in Southeast Asia in the twentieth century*, 78; Creutzberg and Van Dooren, *CEI. Vol. 3*, 23.

figures found in the database.[103] The overall trend, however, is similar. During the 1910s until the early 1920s, investment increased rapidly and rose more slowly in the second half until the depression of the 1930s. Then it only recovered gradually again after the first half of the 1930s when the depression was over.

Although one can dispute the usefulness of applying the consumer price index of the Netherlands Indies to the total stock of equity, it is relevant to mention the development of this price index, since it affected profits and wages. Here the price index of the Netherlands Indies is used, but sometimes comparisons with the Netherlands are made as well. If we take the same categories of Appendix 4 corrected for inflation, using constant prices of 1913 in the Netherlands Indies, we can see that the results are extreme in Appendix 5. Price levels in the Netherlands Indies increased rapidly after the First World War, just as in the Netherlands, but the impact of the economic depression of the 1930s was far more intense. Price levels in the second half of the 1930s were only slightly less than three-quarters of the price level of 1913, although we have to take into account the devaluation of the guilder in 1936 with 20%.[104] Therefore, if we use the price data of the Netherlands Indies, it gives a slightly distorted picture, but it can be an indication of what results the depression had on the pace of expansion.

During the 1920s, inflation led to a lower real value. As a result, the total value of equity in 1925 was only slightly higher than in 1914. However, the figures after 1930 are unrealistic. A total Dutch investment in the Netherlands Indies of ƒ4,415 million in 1935 or ƒ6,149 million of equity in total is quite high. But if we correct for the devaluation of the guilder in 1936, Dutch investment in 1940 would be around ƒ3,177 million, which is more plausible.

It is also useful to consider the share of different foreign countries investing in the Netherlands Indies. In the database, the combined share of Netherlands-run and Netherlands Indies investment is far higher than the 70% usually mentioned in the literature.[105] In Figure 2.3 the lowest figure is

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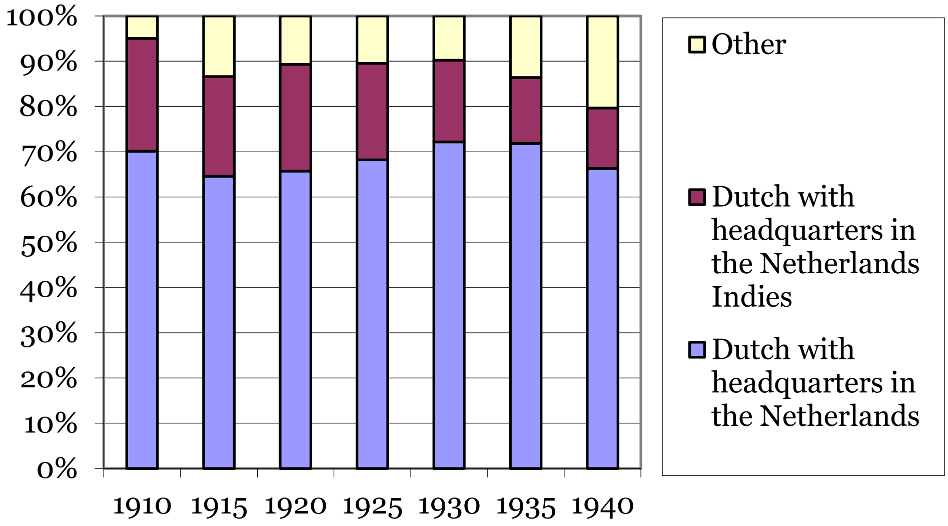
[103] Callis, *Foreign capital in Southeast Asia*, 34; Lindblad, *Foreign investment in Southeast Asia in the twentieth century*, 14.
[104] Creutzberg and Van Dooren, *CEI. Vol. 3*, 77–79; Bas van Leeuwen, *Human capital and economic growth in India, Indonesia and Japan. A quantitative analysis, 1890–2000* (PhD thesis, Utrecht University, 2007), 239–242; Pierre van der Eng, 'Indonesia's growth performance in the twentieth century', in: Angus Maddison, D.S. Prasada Rao and William F. Shepherd (eds), *The Asian economies in the twentieth century* (Cheltenham: Elgar, 2002) 143–179, in particular 171–173.
[105] Callis, *Foreign capital in Southeast Asia*, 28–34. Although this ratio can also be between 80% in 1922 and 72% in 1940 according to Booth, *The Indonesian economy in the nineteenth and twentieth centuries*, 257.

79.6% for 1940 and the highest is 95.1% for 1910. Although this proportion declined up to 1940, it is still on the high side.

Figure 2.3. Share of equity of foreign incorporated companies in the Netherlands Indies by nationality and location of headquarters, 1910–1940, as percentage of total foreign equity.



Source: Colonial Business Indonesia, *CBI Database ID*.

The share of investment of companies with headquarters in the Netherlands was on average 68%, a figure comparable to the 70% of Dutch investment usually mentioned in the literature.[106] That Dutch firms were on average larger than other firms is apparent from a comparison with Figure 2.2. The number of Dutch firms was at its peak only 37.9% of all incorporated companies active in the Netherlands Indies but accounted for 68% of total foreign investment.

However, if we include foreign investment from companies with headquarters in the Netherlands Indies, but exclude Chinese and indigenous Indonesian investment, this figure increases to 88%. This number can be considered quite high. Many subsidiaries of non-Dutch foreign companies in the Netherlands Indies used a Dutch company name and maintained headquarters in the Netherlands Indies.

[106] Callis, *Foreign capital in Southeast Asia*, 28–34; Lindblad, *Bridges to new business*, 22; Arthur S. Keller, 'Netherlands India as a paying proposition', *Far Eastern Survey,* Vol. 9 (1940) 11–18, in particular 13.

The average Dutch share of investment in the Netherlands Indies was somewhere between these figures of 68% and 88%. The companies mentioned under 'Dutch' stated their equity in Dutch guilders. In order to find out the real nationality of all companies, each individual firm would have to be examined in detail. This is not the main purpose here, however. Here the focus is on total foreign investment, not only on Dutch foreign investment.

Investment per sector

The final topic to discuss is the distribution of investment by sector. Within agriculture, sugar was the most important product in the first decades of the twentieth century. The sugar industry in the Netherlands Indies took off after the conclusion of the Brussels Sugar Agreement in 1902, intended to end overproduction of beet sugar in Europe.[107] Until the end of the 1920s, the sugar industry remained a solid investment area. In 1929, the Dutch had invested around *ƒ*800 million in the Java sugar industry. In the rubber industry, a total of *ƒ*1 billion was invested by the late 1930s, but only 40% was of Dutch origin. This figure also includes Chinese and indigenous Indonesian investment.[108] When the economic crisis of the 1930s struck, investment in the sugar industry collapsed and failed to recover.[109]

The share of financial and mining companies in the total number of firms was relatively small (Appendix 1 and 6). For finance, the proportion was 4.6% in 1910 and 5.7% in 1940; for mining, 11.6% in 1910 and 4.8% in 1940. As a share of total equity, however, both industries were more important. Already in 1910 financial companies were good for 10.2% of total equity and in 1940 this share had risen to an impressive 22.4%. The share of equity of mining, however, declined from a notable 25.7% in 1910 to about half this figure, 13% in 1940. This is striking considering that oil exports became increasingly important for the Netherlands Indies in the long run. An explanation for this could be that less profitable companies ceased operations.

Total equity in mining did not fall, but equity in other industries increased more rapidly. Differences in other industries were less spectacular, although the share of equity in commercial services was relatively low

[107] Creutzberg and Van Dooren, *CEI. Vol. 3*, 18; G.H.A. Prince and H. Baudet, 'Economie en beleid in vooroorlogs Nederlands-Indië', in: H. Baudet and M. Fennema (eds), *Het Nederlands belang bij Indië* (Utrecht: Spectrum, 1983) 29–53, in particular 31–32; De Roos and Wieringa, *Een halve eeuw rente in Nederland*, 54–56; Lindblad, 'The late colonial state and economic expansion, 1900–1930', 125; Lindblad, 'De handel tussen Nederland en Nederlands-Indië, 1874–1939', 263–264.
[108] Keller, 'Netherlands India as a paying proposition', 14.
[109] Creutzberg and Van Dooren, *CEI. Vol. 3*, 51–53.

compared to the number of companies. Overall, most incorporated companies were rather small. Companies active in the commercial services were the smallest, followed by agricultural, manufacturing and trading companies. Mining and finance were the largest industries.

Of all incorporated companies, more than one-half had a total equity of less than ƒ0.5 million, even in 1940 (Appendix 13). In 1910, 75.2% of the foreign companies had an equity between ƒ0 and ƒ0.5 million. In 1935, this proportion was 48% and in 1940 53.7%. This increase in 1940 could be a consequence of the economic depression of the 1930s which caused a decline of equity in some companies, but could also have originated from the incorporation of new companies when the economy improved in the late 1930s.[110] Among the larger firms, companies with more than ƒ10 million of equity showed the largest rate of increase, from 13 to 68 companies. They were followed by companies with ƒ2–ƒ5 million of equity and companies with ƒ5–ƒ10 million. Consequently, there was a contrast between a large group of small companies and a small group of large companies.[111] In 1928, only five companies had more than ƒ100 million of equity. They were Royal Dutch Shell, BPM (60% owned by Royal Dutch Shell), Vereenigde Nederlandsche Scheepvaartmaatschappij, Nederlandsche Scheepvaart Unie and NHM.[112] Applying the price index of the Netherlands Indies to total equity demonstrates how the rapid increase of investment during the 1920s continued, whereas the value of investment increased more rapidly during the second half of the 1930s due to steep deflation.[113]

Foreign investment in historical perspective and international context

The relatively stable exchange rate in the Netherlands Indies under the gold standard and a moderate and transparent tariff regime made colonial Indonesia an attractive target for foreign investors. In 1914, around 60% of all FDI in Southeast Asia was in the Netherlands Indies.[114] Non-Dutch investment in the Netherlands Indies was particularly important in agriculture. Many

[110] J. Thomas Lindblad, 'Business strategies in late colonial Indonesia', in: J. Thomas Lindblad (ed.), *Historical foundations of a national economy in Indonesia, 1890s–1990s* (Amsterdam: North-Holland, 1996) 207–228, in particular 215.
[111] Colonial Business Indonesia, *CBI Database ID*.
[112] Taselaar, *De Nederlandse koloniale lobby*, 52.
[113] Creutzberg and Van Dooren, *CEI. Vol. 3*, 19; Colonial Business Indonesia, *CBI Database ID*; Van Leeuwen, *Human capital and economic growth in India, Indonesia and Japan*, 239–242; Van der Eng, 'Indonesia's growth performance in the twentieth century', 171–173.
[114] Booth, *The Indonesian economy in the nineteenth and twentieth centuries*, 218.

rubber plantations were owned by foreign non-Dutch companies. Indigenous investors were also active, not only in rubber but also in the production of coffee, copra, cloves and pepper.[115]

An old estimate, presumably applicable to the end of the 1930s, states that total investment by indigenous Indonesian smallholders amounted to *ƒ*900 million of which *ƒ*700 million was invested in the agricultural industries, notably in rubber, coffee, tea, coconut and other crops.[116]

Although there was a great deal of foreign investment from non-Dutch foreign countries in the Netherlands Indies, the Dutch presence was overwhelming. In 1929, 98.3% of the investment in sugar, 68.6% in coffee, 80.3% in cinchona (a tree whose bark yields quinine), 96.9% in Sumatra tobacco and 100% of the investment in fibres were undertaken by Dutch firms.[117] In rubber, the situation was different. In 1914, only 39% of all foreign investment in the rubber industry was Dutch-owned, the rest was dominated by the British. After the First World War, investment in rubber increased rapidly during the international rubber boom, which lasted from 1910 to the late 1920s, when there were steep price rises. In 1927, around *ƒ*305 million was invested in the rubber industry, of which *ƒ*102 million was Dutch, *ƒ*98 million British, *ƒ*44 million American and *ƒ*39 million French-Belgium.[118] In 1930, the Dutch share was 38%, but the British proportion declined to 28% and 16.5% was American investment.[119]

In tea and palm oil, investment from non-Dutch foreign countries also was important. In 1920, only 25% of invested capital in tea production was Dutch, but this increased to 52% in 1920 and nearly 62% in 1930. At that time, 32% was British and almost 7% German. In palm oil, 60% of the capital was non-Dutch in 1925, but five years later the Dutch had gained a majority.

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[115] Booth, *The Indonesian economy in the nineteenth and twentieth centuries*, 250; P. Creutzberg and Petrus Johannes van Dooren, *Changing economy in Indonesia (CEI): A selection of statistical source material from the early 19th century up to 1940. Vol. 1: Indonesia's export crops 1816–1940* (The Hague: Nijhoff, 1975) 93–94, 111–112, 128–130; Smits, *De beteekenis van Nederlandsch-Indië uit internationaal-economisch oogpunt*, 8–9.
[116] George Henry Charles Hart, *Towards economic democracy in the Netherlands Indies* (New York: The Netherlands Information Bureau, 1942) 44–45.
[117] Taselaar, *De Nederlandse koloniale lobby*, 45; Haccoû and Reid, *Management of direct investments in less developed countries*, 188.
[118] T. Volker, *Van oerbosch tot cultuurgebied. Een schets van de tabak, andere cultures en de industrie ter Oostkust van Sumatra* (Medan: Deli Planters Vereeniging, 1928) 151.
[119] Creutzberg and Van Dooren, *CEI. Vol. 3*, 19; H.J. Manschot, 'De invloed van het buitenlandsch kapitaal op de ontwikkeling van de cultures ter Oostkust van Sumatra', *Economisch-Statistische Berichten*, Vol. 17 (1932) 272–273 and 296–298, in particular 273–273; Touwen, *Extremes in the archipelago*, 110–111.

German presence was initially more visible in the tobacco industry, but in 1914 only two tobacco plantations in Deli were still German-owned, whereas the other plantations were sold to the British, who used the estates for cultivation of rubber. German investors then became more interested in mining.[120]

Foreign non-Dutch investment increased notably in Sumatra and Kalimantan rather than in Java. From the second half of the 1920s onwards, investment in the Outer Islands overtook Java as the prime target and kept this position henceforth.[121] In North Sumatra, besides the Deli tobacco estates, rubber investment by British firms became dominant. Next to Dutch and British investment in the oil industry, American investment expanded as well. Besides rubber estates, large oil compounds were constructed in Sumatra. In 1937, the value of the American oil companies was estimated to be around *ƒ*175 million, with total investment in the oil industry at around *ƒ*600 million.[122]

The situation in British Malaya was rather similar to that in the Netherlands Indies. In British Malaya, around 70% of foreign investment was British, with the Dutch the second largest investor. The British had a particularly strong stake in the rubber industry and had a virtual monopoly with the Straits Trading Company and Eastern Smelting Company in tin smelting. British investment was also important in Burma and Thailand. In the Philippines, the United States was the dominant investor, and in Indochina French capital was overwhelmingly predominant.[123]

Just as in the Netherlands Indies, in British Malaya, the Philippines, Thailand and Indochina, Chinese investors were also playing a major role with their tight and organized networks in smaller industries and companies dealing with finance and transport.[124] In the Netherlands Indies, there were

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[120] Günther Meyer, *Das Eindringen des deutschen Kapitalismus in die niederländischen und britischen Kolonien in Südostasien von den Anfängen bis 1918* (PhD thesis, Humboldt University, Berlin, 1970) 194; Manschot, 'De invloed van het buitenlandsch kapitaal op de ontwikkeling van de cultures ter Oostkust van Sumatra', 273–273; Taselaar, *De Nederlandse koloniale lobby*, 45; Touwen, *Extremes in the archipelago*, 111.
[121] Creutzberg and Van Dooren, *CEI. Vol. 3*, 22, 44, 81.
[122] Ibid., 25–26.
[123] Helmut G. Callis, 'Capital investment in Southeast Asia and the Philippines', *The ANNALS of the American Academy of Political and Social Science*, Vol. 226 (1943) 22–31, in particular 24; Callis, *Foreign capital in Southeast Asia*, 23–25, 31, 71–77; Lindblad, 'The late colonial state and economic expansion, 1900–1930', 127.
[124] Callis, 'Capital investment in Southeast Asia and the Philippines', 29–30; Lindblad, *Foreign investment in Southeast Asia in the twentieth century*, 21–22; Suhadi Mangkusuwondo, *Industrialization efforts in Indonesia: The role of agriculture and foreign trade in the development of the industrial sector* (PhD thesis, University of California, Berkeley, CA, 1967) 112; Vleming, *Het Chineesche zakenleven in Nederlandsch-Indië*, 11.

similar close-knit communities in Japanese investment too. Rather than establishing relations with Dutch traders, the Japanese often worked together with Chinese businessmen and became active in, for instance, the textile and cloth trade. After the devaluation of the yen in 1931, 31% of all imports entering the Netherlands Indies originated in Japan, but Japanese investment in the Netherlands Indies remained relatively small due to the Dutch anti-Japanese policies.[125] A very rough calculation for Japanese investment, excluding investment in Batavia but including retail shops, shows that in total more than ƒ100 million was invested in the Netherlands Indies by 1925, of which nearly ƒ68 million was in commerce, agriculture and industry. Another estimate of investment from Japan cites only a total amount of ƒ30 million invested in incorporated firms by 1937.[126]

If we compare these figures for Australia and New Zealand for 1938, when these two countries had a population of 8.5 million people in total, and the stock of foreign investment was $4,450 million, we see that the stock of foreign investment was much higher than in the Southeast Asian countries with $4,273 million and 145 million people.[127] Indonesia was the largest country in Southeast Asia; by 1930 it had a population of almost 61 million people, of which 240,000 were Europeans, 1.2 million who were labelled as Chinese, and 115,000 other non-indigenous Asians.[128] Investment per capita in the Netherlands Indies was therefore much smaller than in New Zealand and Australia.

The Netherlands Indies remained the largest host country for FDI in Southeast Asia. The population of the Netherlands Indies was almost three times that of French Indochina and more than four times that of Thailand, the Philippines or Burma. British Malaya was smaller, with only 5.5 million inhabitants. As a consequence, FDI per capita was more than three times as

[125] Peter Post, 'Characteristics of Japanese entrepreneurship in the pre-war Indonesian economy', in: J. Thomas Lindblad (ed.), *Historical foundations of a national economy in Indonesia, 1890s–1990s* (Amsterdam: North-Holland, 1996) 297–314, in particular 302–304. For more information about Japanese investment in the Netherlands Indies see also: Peter Post, *Japanse bedrijvigheid in Indonesië, 1868–1942. Structurele elementen van Japan's vooroorlogse economische expansie in Zuidoost-Azië* (PhD thesis, Free University Amsterdam, 1991).
[126] Post, 'Characteristics of Japanese entrepreneurship in the pre-war Indonesian economy', 307, 312; Callis, *Foreign capital in Southeast Asia*, 31.
[127] Van der Eng, *Economic benefits from colonial assets*, 23; C. Lewis, *The United States and foreign investment problems* (Washington, DC: The Brookings Institution, 1948) 298–343.
[128] Departement van Landbouw, Nijverheid en Handel, *Volkstelling 1930, Deel VIII (Census of 1930 in the Netherlands Indies, Vol. VIII)* (Batavia: Landsdrukkerij, 1933) 33.

high in Malaya than in the Netherlands Indies.[129] Malaya was second in terms of exports. In 1937, these two neighbouring colonies together accounted for more than two-thirds of all export revenue generated in Southeast Asia, about $1 billion out of a total of $1.6 billion.[130]

2.5 Exports by Dutch firms

As investment increased rapidly in the first quarter of the twentieth century, so imports and exports grew significantly as well.[131] The total value of exports rose from ƒ259 million in 1900 to ƒ2,135 million in 1920 in current prices, which was the highest level prior to the Second World War.[132]

The total value of exports from the Netherlands Indies grew fast after the First World War until the early 1920s, when a temporary crisis struck the agricultural sector and export prices dropped rapidly, especially for sugar. In the second half of the 1920s, exports recovered and increased until the economic depression of the 1930s. Declining prices were compensated for by higher output levels, and demand for primary products such as rubber kept rising, while colonial Indonesia enjoyed a leading position in the oil and tin markets.[133]

In 1929, the export value of products from the Netherlands Indies was still ƒ1,440 million, but this dropped to a nadir in 1935 at ƒ459 million, or 32% of the total value of exports in 1929. In 1937, it increased again to ƒ955 million, but dropped in 1939 to ƒ749 million. The value of imports was slightly lower than in exports. In 1929, imports were at their peak with ƒ1,110 million, ƒ277 million in 1935, or 25% of the import value in 1929. In 1939, it recovered to ƒ479 million.[134]

Applying constant 1913 prices to subsequent export levels reduces the peak of the early 1920s, whereas levels in the 1930s remain solid and were not

[129] Lindblad, *Foreign investment in Southeast Asia in the twentieth century*, 16.
[130] Pierre van der Eng, 'Extractive institutions, colonial drain and underdevelopment. The case of Indonesia', paper presented at the international workshop on 'Foreign capital in colonial Southeast Asia. Profits, economic growth and indigenous society', (Leiden, 2014) 33; Lindblad, *Foreign investment in Southeast Asia in the twentieth century*, 17.
[131] Korthals Altes and Van Dooren, *CEI. Vol. 7*, 18.
[132] Taselaar, *De Nederlandse koloniale lobby*, 39.
[133] Lindblad, 'The late colonial state and economic expansion, 1900–1930', 125; Lindblad, 'De handel tussen Nederland en Nederlands-Indië, 1874–1939', 263–264; Van Zanden and Marks, *An economic history of Indonesia 1800–2010*, 84; Bosch, *De Nederlandse beleggingen in de Verenigde Staten*, 76–77; Lindblad, 'Economic aspects of the Dutch expansion in Indonesia, 1870–1914', 16; Taselaar, *De Nederlandse koloniale lobby*, 39.
[134] Lindblad, *Bridges to new business*, 27.

much lower than in the 1920s. Developments for the imports were more stable.[135]

Nevertheless, the actual situation was different. For a long time in the early twentieth century, sugar remained the prime agricultural export commodity.[136] Demand for Java sugar increased from 1902, when the protection of European beet sugar was abolished. Between 1902 and 1914, the volume in exports of Java sugar doubled, and after the First World War it doubled again and grew until 1929. In most years before 1930, sugar was the most important export crop in terms of export value, but it was competing with rubber and oil. The average share of sugar between 1910 and 1939 was 25%, with a maximum of 49% in 1920 and its lowest point was in 1937 when exports of sugar represented only 5% of total exports.[137]

The expansion of the sugar industry came to a halt during the economic depression of the 1930s. Measured by quantity, exports of cane sugar fell by two-thirds between 1929 and 1936. Some 2.4 million tons of sugar were exported in 1929 and this dropped to 884,000 tons in 1936. However, it recovered to 1.4 million tons in 1939.[138] Measured in guilders, the situation was worse. Exports fell from *ƒ*312 million in 1929 to *ƒ*36 million in 1935 in current prices; this was little more than 10% of the value of 1929. Of the 179 sugar factories in business in 1930, only 39 were still in operation in 1935. During the economic depression of the 1930s the sugar export industry in Java virtually collapsed. It was never fully to recover.[139]

The share of rubber in total exports increased further after the 1920s.[140] In the rubber industry, indigenous smallholders proved more successful than estates in adjusting to changing market conditions during the economic depression. The share of smallholders in total output climbed from 30% in 1932 to 50% in 1939, despite government efforts to control indigenous

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[135] Colonial Business Indonesia, *CBI Database ID*.
[136] Ulbe Bosma, Juan Giusti-Cordero and G. Roger Knight, 'Sugarlandia revisited. Sugar and colonialism in Asia and the Americas, 1800 to 1940, an introduction', in: Ulbe Bosma, Juan Giusti-Cordero and G. Roger Knight, *Sugarlandia revisited. Sugar and colonialism in Asia and the Americas, 1800 to 1940* (New York: Berghahn Books, 2007) 5–30, in particular 5.
[137] Lindblad, 'De handel tussen Nederland en Nederlands-Indië, 1874–1939', 286–289.
[138] Taselaar, *De Nederlandse koloniale lobby*, 367; Prince and Baudet, 'Economie en beleid in vooroorlogs Nederlands-Indië', 37.
[139] Lindblad, 'The late colonial state and economic expansion, 1900–1930', 125; Lindblad, 'De handel tussen Nederland en Nederlands-Indië, 1874–1939', 263–264; Van Zanden and Marks, *An economic history of Indonesia 1800–2010*, 97; Taselaar, *De Nederlandse koloniale lobby*, 39; Knight, *Commodities and colonialism*, 243–246.
[140] Mangkusuwondo, *Industrialization efforts in Indonesia*, 95.

production by imposing an unpopular special export duty on rubber produced by smallholders. In 1913, the export of the total rubber industry was 7,100 tons, and in 1917 this had leapt to 45,700 tons. It increased further to 301,000 ton in 1929 and continued to grow after the economic depression, reaching 546,000 ton in 1940. Compared with the sugar industry, rubber remained a key product after economic recovery in the late 1930s. Still, the price of rubber plummeted. During the economic depression, rubber prices dropped comparably with sugar prices to 10% of their pre-crisis level. In 1932, the value of rubber exports was only ƒ33 million, whereas in 1929 this had been ƒ236 million and in 1925 as much as ƒ582 million.[141]

Although sugar was the most important export commodity at the start of the twentieth century, colonial Indonesia was arguably less dependent on a narrow range of export products than other tropical colonies. Certainly, some export crops were dominant, but these were supplemented and not replaced by others. Coffee, sugar and tobacco did not disappear entirely from the export supply when copra, rubber and tin became more important, although their share in the total export declined.[142] Colonial Indonesia remained vulnerable to adverse price movements because it still depended largely on exports of primary products.[143]

This became abundantly clear during the economic depression of the 1930s when companies suddenly had to change their strategies in order to survive. Workers were laid off or wages were lowered and some companies reduced equity in order to deal with losses.[144] The NHM, for instance, reduced its equity from ƒ80 million to ƒ20 million in 1934 when its director, C.J.K. van Aalst, was replaced by D. Crena de Iongh. In 1939, equity was restored to more

[141] Prince and Baudet, 'Economie en beleid in vooroorlogs Nederlands-Indië', 37; Taselaar, *De Nederlandse koloniale lobby*, 369; J. Thomas Lindblad, 'De opkomst van de buitengewesten', in: A.H.P. Clemens and J. Thomas Lindblad (eds), *Het belang van de buitengewesten. Economische expansie en koloniale staatsvorming in de buitengewesten van Nederlands-Indië, 1870–1942* (Amsterdam: NEHA, 1989) 1–38, in particular 22–25.
[142] Lindblad, 'The late colonial state and economic expansion, 1900–1930', 126; Van Zanden and Marks, *An economic history of Indonesia 1800–2010*, 96; Sluyterman, *Dutch enterprise in the twentieth century*, 100.
[143] Lindblad, 'The late colonial state and economic expansion, 1900–1930', 130.
[144] Lindblad, 'De handel tussen Nederland en Nederlands-Indië, 1874–1939', 263–264; Lindblad, 'The late colonial state and economic expansion, 1900–1930', 125; Van Zanden and Marks, *An economic history of Indonesia 1800–2010*, 97; Taselaar, *De Nederlandse koloniale lobby*, 39; Knight, *Commodities and colonialism*, 243–246; Sluyterman, *Dutch enterprise in the twentieth century*, 103; J. Thomas Lindblad, 'Business response to crisis in Indonesia: The 1930s and the 1990s', *Australian Economic History Review*, Vol.43 (2003) 169–182, in particular 171.

than ƒ50 million.[145] The economic depression of the 1930s was also bad for the NIHB, which was linked to many companies, while the NILM suffered losses during the 1920s when sugar prices dropped and the oil manufacturing company Insulinde went bankrupt. Equity of NIHB was then reduced from ƒ55 million to ƒ33 million.[146]

At the beginning of the economic depression, managers of the major estate companies were of the opinion that the slump should run its natural course. As prices continued to drop, however, it became clear that something had to be done. Regulations and measures were hesitantly adopted and supported by the colonial government. Some industries introduced their own restrictions. Exports of sugar were already subject to intervention in 1931[147] and international agreements for the restriction of production levels were also signed for tin, tea and rubber.[148]

In 1933, the *Crisis Invoer Ordonnantie* (Crisis Import Ordinance) was introduced with quotas and licence systems for certain goods or imports from specific countries. One year later, another ordinance was issued specifically for manufactured goods.[149] The government interfered only reluctantly and the restrictions were assumed to be temporary, but the Netherlands Indies became more protectionist in order to help manufacturing in the Netherlands.[150]

These regulations hit the Japanese import sector in particular. By 1936, the Japanese share in imports had already dropped to one-quarter and it would fall still further during the remainder of the decade.[151] In 1939, the

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[145] Taselaar, *De Nederlandse koloniale lobby*, 59.
[146] Ibid., 63.
[147] Sluyterman, *Dutch enterprise in the twentieth century*, 103.
[148] Van Zanden and Marks, *An economic history of Indonesia 1800–2010*, 100; J.H. Boeke, *The evolution of the Netherlands Indies economy* (New York: Netherlands and the Netherlands Indies Council, 1946) 47; Jacob Ozinga, *De economische ontwikkeling der Westerafdeeling van Borneo en de bevolkingsrubbercultuur* (Wageningen: Zomer en Keuning, 1940) 258–261; A. Neijtzell de Wilde, A.J. Gooszen and H.Th. Moll, *The Netherlands Indies during the depression: A brief economic survey* (Amsterdam: J.M. Meulenhoff, 1936) 26–27; J. van, Gelderen, *The recent development of economic foreign policy in the Netherlands East Indies* (London: Longmans, Green and Co., 1939) 50–53.
[149] Mangkusuwondo, *Industrialization efforts in Indonesia*, 142; Touwen, *Extremes in the archipelago*, 291;
Bosch, *De Nederlandse beleggingen in de Verenigde Staten*, 297; Prince and Baudet, 'Economie en beleid in vooroorlogs Nederlands-Indië', 44.
[150] Mangkusuwondo, *Industrialization efforts in Indonesia*, 140.
[151] Lindblad, *Bridges to new business*, 25; Mangkusuwondo, *Industrialization efforts in Indonesia*, 134–136, 144; Taselaar, *De Nederlandse koloniale lobby*, 400–401; Pierre van der Eng, 'De-industrialisation and colonial rule. The cotton textile industry in Indonesia, 1820–1941', *Australian National University, Department of*

Netherlands once again became the major supplier of Indonesian imports. In 1940, when the Netherlands was occupied by Germany, imports from the Netherlands declined substantially, whereas those from Japan increased again.[152]

During the First World War this had happened as well. The share of Dutch imports to the Netherlands Indies dropped and imports were virtually halted in the final years of the war, due to a lack of shipping capacity during the submarine war, although the Netherlands remained neutral during this conflict. The Netherlands Indies was quick to find other countries to trade with and the Dutch market was smaller than that of Great Britain or France. These latter countries could trade more with their colonies and this makes it more understandable that the Dutch stake in the foreign trade of the Netherlands Indies declined gradually. As a result, Japan, the United States and Australia became new trading partners of the Netherlands Indies.[153] Japanese imports reached almost 21% in 1918. The devaluation of the yen at the end of 1931 made Japanese imports of consumer goods, like cotton products, very attractive before the regulations hit the Japanese imports. Until 1934, imports from Japan reached almost 32%, more than double the share of imports from the Netherlands.[154]

Before the First World War, Japan had been only a small trading partner of the Netherlands Indies. More exports went to Europe than to Asia. After the First World War, the situation changed and more exports went to Asia up to the 1930s. From 1932, the situation became more favourable for Europe as protection measures hit other foreign countries. The start of the Second World War made it difficult again to export to Europe.[155] There was a

Economics, Departmental Working Papers, 2007–04 (2007) 1–30, in particular 6; Korthals Altes, *Tussen cultures en kredieten*, 287; Prince and Baudet, ‘Economie en beleid in vooroorlogs Nederlands-Indië’, 42–43.

[152] Mangkusuwondo, *Industrialization efforts in Indonesia*, 143–145; Lindblad, ‘De handel tussen Nederland en Nederlands-Indië, 1874–1939’, 286–289.

[153] Bosch, *De Nederlandse beleggingen in de Verenigde Staten*, 285–286, 425; Dick, ‘The emergence of a national economy, 1808–1990s’, 40; Lindblad, *Bridges to new business,* 25; Smits, *De beteekenis van Nederlandsch-Indië uit internationaal-economisch oogpunt*, 6–7.

[154] Howard W. Dick, ‘Formation of the nation-state, 1930s–1966’, in: Howard W. Dick, Vincent J.H. Houben, J. Thomas Lindblad and Thee Kian Wie, *The emergence of a national economy. An economic history of Indonesia, 1800–2000* (Crows Nest, NSW: Allen and Unwin, 2002) 153–193, in particular 158–159; Lindblad, ‘De handel tussen Nederland en Nederlands-Indië, 1874–1939’, 286–289.

[155] W.L. Korthals Altes and Petrus Johannes van Dooren, *Changing economy in Indonesia (CEI): A selection of statistical source material from the early 19th century up to 1940. Vol. 12a: General trade statistics 1822–1940* (Amsterdam: KIT, 1991) 102–103.

notable increase in Dutch imports after abandoning the gold standard in 1936. The increasing share of the United States occurred due to the demand of rubber for tires for automobiles, whereas in colonial Indonesia capital and consumer goods from the United States became more popular too. In terms of investment the United States became more important.[156] In other Asian countries, demand for other products rose as well due to higher population numbers, income growth and a rising standard of living. Singapore remained one of the most important trading partners in Asia.[157]

For some products, such as coffee, copra, tin and tobacco, the Dutch share of imports from the Netherlands Indies was very high. There was no need to import this from other countries if it was available cheaply from their own colony. In the total share of Dutch imports or exports, these products were of minor importance and trade with the Netherlands Indies was less important for the Netherlands than vice versa.[158] On the other hand, the importance of the Netherlands in the total trade of the Netherlands Indies declined markedly. Before the twentieth century, more than half of total exports went to the Netherlands, but by the First World War the share of mutual trade exceeded 30% from the point of view of the Netherlands Indies. During the 1920s and 1930s, this dropped to less than 20% on average.[159] The volume of exports to the Netherlands remained at around the same level, but total exports from the Netherlands Indies increased and, therefore, the Dutch share fell. The liberal trading regime, which lasted nearly six decades between the 1870s and 1930s, had as its consequence that the Netherlands Indies could orientate itself towards other markets such as Great Britain and Germany, Singapore, India and China, and the United States.[160] This trend was visible in British Malaya too. On the other hand, Korea and Taiwan did trade more with Japan, whereas the United States became an increasingly more important trading partner for the Philippines. In Indochina this effect was visible too, although less extreme. In the early twentieth century imports from France

[156] Booth, *The Indonesian economy in the nineteenth and twentieth centuries*, 209; Lindblad, 'The late colonial state and economic expansion, 1900–1930', 127.
[157] Lindblad, 'The late colonial state and economic expansion, 1900–1930', 125; Lindblad, 'De handel tussen Nederland en Nederlands-Indië, 1874–1939', 263–264.
[158] Lindblad, 'De handel tussen Nederland en Nederlands-Indië, 1874–1939', 280–281.
[159] Lindblad, 'The economic relationship between the Netherlands and colonial Indonesia, 1870–1940', 113; Van Zanden and Marks, *An economic history of Indonesia 1800–2010*, 79; Lindblad, 'De handel tussen Nederland en Nederlands-Indië, 1874–1939', 280–281.
[160] Lindblad, 'The late colonial state and economic expansion, 1900–1930', 117, 128, 158.

amounted to nearly 45% of total imports for Indochina but in 1939 this had increased to 55%.[161]

Another significant change was in the Netherlands Indies itself. At the beginning of the twentieth century, most exports still originated from Java, but gradually the importance and the export of the Outer Islands increased. The rise of the world automobile industry led to a higher demand for goods produced in the Outer Islands in particular, notably oil and rubber. During the 1930s, total exports from the Outer Islands surpassed the level of Java.[162]

In the Outer Islands, smallholders and non-Dutch investment were more prominent. The rubber industry was also highly popular among indigenous smallholder producers. Eventually, around 50% of the rubber production was supplied by smallholders. The total share of smallholders' production varied. In Southeast Kalimantan and Palembang, the share of estate rubber was only 13% between 1927 and 1938. In Jambi and West Kalimantan, the share was even lower, 0.4% and 7% respectively, whereas in North Sumatra 88% originated from estates.[163]

Various classifications to group the Outer Islands by intensity of foreign activity exist. Here I have applied the classification devised by Touwen, which consists of four different categories, dealing with different types of activities. The first one contains both foreign and indigenous activity, the second is characterized by indigenous production, the third by mainly foreign activity, and in the last one neither indigenous nor foreign production was of importance.

The first one is the most relevant for my research. This type was characterized by a high share of foreign activity, but also by a significant share of smallholder production. North Sumatra was the best-known example of this type. The expansion of the Dutch colonial state across the Outer Islands provided new opportunities for investment and exports. In 1902, rubber was introduced into Sumatra and in 1911 palm oil became a new product in North Sumatra, supplementing tobacco in Deli and the young petroleum industry. Palembang and Southeast Kalimantan counted among the largest exporters of oil by foreign companies and rubber from smallholders. In Palembang, other smallholder crops included coffee and pepper. Royal Dutch had been drilling in East Kalimantan around 1900 and this industry would later be dominated by the partly owned subsidiary of Royal Dutch Shell, the BPM, the largest

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[161] Booth, *Colonial legacies*, 91–92.
[162] Van Zanden and Marks, *An economic history of Indonesia 1800–2010*, 84; Lindblad, 'De opkomst van de buitengewesten', 8–14.
[163] Touwen, *Extremes in the archipelago*, 122; Creutzberg and Van Dooren, *CEI. Vol. 1*, 38–39.

single company in terms of equity in the Netherlands Indies. With a labour force of several tens of thousands, it became the largest oil company in terms of employment in the Netherlands Indies.[164] The establishment of refineries made it possible to ship the processed oil overseas and production levels increased tenfold in the first two decades of the twentieth century.[165] The subsidiaries of American Standard Oil and California Texas Oil Company (Caltex) started operations in the interwar years and the oil industry grew quickly. In 1892, it had started with 3,200 tons of oil products, but in 1915 this quantity exceeded one million tons.[166]

In 1917, 19.5% of all the Netherlands Indies oil exports came from North Sumatra. By 1929, its share had declined to 9.4%. In this year, around 4,200 million litres of petroleum distillates were exported from the Outer Islands, of which only 416 million litres came from North Sumatra.[167] In terms of value, petroleum exports in 1929 amounted to ƒ160 million, of which ƒ26 million were earned by North Sumatra alone. After 1900, in five years total foreign exports of Southeast Kalimantan increased ten times and in another ten years they quadrupled again. In 1914, a total volume worth ƒ60 million was exported from this region.[168] The two largest production centres in Southeast Kalimantan were at Balikpapan and on the island of Tarakan. Between 1912 and 1933, this region was the largest oil exporter of the Outer Islands.[169]

The second category was characterized by indigenous smallholder production of export crops in the Outer Islands, such as rubber and copra from Sulawesi. The latter crop in particular was entirely dominated by indigenous smallholders. The smallholders were mostly dominant in Aceh, Jambi, Lampung, West Kalimantan, Manado in North Sulawesi and South Sulawesi.[170]

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164 Touwen, *Extremes in the archipelago*, 60–64, 145; Lindblad, 'The late colonial state and economic expansion, 1900–1930', 136, 139; Lindblad, *Between Dayak and Dutch*, 44–45; Lindblad, 'Het bedrijfsleven in Nederlands-Indië in het interbellum', 197; J. Thomas Lindblad, 'The petroleum industry in Indonesia before the Second World War', *Bulletin of Indonesian Economic Studies*, Vol. 25 (1989) 53–77, in particular 54–55; Taselaar, *De Nederlandse koloniale lobby*, 89.

165 Lindblad, 'De opkomst van de buitengewesten', 11, 19; Touwen, *Extremes in the archipelago*, 65–67.

166 Taselaar, *De Nederlandse koloniale lobby*, 39; Sluyterman, *Dutch enterprise in the twentieth century*, 102; William Bruce Wood, *Intermediate cities in the resource frontier: A case study of Samarinda and Balikpapan, East Kalimantan, Indonesia* (PhD thesis, University of Hawaii, Honolulu, HI, 1985) 63.

167 Touwen, *Extremes in the archipelago*, 144.

168 Lindblad, *Between Dayak and Dutch*, 17.

169 Touwen, *Extremes in the archipelago*, 145.

170 Ibid., 76–87.

The third category consists of only foreign presence. This was the case in smaller or isolated areas, such as Bangka and Belitung. Here, tin mining was the dominant activity. Riau in Sumatra can also be included, since oil, tin and rubber were produced by foreign firms. Near the coast foreign activity was prevalent, but in the upper regions indigenous rubber cultivation was present as well. Oil and, to a lesser extent, tin became more capital-intensive, while the demand for labour declined. In these industries, a relatively small number of companies predominated with a significant impact on the surrounding area.[171]

The last category included areas that were not important to the foreign export economy, although there was some interregional trade. These areas included the Lesser Sunda Islands, like Bali and Timor and also Tapanuli, Bengkulu and New Guinea.[172]

2.6 Conclusion

In this chapter, I showed that after the Cultivation System was dismantled in 1870 the colonial government opened up the archipelago for private investment. Besides Java, investments increased in the Outer Islands, too, and non-Dutch foreign investors arrived in the Netherlands Indies as well. From the beginning of the twentieth century, the number of foreign firms active in the Netherlands Indies increased rapidly. In 1910, there were 1,678 firms and in 1920 the highest number of foreign incorporated companies was reached with 2,828. After this, the number decreased gradually to 1,563 in 1935 and before the start of the Pacific War it had slightly recovered to 1,702 companies. Three phases can be distinguished. The beginning of the twentieth century was characterized by initial investments and during the 1920s profits were reinvested, which, finally, led to a period of consolidation.

The majority of these firms were relatively young, most of them founded between 1900 and 1930. The largest part of the companies was either incorporated in the Netherlands Indies or the Netherlands. Companies seated in these two countries were responsible for more than 90% of all companies, but foreign non-Dutch owners could also decide to incorporate their companies in one of these countries. Nevertheless, the share of Dutch owners was overwhelming. British investors formed the second largest group, while

[171] Lindblad, 'De opkomst van de buitengewesten', 11–19.
[172] Lindblad, 'The late colonial state and economic expansion, 1900–1930', 139; Touwen, *Extremes in the archipelago*, 63–87; Lindblad, 'De opkomst van de buitengewesten', 20.

non-Dutch foreign investors had a particularly strong presence in the agricultural sector, such as rubber.

During 1910 to 1940, the agricultural sector remained the most important one in terms of numbers of companies, followed by manufacturing, commercial and trading firms. Mining and financial companies were small in number, but their share in total equity was considerable. The total share of financial companies in terms of equity was only second to the agricultural sector and although the latter was still the largest sector in equity, its share was only around one-third of total equity, whereas approximately half of all firms were active in the agricultural sector. Most of the incorporated companies had a total equity of less than ƒ500,000 and overall companies were relatively small, with only a tiny number of firms with much equity.

Around one-quarter of total Dutch investment went to the Netherlands Indies. The share of investment that went to the Netherlands Indies increased and corresponded to nearly half of total Dutch foreign investment in 1938.[173] The effects of the economic depression were not strongly reflected in the equity of the incorporated companies, although taking inflation into account, the results were more extreme. During the 1930s, prices dropped rapidly in the Netherlands Indies, which meant that the real value of companies increased. Compared with other colonial powers, imports and exports of the Netherlands from and to the Netherlands Indies were lower because the market in the Netherlands was smaller than in other countries such as France, England, Japan and the United States. In 1933, exports from the Netherlands Indies to the Netherlands amounted to only 19% of total Dutch imports. From the perspective of the Netherlands Indies, trade with the Netherlands was more important than vice versa.

[173] Van der Eng, *Economic benefits from colonial assets*, 19–12; Van der Eng, 'Exploring exploitation: The Netherlands and colonial Indonesia 1870–1940', 309–310; À Campo, 'Strength, survival and success', 55, 58–59; À, Campo, 'The rise of corporate enterprise in colonial Indonesia, 1893–1913', 83–84; Lindblad, 'Changing destinies in the economy of Southeast Asia', 346–348.