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

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Chapter 6. Operations by Dutch firms in early independent Indonesia

6.1 Introduction

In this chapter, I will discuss developments in Indonesia from 1942 until the late 1950s. This time period is divided into three phases, each with a character of its own and a unique type of business for foreign, and in particular, Dutch, firms.

The first phase 1942–1949 runs from the beginning of the Japanese occupation until the transfer of sovereignty by the Dutch to Indonesia (6.2). During the Japanese occupation, the Dutch lost their hold on the colony and after the war Indonesia proclaimed itself independent. Yet the Dutch tried to retain power. Regaining access to the private foreign companies, repairing factories and making them operate again were the chief conditions for the Dutch in order to succeed in Indonesia. The next phase 1950–1956 gives an insight into the development of private foreign companies in Indonesia until the abrogation of the Netherlands-Indonesian Union in February 1956 (6.3).¹ The final section, and phase covering 1956–1960 (6.4), describes the takeover and nationalisation of Dutch companies and the virtual end of Dutch investment in Indonesia. With the takeover of Dutch companies, the colonial era finally came to an end. Including the first years after the nationalisation of Dutch companies until 1960, the final part provides us with useful information about the effects on the economic development of Indonesia, when the country had achieved both political independence, and also economic independence, from the Netherlands. New investment in Indonesia which took place on a large scale from the second half of the 1960s onwards, falls outside the scope of this research.

The phase discussed in this chapter gives us an overview of the changing situation after the Dutch lost their hold on Indonesia, the struggle of the Dutch to take charge of Indonesia again, and their final expulsion from the country. Three topics are addressed: the development of foreign investment after 1945; the process culminating in nationalisation, 1950–1960; and the impact of foreign investment on the Indonesian economy in the period 1945–1960.

First, investment after the Pacific War is discussed. Many factories and estates were destroyed or heavily damaged during the Japanese occupation

¹ M.C. Ricklefs, *A history of modern Indonesia since c. 1200* (Basingstoke: Palgrave Macmillan, 2008) 305; Jean Bush Aden, *Oil and politics in Indonesia, 1945 to 1980* (PhD thesis, Cornell University, Ithaca, NY, 1988) 148.

and the following Indonesian Revolution. Recovery and reparations are discussed first. Adjusting investment policies to Indonesia's independence in 1945 is the next issue, preceding nationalisation. There was an abrupt halt to investment of Dutch capital which had repercussions. Some companies with headquarters in the Netherlands did manage to find new destinations for their overseas investment after the nationalisation, but others did not. Assets were taken over by the Indonesian government, which took charge of these companies after the law on the nationalisation of the Dutch companies was promulgated in December 1958.²

The second topic concerns the fear of nationalisation, which had profound effects on remittances and reinvestment of profits. This differed substantially from the pre-war period. Foreign companies continued to operate at a profit after they had recovered from war and revolution. Despite political problems, they chose to stay in Indonesia, hoping that the situation would improve. Nonetheless, not all sectors recovered from the war and several companies were reluctant to invest in Indonesia and decided to look for new opportunities abroad. Such changes provide an insight into how different sectors developed in the long run and the extent to which Indonesia remained a competitive player in export markets.

The third topic refers to profits and linkages. The positive effects of linkages are likely to have been smaller in the post-war period, since most funds were used for recovery from war damage and companies were reluctant to make new investments because of the political turmoil of the late 1940s and 1950s. Long-term investment was less pronounced, which implied less money spent on irrigation, infrastructure and other projects. Fiscal linkages arguably became more important, considering also that the Indonesian government introduced new legislation that included new taxes and constraints on overseas transfer of profits. By this analysis, it is possible to answer the key question, which is to what extent did foreign private companies contribute to the economic development of Indonesia during the early independent era?

6.2 Japanese occupation and Indonesian Revolution, 1942–1949

After the capitulation by the Netherlands Indies on 9 March 1942, all oil installations were put under management of the Japanese and foreign-owned agricultural estates were seized. On 11 April foreign banks were closed down

² J. Thomas Lindblad, 'The economy of decolonization in North Sumatra', in: J. Thomas Lindblad and Peter Post (eds), *Indonesian Economic Decolonization in Regional and International Perspective* (Leiden: KITLV Press, 2009) 87–106, in particular 95–97.

and their assets confiscated.³ Their assets and activities were taken over by the Japanese.⁴ The oil sector was heavily affected by the policy of the Japanese. Oil installations were managed by the Japanese navy, which initially tried to resume operations and restore production by making employees return to their work. Various Dutch and other Western engineers were even briefly released from internment. Within a few weeks, the Japanese authorities were able to resume the operation at the oil installations in Tarakan, Balikpapan and Palembang. But the damage caused by a Dutch scorched-earth policy resulted in a decline of output in 1942 to less than half of the 1938 level. In order to increase oil production, the Japanese brought 4,000 oil technicians to the Netherlands Indies, which amounted to 70% of all skilled personnel available for Japan in the oil industry. Technical training schools were established for Indonesian workers in the oil industry and they advanced to positions that had previously been closed to them.

Between April 1942 and March 1943 oil production amounted to 4 million tons, of which 40% was exported to Japan. Whereas in 1943 production rose to 6.5 million tons (90% of the 1938 level), it fell again to only 850,000 tons in 1945. The war had disrupted the transport sector and tankers shipping oil to Japan were sunk by enemy action more often in the later stages of the war.

Although oil production was controlled by the Japanese army, Japanese private companies were urged to invest in various other industries. For instance, Mitsubishi was in charge of the tin mines on Bangka and Belitung, Mitsui was active in bauxite and coal mining and managed the Ombilin and Bukit Asam coal mines, whereas Sumitomo operated nickel mines in Sulawesi.⁵ Output at Ombilin dropped drastically from 228,724 tons

³ Lindblad, *Bridges to new business*, 48; Peter Keppy, *Sporen van vernieling: Oorlogsschade, roof en rechtsherstel in Indonesië, 1940–1957* (Amsterdam: Boom, 2006) 28; Peter Keppy, *The politics of redress. War damage compensation and restitution in Indonesia and the Philippines, 1940–1957* (KITLV Press: Leiden, 2010) 23; Peter Keppy, 'Occupation: Economy', in: Peter Post et al. (eds), *The encyclopedia of Indonesia in the Pacific War* (Brill: Leiden, 2010) 218–281, in particular 219; Korthals Altes, *Tussen cultures en kredieten*; 371.

⁴ Pham Van Thuy, *Beyond political skin. Colonial to national economies in Indonesia and Vietnam (1910s–1960s)* (Singapore: Springer, 2019) 26–27.

⁵ Pham Van Thuy, *Beyond political skin*, 25–26; Lindblad, *Bridges to new business*, 53; Burgers, *De garoeda en de ooievaar*, 262–263; Aden, *Oil and politics in Indonesia, 1945 to 1980*, 40–42; Allen M. Sievers, *The mystical world of Indonesia: Culture and economic development in conflict* (Baltimore: John Hopkins University Press, 1974) 156; J. van Goor, *De Nederlandse koloniën: Geschiedenis van de Nederlandse expansie, 1600–1975* (Den Haag: SDU Uitgeverij, 1993) 315; Stephen Howarth and Joost Jonker, *A history of Royal Dutch Shell: Powering the hydrocarbon revolution, 1939–1973* (Oxford: Oxford University Press, 2007) 65–

of coal in 1942 to only 50,324 tons in 1945, even though the Japanese tried to find skilled workers to increase production and machines were brought in from the tin mines in Bangka to the coal mines.⁶

Different strategies were applied by the Japanese in the agricultural sector. Because the rubber industry had a vital military function, the military administration initially kept tight control. In July 1942, however, the Saibai Kigyô Kanri Kôdan (SKKK, Agricultural Estates Management Corporation) was put in charge of all agricultural estates, with the exception of sugar. In May 1944, activities of rubber and other agricultural plantations supervised by the SKKK were granted to private Japanese companies, and the few Dutch managers that were left had now been replaced by Japanese. In the meantime, rubber production dropped from 99,000 tons in 1940 to only 24,000 tons in 1944. Similar to the oil industry, the export of agricultural products was hindered by a shortage of shipping capacity.

Sugar was less vital to war production and initially the management of the sugar estates was in hands of the Tōgyō Rengōkai (TRK, Federation of the Sugar Industry Corporation). In November 1942, the control of the sugar companies in Java was transferred from the TRK to six Japanese companies.⁷ These six companies, together with Oei Tiong Ham and two Indonesian sugar estates, controlled the production of all sugar in Java. Dutch managers supervised operations until August 1943. Like rubber, the output of sugar fell dramatically during the Japanese occupation. By 1940 the sugar industry had

66; Anderson G. Bartlett, *Pertamina: Indonesian national oil* (Jakarta: Amerasian, 1972) 54; Ida Liana Tanjung, 'The Indonesianization of the symbols of modernity in Plaju (Palembang), 1930s–1960s', in: Freek Colombijn and Joost Coté (eds), *Cars, conduits, and kampongs. The modernization of the Indonesian city, 1920–1960* (Leiden: Brill, 2015) 300–322, in particular 310–312; Booth, *Economic change in modern Indonesia*, 35; Bisuk Siahaan, *Industrialisasi di Indonesia: Sejak hutang kehormatan sampai banting stir* (Jakarta: Pustaka Data, 1996) 108; Shigeru Satō, *War, nationalism and peasants: Java under the Japanese occupation 1942–1945* (Armonk: Sharpe, 1994) 5–8; Somers Heidhues, 'Company island: A note on the history of Belitung', 14; Ethan Mark, *Japan's occupation of Java in the Second World War* (London: Bloomsbury Academic, 2018) 209; Djajusman, *Hancurnya angkatan Perang Hindia Belanda* (Bandung: Angkasa, 1978) 67; NL-HaNa: Billiton Maatschappij, 41, Annual report 1943–1946, 1.

⁶ Pham Van Thuy, *Beyond political skin*, 26–27; Van Zanden and Marks, *An economic history of Indonesia 1800–2010*, 135.

⁷ Lindblad, *Bridges to new business*, 49–53; Pham Van Thuy, *Beyond political skin*, 27; Van Zanden and Marks, *An economic history of Indonesia 1800–2010*, 135; Keppy, *Sporen van vernieling*, 139–142; Keppy, 'Occupation: Economy', 224–225; Twang Peck Yang, *The Chinese business elite in Indonesia and the transition to independence, 1940–1950* (Kuala Lumpur: Oxford University Press, 1998) 92–93; M.A. Aziz, *Japan's colonialism and Indonesia* (The Hague: Martinus Nijhoff, 1955) 188–190.

slightly recovered from the economic crisis and in 1942 1.3 million tons of sugar were still being produced. In 1943, output nearly halved to 680,000 tons and 500,000 tons in 1944. In the final year of the war, less than 100,000 tons were produced.

In 1945 only 51 sugar factories were operational out of the 112 estates that had been active in March 1942. At HVA, for instance, of the 16 sugar factories seven remained in operation during the war and in 1945 only Ngadiredjo was active. Only Djatiroto II and Semboro were recoverable of the remaining sugar factories owned by the HVA. During the war, several sugar refineries, such as Djatiroto I, had been converted to the production of butyl alcohol from sugar-cane. This was mixed with petrol and used as fuel for airplanes. Sugar estates were also converted for the production of food crops and cotton in order to reach self-sufficiency. Other estates met the same fate. The acreage of tea estates declined by one-third, the oil palm industry by 16% and the rubber industry by 12%. Total production of the main food crops in Indonesia also dropped due to the war. In 1945 rice production had dropped by one-third, output of cassava was halved and maize production was even more affected with a drop of two-thirds. Food shortages and famine were rampant.⁸

Post-war development and recovery

Lack of statistics makes it impossible to give a good estimate of the decline in GDP and standards of living in Indonesia during the Japanese occupation. Initial estimates by Van der Eng showed a sharp decline in GDP: in 1945 it was less than half compared with 1941.⁹ Later, however, Van der Eng omitted the

⁸ Van Zanden and Marks, *An economic history of Indonesia 1800–2010*, 134–135; Lindblad, *Bridges to new business*, 53; Hartveld, *Raising cane*, 51–52; A. Kraal, 'Indonesie en suiker', *Ekonomi dan Keuangan Indonesia*, Vol. 6 (1953) 745–767, in particular 745–750; Burgers, *De garoeda en de ooievaar*, 317–319; Stoler, *Capitalism and confrontation in Sumatra's plantation belt, 1870–1979*, 97; T.F.H. Postma, J.W. d'Hane and J.A. von Meijenfeldt, *De Javasuikerindustrie gedurende de Japansche bezetting* (Batavia: Departement van economische zaken in Nederlandsch-Indië, 1946) 10–14; Pelzer, *Planter and peasant*, 124; NL-HaNa: HVA, 7, Report shareholders meeting 1–11–1946, 3–4–1947, 5–9–1947; NL-HaNa: HVA, 12, Annual report 1948, 10; Goedhart, *Eerherstel voor de plantage*, 142; Roger G. Knight, 'From Merdeka! to massacre: The politics of sugar in the early years of the Indonesian republic', *Journal of Southeast Asian Studies*, Vol. 43 (2012) 402–421, in particular 405; Brand, *1879 HVA 1979*, 74; J.P. van de Kerkhof, "Defeatism is our worst enemy". Rehabilitation, Reorientation and Indonesianisasi at Internatio and HVA, 1945–1958', *Lembaran Sejarah*, Vol. 8 (2005) 109–127, in particular 111–112.

⁹ Van der Eng, 'The real domestic product of Indonesia, 1880–1989', 369.

data for this period from his calculations, still maintaining that the peak of pre-war GDP per capita in 1941 was only reached again in 1971.¹⁰

The manufacturing sector was less affected. Local producers benefitted from import restrictions and the total number of factories increased from 340 in 1942 to 540 in 1945. Yet the overall situation was grim, not only in terms of economic development, but also for the millions of Indonesians who suffered during the war and those enduring forced labour.¹¹ The damage done to the economy during the war was estimated at f2.3 billion (in 1942 prices). This was comparable to 50% of GDP in colonial Indonesia in 1941. Recovering the economy and bringing economic development back to Indonesia would cost much time and energy.¹²

Although the Netherlands had been defeated in both Europe and Asia, the Dutch government was convinced that colonial rule over the Indonesian archipelago should be restored. The very idea of colonial rule was not questioned by the colonizer. Law and order had to be recovered before there could be any talk about independence. In the meantime, the situation had changed in Indonesia, where independence was proclaimed on 17 August 1945 by Sukarno and Hatta, two days after the Japanese capitulation. Even though chaos was rampant and the political situation was unstable after 1945, many Dutch companies were eager to continue operations as if nothing had happened. Factories and plantations were heavily damaged and repair would take considerable effort.¹³ Of the 136 ships the KPM possessed in 1939, only

¹⁰ Pierre van der Eng, 'Indonesia's economy and standard of living in the 20th century', in: J. Lloyd Grayson and Shannon L. Smith (eds), *Indonesia today: Challenges of history* (Singapore: Institute of Southeast Asian Studies, 2001) 181–199, in particular 182; Van der Eng, 'Indonesia's growth performance in the twentieth century', 172–173.

¹¹ L. de Jong, Jeroen Kemperman and Jennifer Kilian, *The collapse of a colonial society: The Dutch in Indonesia during the Second World War* (Leiden: KITLV Press, 2002) 54; Lindblad, *Bridges to new business*, 54; Rémy Limpach, *De brandende kampongs van generaal Spoor* (Amsterdam: Boom, 2016) 52; David van Reybrouck, *Revolusi. Indonesië en het ontstaan van de moderne wereld* (Amsterdam: De Bezige Bij, 2020) 290, 471.

¹² Van Zanden and Marks, *An economic history of Indonesia 1800–2010*, 136; Van der Eng, *Economic benefits from colonial assets*, 23; J.J. van der Wal, *De schade en het herstel: Dit rapport vormt het resultaat van een studie, welke in de periode van 1 januari – 1 mei 1945 gemeenschappelijk werd gemaakt* (n.p., 1946) 24.

¹³ Sluyterman, *Dutch enterprise in the twentieth century*, 167; Keppy, *Sporen van vernieling*, 31; J.J.P. de Jong, *Diplomatie of strijd: Een analyse van het Nederlands beleid tegenover de Indonesische Revolutie 1945 1947* (Meppel: Boom, 1988) 84; Sievers, *The mystical world of Indonesia*, 151; Booth, *Economic change in modern Indonesia*, 2; Jaap van der Zwaag, *Tjoeroeg: De Indische ondernemingslandbouw en de ondergang van een rubbercultuurmaatschappij* (Meppel: De Feniks Pers,

26 remained when the war was over.¹⁴ Installations at oil refineries had suffered badly from the war. Those at Balikpapan in East Kalimantan had been destroyed twice. In 1942 they were destroyed by the Dutch to prevent the Japanese from using the installations for war production, and when the Japanese were losing the war in 1945 the installations were destroyed again.

Already during the war, in April 1945, the United States and the Netherlands made an agreement. The Dutch would receive \$98 million in credits to be used in the first half year after liberation if they made vital raw materials from colonial Indonesia, such as oil and rubber, available to Allied troops. After the Japanese capitulation, however, the American army transferred command to the British forces. The progress of the British in reconquering the Indonesian archipelago was much slower than the Dutch had hoped, which also resulted in disappointment about the progress of making available raw materials for the United States, and as a result the US withdrew funding to the Netherlands.¹⁵

After the war, two sides were fighting for power in the Indonesian archipelago. The Republic Indonesia of Sukarno and Hatta controlled large parts of Java and Sumatra, in particular the crucial regions where many of the Dutch estates were located. The British, Australians and eventually the Dutch occupied the other Outer Islands and some strategic locations in Java and Sumatra. In October 1945 the Netherlands Indies government re-established its seat in what the Indonesians now called Jakarta, but was still named Batavia by the Dutch. In the final months of 1945 and early 1946, the presence of the Allied forces was restricted to the main port cities in Java and Sumatra. After British forces had withdrawn from Indonesia and the Netherlands Indies government resumed control, the Dutch remained intent on strengthening their position in Indonesia and occupy areas not yet under their control.¹⁶

2002) 156; Stef Scagliola, *Last van de oorlog: De Nederlandse oorlogsmisdaden in Indonesië en hun verwerking* (Amsterdam: Balans, 2002) 22–23.

¹⁴ Van Zanden and Marks, *An economic history of Indonesia 1800–2010*, 160; Marks, *Accounting for services*, 104.

¹⁵ Lindblad, *Foreign Investment in Southeast Asia in the Twentieth Century*, 103; Howard Palfrey Jones, *Indonesia: The possible dream* (New York: Harcourt, Brace & Jovanovich, 1971) 101. Some factories were even destroyed thrice. First by the Dutch to prevent Japanese from taking over the factories, second by the Japanese during the war and finally by the Indonesians after the war and during the Indonesian Revolution, Henri Baudet, 'Ondernemen in Indonesië na de Tweede Wereldoorlog', in: H. Baudet and M. Fennema (eds), *Het Nederlands belang bij Indië* (Utrecht: Spectrum, 1983) 136–175, in particular 136–137; Gert Oostindie, *Soldaat in Indonesië, 1945–1950: Getuigenissen van een oorlog aan de verkeerde kant van de geschiedenis* (Amsterdam: Prometheus, 2015) 20.

¹⁶ Limpach, *De brandende kampons van generaal Spoor*, 52–54; J.P. van de Kerkhof, 'Indonesianisasi of Dutch economic interests, 1930–1960: The case of

By late 1945, Royal Dutch Shell had managed to recover its installations in Borneo and some installations of Caltex and Royal Dutch Shell in South Sumatra were reoccupied in mid-1946. Royal Dutch Shell and Standard Vacuum Petroleum Company (Stanvac) negotiated with the governor of South Sumatra, A.K. Gani, to employ Indonesians who had occupied the refineries in return for unhindered rehabilitation and operation. As a result, Royal Dutch Shell and Stanvac were the first companies to reinvest in the Indonesian archipelago in 1946. In the first years after the war, several Indonesian oil companies were established too; they operated various oil installations previously exploited by the Dutch in Java and Sumatra.¹⁷

Tin mining in Belitung was rapidly resumed as well and the industry benefitted from rising tin prices. In May 1946 the first tin ore after the war was ready for export, even though many machines had been destroyed. New dredges were ordered, four Dutch and two American, and it was estimated that the recovery would cost in total around f40 million. Several of the other companies were also able to start production again.¹⁸

In order to come to an agreement about the division of the Indonesian archipelago, the Linggadjati Agreement was concluded on 15 November 1946 between the Netherlands and the Republic of Indonesia. The Netherlands admitted that the Republic Indonesia effectively exercised authority in much of Java and Sumatra. The Indonesians agreed to protect foreign possessions and companies. Right after the agreement was signed, the Dutch doubted whether the Indonesians could or would fulfil their undertaking. Ratification was withheld and only partially realized on 5 March 1947 and finally signed on 25 March.

In February 1947 average industrial capacity was about 50% of the pre-war level. In Bandung, Semarang and Surabaya the recovery of the economic situation was slow due to a lack of skilled labour, severe damage and a poor electrical supply. In the Outer Islands progress was even slower.¹⁹ The

Internatio', *Bijdragen tot de Taal-, Land- en Volkenkunde*, Vol. 161 (2005) 181–209, in particular 186–187; Van Reybrouck, *Revolusi*, 307, 323, 344.

¹⁷ Aden, *Oil and politics in Indonesia, 1945 to 1980*, 48, 53–56, 70–78.

¹⁸ NL-HaNa: Billiton Maatschappij, 31, Report shareholders meeting 7–12–1945, 4–1–1946; NL-HaNa: Billiton Maatschappij, 361, Annual report 1943–1946, 3; Broersma, *Eene zaak van regt en billijkheid*, 73; Kamp, *De standvastige tinnen soldaat*, 154; J.P. van de Kerkhof, 'Onmisbaar maar onbemind. De Koninklijke Paketvaart Maatschappij en de Billiton Maatschappij in het onafhankelijke Indonesië (1945–1958)', *Tijdschrift voor Sociale en Economische Geschiedenis*, Vol. 2 (2005), 122–146, in particular 128; Somers Heidhues, *Bangka tin and Mentok pepper*, 184.

¹⁹ Pham Van Thuy, *Beyond political skin*, 111; Burgers, *De garoeda en de ooievaar*, 356, 474–476, 484, 503; Keppy, *Sporen van vernieling*, 32; De Jong, *Diplomatie of*

agricultural export sector was divided between Republican and Dutch-controlled territories. In North Sumatra, the palm oil and rubber plantations were divided between the two sides. The Dutch controlled several tobacco estates in Deli, whereas the Indonesians were in charge of the tobacco plantations in East Java.²⁰

Dutch military actions and the transfer of sovereignty

From 21 July to 4 August 1947 the Netherlands attempted to enlarge the area under Dutch control by military force, in particular areas where Dutch corporations were located. Therefore, the military intervention was labelled 'Operation Product'. The purpose of the Dutch military intervention was threefold. First, to undermine the political and strategic position of the Indonesian Republic. Second, to retake Dutch companies occupied by the Indonesians in order to increase production and exports. Third, to prove to the US that the Dutch were in control of the situation in the Indonesian archipelago in order to receive a loan from the Americans.²¹

strijd, 345–346; Ide Anak Agung Gde Agung, 'Renville' als keerpunt in de Nederlands-Indonesische onderhandelingen (Alphen aan den Rijn: Sijthof, 1980) 39–40; Ide Anak Agung Gde Agung, *Twenty years Indonesian foreign policy 1945–1965* (The Hague: Mouton, 1973) 31; E.P.M. Tervooren, *Statenopvolging en de financiële verplichtingen van Indonesië* ('s-Gravenhage: Nijhoff, 1957) 61; Tom van den Berge, *H.J. van Mook: 1894–1965: Een vrij en gelukkig Indonesië* (Bussum: Uitgeverij Thoth, 2014) 238–239; Stoler, *Capitalism and confrontation in Sumatra's plantation belt, 1870–1979*, 117; Oostindie, *Soldaat in Indonesië*, 23; Limpach, *De brandende kampongs van generaal Spoor*, 54; Van Reybrouck, *Revolusi*, 381; Jeroen Kemperman, 'No lasting improvement without political agreement', Britse en Amerikaanse visies op het Nederlands-Indonesische conflict', in: Jeroen Kemperman, Emma Keizer and Tom van den Berge, *Diplomatie en geweld: De internationale context van de Indonesische onafhankelijkheidsoorlog, 1945–1949* (Amsterdam, Amsterdam University Press, 2022) 15–62, in particular 22–23.

²⁰ Lindblad, *Bridges to new business*, 61.

²¹ Pierre van der Eng, 'Marshall aid as a catalyst in the decolonization of Indonesia, 1947–49', *Journal of Southeast Asian Studies*, Vol. 19 (1988) 335–352, in particular 337; H.W. van den Doel, *Het rijk van Insulinde: Opkomst en ondergang van een Nederlandse kolonie* (Amsterdam: Prometheus, 1996) 286–287; Ulf Sundhaussen, *The road to power: Indonesian military politics 1945–1967* (Kuala Lumpur: Oxford University Press, 1982) 33–34; John Jansen van Galen, *Afscheid van de koloniën. Het Nederlandse dekolonisatiebeleid 1942–2012* (Amsterdam: Atlas Contact, 2013) 243. For the Dutch military action several names are used in the historiography. In Dutch the term *politieonele actie* is common, whereas in Indonesia the term *agresi militer Belanda* is more used, although Van den Doel also uses the term Dutch-Indonesian war, C. Fasseur, *De leeuw en de Cheshire kat: Engeland, Nederland en de dekolonisatie van Indonesië 1945–1949* (Amsterdam: Koninklijke Nederlandse

Dutch companies, such as HVA, encouraged the government to take military action. With this operation, the Dutch seized control of the ports in Java, all estates in Deli (Sumatra) and oil installations in Palembang. The attack was unexpected and rapid, resulting in occupation without severe damage. The Dutch military worked together with the DSM, which played an important role for transport of military goods and personnel. Nevertheless, the Dutch faced a big challenge. The condition of many estates was bad due to damage during the war and the Indonesian Revolution; also many estates were still not operational. Export volumes had plummeted. Sugar and palm oil exports were even less than 1% of pre-war levels. For estate rubber and oil the situation was not much better, with 5% and 12%, respectively. The situation was better for smallholders but their production was smaller and also affected by deteriorated trade and transport networks.²²

Although the Netherlands gained control over more than 1,000 enterprises, the Dutch companies still faced attacks from Indonesian forces. Much work had to be done before operations were back to normal.²³ There was a gradual improvement in economic terms in the areas controlled by the Dutch. By the end of 1947 nearly all tobacco estates were in Dutch hands, half of the oil palm estates and nearly two-thirds of the rubber plantations.²⁴ Nevertheless, production levels and employment in 1948 remained low. Wages were low and reconstruction and rebuilding were initially done by men, which meant that family incomes were lower still and employment

Akademie van Wetenschappen, 1999) 11; H.W. van den Doel, *Afscheid van Indië. De val van het Nederlandse imperium in Azië* (Amsterdam: Prometheus, 2000) 198.

²² Van Zanden and Marks, *An economic history of Indonesia 1800–2010*, 137; Lindblad, *Bridges to new business*, 65–73; Keppy, *Sporen van vernieling*, 33; Keppy, *The politics of redress*, 83–85; Agung, *‘Renville’ als keerpunt in de Nederlands-Indonesische onderhandelingen*, 55–60; Agung, *Twenty years Indonesian foreign policy 1945–1965*, 32; Pieter J. Drooglever, *De kolonie en dekolonisatie. Nederland, Nederlands-Indië en Indonesië. Een bundel artikelen aangeboden bij het afscheid van het Instituut voor Nederlandse Geschiedenis* (Den Haag, Instituut voor Nederlandse Geschiedenis, 2006) 140; Aden, *Oil and politics in Indonesia, 1945 to 1980*, 80; Meijer, *De Deli Spoorweg Maatschappij: Driekwart eeuw koloniaal spoor*, 99; Van de Kerkhof, “Defeatism is our worst enemy”. Rehabilitation, Reorientation and indonesianisasi at Internatio and HVA, 1945–1958’, 113; Van Reybrouck, *Revolusi*, 395; For more information about the effects of the military actions on the indigenous population see also: Limpach, *De brandende kampongs van generaal Spoor*.

²³ Sluyterman, *Dutch enterprise in the twentieth century*, 168; Burgers, *De garoeda en de ooievaar*, 552–558; Van der Zwaag, *Verloren tropische zaken*, 280–283.

²⁴ Pelzer, *Planter and peasant*, 135.

opportunities for women were scarce. In early 1948 the HVA operated with only 50% of its former labour force.²⁵

Before the war, the companies had had sufficient financial reserves. GMB was even able to produce at full capacity until the start of 1942, and as a result could finance its recovery largely by itself, although it was helped by a remission from the colonial government.²⁶ However, a survey of 740 Dutch companies calculated that these firms only had f284 million available for the reconstruction. This amounted to f330,000 on average per company. For HVA alone, the loss was estimated at f160 million.

Nevertheless, HVA assumed prospects to be good. Already in 1947, a recapitalization took place by increasing equity from f40 million to f60 million. Instead of paying dividends at a higher rate, the HVA increased equity by providing shareholders one new share for every two shares held. This recapitalization also had fiscal benefits for the HVA. HVA had to pay dividend tax on the interim dividend of 1940, estimated at around f5.2 million, but with the recapitalization HVA could receive f3.2 million from the state. With such a windfall gain, it then appeared that HVA was intent on staying in Indonesia after the war and continue its operations as usual. The Java Bank did not provide much capital to stimulate the recovery of Dutch companies. By March 1948, the Java Bank had lent only f8.7 million to 115 companies, including 76 Chinese companies and 22 Western firms. This was only a very small share of total corporate funds reported to be needed for reconstructing Dutch companies.²⁷ Plans were made by the Dutch government to create a *Herstelbank* (Bank of Reconstruction) with f300 million of equity, but it failed to materialize.²⁸

In the oil sector, however, significant new investment did take place after the war, mostly through reinvestment of profits. This was different from the 1920s when more investment was done in agricultural industries. Exports

²⁵ Stoler, *Capitalism and confrontation in Sumatra's plantation belt, 1870–1979*, 118–119.

²⁶ NL-HaNa: Billiton Maatschappij, 361, Annual report 1942, 5; NL-HaNa: Billiton Maatschappij, 416, Report financial situation 31–12–1945.

²⁷ NL-HaNa: HVA, 12, Annual report 1940, 8–9; Lindblad, *Bridges to new business*, 66; Goedhart, *Eerherstel voor de plantage*, 145, 170.

²⁸ H.J.M. van Leeuwen, 'De financiering van het industrieel herstel', *Economisch Weekblad voor Indonesië*, Vol. 14 (1948) 720–723, in particular 723; C.F. Scheffer, *Het bankwezen in Indonesië sedert het uitbreken van de tweede wereldoorlog* (Jakarta: Noordhoff-Kolff, 1951) 90–92; Baudet, 'Ondernemen in Indonesië na de Tweede Wereldoorlog', 138; Goedhart, *Eerherstel voor de plantage*, 144–145, 170; John, O. Sutter, *Indonesianisasi: Politics in a changing economy, 1945–1955* (PhD thesis, Cornell University, Ithaca, NY: 1959) 626; ANRI, Jakarta: Algemeene Secretarie, 480, 28–6–1948; Bank Indonesia, Jakarta: DJB, 2993, 30–4–1946.

of petroleum increased too. In 1948, agreements were made with the three major foreign oil companies, Caltex, Royal Dutch Shell and Stanvac. With these Let Alone agreements the companies were exempted from restrictions regarding remittance of profit and access to foreign exchange. The colonial government lowered the tax rate for these companies from 20 to 8%. Pre-war concessions were extended by three years, the period which the companies had lost during the war. In return, the companies were urged to repair their installations and continue production as quickly as possible.²⁹

The government also made agreements for the mining industry. Recovery of the tin industry was the task of the GMB. Billiton increased its issued equity from f14 million to f16.8 million by not paying out dividend for the years 1940–1946 but issuing 20% in shares.³⁰ In March 1948, the government put the GMB in charge of operating the mines in Bangka, for which GMB would receive f460,000 each year including a share of the profit, and the mining concession for GMB in Belitung was extended to 1953. Recovery of the operations in Bangka was time-consuming, and smelting works in Bangka were not recovered, but raw tin ore was shipped to Arnhem and Texas for further processing. Initiatives were also taken to employ the indigenous population instead of recruiting labourers from China.³¹

The Marshall Plan and credits provided by the US had made it possible for the Netherlands to strengthen its position in Indonesia.³² Initially, the Dutch government was grateful for the support from the US. The US also supported the Dutch because they declared that eventually Indonesia would gain sovereignty. The US was afraid that communism would spread in Indonesia and that American investment there would be lost. After the Indonesian Republic successfully beat down the communist revolt in Madiun in September 1948, and after claims by Indonesia that the Netherlands would use the money of the Marshall Plan for military action in Indonesia, American

²⁹ J.A.C. Mackie, 'The Indonesian economy 1950–1963', in: Bruce Glassburner (ed.), *The economy of Indonesia: Selected readings* (Ithaca, NY: Cornell University Press, 1971) 16–69, in particular 35; Lindblad, *Bridges to new business*, 41, 58–59; Aden, *Oil and politics in Indonesia, 1945 to 1980*, 88; K.D. Thomas and J. Panglaykim, 'Indonesian exports: Performance and prospects 1950–1970, part II', *Bulletin of Indonesian Economic Studies*, Vol. 3 (1967) 66–88, in particular 74.

³⁰ NL-HaNa: Billiton Maatschappij, 44, Annual report 1947, 5.

³¹ NL-HaNa: Billiton Maatschappij, 416, Report financial situation 16–12–1949; NL-HaNa: Billiton Maatschappij, 31, Report shareholders meeting 7–12–1945, 30–6–1947; NL-HaNa: Billiton Maatschappij, 361, Annual report 1947, 5–7; Van de Kerkhof, 'Onmisbaar maar onbemind. De Koninklijke Paketvaart Maatschappij en de Billiton Maatschappij in het onafhankelijke Indonesië (1945–1958)', 128.

³² Gouda and Brocades Zaalberg, *American visions of the Netherlands East Indies/Indonesia*, 29.

support shifted in favour of Indonesia. In December 1948, the US declared that if the Netherlands went so far as starting a new military action, their support for the Netherlands for reconstruction in Indonesia would be discontinued.³³

Nevertheless, The Dutch decided to strengthen their position in Indonesia again. With the second Dutch military intervention, which lasted from 19 December 1948 to 5 January 1949, the Dutch occupied larger areas. It was a military success but a diplomatic failure, and support from Dutch companies in Indonesia was less this time. Dutch companies increasingly realized that Indonesian independence was inevitable. Most companies were not unwilling to continue operations in independent Indonesia. The area of rubber, oil palm and tea estates in North Sumatra and West Java in Dutch hands doubled in size, while the number of agricultural companies controlled by the Dutch rose to 750. A survey of 360 factories showed that damages inflicted by both military actions left 31% of the factories unrepairable, 21% was still recoverable and 48% of the factories was undamaged.³⁴

This second military intervention led to an increase in total export production capacity of around f250 million, which was around half of the total increase of export revenue between 1948 and 1949. However, total damage of the war and two military actions was much larger, amounting to f4.15 billion. Including losses of crops and food, this total increased to f6.5 billion. Recovery of the economy would surely take a long time. Copra, oil and rubber combined provided more than 60% of the total export revenue from areas controlled by the Dutch. The importance of Indonesian smallholders increased, in particular in the rubber industry, whereas copra was dominated completely by smallholders. Crops like coffee, tobacco and sugar, which had played a major role before the war, were less important to the recovery of Indonesia.³⁵

³³ Pierre van der Eng, *De Marshall-hulp: Een perspectief voor Nederland, 1947–1953* (Houten: De Haan/Unieboek, 1987) 211–216; Sluyterman, *Dutch enterprise in the twentieth century*, 168; Anne Booth, 'Towards a modern fiscal state in Southeast Asia, c. 1900–60', in: Ewout Frankema and Anne Booth (eds), *Fiscal capacity and the colonial state in Asia and Africa, c. 1850–1960* (Cambridge: Cambridge University Press, 2020) 36–78, in particular 61.

³⁴ Keppy, *Sporen van vernieling*, 61, 77; Van Reybrouck, *Revolusi*, 432; John Jansen van Galen, *Fiasco van goede bedoelingen. Nederland en de Indonesische onafhankelijkheid* (Amsterdam: Pluim, 2019) 180–185.

³⁵ Lindblad, *Bridges to new business*, 66–69; Sluyterman, *Dutch enterprise in the twentieth century*, 168; Joris Nobel and Meindert Fennema, 'Economische elites na de dekolonisatie van Nederlands-Indië. Verlies van posities, desintegratie van netwerken, verschuiving van zwaartepunten', in: Meindert Fennema and Huibert Schijf (eds), *Nederlandse elites in de twintigste eeuw. Continuïteit en verandering* (Amsterdam: Amsterdam University Press, 2004) 15–38, in particular 19–20;

Sumitro Djojohadikusumo, who was at first a commissioner for the trade relations between Indonesia and the US and then representative of the Indonesian delegation to the United Nations, spoke in Washington with undersecretary Robert A. Lovett from the State Department on 20 December 1948. Sumitro requested that the US stop foreign aid to the Netherlands. In the US, Sumitro got support from various groups. As a result, the US asked the United Nations Security Council to discuss the Dutch military intervention, and on 28 January 1949 the Council ordered a ceasefire.³⁶

A week later the military intervention ended and it was no longer necessary for the US to threaten the Netherlands with halting all financial aid provided by the Marshall Plan. The Dutch had to restore the Republican government in Yogyakarta and start negotiations for a transfer of sovereignty. The Ronde Tafel Conferentie (RTC, Round Table Conference) in The Hague, initiated to set the terms of transfer, took place from 23 August to 2 November 1949.³⁷

On 2 November, 1949 the Financieele en Economische Overeenkomst (Finec, Financial and Economic Agreement) was signed by both parties.³⁸ Indonesia was saddled with a debt unheard of in the history of decolonization. During and after the war, the debt of the colonial government to the Netherlands had increased significantly. In March 1942 it amounted to f2.6 billion, increasing to f4 billion in 1947. With the costs of the first military intervention, the total debt even rose to f5.9 billion by September 1949. Export earnings were lower than expenditure on imports and the deficit in the balance of trade increased dramatically in 1946 and 1947. Although exports increased in 1948 and 1949, the Indonesian government finally had to acquiesce, after negotiations, in a debt of f4.3 billion (\$1,130 million) that had to be paid to the Netherlands by June 1964. A total of f3 billion of this debt

Burgers, *De garoeda en de ooievaar*, 603–608; Aden, *Oil and politics in Indonesia, 1945 to 1980*, 99–100; Sluyterman, *Kerende kansen*, 216; Van der Zwaag, *Verloren tropische zaken*, 282–284; Bank Indonesia, Jakarta: DJB, 1553, Annual report 1949–1950, 98; Bank Indonesia, Jakarta: DJB, 2993, 29–3–1946, 30–4–1946.

³⁶ J. Thomas Lindblad, 'Politieke economie en de dekolonisatie in Indonesië', in: J. Thomas Lindblad en Willem van der Molen (eds), *Macht en Majesteit. Opstellen voor Cees Fasseur bij zijn afscheid als hoogleraar in de geschiedenis van Indonesië aan de Universiteit Leiden* (Leiden: Vakgroep talen en culturen van Zuidoost-Azië en Oceanië, 2002) 132–146, in particular 136–137.

³⁷ Aden, *Oil and politics in Indonesia, 1945 to 1980*, 102; Van der Eng, *De Marshall-hulp*, 216–218.

³⁸ Pham Van Thuy, 'The constraints of economic nationalism in early independent Indonesia, 1945–60', in: Alicia Schrikker and Jeroen Touwen (eds), *Promises and predicaments. Trade and entrepreneurship in colonial and independent Indonesia in the 19th and 20th centuries* (Singapore: NUS Press, 2015) 227–243, in particular 229; Lindblad, *Bridges to new business*, 73.

consisted of the internal debt of the colonial government to the Netherlands. The remainder was an external debt to other creditors in either the Netherlands or elsewhere. No payments were made by Indonesia for the Dutch military interventions. The financial concessions Indonesia made far outweighed the economic assistance that the US gave to Indonesia. Whereas Indonesia received one-third of what the Dutch got, the Dutch were no longer responsible for the economic recovery of Indonesia and they had secured their share of the Marshall aid.³⁹

For Dutch companies active in Indonesia, the agreement guaranteed unhindered business operations. The Dutch failed to occupy the entire Indonesian archipelago by military means, but succeeded in securing the position of their companies and factories along the diplomatic way. Article 1 of the Finec demanded a restoration of the legal rights according to colonial rule. Article 3 guaranteed against nationalisation of Dutch companies. Only if these companies operated in the public interest and both parties agreed, would it be possible to nationalize them. In that case, compensation had to be paid. The Dutch pledged to participate in joint ventures with Indonesian business, if this proved viable, according to Article 5.

With Article 12(d) Indonesians had to be included in the management of Dutch companies and eventually they had to form the majority of managers and supervisors. This process was called *Indonesianisasi* and its purpose was to increase the participation of Indonesians, in particular indigenous Indonesians in higher positions in foreign companies. Some companies, such as HVA, had started with some *Indonesianisasi* as early as 1940, although at a slow pace. To conclude, Article 19 of Finec required the Indonesian government to consult with the Dutch government in matters of economic and financial policy as long as the debt of the Republic to the Netherlands had not

³⁹ Thee Kian Wie, 'Indonesianization. Economic aspects of decolonization in Indonesia in the 1950s', in: J. Thomas Lindblad and Peter Post (eds), *Indonesian Economic Decolonization in Regional and International Perspective* (Leiden: KITLV Press, 2009) 19–38, in particular 20–25; Taufik Abdullah, *The heartbeat of Indonesian revolution* (Jakarta: Gramedia, 1997) 26; George McT. Kahin, *Nationalism and revolution in Indonesia* (Ithaca, NY: Cornell University Press, 1952) 443; Pham Van Thuy, 'The constraints of economic nationalism in early independent Indonesia, 1945–60', 229; Lindblad, *Bridges to new business*, 67, 73–74; Booth, *Economic change in modern Indonesia*, 37; Lindblad, 'Politieke economie en de dekolonisatie in Indonesië', 135; Van der Eng, 'Marshall aid as a catalyst in the decolonization of Indonesia, 1947–49', 351–352. Apart from the \$100 million loan from the US, Indonesia had received a gift of \$37.5 million by the Organisation for Economic Cooperation and Development, plus a loan of \$2.2 million and special drawing rights with a value of \$9 million, Van der Eng, *De Marshall-hulp*, 215, 222, 227.

been fully paid.⁴⁰ The Java Bank, which had served as the central bank of the Netherlands Indies, was still in Dutch hands, and thus reduced opportunities for Indonesia to pursue an independent monetary policy.⁴¹

The Finec secured the maximum feasible for the Dutch in economic terms. Dutch companies that were active in Indonesia still had room to breathe when sovereignty was transferred to the Republic of the United States of Indonesia on 27 December 1949. Dutch entrepreneurs were optimistic that economic recovery and growth in Indonesia remained possible and that activities could be continued, even when the Dutch had become a guest in a foreign country. Few companies, however, were aware that decolonization would not only imply political independence from the Netherlands, but that economic decolonization would become a growing issue for Indonesians too.⁴²

⁴⁰ Van Zanden and Marks, *An economic history of Indonesia 1800–2010*, 137; Lindblad, *Bridges to new business*, 73; Burgers, *De garoeda en de ooievaar*, 653–656; Keppy, *Sporen van vernieling*, 34; Tervoorren, *Statenopvolging en de financiële verplichtingen van Indonesië*, 129, 138–140, 167, 178, 180; Sievers, *The mystical world of Indonesia*, 165; Agung, 'Renville' als keerpunt in de Nederlands-Indonesische onderhandelingen, 304, 326–330, 343; Agung, *Twenty years Indonesian foreign policy 1945 1965*, 15–17; J.A. Bank, 'Rubber, rijk, religie: De koloniale trilogie in de Indonesische kwestie 1945 1949', *Bijdragen en Mededelingen betreffende de Geschiedenis der Nederlanden*, Vol. 96 (1981) 230–259, in particular 243–244; J.J.P. de Jong, and Harry A. Poeze, *Avondschot: Hoe Nederland zich terugtrok uit zijn Aziatisch imperium* (Amsterdam: Boom, 2011) 639; John Rhijnsburger and Meindert Fennema, 'Nederland, Indië en de wereldmarkt', in: Ferd Crone and Henk Overbeek (eds), *Nederlands kapitaal over de grenzen. Verplaatsing van produktie en gevolgen voor de nationale ekonomie* (Amsterdam: Uitgeverij SUA, 1981) 72–93, in particular 88; Keppy, *The politics of redress*, 204; Brand, 1879 HVA 1979, 76; Sutter, *Indonesianisasi*, 1–3; Hans Meijer, *Den Haag-Djakarta: De Nederlands-Indonesische betrekkingen 1950–1962* (Utrecht: Spectrum, 1994) 46–47.

⁴¹ Booth, *Economic change in modern Indonesia*, 39.

⁴² Sluyterman, *Dutch enterprise in the twentieth century*, 168; Nobel and Fennema, 'Economische elites na de dekolonisatie van Nederlands-Indië. Verlies van posities, desintegratie van netwerken, verschuiving van zwaartepunten', 19–20; Lindblad, *Bridges to new business*, 66; Burgers, *De garoeda en de ooievaar*, 668–674; Thee, 'Indonesianization', 22; M. Fennema and H. Baudet, 'Beheersconcepties en beleidsvisies', in: H. Baudet and M. Fennema (eds), *Het Nederlands belang bij Indië* (Utrecht: Spectrum, 1983) 9–28, in particular 21–23; Van de Kerkhof, 'Indonesianisasi of Dutch economic interests, 1930–1960: The case of Internatio', 189. Benjamin Higgins, a UN consultant to the Indonesian government, estimated that most of Indonesia's modern sector, that was still dominated by Dutch business activities, accounted for around 25% of Indonesia's GDP and about 10% of total employment, Benjamin Higgins, 'Thought and action: Indonesian economic studies and policies in the 1950s', *Bulletin of Indonesian Economic Studies*, Vol. 26 (1990) 37–47, in particular 39–41.

In this section, we have seen that the Pacific War and the subsequent Indonesian Revolution, including two military actions by the Dutch, had a significant impact on foreign companies operating in Indonesia. The Dutch tried to maintain their position in the archipelago, but eventually had to transfer sovereignty to Indonesia. From an economic perspective, the situation was different and Dutch companies remained active in Indonesia. In the next section, we shall see if and to what extent these companies were able to recover their export volumes and become profitable.

6.3 New investment and economic growth, 1950–1956

In the previous part, we saw that investment by foreign private companies before the transfer of sovereignty to Indonesia mainly concerned recovery from the war and the Indonesian Revolution. Here we focus on fresh investment and investigate whether companies did in fact expand in Indonesia after 1949 with new production facilities.

Although several foreign companies active in Indonesia had shifted their emphasis in production by starting out elsewhere before or immediately after the war, many of the large ones remained active in Indonesia. These companies expected that high profit rates would continue during the 1950s and that prospects were good for the primary export crops. This idea was strengthened by the Korean War boom of the early 1950s which led to a higher demand for key products.⁴³

Another argument in favour of staying in Indonesia was that the companies were specialized in operating in Indonesia. Much research had been done about soil and climate in order to increase productivity. In addition, managers were convinced that their presence was essential to Indonesia. Without them, they believed, the economy would collapse.⁴⁴ After an agreement was reached at the RTC in November 1949, Dutch and other foreign companies could continue their operations in Indonesia, controlling the large and modern export industries in the agricultural and mining sectors.⁴⁵

In 1950 President Sukarno argued that foreign investment was necessary to develop the economy of Indonesia. The cabinet of Sukiman in 1951 encouraged foreign investment, in particular Sjafruddin Prawiranegara

⁴³ Mackie, 'The Indonesian economy 1950–1963', 14.

⁴⁴ Sluyterman, *Kerende kansen*, 218–221.

⁴⁵ Thee, *Explorations in Indonesian economic history*, 112; Baudet, 'Ondernemen in Indonesië na de Tweede Wereldoorlog', 140.

as a Minister of Finance.⁴⁶ The economist Sumitro Djojohadikusomo was another ardent supporter. In late 1952, Prime Minister Wilopo requested a study of foreign investment and began drafting a law on foreign investment, but this was not finished when the Wilopo cabinet fell in June 1953. The first official policy on foreign investment was formulated in February 1954 during the first Ali Sastroamidjojo cabinet, while another one was issued during the following cabinet of Burhanuddin Harahap, in 1955. In 1956, during the second Ali Sastroamidjojo cabinet, a law on foreign investment was submitted to Parliament, but it was not approved. Only in 1958 was the new law promulgated.

During the first half of the 1950s, the Indonesian government was still favourable to foreign investment, in particular non-Dutch firms, but in 1955 restrictions were introduced. Several sectors such as public utilities were excluded from foreign investment and had to be owned by the government and basic industries were limited to a foreign ownership of 49%. These criteria were in line with what Sumitro had argued already in 1952.⁴⁷ The question is whether this policy of the Indonesian government succeeded in attracting much new foreign investment in the first half of the 1950s.

Investment in oil

One branch of industry that became increasingly important in early independent Indonesia was the oil industry. The three foreign oil companies, Royal Dutch Shell, Caltex and Stanvac, invested significant sums in Indonesia during the 1950s. \$350 million (£1,330 million) was spent on rehabilitation and expansion.⁴⁸ Oil companies were in particular stimulated to invest in Indonesia as a result of the Let Alone agreements made with the Dutch colonial government in the late 1940s.⁴⁹

⁴⁶ William A. Redfern, *Sukarno's guided democracy and the takeovers of foreign companies in Indonesia in the 1960s* (PhD thesis, University of Michigan, Ann Arbor, MI, 2010) 126.

⁴⁷ Redfern, *Sukarno's guided democracy and the takeovers of foreign companies in Indonesia in the 1960s*, 127–128; Lindblad, *Bridges to new business*, 171; Thee, 'Economic policies in Indonesia during the period 1950–1965, in particular with respect to foreign investment', in: J. Thomas Lindblad (ed.), *Historical foundations of a national economy in Indonesia, 1890s–1990s* (Amsterdam: North-Holland, 1996) 315–330, in particular 326–328.

⁴⁸ Aden, *Oil and politics in Indonesia, 1945 to 1980*, 172; Benjamin Higgins, *Indonesia's economic stabilization and development* (New York: Institute of Pacific Relations, 1957) 78.

⁴⁹ Mackie, 'The Indonesian economy 1950–1963', 35; Lindblad, *Bridges to new business*, 41.

The Indonesian government fully understood the importance of the oil industry and the necessity of foreign technology. Caltex was more successful than the other two in consolidating its position. In 1952, it expanded into Riau, whereas Royal Dutch Shell and Stanvac were less fortunate in obtaining new concessions. As a result, Caltex spent around \$50 million (£190 million) in 1952 alone, the same amount Stanvac had spent between 1945 and 1951. Total American investment increased from \$130 million (£494 million) in 1949 to \$262 million (£996 million) in 1954, with the oil industry responsible for more than two-thirds of the total.⁵⁰

In March 1954, Stanvac signed a new foreign exchange agreement with the Indonesian government which obliged Stanvac to invest \$80 million (£304 million) in the Lirik oil field in Central Sumatra and also to include more Indonesian staff members in higher positions. In return, Stanvac was exempted from import duties on imported capital equipment.

After observing these developments, Caltex started negotiations with the government too. Similar to Stanvac, Caltex promised to hire more Indonesian staff members and make new investments. Developing a harbour near its oil installations in Dumai was estimated at a total of \$100 million (£380 million). A paved road of 170 km connecting the oil installations to the port was also constructed. Negotiations of Royal Dutch Shell with the Indonesian government resulted in comparable tax and duty exemptions as for Stanvac and Caltex, but the capital to be invested for this agreement was not disclosed.⁵¹

In New Guinea, the oil industry was the most important area for investment. New Guinea remained a Dutch possession also after the transfer of sovereignty. Besides investment by the Nederlandsche Nieuw-Guinea Petroleum Maatschappij (NNGPM, Netherlands New Guinea Oil Company), no other significant investment had been made in New Guinea before Indonesian independence. Royal Dutch Shell had a share of 40% in this company and was responsible for management. In 1956, the total amount of private investment in New Guinea was estimated to be only around £12

⁵⁰ Mackie, 'The Indonesian economy 1950–1963', 35; Lindblad, *Bridges to new business*, 172–174; Lindblad, *Foreign investment in Southeast Asia in the twentieth century*, 105; Alex Hunter, 'The Indonesian oil industry', in: Bruce Glassburner (ed.), *The economy of Indonesia: Selected readings* (Ithaca, NY: Cornell University Press, 1971) 254–314, in particular 262–263.

⁵¹ Aden, *Oil and politics in Indonesia, 1945 to 1980*, 136; Lindblad, *Bridges to new business*, 174; Bartlett, *Pertamina: Indonesian national oil*, 109–112; Redfern, *Sukarno's guided democracy and the takeovers of foreign companies in Indonesia in the 1960s*, 160; Haccoû and Reid, *Management of direct investments in less developed countries*, 201.

million. High costs and a relatively low production level were characteristic for NNGPM. Oil production peaked in 1954 at 500,000 tons and declined afterwards.⁵²

Investment in agricultural estates

Initially, other Dutch companies were interested in doing business in New Guinea as well. Koninklijke Luchtvaart Maatschappij (KLM, Royal Dutch Airlines), KPM and NHM were active in New Guinea, but the Dutch government had much difficulty attracting an import company for New Guinea. Hagemeyer established the Nieuw-Guinea Import en Export Maatschappij (NIGIMIJ, New Guinea Import and Export Company) and became a profitable asset for Hagemeyer until the late 1950s.⁵³

Large estate industries, such as the sugar industry in Java, had to spend considerable money and energy on recovery before starting to produce again. Many estates had been destroyed. Only 55 sugar factories were able to continue operations right after the war, a far cry from the situation before the economic depression of the 1930s when nearly 200 factories were in operation. Occupation of land by squatters was rampant. It was not uncommon that one-third of the harvest was lost as a result of fire or theft. As a result, foreign estate owners were reluctant to make any significant new investments. Gradually, the situation improved in the early 1950s and good contacts with village heads and local officials did help here. But although the Indonesian government wanted to get the sugar factories operational again, foreign money failed to flow in.⁵⁴

Problems with labour, squatters and conversion of estate land into food production, rising costs and competition with other countries, difficulties with bureaucracy and remitting profits meant that companies tried to spend as little as possible just to keep operations running. It became increasingly difficult to attract investors in industries other than oil as a result of Sukarno's increasingly leftist policies. Oil was seen as a vital industry and investment in this industry was fully supported by the Indonesian government. Even though

⁵² Cornelis Antonius Cannegieter, *De economische toekomst-mogelijkheden van Nederlands Nieuw-Guinea* (Leiden: Stenfert Kroese, 1959) 52–54, 101–103.

⁵³ Cannegieter, *De economische toekomst-mogelijkheden van Nederlands Nieuw-Guinea*, 52–61; R.J. Stratenus, *Een voorlopig onderzoek naar de economische vooruitzichten in Nederlands Nieuw Guinea* (Amsterdam: Paris, 1952) 49–53.

⁵⁴ Hartveld, *Raising cane*, 54, 82–83; Bosma, *The sugar plantation in India and Indonesia: Industrial production, 1770–2010*, 223–226; Thee, 'Economic policies in Indonesia during the period 1950–1965', 342; Van der Eng, *Agricultural growth in Indonesia*, 224.

the Korean War boom of 1950–1952 increased demand for products such as rubber and tin, the effects only lasted a few years before prices fell and optimism faded.⁵⁵ In the rubber industry, for instance, lack of replanting in the 1940s meant that rubber had to be produced from older and less productive trees. By and large, output figures for most export products were lower than those of the pre-war period.⁵⁶

By 1952, around 70% of the foreign estates in Java and Sumatra had been returned to their legal owners. Around 80% of the fibre estates, 88% of the palm oil plantations and 98% of the rubber estates in Medan were back in the hands of their legal owners. In West Java, most estates and in East Java around 60% of the estates had been returned to the owners as well. This amounted to 1,140 estates, covering an area of around 2 million hectares. In the following years, 466 more estates, covering about 480,000 hectares, were returned as well.⁵⁷

Many new companies were founded during the 1950s. In 1951, 491 firms and in 1953 544 had been founded. However, nearly half of these companies were indigenous Indonesian whereas the rest was dominated by Chinese Indonesians. In 1951, only 35 Dutch firms were founded and in 1953 the number was even lower with 16 new Dutch companies.⁵⁸ In terms of capital, foreign firms still held the largest share and in 1953 only 19% of non-agricultural capital was owned by *pribumi* Indonesians.⁵⁹

In the meantime, more foreign companies searched for opportunities outside Indonesia, where restrictions were less stringent and the investment climate was better. Latin America and Africa were popular locations, although not all efforts proved profitable. Billiton had strengthened its position in Suriname and Southern Rhodesia, (today's Zimbabwe) and had ventured into

⁵⁵ J.A.C. Mackie, 'The 1941–1965 period as an interlude in the making of a national economy: How should we interpret it?', in: J. Thomas Lindblad (ed.), *Historical foundations of a national economy in Indonesia, 1890s–1990s* (Amsterdam: North-Holland, 1996) 331–348, in particular 339; Lindblad, *Bridges to new business*, 153–154.

⁵⁶ Airriess, *A port system in a developing regional economy*, 128; Makarim, *Companies and business in Indonesia*, 249; Henri Baudet and R.C. Carrière, 'Het Nederlandse bedrijfsleven in Nederlands-Indië/Indonesië 1945–1958', *Oost-West*, Vol. 9 (1970) 65–70, in particular 67.

⁵⁷ Pham Van Thuy, *Beyond political skin*, 149; Keppy, *Sporen van vernieling*, 189.

⁵⁸ Sutter, *Indonesianisasi*, 1307; J. Panglaykim, 'Marketing organisation in transition', *Bulletin of Indonesian Economic Studies*, Vol. 4 (1968) 35–59, in particular 46; J. Thomas Lindblad, 'De economische dekolonisatie van Indonesië', in: Els Bogaerts & Remco Raben (eds), *Van Indië tot Indonesië* (Amsterdam: Boom, 2007) 91–106, in particular 100–101.

⁵⁹ Lindblad, *Bridges to new business*, 40, 151; Pham Van Thuy, *Beyond political skin*, 152; Meijer, *Den Haag-Djakarta*, 350, 497.

Uganda even before the Second World War. In 1951, only 22.4% of its investment was in Indonesia, whereas it had invested 42.8% in Suriname and the remaining share in Africa, Europe and the United States. Investments made during the 1950s, therefore, went largely to countries other than Indonesia. However, in 1951, 55% of the profits still came from Indonesia.⁶⁰

Immediately after the war, HVA looked for investment possibilities in America and in Africa too. HVA started sugar operations in Ethiopia and by 1953 39% of its equity had been invested there, but HVA was unable to attain similar successes there as in the past in Java. In 1953 HVA was still reinvesting profits in Indonesia, in particular in oil palm and rubber, since only a part of the profit could be transferred to the Netherlands, but new capital largely went to other countries.⁶¹

The Deli Company tried its luck in Malaya, Panama and Paraguay, but was more successful in the United States and Europe. In 1947, 53% of its equity was still invested in Indonesia and in May 1947 it was the first cultivation company to issue new equity. In 1950 the Indonesian government gave the tobacco companies permission for the cultivation of tobacco in North Sumatra on a new area of 125,000 hectares, although these companies had written off 180,000 hectares since the war. Nevertheless, the Deli Company was optimistic about its future in Indonesia. Initially, several million guilders were invested until 1950. This was mostly done for recovery and rehabilitation, and from 1951 to 1955 all profits made in Indonesia were reinvested there. In 1953 the Deli Company merged with other tobacco and rubber companies elsewhere and was converted into the Verenigde Deli Maatschappijen (United Deli Companies), with equity increasing from f60 million to f100 million. By 1956 total equity invested in Indonesia dropped to only 31%.⁶²

⁶⁰ NL-HaNa: Billiton Maatschappij, 31, Report shareholders meeting 29–8–1950, 2–7–1951, 20–7–1954; NL-HaNa: Billiton Maatschappij, 44, Annual report 1949, 5; NL-HaNa: Billiton Maatschappij, 45, Annual report 1952, 9; NL-HaNa: Billiton Maatschappij, 45, Annual report 1954, 18–19; NL-HaNa: Billiton Maatschappij, 361, Annual report 1948, 10–11; NL-HaNa: Billiton Maatschappij, 362, Annual report 1952, 6–9.

⁶¹ NL-HaNa: HVA, 8, Board meeting 30–6–1950, 1–6–1950; Van de Kerkhof, "Defeatism is our worst enemy". Rehabilitation, Reorientation and Indonesianisasi at Internatio and HVA, 1945–1958', 117. Ulbe Bosma, *The world of sugar. How the sweet stuff transformed our politics, health, and environment over 2,000 years* (Cambridge, MA, Harvard University Press, 2023) 281–282.

⁶² NL-HaNa: Deli Maatschappij, 2, Articles of association 4–6–1953, 8–7–1953; NL-HaNa: Deli Maatschappij, 11, Documents regarding unlawful occupation 25–6–1951, 19–9–1951, 21–9–1951; NL-HaNa: Deli Maatschappij, 19, Board meeting 1–7–1953, It was decided not to call this company United Deli Plantations since that had a negative connotation and reminded of the colonial era; NL-HaNa: Deli

KPM stopped investment in new ships in Indonesia as well and began focusing on other areas while not replacing old vessels with new ones in regional shipping. A gradual reduction of investments by the Dutch took place in Indonesia.⁶³ Numerous smaller Dutch companies sold their property in Indonesia, often at a loss, and Chinese businessmen saw this as an opportunity. In 1952, one-fifth of the estates in Java was owned by Chinese. For many larger foreign companies that had invested substantial amounts of capital in Indonesia this was not a profitable option due to restrictions on transfer of foreign exchange by the Indonesian government. If these companies decided to sell their facilities in Indonesia, they could only transfer a small part of the money to the Netherlands. Therefore, these companies remained in Indonesia and hoped for better times.⁶⁴

GMB had already become partly Indonesian in December 1949, when the transfer of sovereignty took place. The Indonesian government became the owner of the tin mines on Bangka and had a major share of five-eighths in GMB, but GMB was still responsible for the tin mining on Bangka and Belitung. In March 1953, the agreement with GMB for mining on Bangka expired and the Indonesian government took over the activities, but did grant GMB another concession for five years in Belitung until 1958. However, if another renewal were to take place the headquarters had to be moved to Indonesia.⁶⁵

The gas and electricity company Overzeese Gas- en Electriciteitsmaatschappij (OGEM, Overseas Gas and Electricity Company) sold its main operations in Jakarta to the Indonesian government in 1954, but had already started new successful operations in Suriname and the Netherlands Antilles.⁶⁶ For the Algemeene Nederlandsch-Indische Electriciteits-Maatschappij (ANIEM, General Netherlands Indies Electricity

Maatschappij, 39, Annual report 1949–1950, 8–9; NL-HaNa: Deli Maatschappij, 41, Annual report 1953, 6–10, 26–31, Annual report 1954, 16–17, Annual report 1955, 10–15; NL-HaNa: Deli Maatschappij, 117, Nationalisation, 8–10–1959; NL-HaNa: Deli Maatschappij, 430, Documents regarding issue of shares, 7–5–1948; NL-HaNa: Deli Maatschappij, 447, Documents regarding the United Deli Company, 16–3–1956; Erik van Zanten, *A heart of wood. The history of Deli Home* (Gorinchem: Deli Home, 2020) 78–81, 86.

⁶³ Wytze Gorter, 'Enkele gedachten over de economische betekenis van het verlies van Indonesië', *De Economist*, Vol. 108 (1960) 641–658, in particular 656; Sluyterman, *Dutch enterprise in the twentieth century*, 172.

⁶⁴ Van der Eng, *Economic benefits from colonial assets*, 30; Jonker and Sluyterman, *Thuis op de wereldmarkt*, 279, 288; Baudet, 'Ondernemen in Indonesië na de Tweede Wereldoorlog', 144, 154, 163; Stoler, *Capitalism and confrontation in Sumatra's plantation belt, 1870–1979*, 141.

⁶⁵ NL-HaNa: Billiton Maatschappij, 31, Report shareholders meeting 2–6–1955.

⁶⁶ Sluyterman, *Dutch enterprise in the twentieth century*, 171.

Company), the situation was more difficult since its operations were entirely focused on Indonesia.⁶⁷

Total investment in the late 1940s and the 1950s

Although the pre-war peak of investment was not reached again in the 1950s, capital was still invested in Indonesia after the war. Estimates differ widely and there is a lack of statistics regarding investment from various countries. Van Esterik and Meijer argue that until 1958, in a period of seven years, as much as f250 million to f300 million annually, or around f1.5 billion in total, was invested in Indonesia by the Dutch alone. This seems improbably high. Especially if we take into account that during the 1950s substantial investment was made by the US in particular. Van Esterik argues that the nominal numbers of investment were similar to the 1920s but are not comparable because of the inflation between the 1920s and the 1950s.⁶⁸

It is not known how much was reinvestment of profit and how much was new capital flowing into Indonesia from the Netherlands. Van der Eng only gives information about gross capital formation which includes a share which is called 'residual' as well.⁶⁹ Creutzberg provides data of expenditure on fixed assets by Dutch private companies. Excluding mining and oil companies, he arrives at a total of nearly f900 million for the period 1945–1957, or nearly f75 million annually. This figure seems more reasonable although it is unknown if it can be seen as new investment rather than rehabilitation and recovery. Creutzberg argues that these expenditures consisted mainly of reconstruction costs and that new investment was largely done with undistributed profits.⁷⁰ There is a strong correlation ($R = 0.8$) between the expenditure on fixed assets (excluding mining and oil companies) and GDP per capita growth in the period 1946–1957.⁷¹

The importance of investment through retained profits indicates that the capital market in Indonesia was underdeveloped, which hurt the ability of the firms to finance expansion.⁷² For instance, after HVA finished recovering

⁶⁷ Baudet, 'Ondernemen in Indonesië na de Tweede Wereldoorlog', 150.

⁶⁸ Chris van Esterik, *Nederlands laatste bastion in de Oost: Economie en politiek in de Nieuw-Guinea-kwestie* (Baarn: In den Toren, 1982) 103; Meijer, *Den Haag-Djakarta*, 497; Dick, 'Formation of the nation-state, 1930s–1966', 182; Van der Eng, 'Indonesia's growth performance in the twentieth century', 159.

⁶⁹ Van der Eng, 'Indonesia's growth performance in the twentieth century', 152–159.

⁷⁰ Creutzberg and Van Dooren, *CEI. Vol. 3*, 21; Van der Eng, *Economic benefits from colonial assets*, 30.

⁷¹ Van der Eng, 'The real domestic product of Indonesia, 1880–1989', 369–370'; Creutzberg and Van Dooren, *CEI. Vol. 3*, 21.

⁷² Booth, *The Indonesian economy in the nineteenth and twentieth centuries*, 259.

its estates, it continued reinvesting profits in Indonesia because new restrictions made it more difficult to transfer profits abroad. There was an obligation to deposit an increasing share of profits with the central bank, designated for new investment in Indonesia.⁷³ Although depreciation was visible and investment was far lower than before the war, we must not forget that most of these assets that had been invested in the past remained in Indonesia and contributed to the economic development of Indonesia even though large amounts had been written off by the 1950s.⁷⁴ Total value of Dutch corporate assets in Indonesia in 1950 was estimated to be around f3.15 to f3.5 billion.⁷⁵ This was lower than in 1940. Depreciation and damages explain this lower estimate. However, statistics on Dutch private investment in Indonesia for the post-war period are disturbingly scarce and incomplete.⁷⁶

An American report prepared for the Indonesian government stated that in 1952 the value of foreign investment in Indonesia was \$2,240 million (f8,512 million), of which \$1,470 million (f5,586 million) was Dutch and around \$350 million (f1,330 million) originated from the US. Around \$260 million (f988 million) was British and \$105 million (f399 million) French and Belgian. These figures are higher than the calculations from Meijer for the Dutch case and could indicate the inclusion of forms of investment other than foreign direct investment alone, but do indicate that new investment in the post-war period took place, especially by non-Dutch foreign investors.⁷⁷ A significant share of new investment in the latter half of the 1950s originated from the US, and in particular from the oil companies Caltex and Stanvac, given the fact that total American investment increased from \$130 million (f494 million) in 1949 to \$410 million (f1,558 million) in 1959.⁷⁸ This was different from the 1920s when much investment was done in the agricultural sector.

⁷³ Van de Kerkhof, "Defeatism is our worst enemy". Rehabilitation, Reorientation and indonesianisasi at Internatio and HVA, 1945–1958', 116–117; Brand, 1879 HVA 1979, 38.

⁷⁴ Van der Eng, 'Extractive institutions, colonial drain and underdevelopment', 12.

⁷⁵ Lindblad, *Bridges to new business*, 151; Meijer, *Den Haag-Djakarta*, 648.

⁷⁶ Lindblad, *Bridges to new business*, 151.

⁷⁷ Bartlett, *Pertamina: Indonesian national oil*, 83; Hong Lan Oei, 'Implications of Indonesia's New Foreign Investment Policy for Economic Development', *Indonesia*, Vol. 7 (1969) 33–66, in particular 42; Ada V. Espenshade, *Investment in Indonesia: Basic information for United States businessmen* (Washington: U.S. Government Printing Office, 1956) 9; Hal Hill, *Foreign investment and industrialization in Indonesia* (Singapore: Oxford University Press, 1988) 3–4; Van der Eng, *Economic benefits from colonial assets*, 22. It is possible that differences in estimations also occur because of different exchange rates used by various authors. For the 1950s I apply the exchange rate of \$1 = f3.80.

⁷⁸ Lindblad, *Bridges to new business*, 172; Espenshade, *Investment in Indonesia*, 13.

Operations by Dutch firms in early independent Indonesia

By the mid-1950s, post-war investment had reached its peak and disinvestment gradually increased as foreign companies refrained from planting new crops. Installations and equipment were worn out and not replaced, as foreign investors waited for a better investment climate. Although American investment in oil encompassed the largest share of new investment in this period, the situation was not bright for all American companies. For instance, General Motors sold its assembly plant in 1954–1955 to the Indonesian government.⁷⁹

In the 1950s, foreign investment became less important, whereas financial support in the form of grants and loans became more important among incoming flows of capital. In the post-war period until the mid-1950s, Indonesia received around \$300 million (£1,140 million) from the US and the Netherlands in the form of economic and technical assistance. The Netherlands provided a loan in 1950 of \$73.7 million (£280 million). Support from communist countries did increase after 1957 and by 1960 Indonesia had received nearly \$100 million (£380 million) from these countries. Initially the US provided support to contain the spread of communism and after the Korean War the Americans and the Soviet Union were interested in obtaining raw materials from Indonesia.⁸⁰ In the middle of the 1950s, the atmosphere changed and relations between the US and Indonesia deteriorated, whereas talks between Indonesia and the Soviet bloc became more frequent and diplomatic relations were strengthened. In 1954 and 1955, trade agreements with Czechoslovakia, East Germany, Poland and the Soviet Union were signed.⁸¹

After recovery and reconstruction took place, companies were able again to continue operations but production and export levels were lower than before the war. During the early 1950s, oil and rubber were still Indonesia's most important export products. The Korean War boom increased the demand for these two products and tin, but the Indonesian economy was still dependent on the export of basic primary products and major export industries were still controlled by foreign companies. Moreover, the boom

⁷⁹ Redfern, *Sukarno's guided democracy and the takeovers of foreign companies in Indonesia in the 1960s*, 176; J. Thomas Lindblad, 'The economic impact of decolonization in Southeast Asia: Economic nationalism and foreign direct investment, 1945–1965', in: Marc Frey, Ronald W. Pruessen and Tan Tai Yong (eds), *The transformation of Southeast Asia. International perspectives on decolonization* (Armonk: M.E. Sharpe, 2003) 35–51, in particular 40; Mackie, 'The 1941–1965 period as an interlude in the making of a national economy: How should we interpret it?', 339.

⁸⁰ Usha Mahajani, *Soviet and American aid to Indonesia, 1949–68* (Athens, OH: Center for International Studies, 1970) 6.

⁸¹ Mahajani, *Soviet and American aid to Indonesia*, 7–8.

only lasted a few years and the growth of the export of many other crops stagnated in the middle of the 1950s.⁸²

In early independent Indonesia, rubber production increased and by 1950 the pre-war output had doubled. Even before the war, rubber smallholders accounted for nearly half of the rubber production and during the second half of the 1950s this had increased to 65%.⁸³ In the tobacco industry and coffee, smallholders were dominant too, with a production share of 88% and 77%, respectively.⁸⁴ The oil industry, on the other hand, was completely in foreign hands and the production and export of oil continued to increase. In the early 1950s the pre-war levels were surpassed and in the second half of the 1950s more than 10 million tons was produced annually. As a share of total world production, Indonesia's oil production increased from around 1.3% in 1950 to nearly 2% in 1960. By 1957, Caltex produced 47% of the total, Royal Dutch Shell 23% and Stanvac 20%.⁸⁵ After 1951, the production of Stanvac dropped after the concession for the oil fields in South Sumatra partially expired. It took until 1955 before the output levels recovered. In 1955 and 1956, the output of Royal Dutch Shell dropped, whereas Caltex was able to strengthen its position during the 1950s with increasing output figures.⁸⁶

⁸² Lindblad, *Bridges to new business*, 77, 126; Booth, *Economic change in modern Indonesia*, 47; Anne Booth, 'Trade and growth in the colonial and post-colonial periods', in: Alicia Schrikker and Jeroen Touwen (eds), *Promises and predicaments. Trade and entrepreneurship in colonial and independent Indonesia in the 19th and 20th centuries* (Singapore: NUS Press, 2015) 17–35, in particular 27.

⁸³ Booth, *Economic change in modern Indonesia*, 47; Higgins, *Indonesia's economic stabilization and development*, 149, 155.

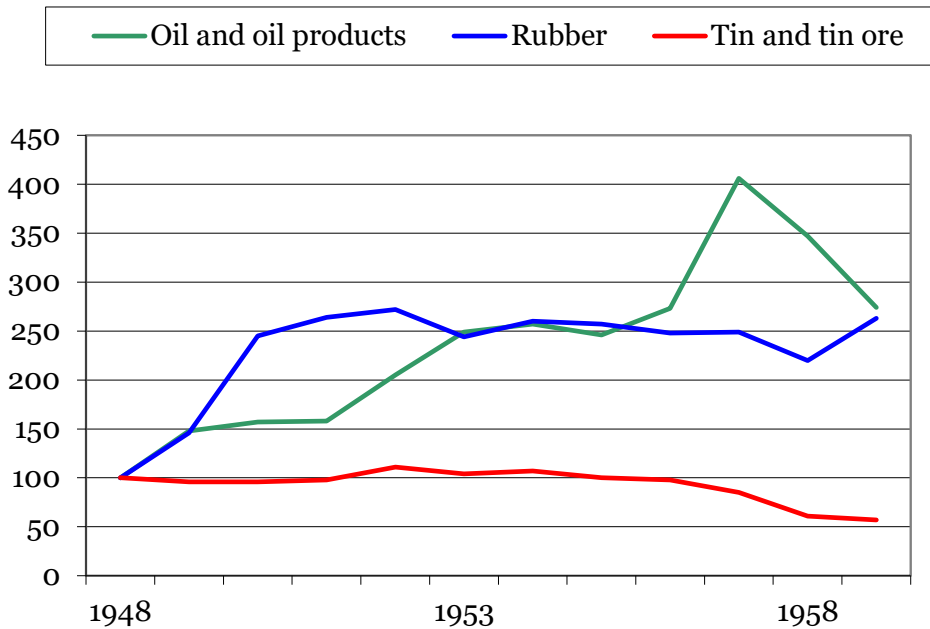
⁸⁴ Booth, *Colonial legacies*, 184.

⁸⁵ Lindblad, *Foreign investment in Southeast Asia in the twentieth century* 105; Hunter, 'The Indonesian oil industry', 259; Phyllis Rosendale, *The Indonesian balance of payments, 1950–1976, some new estimates* (PhD thesis, Australian National University, Canberra, 1978) 218; Arend Lijphart, *The trauma of decolonization: The Dutch and West New Guinea* (New Haven, CT: Yale University Press, 1966) 49.

⁸⁶ Hunter, 'The Indonesian oil industry', 278; Bartlett, *Pertamina: Indonesian national oil*, 112.

Operations by Dutch firms in early independent Indonesia

Figure 6.1. Development of export volumes of oil, rubber and tin in Indonesia, index 1948 = 100, 1948–1959.



Source: Bank Indonesia, Jakarta: DJB, 1553, Annual report 1950–1951, 68; Bank Indonesia, *Report for the year 1953–1954*, 86; Bank Indonesia, *Report for the year 1956–1957*, 115; Bank Indonesia, *Report for the year 1959–1960*, 90, 117.

Oil and rubber combined were responsible for more than half of the total export revenues in Indonesia during the 1950s.⁸⁷ Although the output of rubber remained largely stagnant after the Korean War boom while oil production doubled, in terms of money rubber surpassed oil at the beginning of the 1950s as a result of the increasing rubber prices. Only in the late 1950s did yields from oil match those of rubber again (Figure 6.1).⁸⁸

⁸⁷ Lindblad, 'Economic growth and decolonisation in Indonesia', 99; Lindblad, *Bridges to new business*, 158.

⁸⁸ Bruce Glassburner, 'The economy and economic policy: General and historical', in: Bruce Glassburner (ed.), *The economy of Indonesia: Selected readings* (Ithaca, NY: Cornell University Press, 1971) 1–15, in particular 14; Hunter, 'The Indonesian oil industry', 296; Bank Indonesia, Jakarta: DJB, 1553, Annual report 1950–1951, 69; Bank Indonesia, *Report for the year 1953–1954* (Jakarta: Kolff, 1954) 87; Bank Indonesia, *Report for the year 1956–1957* (Jakarta: Kolff, 1957) 114; Bank Indonesia, *Report for the year 1959–1960* (Jakarta: Kolff, 1960) 91, 116.

The output of tin reached its peak in 1952 thanks to the Korean War boom with a total of 51,000 tons. During the first half of the 1950s production numbers and prices remained high. Tin production of GMB shows a similar picture, although GMB reached its peak in 1948. Nevertheless, 1952 proved to be the next best year for GMB and only from 1955 onwards did tin production drop below 9,000 tons per year. Production levels of Bangka were roughly twice as large as those of GMB, but production levels may have been higher in reality because of smuggling.⁸⁹

In contrast to rubber and oil, some crops, such as sugar, had lost their importance even before the war and never recovered after it. Sugar was responsible for only 3% of total exports afterwards.⁹⁰ Sugar production did recover after the war but reached its peak in the late 1950s with a production of 800,000 tons per year. This was only around half of the total production of 1941 and slightly less than one-third of the record production reached in the late 1920s.⁹¹

Even though HVA was able to recover a part of its sugar factories, production peaked at 83,135 tons in 1953. This was around half of the production numbers during the 1930s and around 20% of the peak year 1930. Tobacco production of the Deli Company showed a slightly better result. In 1949 more than 45,000 sacks of tobacco were produced. This was still much lower than during the 1920s and 1930s when annual production figures of nearly 70,000 and 60,000 sacks, respectively, were reached. During the 1950s, tobacco production of the Deli Company dropped to around 25,000 sacks per year, which was in line with the trend in the Deli area and the company had to deal with rising production costs (Figure 6.2 and Appendix 29).⁹²

As a result of the increasing importance of products such as oil and rubber and the declining share of crops such as sugar, the share of Java in total

⁸⁹ NL-HaNa: Billiton Maatschappij, 31, Report shareholders meeting 29–6–1949, 2–7–1951; Thomas and Panglaykim, 'Indonesian exports: Performance and prospects 1950–1970, part II', 74; Kamp, *De standvastige tinnen soldaat*, 194–195; Somers Heidhues, *Bangka tin and Mentok pepper*, 208.

⁹⁰ Mackie, 'The Indonesian economy 1950–1963', 37; Rosendale, *The Indonesian balance of payments, 1950–1976*, 213–214.

⁹¹ Colin Brown, 'The politics of trade union formation in the Java sugar industry, 1945–1949', *Modern Asian Studies*, Vol. 28 (1994) 77–98, in particular 79; Mubyarto, 'The sugar industry', 52; Kraal, 'Indonesie en suiker', 746; Van der Eng, *Agricultural growth in Indonesia*, 225; E.P.M. Tervooren., 'De financiële en economische ontwikkeling in Indonesië', *De Economist*, Vol. 102 (1954) 499–519, in particular 510; Hartveld, *Raising cane*, 82.

⁹² NL-HaNa: Deli Maatschappij, 39, Annual report 1949–1950, 10–11; Douglas S. Paauw and Lim Kim Liat, *Prospects for East Sumatran plantation industries: A symposium* (New Haven, CT: Southeast Asian Studies Yale University, 1962) 19.

exports of Indonesia dropped. Whereas in the late 1930s roughly 35% of the exports originated from Java, by the late 1950s this percentage had dropped to only 14%.⁹³ Until 1957 the Netherlands was one of three foremost export markets. Together with Singapore and the United States these three countries received more than half of total Indonesian exports.⁹⁴ If we take a look at the import figures of Indonesia, the results are slightly different. Already in 1947, the United States was the largest exporter to Indonesia, with Japan quickly taking the second position at the beginning of the 1950s and surpassing the Netherlands, which had to settle for third place.⁹⁵

Overall, the importance of the trade between the Netherlands and Indonesia was higher for Indonesia than vice versa during most of the 1950s. The share of Indonesia in Dutch imports and exports was less than 5%, whereas exports to the Netherlands amounted to nearly 20% of total Indonesian exports. The Netherlands accounted for around 10% of total Indonesian imports.⁹⁶

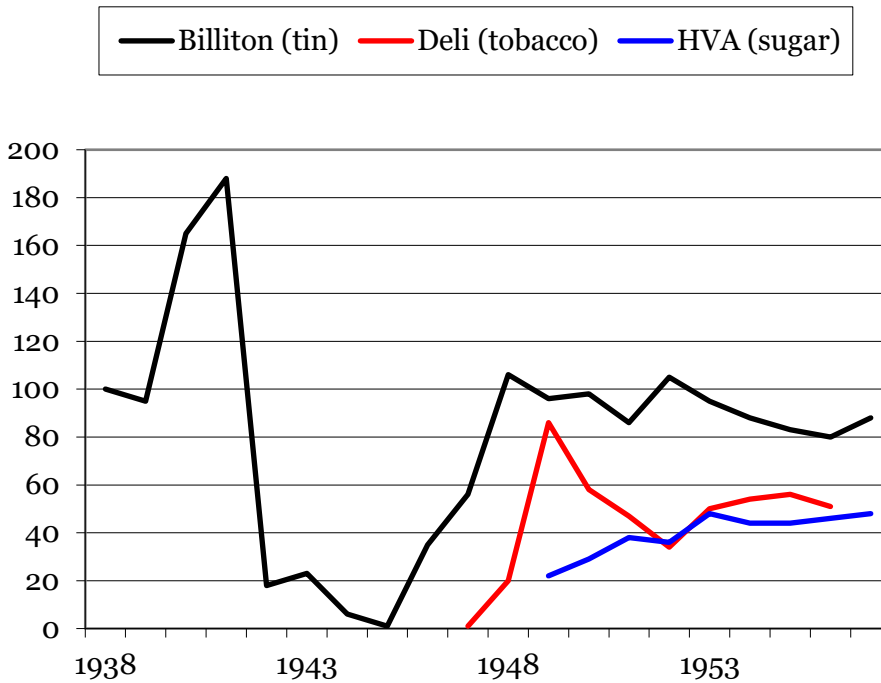
⁹³ Booth, *Economic change in modern Indonesia*, 47.

⁹⁴ Meijer, *Den Haag-Djakarta*, 650.

⁹⁵ *Ibid.*, 651.

⁹⁶ Pham Van Thuy, *Beyond political skin*, 152–153; Meijer, *Den Haag-Djakarta*, 652–653.

Figure 6.2. Development of production volume at Billiton, the Deli Company and HVA, 1938–1957, index 1938 = 100.



Source: NL-HaNa: Billiton Maatschappij, 41, 42, 43, 44, 45, 361, 362, Annual reports; NL-HaNa: Deli Maatschappij, 39, 40, 41, Annual reports; NL-HaNa: HVA, 11, 12, Annual reports.

Economic performance and profits

The Japanese occupation was devastating for the Indonesian economy. When discussing GDP per capita for this period, we need to acknowledge the shortcomings of available statistical data. During 1942 to 1944, GDP per capita dropped by 20% each year and in 1945 by more than 10%. There was a slow recovery from 1946, but in this year GDP per capita was only half of the level of 1938. In 1947 and 1948, GDP per capita did increase with 15% per year, whereas in 1949 growth slowed to 9% and in 1950 it was 8%. The relatively high growth rates in the second half of the 1940s mainly reflected the recovery from the war. In 1950 GDP per capita was still 20% lower than in 1938. In the first half of the 1950s, average annual GDP growth per capita was almost 5%

but stagnated in the second half of the 1950s. In 1957 real GDP per capita was 10% lower than in 1938 and even 20% lower than in 1941.⁹⁷

Roughly half of the economic growth in Indonesia during the 1950s originated from the primary sector, which also included mining, while manufacturing and the tertiary sector were responsible for the other half. Van der Eng shows that oil contributed 40% of the growth of GDP between 1953 and 1957. This is likely to be an overestimation since his data is based on 1983 prices, when oil prices were higher than during the 1950s. Still, the profits from the oil and rubber industries in the 1950s were not sufficient to restore real GDP per capita at the peak level of 1941.⁹⁸ Substantial profits in oil ended up in the pockets of foreign shareholders. On this account the contribution by the rubber industry was more substantial by the end of the 1950s, providing more than 40% of Indonesian export revenue, with smallholders responsible for two-thirds of exports.⁹⁹

Estimates of contributions of total exports to GDP for the post-war period vary between 5% and nearly 40%. But overall the direct contributions of exports to GDP growth during the 1950s were lower than during the first half of the twentieth century.¹⁰⁰ The share of foreign capital in total export revenue rose from 53% in 1950 to 65% in 1956. In 1956 total exports amounted to some 20% of GDP. 13% of GDP was the result of activities in the export industry by foreign capital. If we include the contribution to domestic activities in Indonesia by foreign investors, due to the multiplier effect, then this may bring their contribution to the economy as far as to 20% of GDP, comparable with the late colonial period. On the basis of these assumptions, I estimate contributions of foreign capital to GDP, including the multiplier effect on domestic activities, to be in the range of 10–25% during the first half of the 1950s.¹⁰¹ The presence of foreign private companies remained

⁹⁷ Van der Eng, 'Indonesia's growth performance in the twentieth century', 144; Lindblad, 'Economic growth and decolonisation in Indonesia', 98–99; Booth, 'Trade and growth in the colonial and post-colonial periods', 27; Van der Eng, 'Indonesia's economy and standard of living in the 20th century' 181–185.

⁹⁸ Booth, *The Indonesian economy in the nineteenth and twentieth centuries*, 55–56; Glassburner, 'The economy and economic policy', 14; Van der Eng, 'The real domestic product of Indonesia, 1880–1989', 369–370; Douglas S. Paauw, *Financing economic development: The Indonesian case* (Glencoe: Free Press of Glencoe, 1960) 444; Van der Eng, 'Indonesia's growth performance in the twentieth century', 172–173.

⁹⁹ Hunter, 'The Indonesian oil industry', 296–297.

¹⁰⁰ Van der Eng, 'Indonesia's growth performance in the twentieth century', 155.

¹⁰¹ Lindblad, 'Economic growth and decolonisation in Indonesia', 100, 106; Van der Eng, 'The real domestic product of Indonesia, 1880–1989', 369–370; Mangkusuwondo, *Industrialization efforts in Indonesia*, 181; Glassburner, 'The economy and economic policy', 14; Paauw, 'Economic progress in Southeast Asia',

important for the economic development of Indonesia during the first ten years of its independence.

Some foreign companies, especially from countries other than the Netherlands, kept investing in Indonesia, but how profitable were these fresh investments? In 1952 it became increasingly difficult for foreign firms to transfer their profits overseas. Under a new regime, profits were taxed more heavily and transfers were increasingly delayed. As a result, more profit was reinvested in Indonesia.¹⁰² Initially, the corporate tax rate was 40%, but it was increased to 52.5% in 1952. From 1954, profits and other transferred income were subject to a surcharge of 66.6%.¹⁰³ From 1955 onwards, foreign companies were obliged to deposit 40% of net profits at Bank Indonesia in an account created for that purpose. The remaining 60% of the profit could be transferred overseas after payment of a hefty corporate tax. Transfers of foreign exchange by foreign employees were eventually reduced to 20% of their salaries. Difficulties with the prevailing system of multiple exchange rates aggravated the situation.¹⁰⁴

Nevertheless, the remaining share of the profits did flow back to the Netherlands and other countries. Between 1950 and 1952, around f320 million of profit was transferred from Indonesia to the Netherlands. This corresponds to a dividend rate of less than 5%, which was in fact not much lower than in the late pre-war period, yet results for individual companies differed. In 1953 profit transfers increased to f141 million in 1953, but dropped to f99 million and f107 million in 1954 and 1955, respectively. In the subsequent years these transfers fell dramatically as relations between the Netherlands and Indonesia deteriorated. Apart from these profits, pension

80; Booth, *The Indonesian economy in the nineteenth and twentieth centuries*, 60; United Nations, *Economic survey of Asia and the Far East 1953* (Bangkok, ECAFE, 1954) 71; Bank Indonesia, *Report for the year 1954–1955* (Jakarta: Kolff, 1955) 93; Bank Indonesia, *Report for the year 1956–1957*, 127; Higgins, 'Thought and action: Indonesian economic studies and policies in the 1950s', 39–41.

¹⁰² Van der Eng, *Economic benefits from colonial assets*, 30.

¹⁰³ Higgins, *Indonesia's economic stabilization and development*, 13; Lindblad, *Foreign investment in Southeast Asia in the twentieth century*, 104; Meijer, *Den Haag-Djakarta*, 429; NL-HaNa: HVA, 11, Annual report 1955, 9.

¹⁰⁴ Espenshade, *Investment in Indonesia*, 94; J. Thomas Lindblad, 'British business and the uncertainties of early independence in Indonesia', *Itinerario*, Vol. 37 (2013) 147–164, in particular 152–155; Nicholas J. White, 'Surviving Sukarno: British business in post-colonial Indonesia, 1950–1967', *Modern Asian Studies*, Vol. 46 (2012) 1277–1315, in particular 1289; Anne Booth, 'Government and welfare in the new republic: Indonesia in the 1950s', *Itinerario*, Vol. 32 (2010) 57–76, in particular 5; Bank Indonesia, *Report for the year 1953–1954*, 94; Van der Eng, *Economic benefits from colonial assets*, 30.

and saving funds and other forms of income were also transferred to the Netherlands.¹⁰⁵

Overall, nearly f2.4 billion of direct transfers by private Dutch companies went to the Netherlands between 1950 and 1957. To put these transfers in perspective, in the three years 1956, 1957 and 1958 combined, the total investment by the Indonesian government, including investment in transportation and social affairs, amounted to 7.3 billion rupiah, or roughly f2.4 billion. Although statistics on new investment during this period are incomplete, it seems likely that the money flowing out of Indonesia to the Netherlands was twice as large as new Dutch investment entering Indonesia.¹⁰⁶ Apparently, Dutch companies had shifted their long-term vision for short-term gains. Growing uncertainty about the future led to a paradox. Dutch companies were reluctant to make new investments but were forced to do so by the new regulations. They were unable to transfer all their profits abroad and the remaining share was reinvested.¹⁰⁷

For the Netherlands, these transfers (including other forms of income directly related to activities in Indonesia) contributed less to GDP than in the pre-war period. In 1938 the contribution of Indonesia to the GDP of the Netherlands had been around 7.9%, but in 1948 it had declined to 2.8%. In 1949 the contribution increased to 4.4% due to an increase in exports to Indonesia, but in 1950 it was down to 2.5%. Again in 1955 this contribution was still 2.5%. By 1956 it amounted to only 2.1%.¹⁰⁸ Despite all the difficulties and problems that foreign companies had to deal with in post-war Indonesia, most trading and agricultural companies still made profits. However, total returns were lower than during the pre-war period and did not compensate for losses made during the 1930s and 1940s.¹⁰⁹

¹⁰⁵ J. Thomas Lindblad, 'The economic decolonisation of Indonesia: A bird's-eye view', *Journal of Indonesian Social Sciences and Humanities*, Vol. 4 (2011) 1–20, in particular 11; Jonker and Sluyterman, *Thuis op de wereldmarkt*, 267; Meijer, *Den Haag-Djakarta*, 649; Van der Eng, *Economic benefits from colonial assets*, 30.

¹⁰⁶ Lindblad, *Bridges to new business*, 158–159; Paauw, *Financing economic development*, 446–447.

¹⁰⁷ Van der Eng, *Economic benefits from colonial assets*, 30.

¹⁰⁸ M.J. Baudet, and G.J. Wijers, 'De economische betekenis van Nederlands-Indië voor Nederland. Oude en nieuwe berekeningen', *Economisch-Statistische Berichten*, Vol. 61 (1976) 885–888, in particular 887–888.

¹⁰⁹ Meijer, *Den Haag-Djakarta*, 497; Buelens and Frankema, 'Colonial adventures in tropical agriculture', 213; Lindblad, 'The economy of decolonization in North Sumatra', 93.

Profit transfer and reinvestment

Our case studies, of Billiton, the Deli Company and HVA show that reinvestment of profit was common.¹¹⁰ HVA succeeded in enlarging output substantially after the war and market prices for palm oil, fibre and rubber were favourable. Despite a corporate tax of 40% and an export tax of 8%, HVA was still making a profit. However, compared with the pre-war period, profit rates were significantly lower. In most years, HVA was only able to pay out a dividend of 6%, while significant sums were added to the reserves. It needs to be noted that when HVA started paying dividends again in 1948, equity had been increased from f40 million to f60 million, which meant that the total amount of dividend paid out was 50% higher at the same standard profit rate of 6%.¹¹¹

In 1953 turnover exceeded f10 million and net profits of f4.4 million allowed HVA to pay out a dividend of 7%.¹¹² In 1954 the situation became more difficult since the Indonesian government obliged companies to deposit reserves at Bank Indonesia. HVA decided to write off significant sums and keep larger reserves. Between 1948 and 1955, HVA paid a total dividend of f29.4 million, whereas it added f21.6 million to the reserves. HVA was able to maintain its dividend payments at 6% and paid 8% in 1956 and 1958, but in 1955 had to borrow from the NHM in order to transfer sufficient funds for dividends due to the restriction on direct transfer of realized profits.¹¹³

After the Deli Company had started operations again, turnover increased to f7 million in 1949 and f10 million in 1950. In the late 1940s profits recovered. While in 1948 profits were slightly more than half a million guilders, in 1949 profits increased to nearly f2 million and in 1950 more than doubled to nearly f4.3 million. Dividend rates were initially comparable to those of HVA. Until 1951 6% was paid out, except in 1950 when the Deli Company paid 9% to its shareholders. In the following years turnover fell to less than f3 million in 1951 but recovered and reached a peak of f15.4 million in 1953. In 1953 a profit of nearly f7.7 million was reported and a dividend of 10% was paid. In the meantime equity was increased from f40 million to f64 million due to mergers of different tobacco companies. In the following years

¹¹⁰ Van de Kerkhof, "Defeatism is our worst enemy". Rehabilitation, Reorientation and Indonesianisation at Internatio and HVA, 1945–1958', 116–117; Brand, 1879 HVA 1979, 38.

¹¹¹ NL-HaNa: HVA, 12, Annual report 1949, 15, Annual report 1950, 16, Annual report 1951, 14, Annual report 1952, 13.

¹¹² NL-HaNa: HVA, 12, Annual report 1953, 13, 19.

¹¹³ NL-HaNa: HVA, 9, Board meeting 6–4–1956; NL-HaNa: HVA, 12, Annual report 1955, 9, 12–13.

turnover and profits both declined. In 1954 turnover had halved to f7.5 million and by 1957 it was slightly above f4 million. Profits dropped from f6.2 million in 1954 to f4.2 million in 1956. As a result dividend was reduced too. In 1954 8% was paid out but the next year it was halved to 4%. In 1956, however, 6% was paid again. It was estimated that between 1950 and 1954 more than f40 million of net proceeds remained in Indonesia. In the first half of the 1950s the company could have transferred more money to the Netherlands than it had done. Instead, the company decided to reinvest in order to make larger depreciations possible. In this way, the Deli Company reinvested nearly 60 million rupiah (f20 million) in 1955 and 62 million rupiah (f20.66 million) in 1956.¹¹⁴

Equity at Billiton in Indonesia was low at f16 million after the war. The reserves were used for recovery. Dividend rates were high as a result of the company's policy of keeping equity very low. Shortly after the war, in 1947, profits amounted to nearly f7 million which allowed the company to pay a dividend of 40%. GMB succeeded in increasing its profit in the following years. In 1948 profits were nearly f8.5 million and dividend increased to 50%. One year later, profits more than doubled to f18.1 million. In 1949 the company paid an impressive dividend of 100% and the Indonesian government took over the shares of the colonial government and was now five-eighths owner of GMB, eligible to receive a corresponding portion of profits. In 1950 nearly f11.9 million of profits were made, which resulted in a dividend of 80%.

From 1951 onwards, profits in the annual reports of GMB were stated in both the Indonesian rupiah and Dutch guilders. A distinction was made between profits that were available for transfer to the Netherlands and the share that remained in Indonesia. In 1951 profits amounted to 51 million rupiah (f17 million) and dividend dropped to 20%. A significant portion of profits thus remained in Indonesia.¹¹⁵ In the following years, profits remained high due to the Korean War boom. Between 1952 and 1954 profits were on average 45 million rupiah each year, whereas dividend payments were 20%, 25% and 30% respectively. Until 1953 GMB also received a fee of f460,000 annually for the exploitation of the tin mines on Bangka, plus a share of its profit. In 1955, however, profits dropped below 30 million rupiah and

¹¹⁴ NL-HaNa: Deli Maatschappij, 39, 40, 41, Annual reports; NL-HaNa: Deli Maatschappij, 447, Documents regarding the United Deli Company, 16–3–1956; J. Thomas Lindblad, 'Pursuit of profit in the shadow of decolonisation: Indonesia in the 1950s', in: Ulbe Bosma and Anthony Webster (eds), *Commodities, ports and the Asian maritime trade since 1750* (London: Palgrave Macmillan, 2015) 241–257, in particular 246–247.

¹¹⁵ NL-HaNa: Billiton Maatschappij, 361, Annual report 1950, 5, Annual report 1951, 5, 24–25.

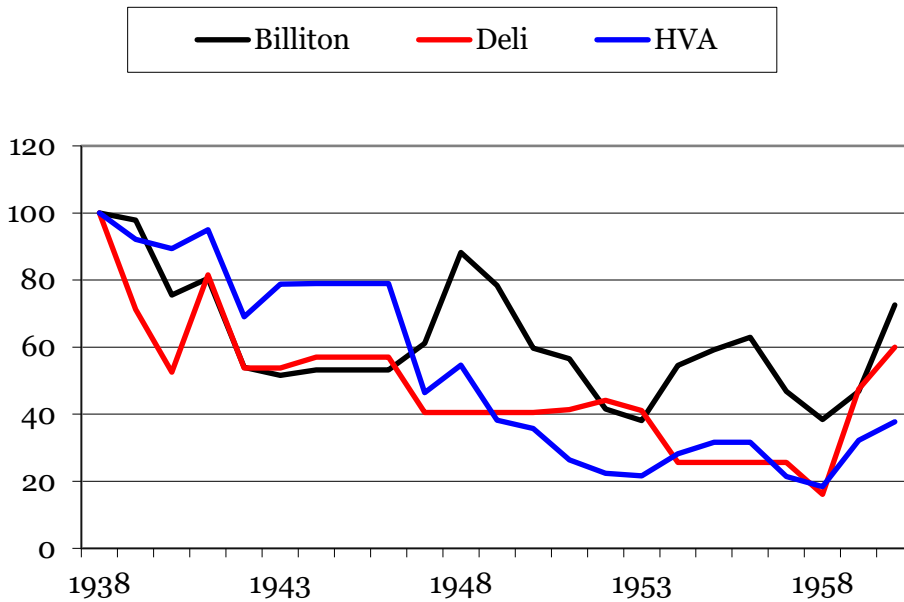
dividend fell to 19%. GMB had confronted lower prices and higher costs. In 1956 profits were around one-third lower, slightly above 20 million rupiah and dividend was lowered to 17%. These lower dividend payments to Dutch shareholders from 1951 and relatively high profit rates at least until 1955 imply that a significant share of the profit ended up in Indonesian pockets. Moreover, reserves increased from f6 million to f17.5 million between 1952 and 1956.¹¹⁶

Declining profitability is also reflected in stock market prices. The share price of Billiton recovered after the war but dropped during the 1950s and recovered only slightly after the Korean War boom. For the Deli Company and HVA, the situation was worse. In the mid-1950s their share prices had dropped to less than one-third of the level in 1938, whereas for Billiton shares were down to half. Shareholders who had bought their shares before the war and waited for better times faced a significant drop of share prices and had to rely on dividends (Figure 6.3).

¹¹⁶ NL-HaNa: Billiton Maatschappij, 45, Annual report 1955, 5–9; NL-HaNa: Billiton Maatschappij, 362, Annual report 1952, 24–25, Annual report 1953, 22–23; Annual report 1954, 24–25; Annual report 1955, 25; Annual report 1956, 22; NL-HaNa: Billiton Maatschappij, 31, Report shareholders meeting 30–6–1947; NL-HaNa: Billiton Maatschappij, 416, Report financial situation 16–12–1949.

Operations by Dutch firms in early independent Indonesia

Figure 6.3. Development of share prices of Billiton, Deli and HVA, 1938–1960, index 1938 = 100.



Source: Capital Amsterdam, *Prijscourant uitgegeven door de Vereniging voor den Effectenhandel te Amsterdam*. Stichting Capital Amsterdam: 'Prijscouranten' 1910–1940.

Linkages

This section focuses on linkages. We will start with fiscal linkages and then discuss tax policies of the Indonesian government effecting foreign investors. Subsequently, we will move on to backward and forward linkages and final demand linkages to find out whether linkages were more or less prominent in Indonesia after independence than before. Taxes formed an important source of income for the Indonesian government. Total tax revenue corresponded to nearly 90% of total government income between 1951 and 1954. The remaining share of the government revenue originated from the profit of government enterprises. Around 70% of total tax revenue originated from indirect taxes, of which export and import taxes were the most important.¹¹⁷

¹¹⁷ Espenshade, *Investment in Indonesia*, 77; Paauw, *Financing economic development*, 171, 181.

The proportion of these indirect taxes in total government revenue was definitely larger after independence than before.¹¹⁸

The higher share of export taxes in particular was a result of the multiple exchange rate policy applied by the Indonesian government. Foreign exchange certificates and a continuous depreciation of the rupiah made it possible for the government to earn up to one-third of the earnings from exports. For overseas transfers of foreign currency, permission was required from the Lembaga Alat-Alat Pembayaran Luar Negeri (LAAPLN, Regulating Body for Foreign Payments). In 1952 these import and export taxes still accounted for 59% of total taxes, with 43% originating from exports alone. In February 1952 extra export duties were introduced on top of the general export tax of 8%. For copra and rubber, the surtax was 25% and for oil and tin the rate was 15%, whereas tobacco was exempted. In 1952 the surtax on rubber was reduced.¹¹⁹

The three large foreign oil companies in Indonesia negotiated the Let Alone agreements with the Indonesian government to get exemptions from or reductions of the tax rate. In mid-1952, Stanvac was exempted from the surtax but still had to pay its major share of profit to the state. In 1953 under the first Ali Sastroamidjojo cabinet the situation improved from the point of view of Stanvac. Profits were split with the government and export duties were reduced from 8% to 4%. After 1953 the two other oil companies, Caltex and Royal Dutch Shell, followed with similar agreements with the government.¹²⁰

The share of import and export taxes in total tax revenue declined to 36% in 1954 and 40% in 1955, but amounted to more than 50% again in the

¹¹⁸ Redfern, *Sukarno's guided democracy and the takeovers of foreign companies in Indonesia in the 1960s*, 88; Booth, 'Government and welfare in the new republic: Indonesia in the 1950s', 70.

¹¹⁹ Paauw, *Financing economic development*, 182, 230–231, 259; Farabi Fakihi, *The rise of the managerial state in Indonesia: Institutional transition during the early independence period. 1950–1965* (PhD thesis, Leiden University, 2014) 346–347; Sievers, *The mystical world of Indonesia*, 213–214; Booth, *Economic change in modern Indonesia*, 42; Higgins, *Indonesia's economic stabilization and development*, 5, 13; Douglas S. Paauw, 'From colonial to guided economy', in: Ruth T. McVey (ed.), *Indonesia* (New Haven, CT: HRAF Press, 1963) 155–247, in particular 241; Booth, *The Indonesian economy in the nineteenth and twentieth centuries*, 148; Mangkusuwondo, *Industrialization efforts in Indonesia*, 201; Douglas S. Paauw, 'The tax burden and economic development in Indonesia', *Ekonomi dan Keuangan Indonesia*, Vol. 7 (1954) 564–588, in particular 585; Rosendale, *The Indonesian balance of payments, 1950–1976*, 158; Pham Van Thuy, *Beyond political skin*, 149–150; NL-HaNa: Billiton Maatschappij, 45, Annual report 1951, 11; NL-HaNa: Deli Maatschappij, 39, Annual report 1950–1952, 6–7.

¹²⁰ Aden, *Oil and politics in Indonesia, 1945 to 1980*, 128, 135; United Nations, *Economic survey of Asia and the Far East 1953*, 74; Hunter, 'The Indonesian oil industry', 261–263; Bartlett, *Pertamina: Indonesian national oil*, 109.

following year. By that time the share of export tax had dropped to only 3% in 1956 as a result of lower market prices for the chief export products of Indonesia and a reduction of export duties. Proceeds from the import tax increased from 1951 when more duties were introduced, reaching 51% of total tax revenue in 1956.¹²¹

Company tax was another significant source of revenue that affected foreign companies in particular. During the colonial period, company profits had been taxed at 25% but the Indonesian government increased the tax rate in 1951 to 40% for profits up to 500,000 rupiah and a maximum rate of 52.5% for profits in excess of 2.5 million rupiah. The contribution of this tax increased rapidly during the 1950s. In 1950 the company tax amounted to 275 million rupiah, but in 1951 it had increased to 655 million rupiah, which was around 7% of total taxes. Its share increased to 13% in 1953 and 19% in 1955 when it amounted to 1,804 million rupiah.¹²²

Roughly two-thirds of the export tax were paid by foreign companies, the rest by indigenous smallholders.¹²³ The rubber export surtax for smallholders was a legacy from the colonial period. Overall, the purpose of the policy was on taxing foreigners and not indigenous smallholders. With other taxes combined, Indonesia was one of the countries that taxed foreign enterprises the heaviest.¹²⁴

Taxes contributed significantly to the Indonesian treasury.¹²⁵ For the Indonesian government, it was easier to collect trade taxes than taxes on income. In political terms it was expedient to aim at taxing foreigners.¹²⁶ The personal income tax was in that sense beneficial to the Indonesian state as well. Overall, foreigners earned more money than indigenous Indonesians and consequently paid relatively more income tax.¹²⁷ However, taxation on consumption was becoming more important, for instance with the introduction of a sales tax in 1951. This tax obviously affected the entire

¹²¹ Paauw, *Financing economic development*, 181; Bernard Vlekke, *Indonesia in 1956: Political and economic aspects* (The Hague: Netherlands Institute of International Affairs, 1957) 59; NL-HaNa: HVA, 7, Board meeting 4-2-1949.

¹²² Paauw, *Financing economic development*, 195-196; Higgins, *Indonesia's economic stabilization and development*, 14; Paauw, 'The tax burden and economic development in Indonesia', 584; Sutter, *Indonesianisasi*, 1004-1005; Bank Indonesia, Jakarta: DJB, 1553, Annual report 1952-1953, 95; Bank Indonesia, *Report for the year 1953-1954*, 59.

¹²³ Paauw, *Financing economic development*, 585; Redfern, *Sukarno's guided democracy and the takeovers of foreign companies in Indonesia in the 1960s*, 88.

¹²⁴ Paauw, *Financing economic development*, 256.

¹²⁵ Mackie, 'The 1941-1965 period as an interlude in the making of a national economy: How should we interpret it?', 341.

¹²⁶ Lindblad, *Bridges to new business*, 127.

¹²⁷ Espenshade, *Investment in Indonesia*, 104.

population, not only foreigners.¹²⁸ Gradually, as a result of the higher taxes, the share of total government revenue originating from Dutch companies and people combined increased from 35% in 1951 to more than 50% in 1954.¹²⁹

Foreign firms found it increasingly difficult to retain operations in Indonesia as a result of heavy taxation. It was not uncommon that foreign companies saw half of their profits flow to the Indonesian state, which made companies less willing to invest or expand their operations.¹³⁰

For Billiton, for instance, lower profitability resulted in lower dividend rates, which in fact affected the Indonesian government as well since it was for five-eighths owner of the company's tin mining operations in Indonesia. Lower dividends pocketed by the government were more than compensated by higher tax income plus access to the reserves accumulated at Bank Indonesia.¹³¹ The tin mines on Bangka on the other hand had become completely Indonesian-owned after the transfer of sovereignty and the company was exempted from income tax.¹³²

Backward and forward linkages

While fiscal linkages became increasingly important for the Indonesian state during the 1950s, backward and forward linkages were only visible in the most rudimentary sense. Construction of new roads and other infrastructure was mainly part of the rehabilitation after the war. Billiton, for instance, ordered six dredges in the Netherlands and two in the United States in order to expand operations after the war.¹³³ The oil companies also expanded dramatically during the 1950s. The Indonesian government required them to invest locally. Before the war, Royal Dutch Shell and Stanvac used local facilities for oil refining.¹³⁴ This contrasts with Caltex, which refined oil from Minas in Sumatra overseas, despite requests from the Indonesian government to set up local refining. If Caltex had built a refinery in Indonesia that would have been a significant contribution to the local economy, yet another example of a

¹²⁸ Paauw, *Financing economic development*, 258; Mansury, *The Indonesian income tax*, 284; Booth, 'Government and welfare in the new republic: Indonesia in the 1950s', 59; Ondernemersraad voor Indonesië, *Verslag over het negen en twintigste, het dertigste en het een en dertigste verenigingsjaar (1950, 1951 en 1952)* ('s-Gravenhage, 1952) 65–66.

¹²⁹ Meijer, *Den Haag-Djakarta*, 654.

¹³⁰ Goedkoop, 'Handelsvereniging 'Amsterdam'', 230.

¹³¹ Lindblad, 'Pursuit of profit in the shadow of decolonisation: Indonesia in the 1950s', 245.

¹³² Paauw, *Financing economic development*, 243.

¹³³ NL-HaNa: Billiton Maatschappij, 31, Report shareholders meeting 30–6–1947.

¹³⁴ Aden, *Oil and politics in Indonesia, 1945 to 1980*, 140.

missed opportunity for Indonesia. Overall, the oil industry required the import of much equipment, which was not locally produced. Instead of creating backward and forward linkages, Caltex however, chose to transfer funds to the Indonesian government in the form of fiscal linkages.¹³⁵ Caltex did construct port facilities in Dumai in East Sumatra. Pipelines connected the Duri and Minas oilfields with Dumai and a road of some 180km was constructed between Dumai and Pekanbaru.¹³⁶ At about the same time, Stanvac constructed a road of 94km and a pipeline to connect its oil field in Lirik.¹³⁷

In the tin mining industry, forward linkages such as smelting tin ore failed to materialize during the period Billiton was producing in Indonesia. Tin ore from Belitung and Bangka was shipped to and smelted in Arnhem and Texas.¹³⁸ The old smelting facilities at Bangka were not repaired after the war.¹³⁹ As a result of government policy, imports became more expensive throughout the 1950s. At Billiton, this caused a lack of spare parts and a decline in productivity. Despite increasing difficulties with imports, foreign companies did not choose to make use of local production or were unable to do so.¹⁴⁰

Final demand linkages

Independence saw an increase in militant labour union activity. Protests and strikes had a great impact on operations by foreign companies. Several foreign companies had to halt or postpone operations, which cost the company time and money. Protests by the Sarekat Buruh Perkebunan Republik Indonesia (SARBUPRI, Estate Workers Union of the Republic of Indonesia) in August and September 1950, involving nearly half a million labourers, were successful in increasing the minimum wage for estate labourers. In 1951 the estate

¹³⁵ Aden, *Oil and politics in Indonesia, 1945 to 1980*, 141–142; Sutter, *Indonesianisasi*, 823; Hunter, 'The Indonesian oil industry', 297; Bank Indonesia, Jakarta: DJB, 3045, 16–12–1955.

¹³⁶ Bartlett, *Pertamina: Indonesian national oil*, 112.

¹³⁷ *Ibid.*, 113.

¹³⁸ Pierre van der Eng, 'Mining and Indonesia's economy: Institutions and value adding, 1870–2010', *Centre for Economic Institutions, Hitotsubashi University, Working paper series*, No. 2014–5 (2014) 1–42, in particular 26; NL-HaNa: Billiton Maatschappij, 45, Annual report 1953, 6–7, Annual report 1955, 13.

¹³⁹ Van de Kerkhof, 'Onmisbaar maar onbemind. De Koninklijke Paketvaart Maatschappij en de Billiton Maatschappij in het onafhankelijke Indonesië (1945–1958)', 128; Thomas and Panglaykim, 'Indonesian exports: Performance and prospects 1950–1970, part II', 75

¹⁴⁰ NL-HaNa: Billiton Maatschappij, 361, Annual report 1949, 3.

companies implemented a seven-hour work day and forty hours of work per week became more common. Another strike in 1953 led to an additional increase in wages of 30%. Gradually, more legislation was introduced that protected workers' rights and created a safer and better work environment. The incidence of child labour was curbed and female workers were granted maternity leave.¹⁴¹

Although wages of workers did rise, inflation was rampant during the 1950s. In 1951 alone, the cost of living for families of workers increased by more than one-third. It is likely that real incomes of labourers declined during the 1950s as wages could not keep up with inflation.¹⁴² With rising prices, employers had no other choice than to increase wages. In 1950 Billiton increased minimum wages by 60%, while food was provided to workers at reduced prices, which cost the company substantial amounts.¹⁴³

A rough estimate made by the Java Bank of 14 industrial branches claimed that by 1951 the number of workers had increased by 70% compared to 1940, while salaries were ten times higher and productivity had on occasion dropped by 50%.¹⁴⁴ Other sources show that in the sugar industry, wages had increased between 35 and 40 times, while in other estates in Java increases had been less at 20–25 times. In North Sumatra, wages had increased by 30–35 times. Staff wages, however, had increased between 4 and 7 times.¹⁴⁵ At HVA wages of labourers had increased fivefold between 1939 and 1949, whereas salaries for the lower Indonesian staff rose 2.5–4 times and tripled for European employees.¹⁴⁶ In 1950 overall wages for workers at HVA nearly doubled, with male labourers receiving f2.15 per day and female workers f2. On top of this, HVA provided food and products which cost the company on average one guilder per worker per day. Total costs of these increases for the

¹⁴¹ Stoler, *Capitalism and confrontation in Sumatra's plantation belt, 1870–1979*, 127; Lindblad, *Foreign investment in Southeast Asia in the twentieth century*, 104; Lindblad, *Bridges to new business*, 155; Goedkoop, 'Handelsvereniging "Amsterdam"', 28; E.D. Hawkins, 'Labor in developing countries: Indonesia', in: Bruce Glassburner (ed.), *The economy of Indonesia: Selected readings* (Ithaca, NY: Cornell University Press, 1971) 196–250 in particular 239–240; R.N.J. Kamerling, *Indonesië toen en nu* (Amsterdam: Intermediair, 1980) 237–240.

¹⁴² Higgins, *Indonesia's economic stabilization and development*, 2; Adrian Vickers, *A history of modern Indonesia* (Cambridge: Cambridge University Press, 2005) 152; United Nations, *Economic survey of Asia and the Far East 1953*, 71; Bank Indonesia, Jakarta: DJB, 1553, Annual report 1952–1953, 177; Ali Wardhana, *Monetary problems of an underdeveloped economy with special reference to Indonesia* (PhD thesis, University of California, Berkeley, CA, 1962) 121–135.

¹⁴³ NL-HaNa: Billiton Maatschappij, 361, Annual report 1950, 2.

¹⁴⁴ United Nations, *Economic survey of Asia and the Far East 1953*, 71.

¹⁴⁵ Bank Indonesia, Jakarta: DJB, 1553, Annual report 1951–1952, 90–91.

¹⁴⁶ NL-HaNa: HVA, 7, Board meeting 3–2–1950.

company were estimated at around f10 million.¹⁴⁷ The combination of higher wages, fewer working hours and new government regulations resulted in lower profits and higher costs for foreign investors.¹⁴⁸ For the Deli Company, production costs were three times as high in 1951 compared to 1949.¹⁴⁹

In the 1950s, Billiton limited its medical care to employees and their families, whereas before it also provided care to the other population on the island. After 1951, medical care on the island was increasingly provided by the government, with Billiton partly financing the service. Foodstuffs were offered at reduced prices, but the system was gradually phased out, although a certain amount of rice was distributed for free. Schooling was continued by the company and a new school was built. More houses for workers were constructed and the telephone network on the island was expanded at the company's expense.¹⁵⁰ The Deli Company built 3,788 two-family dwellings and made plans for more housing and improvement of existing dwellings.¹⁵¹ HVA, on the other hand, decided to discontinue construction of new housing after 1952.¹⁵²

Inevitably, the government and the labour unions continued to urge the foreign companies to improve the situation for workers and the Indonesian population at large. The Indonesian government requested sugar factories to process cane grown by Indonesian smallholders. Between 1950 and 1954 cane from smallholders milled by the factories increased from a few percent to 20% of total sugar output.¹⁵³ Most foreign sugar companies in Java leased their land and had to pay *grondhuur* (land lease) to the indigenous landowners. After independence, landowners asked for higher rents. In

¹⁴⁷ NL-HaNa: HVA, 7, Board meeting 6-1-1950; NL-HaNa: HVA, 8, Board meeting 6-1-1950; 5-5-1950.

¹⁴⁸ J.N.F.M. à Campo, 'Business not as usual: Dutch shipping in independent Indonesia, 1945-1958', *International Journal of Maritime History*, Vol. 10 (1998) 1-39, in particular 28-29; Marks, *Accounting for services*, 105; Goedhart, *Eerherstel voor de plantage*, 158; Brand, *1879 HVA 1979*, 75; NL-HaNa: Billiton Maatschappij, 31, Report shareholders meeting 29-6-1949; NL-HaNa: HVA, 7, Board meeting 5-12-1947; NL-HaNa: Deli Maatschappij, 9, Documents regarding land use 20-6-1957; Bank Indonesia, Jakarta: DJB, 1553, Annual report 1950-1951, 156.

¹⁴⁹ NL-HaNa: Deli Maatschappij, 39, Annual report 1949-1950, 6-11.

¹⁵⁰ NL-HaNa: Billiton Maatschappij, 361, Annual report 1949, 9, 14, 16, Annual report 1950, 8, Annual report 1951, 6-11; NL-HaNa: Billiton Maatschappij, 362, Annual report 1954, 10-11.

¹⁵¹ NL-HaNa: Deli Maatschappij, 41, Annual report 1953, 8-9, Annual report 1954, 10-11.

¹⁵² NL-HaNa: HVA, 8, Board meeting 3-8-1951.

¹⁵³ Bosma, *The sugar plantation in India and Indonesia: Industrial production, 1770-2010*, 226.

Kediri, prices were ten times higher in 1950 than before the war. Eventually, land rents were regulated by the Indonesian government.¹⁵⁴ Foreign estates also had to deal with unlawful land occupation and squatters remaining since the war. The situation became increasingly difficult for the estates, with much theft and vandalism. The tobacco companies and HVA in particular confronted this situation. Theft of crops and squatting were recurring topics at board meetings.¹⁵⁵

Another trend was the slow but steady increase of Indonesian employees attaining a higher position in foreign firms. At the Round Table Conference in 1949, the Dutch companies had committed themselves to employ more Indonesian personnel in management and supervisory positions. Eventually, they would even have to form the majority of the management staff.¹⁵⁶ Various companies, such as HVA, had already started after the war with this so-called *Indonesianisasi*, which meant employment of Indonesian personnel in higher positions. However, companies often cooperated more readily when there was a lack of qualified Dutch or other foreign personnel available. Indonesian employees of long standing in the company were perfectly capable of managing various activities without the presence of the Dutch.¹⁵⁷

Billiton also had to deal with a shortage of Chinese and Chinese Indonesian labourers. The company, therefore, decided to hire more indigenous Indonesian workers and staff members as well. Despite increased training of Indonesian employees, the company argued that it was still necessary to attract more Dutch staff.¹⁵⁸ Caltex, Stanvac and Royal Dutch Shell had all started with training programmes for Indonesian employees in the

¹⁵⁴ Paauw, *Financing economic development*, 402; Fakhri, *The rise of the managerial state in Indonesia*, 346–347; Hartveld, *Raising cane*, 56–57; NL-HaNa: HVA, 7 Board meeting 31–3–1950.

¹⁵⁵ Lindblad, *Bridges to new business*, 155–156; Knight, 'From Merdeka! to massacre: The politics of sugar in the early years of the Indonesian republic', 405–406; Freek Colombijn, *Under construction. The politics of urban space and housing during the decolonization of Indonesia, 1930–1960* (Leiden: Brill, 2014) 173–174; NL-HaNa: HVA, 8, Board meeting 4–1–1952, 7–5–1954; NL-HaNa: Deli Maatschappij, 9, Documents regarding land use 9–10–1956; NL-HaNa: Deli Maatschappij, 10, Documents regarding land use 4–12–1952; NL-HaNa: Deli Maatschappij, 11, Documents regarding unlawful occupation 29–4–1950.

¹⁵⁶ Fakhri, *The rise of the managerial state in Indonesia*, 272.

¹⁵⁷ Sutter, *Indonesianisasi*, 2; Van de Kerkhof, "Defeatism is our worst enemy". Rehabilitation, Reorientation and Indonesianisasi at Internatio and HVA, 1945–1958', 120.

¹⁵⁸ Van de Kerkhof, 'Onmisbaar maar onbemind. De Koninklijke Paketvaart Maatschappij en de Billiton Maatschappij in het onafhankelijke Indonesië (1945–1958)', 128; NL-HaNa: Billiton Maatschappij, 45, Annual report 1954, 8–9.

1950s. Between 1949 and 1956, the share of Indonesians in middle and higher positions at Stanvac increased by 28% and by the mid-1950s 25% of the managers at Caltex were Indonesians, a proportion comparable with Unilever.¹⁵⁹ At HVA, around 40% of the staff positions were occupied by Indonesians in 1954.¹⁶⁰

Slowly it became more difficult for the companies to bring Dutch staff to Indonesia. Fewer visas were issued and fewer Dutch citizens were given work permits. This also increased competition with foreign staff of other nationalities and could hinder the training of Indonesian staff due to a lack of qualified teachers. More companies did send Indonesian students to universities abroad and the number of Indonesian graduates showed a steady increase. Foreign companies started to realize that hiring Indonesians for higher positions was necessary and that the number of foreign staff members would have to decline. Non-Dutch foreign companies seem to have implemented Indonesianization faster than Dutch companies.¹⁶¹

In the meantime, the government put emphasis on indigenous Indonesian entrepreneurship with the *Benteng* (fortress) programmes from 1950 onwards. This was the first official policy that focused on increasing the share of indigenous traders in a field that was dominated by Dutch and Chinese businessmen. It was considered that in the import trade Indonesians could start business operations with a small amount of money. In reality, however, the policy was not efficient and the dominance of Chinese traders only increased. Although the number of Indonesian companies did grow under this programmes, a significant share of them were non-bona fide entrepreneurs. Some sold their import licences to others, especially to Chinese businessmen, and others became rent-seekers, who contributed little to the economy. Overall, these entrepreneurs lacked the knowledge and commercial skills to become successful. These groups were often called briefcase importers, since their sole qualification was the licence in their briefcase.¹⁶²

¹⁵⁹ Fakih, *The rise of the managerial state in Indonesia*, 272; Lindblad, *Foreign investment in Southeast Asia in the twentieth century*, 104; Sutter, *Indonesianisasi*, 828; Hunter, 'The Indonesian oil industry', 162, 174.

¹⁶⁰ NL-HaNa: HVA, 8, Board meeting 1–10–1954.

¹⁶¹ Meijer, *Den Haag-Djakarta*, 353; Thee, 'Indonesianization', 29; Redfern, *Sukarno's guided democracy and the takeovers of foreign companies in Indonesia in the 1960s*, 152; NL-HaNa: Billiton Maatschappij, 31, Report shareholders meeting 2–6–1955; NL-HaNa: Deli Maatschappij, 19, Board meeting 7–6–1950; NL-HaNa: Deli Maatschappij, 41, Annual report 1953, 16–17, Annual report 1954, 14–15, Annual report 1955, 10–11; NL-HaNa: Deli Maatschappij, 451, Documents regarding Indonesianisation 10–4–1953; NL-HaNa: HVA, 12, Annual report 1954, 10–11.

¹⁶² Thee Kian Wie, *Recollections: The Indonesian economy, 1950s–1990s* (Singapore: Institute of Southeast Asian Studies, 2003) 12; Thee Kian Wie, 'Menuju

Nevertheless, a new spirit and dynamism arose. It was strengthened by the Indonesianization but nationalisation was an even stronger impulse.

According to the agreements at the Round Table Conference, the Indonesian government was allowed to nationalize foreign companies. This was brought into practice when the Java Bank was nationalized in 1951 and renamed Bank Indonesia in 1953. This operation went relatively smooth and the government continued to increase its control over other sectors.¹⁶³ The transport industry also became increasingly regulated by the government. Garuda Indonesian Airways had been founded in 1949 as a joint venture between KLM and the Indonesian government, which held 51% of the shares. The airline had a monopoly position and in 1954 KLM sold its shares to the government. In the same year, the two electricity companies OGEM and ANIEM were nationalized.¹⁶⁴

No nationalisations occurred in 1955. The failure of reaching an agreement about New Guinea led to the unilateral abrogation of the Netherlands-Indonesian Union in February 1956, which implied an abrogation of the Round Table Conference agreements, including the refusal by Indonesia to pay the last instalment of its debt to the Netherlands.¹⁶⁵ Indonesia had already paid 85% and only \$171 million of the \$1,130 million was still to be paid.¹⁶⁶ It is likely that from the start Indonesia wanted to pay

perkembangan sektor swasta Indonesia yang berkelanjutan', in: Bondan Kanumoyoso (ed.), *Kembara bahari. Esei kehormatan 80 tahun Adrian B. Lapien* (Depok: Komunitas Bambu, 2009) 291–314, in particular 295; Thee, 'Indonesianization', 9–14; White, 'Surviving Sukarno: British business in post-colonial Indonesia, 1950–1967', 1284; Siahaan, *Industrialisasi di Indonesia*, 168; Greta Christine Seibel, *The role of government policy in Indonesian small and medium enterprise development, 1966–2006* (PhD thesis, London School of Economics, London 2020) 59.

¹⁶³ Thee, *Recollections*, 11; J. Thomas Lindblad, 'Van Javasche Bank naar Bank Indonesia. Voorbeeld uit de praktijk van indonesianisasi', *Tijdschrift voor Sociale en Economische Geschiedenis*, Vol. 1 (2004) 28–46, in particular 35–36.

¹⁶⁴ Marks, *Accounting for services*, 128; Meijer, *Den Haag-Djakarta*, 428; Baudet, 'Ondernemen in Indonesië na de Tweede Wereldoorlog', 150; Sutter, *Indonesianisasi*, 868.

¹⁶⁵ Lindblad, *Bridges to new business*, 178; Aden, *Oil and politics in Indonesia, 1945 to 1980*, 148; Bank Indonesia, *Report for the year 1955–1956* (Jakarta: Kolff, 1956) 24; Anspach, *The problem of a plural economy and its effects on Indonesia's economic structure*, 293; Jan Pluvier, *Indonesië: Kolonialisme, onafhankelijkheid, neo-kolonialisme: Een politieke geschiedenis van 1940 tot heden* (Nijmegen: SUN, 1978) 185–187; Frank H. Golay et al., *Underdevelopment and economic nationalism in Southeast Asia* (Ithaca, NY: Cornell University Press, 1969) 189; Meijer, *Den Haag-Djakarta*, 507–509.

¹⁶⁶ Abdullah, *The heartbeat of Indonesian revolution*, 27; Meijer, *Den Haag-Djakarta*, 518; Tervooren, *Statenopvolging en de financiële verplichtingen van Indonesië*, 334–337.

off this debt as soon as possible, since the Indonesian government had to consult with the Dutch government regarding economic and financial policy as long as the debt had not been fully paid. The economic boom during the early 1950s made it possible for the Indonesian government to pay off a substantial sum of the debt in a short amount of time. Although there were no immediate consequences for private foreign companies, it did show that the Indonesian government was not afraid to take drastic measures.¹⁶⁷ Inevitably, it anticipated the final phase of Dutch private investment in Indonesia.

6.4 Takeover and nationalisation of Dutch companies, 1957–1960

The abrogation of the Netherlands-Indonesian Union in February 1956 did not have any immediate negative effects on the operations of Dutch companies in Indonesia. In addition, in October 1956 a law was passed that prevented unlawful occupation of Dutch companies. Indemnification payments for the nationalized companies OGEM and ANIEM were initiated and no other companies were nationalized in 1956. Other foreign companies continued operations but the abrogation in particular targeted the Dutch government. It was not the purpose of the Indonesian government to further hinder private foreign entrepreneurship, but it did want to take measures against the former colonizer, although Indonesia had already paid the largest share of the debt.¹⁶⁸

The interests of Dutch companies in Indonesia were still significant. In June 1956 Vice-President Hatta argued that Indonesia still depended on the presence of foreign inter-island shipping companies. President Sukarno was of the opinion that foreign domination of the economy should come to an end. He stated this in a speech on 17 August 1956. Requests were made by various associations and labour unions demanding the nationalisation of Dutch electricity and gas companies. The Indonesian government made plans to initiate further nationalisation. During this time, Dutch companies such as Lindeteves and Internatio were of the opinion that it was impossible to give

¹⁶⁷ Tom van den Berge, O. Simons and H. van Woerden, 'Het ministerie van Buitenlandse Zaken', in: H. Baudet and M. Fennema (eds), *Het Nederlands belang bij Indië* (Utrecht: Spectrum, 1983) 108–135, in particular 132.

¹⁶⁸ Van den Berge, Simons and Van Woerden, 'Het ministerie van Buitenlandse Zaken', 132; Thee, 'Indonesianization', 4; Van Zanden and Marks, *An economic history of Indonesia 1800–2010*, 138; P.B.R. de Geus, *De Nieuw-Guinea kwestie, aspecten van buitenlands beleid* (Leiden: Martinus Nijhoff, 1984) 61, 77.

up their activities in Indonesia since the interests and investments were too large, even if the situation was becoming alarming for the companies.¹⁶⁹

A next step was taken by the second Ali Sastroamidjojo cabinet to regulate port activities in October 1956. Lightering, stevedoring and port warehousing were largely done by Dutch or other foreign companies and these activities were to be taken over by Indonesian firms. Since these activities barely required any investment and were very labour-intensive, this hardly affected the KPM.¹⁷⁰ In the meantime, various Dutch plantations were sold to Chinese and other foreign nationals in particular, not to indigenous Indonesians. The book value of remaining Dutch companies was rapidly reduced, while Dutch estates increasingly confronted land occupation and squatters.¹⁷¹

In April 1957, after the fall of the second Ali Sastroamidjojo cabinet, Sukarno appointed an extra-parliamentary cabinet and introduced martial law. This was the start of the era of Guided Democracy that was hoped to bring political stability to Indonesia. In August 1957 West Irian became a prominent issue on the agenda of the United Nations again and diplomatic relations with the Netherlands deteriorated further.

At the same time, the Indonesian military made preparations to take over the economy. Numerous foreign companies in various fields such as gas, oil, printing and transportation were deemed to be vital to the military and thus prone to nationalisation, but had not yet been brought under military control. In October 1957 Sukarno launched a campaign aiming at the liberation of West Irian, and Dutch companies were boycotted for four days. The next month Sukarno stated that it was not unthinkable that trade relations with the Netherlands would be severed and Dutch properties confiscated if there was no favourable outcome in the West Irian issue.¹⁷²

In the meantime, Indonesia strengthened its relations with other countries. By 1957 the Soviet Union surpassed the United States in terms of deliveries of goods. Loans and support from the Soviet Union for the Five-Year Plan kept growing, whereas relations with the United States cooled down.

¹⁶⁹ NL-HaNa: Lindeteves-Jacoberg N.V., 1889–1978, 58, Annual report 1953, 8; Annural Report 1954, 8; Pham Van Thuy, *Beyond political skin*, 154; Meijer, *Den Haag-Djakarta*, 597; Lindblad, *Bridges to new business*, 117–119, 160.

¹⁷⁰ Dick, *The Indonesian interisland shipping industry*, 19; Lindblad, *Bridges to new business*, 121.

¹⁷¹ Pham Van Thuy, *Beyond political skin*, 154; Meijer, *Den Haag-Djakarta*, 594; Stoler, *Capitalism and confrontation in Sumatra's plantation belt, 1870–1979*, 155.

¹⁷² Booth, *Economic change in modern Indonesia*, 44; Sievers, *The mystical world of Indonesia*, 178; Lindblad, *Bridges to new business*, 181; Pham Van Thuy, *Beyond political skin*, 194; Daniel S. Lev, *The transition to guided democracy: Indonesian politics, 1957–1959* (Jakarta: Equinox Publishing, 2009) 32–40, 47–49.

Indonesian purchases of military equipment did not go through and only a small loan was granted by the United States.¹⁷³

One development that compensated for the deteriorating relations with Western countries was an agreement with Japan in November 1957 regarding payments for war damage. A total of \$800 million was destined for reparation, technical assistance and private economic projects. Coincidentally, shortly after Indonesia sealed the deal with Japan, Indonesia failed to achieve a two-thirds majority in the United Nations General Assembly, which meant that West Irian was not to be handed over to Indonesia. On 1 December the Indonesian cabinet called for reprisals and the following day Dutch newspapers were banned and KLM landing rights revoked. On 3 December 1957 Indonesian trade unions took over the KPM, 40 ships were seized and this was the start of the takeover of Dutch companies by Indonesia.¹⁷⁴

Numerous other Dutch companies in Java and Sumatra were taken over. Three Dutch banks: Cultuurbank, Escomptobank and Nationale Handelsbank came under control by the Serikat Buruh Bank Seluruh Indonesia (SBBSI, All-Indonesian Union of Bank Employees). The 'Big Five' (Borsumij, Geo. Wehry, Internatio, Jacobson van den Berg and Lindevetes), plus the NHM, were taken over on 4 December 1957. The following day, Dutch

¹⁷³ Mahajani, *Soviet and American aid to Indonesia*, 9–11; Fakhri, *The rise of the managerial state in Indonesia*, 143; John Saltford, *The United Nations and the Indonesian takeover of West Papua, 1962–1969: The anatomy of betrayal* (Abingdon: Taylor and Francis, 2003) 7; Jones, *Indonesia: The possible dream*, 122.

¹⁷⁴ Lindblad, *Bridges to new business*, 161, 181–182; Keppy, *The politics of redress*, 108; Agung, *Twenty years Indonesian foreign policy 1945–1965*, 266; Aden, *Oil and politics in Indonesia, 1945 to 1980*, 180–182; Pham Van Thuy, *Beyond political skin*, 180–181; Booth, *Economic change in modern Indonesia*, 44; Fakhri, *The rise of the managerial state in Indonesia*, 75; Thee Kian Wie, *Indonesia's economy since independence* (Singapore: ISEAS Publishing, 2012) 13; Booth, *Colonial legacies*, 184; Thee, 'Indonesianization', 12; W. Brand, 'Heroriëntatie van vroeger in Indonesië werkende Nederlandse Bedrijven', in: H. Baudet (ed.), *Handelswereld en wereldhandel: Honderd jaar Internatio: Tien essays* (Rotterdam: N.V. Internationale Crediet- en Handelsvereniging, 1963) 143–174, in particular 150; À Campo, *Engines of empire*, 568; J.A.C. Mackie, 'Indonesia's government estates and their masters', *Pacific Affairs*, Vol. 34 (1961) 337–360, in particular 340; Herb Feith, 'Constitutional democracy: How well did it function?', in: David Bouchier and John Legge (eds), *Democracy in Indonesia. 1950s and 1990s* (Clayton: Centre of Southeast Asian Studies, Monash University, 1994) 16–25, in particular 22; Ailsa Zainu'ddin, *A short history of Indonesia* (Melbourne: Cassell Australia, 1968) 265; Masashi Nishihara, *The Japanese and Sukarno's Indonesia: Tokyo-Jakarta relations, 1951–1966* (Honolulu: University Press of Hawaii, 1976) 35, 49–50; Singgih Tri Sulistiyono, 'In the shadow of nationalism: Pelni during the period of Indonesianisasi', *Lembaran Sejarah*, Vol. 8 (2005) 85–108, in particular 95.

nationals without employment were requested by the Indonesian Minister of Justice to leave the country in the next few months.¹⁷⁵

The takeovers by labour unions inspired the Indonesian government and military to take action from 5 December onwards. Out of fear of a larger involvement of the Partai Komunis Indonesia (PKI, Indonesian Communist Party), the Indonesian government put the military in charge of the Dutch enterprises that had been taken over. The takeovers were not initiated by the Indonesian government but the government was not opposed to the takeovers.¹⁷⁶ On 6 December the labour union of the tin miners occupied the offices of the Billiton Company, arguing that the process of Indonesianization was too slow. On 7 December the seizure of estates in North Sumatra began under the supervision of the military. By 9 December, control of the three Dutch banks was transferred from the SBBSI to the Indonesian army. On 10 December 1957 the government created the Pusat Perkebunan Negara Baru (PPN-Baru, New Centre for State Estates). This institution was put in charge of Dutch estates, including those of the Deli Company and HVA.¹⁷⁷ On the same day, the military issued a statement for further takeovers of Dutch companies in Central Java.¹⁷⁸

¹⁷⁵ Van de Kerkhof, 'Indonesianisasi of Dutch economic interests, 1930–1960: The case of Internatio', 201, Meijer, *Den Haag-Djakarta*, 584; J. Thomas Lindblad, 'The importance of indonesianisasi during the transition from the 1930s to the 1960s', *Itinerario*, Vol. 26 (2002) 51–72, in particular 65–72.

¹⁷⁶ Pham Van Thuy, *Beyond political skin*, 194–197; Bambang Purwanto, 'Decolonisation and the origin of military business in Indonesia', in: Hans Hägerdal (ed.), *Responding to the west. Essays on colonial domination and Asian agency* (Amsterdam: Amsterdam University Press, 2009) 151–166, in particular 162–165; Bambang Purwanto, 'Entertain people, accumulate capital: Indonesian military entrepreneurship in the 1950s and 1960s', in: Alicia Schrikker and Jeroen Touwen (eds), *Promises and predicaments. Trade and entrepreneurship in colonial and independent Indonesia in the 19th and 20th centuries* (Singapore: NUS Press, 2015) 151–162, in particular 155; Thee, *Recollections*, 13; Thee, 'Indonesianization', 11; Lindblad, 'The importance of indonesianisasi during the transition from the 1930s to the 1960s', 66–72.

¹⁷⁷ Pham Van Thuy, *Beyond political skin*, 194–197; Purwanto, 'Decolonisation and the origin of military business in Indonesia', 162–165; Purwanto, 'Entertain people, accumulate capital: Indonesian military entrepreneurship in the 1950s and 1960s', 155; Thee, *Recollections*, 13; Mackie, 'Indonesia's government estates and their masters', 338; Lindblad, *Bridges to new business*, 184; Van de Kerkhof, 'Onmisbaar maar onbemind. De Koninklijke Paketvaart Maatschappij en de Billiton Maatschappij in het onafhankelijke Indonesië (1945–1958)', 142; Richard Robison, *Indonesia: The rise of capital* (Sydney: Allen & Unwin, 1986) 73–76; NL-HaNa: Deli Maatschappij, 20, Board meeting 17–4–1958; NL-HaNa: HVA, 12, Annual report 1957, 9.

¹⁷⁸ Purwanto, 'Decolonisation and the origin of military business in Indonesia', 165.

The pace of appropriation was accelerated and Dutch companies in South Sulawesi were also seized. On 13 December General Nasution instructed the army to manage the estates already seized and companies that were taken over after that date came directly under the control of the army. On 16 December the Billiton Company also came into the hands of the military, but the Dutch director was still allowed to lead the company. The PKI and the affiliated labour union chose to support the army and made sure that companies kept running. Djuanda, who was both Prime Minister and Minister of Defence, officially placed the Dutch companies in Indonesia under government control. Various government organisations were created to supervise and operate the Dutch companies. The companies were grouped according to their activity. Dutch banks, manufacturing and mining companies, plantations and estates, pharmaceutical companies and trading firms were all in different groups. Later, in 1958, two additional bodies were created for insurance companies and Dutch contracting companies. These organisations were operated by ministries as well as the army and labour unions.¹⁷⁹

Since more Dutch people had to leave Indonesia, their roles in companies were quickly taken over by Indonesian employees who rapidly rose to higher positions. Former Indonesian staff now took charge of the operations, with the army acting as supervisor. As a result, these takeovers enhanced the role of the military in the economy of Indonesia. Indonesianization increased more rapidly than before the takeover and more training and schooling were provided. There was a shortage of skilled staff and it became a challenge for the Indonesians to keep operations running as usual.¹⁸⁰ It was an interesting situation: the Dutch companies remained legally in Dutch hands while being operated by Indonesians.¹⁸¹ During the remainder

¹⁷⁹ Bank Indonesia, *Report for the year 1957–1958* (Jakarta: Kolff, 1958) 217–218; Pham Van Thuy, *Beyond political skin*, 182, 194–195; Thee, *Recollections*, 13; Thee, 'Indonesianization', 11; Lindblad, *Bridges to new business*, 184, 189–190; Van de Kerkhof, 'Onmisbaar maar onbemind. De Koninklijke Paketvaart Maatschappij en de Billiton Maatschappij in het onafhankelijke Indonesië (1945–1958)', 142; Bambang Purwanto, 'Economic decolonization and the rise of Indonesian military business', in: J. Thomas Lindblad and Peter Post (eds), *Indonesian Economic Decolonization in Regional and International Perspective* (Leiden: KITLV Press, 2009) 39–58, in particular 51–53.

¹⁸⁰ Pham Van Thuy, *Beyond political skin*, 197; Purwanto, 'Entertain people, accumulate capital: Indonesian military entrepreneurship in the 1950s and 1960s', 155; Stoler, *Capitalism and confrontation in Sumatra's plantation belt, 1870–1979*, 148.

¹⁸¹ Lindblad, 'British business and the uncertainties of early independence in Indonesia', 153.

of 1958, more companies were taken over and within one year around 60% of foreign trade and 75% of banking was controlled by Indonesians.¹⁸²

Shortly before February 1958 the Billiton Company still expected that the Indonesian government would renew the concession for the company. On 1 March 1958 the activities of the Billiton Company in Indonesia were completely taken over by the Indonesian government and the company was renamed Perusahaan Pertambangan Timah Belitung (Belitung Tin-Mining Corporation).¹⁸³ The Dutch share of three-eighths ownership was liquidated and accompanied by large dividend payments paid to the Dutch shareholders, a large part paid from accumulated reserves. The Indonesian state which initially owned five-eighths of the equity now came into possession of the entire company. Although the 165 Dutch employees of the Billiton Company were not forced to leave Indonesia, nearly all of them did.¹⁸⁴ This was the case in several other companies as well. In April 1958 the last Dutch employees of HVA left Indonesia and all European staff of the Deli Company was sent home as well.¹⁸⁵ Although HVA wanted to resume operations in Indonesia, the management realized that their role in Indonesia was over. They thought there was little chance of Sukarno disappearing, just as was the chance of getting compensation.¹⁸⁶

Although the takeover of Dutch companies happened suddenly and quickly, it is questionable whether Dutch companies really were surprised and unprepared for the takeover. In the board meetings of HVA, for instance, already by 1956 the situation was repeatedly referred to as 'difficult and bad', without good prospects. Even though in 1956 it was still expected that nationalisation would not occur and that HVA still had a future in Indonesia, in 1957 this perspective changed. The new Djuanda cabinet made the situation worse for the foreign companies and HVA complained about the stubborn

¹⁸² Golay et al., *Underdevelopment and economic nationalism in Southeast Asia*, 193.

¹⁸³ NL-HaNa: Billiton Maatschappij, 31, Report shareholders meeting 29-7-1958; NL-HaNa: Billiton Maatschappij, 45, Annual report 1957, 12-13, Annual report 1958, 6-7.

¹⁸⁴ Somers Heidhues, *Bangka tin and Mentok pepper*, 208; Lindblad, *Bridges to new business*, 192; Van de Kerkhof, 'Onmisbaar maar onbemind. De Koninklijke Paketvaart Maatschappij en de Billiton Maatschappij in het onafhankelijke Indonesië (1945-1958)', 143; Lindblad, 'Pursuit of profit in the shadow of decolonisation: Indonesia in the 1950s', 246; NL-HaNa: Billiton Maatschappij, 51, Report financial commission 1-6-1960; NL-HaNa: Deli Maatschappij, 21, Board meeting 20-1-1959; NL-HaNa: HVA, 12, Annual report 1957, 10-11.

¹⁸⁵ Van de Kerkhof, '"Defeatism is our worst enemy". Rehabilitation, Reorientation and Indonesianisasi at Internatio and HVA, 1945-1958', 117; NL-HaNa: Deli Maatschappij, 41, Annual report 1957, 5.

¹⁸⁶ NL-HaNa: HVA, 9, Board meeting 10-1-1958, 7-3-1958.

attitude of the Dutch government regarding West Irian. A reason why the Dutch companies could not do much about the developments in Indonesia also had to do with the fact that Dutch interests there were still large, whereas Indonesian interests in the Netherlands were small. If the Dutch were to act too aggressively, chances for compensation would be even less, whereas for Indonesia the consequences were smaller.¹⁸⁷

Nationalisation of Dutch companies

In November 1958 the Indonesian government passed a law with the name Rancangan Undang-Undang tentang Nasionalisasi Perusahaan² Milik Belanda di Indonesia (Draft Law concerning the Nationalisation of Dutch-owned Enterprises in Indonesia). It was supported by Indonesian businessmen and it was argued that the takeovers were approved in relation to the abrogation of the agreements at the Round Table Conference as a result of ongoing conflict between Indonesia and the Netherlands regarding West Irian. The law on nationalisation was promulgated on 27 December 1958 and applied to all Dutch-owned companies that had been taken over since 3 December. These companies would be completely run and owned by the Indonesian state, and operations and production levels had to continue as usual. Compensation to Dutch business owners had to be paid and a special committee was established to determine the amount of money that was to be paid.¹⁸⁸

In December 1958 the Indonesian military had already created a list in preparation of nationalisation, including more than half of the Dutch-owned companies. After the law became active, Dutch companies were rapidly nationalized. A start was made with 38 tobacco companies in February 1959. Unlike the few takeovers in the mid-1950s, the large scale nationalisation of Dutch companies after 1957 took place without mutual consent and resulted in objections from the Dutch companies and government. The Deli Company and the Senembah Company filed a lawsuit regarding the tobacco harvest of the previous year from a seized estate that was shipped by a German company

¹⁸⁷ NL-HaNa: HVA, 9, Board meeting 5-10-1956, 6-12-1957, 7-11-1958; A. Goedhart, *Weerzien met Indië en Indonesië. Herinneringen aan wat wel en niet verloren ging* (Amsterdam: Albini, 1995) 135-141.

¹⁸⁸ Lindblad, *Bridges to new business*, 195; Redfern, *Sukarno's guided democracy and the takeovers of foreign companies in Indonesia in the 1960s*, 103-104; Bondan Kanumoyoso, *Nasionalisasi perusahaan Belanda di Indonesia: Menguatnya peran ekonomi negara* (Jakarta: Pustaka Sinar Harapan, 2001) 60-65; Pham Van Thuy, *Beyond political skin*, 181-184; Lindblad, 'The economic decolonisation of Indonesia', 15; NL-HaNa: HVA, 12, Annual report 1958, 9.

and sold in Bremen instead of Amsterdam. Ultimately, the Indonesian state won the case and this paved the way for further takeovers and nationalisation. By May 1959 a large part of all Dutch-owned plantations had been nationalized, followed in June by around 40 manufacturing and trading firms, including the 'Big Five'. By July, 248 Dutch-owned companies had been nationalized and renamed.¹⁸⁹

One year later, in June 1960, this figure had almost doubled to 489 Dutch-owned companies that had been nationalized, including the Dutch banks. Most companies that were nationalized were active in estate agriculture (216 companies) followed by manufacturing and mining companies (161 companies) and trading companies (40 companies). Eventually, a total of around 700 Dutch companies came into the hands of Indonesians.¹⁹⁰ However, the Indonesian ordinance did mention 911 nationalized companies considered to have been Dutch.¹⁹¹

In 1920 a total of 2,656 Dutch companies were operating in the Netherlands Indies. During the economic depression of the 1930s this number dropped and by 1940 a total of 1,593 Dutch companies were still active in the Netherlands Indies. Of these, 1,014 had their headquarters in the Netherlands Indies and 579 were based in the Netherlands.¹⁹² It is likely that numerous Dutch companies ceased to exist after 1940. The following period proved challenging for the companies facing the war and revolution and the transfer of sovereignty to Indonesia. Companies able to weather the storm faced takeover in the late 1950s, and it is probable that many small Dutch companies were either sold to Chinese or Indonesian businessmen before nationalisation, merged with other companies or simply discontinued activities in Indonesia.¹⁹³ The total number of Dutch companies that were nationalized included most of the Dutch operations that were still active in Indonesia at that time.

¹⁸⁹ Pham Van Thuy, *Beyond political skin*, 183–185; Lindblad, *Bridges to new business*, 195–198; NL-HaNa: Billiton Maatschappij, 45, Annual report 1959, 5; NL-HaNa: Deli Maatschappij, 40, Annual report 1959, 22–23.

¹⁹⁰ Fakh, *The rise of the managerial state in Indonesia*, 104; Lindblad, *Bridges to new business*, 197–199; Lindblad, *Foreign investment in Southeast Asia in the twentieth century*, 104; Thee, *Indonesia's economy since independence*, 14.

¹⁹¹ NL-HaNa: Ministerie van Buitenlandse Zaken, Bureau Schadeclaims Indonesië, het bureau Schadeclaims Duitse Democratische Republiek en de sectie Uitvoering Compensatie Accoord Egypte, 1962–1989 (Ministry of Foreign Affairs, Bureau for Indemnification Claims in Indonesia, Bureau for Indemnification Claims in German Democratic Republic and the Section Execution Compensation Agreement Egypt) access number 2.05.407, Inventaris 3–2–2020, 8.

¹⁹² Colonial Business Indonesia, *CBI Database ID*.

¹⁹³ Sluyterman, *Dutch enterprise in the twentieth century*, 171; Van der Zwaag, *Verloren tropische zaken*, 299.

The former Dutch companies that had been nationalized came under control of a new organisation that was founded in 1959 and labelled Badan Nasionalisasi Perusahaan-Perusahaan Belanda (BANAS, Body for the Nationalisation of Dutch Companies). Prime Minister Djuanda was in charge of this body. He was supported by Soetikno Slamet from Bank Indonesia and Colonel Suprayogi, who was also Minister of Economic Stabilisation. Under this new organisation the companies were divided into fourteen different groups, each representing a different type of industry. Most of these groups were established when the Dutch companies were taken over. As a result of nationalisation, the Indonesian government came to play a larger role in the economy of Indonesia. The role of the military had increased too, with many officers resigning from the military and supervising business activities.¹⁹⁴

Not all Dutch companies had been nationalized in the first round of nationalisations. Royal Dutch Shell and Unilever were exempted because they were partly British.¹⁹⁵ Operations by Royal Dutch Shell in Indonesia were renamed Shell Indonesia. Three British managers were assigned to the company and the Dutch staff was largely replaced by American and British employees, while Indonesian employees moved into higher positions.¹⁹⁶ However, in 1959, one subsidiary of Royal Dutch Shell, NIAM, was renamed Pertamina Minyak Indonesia (Perminco, Indonesian Oil Mining Company). The NIAM was originally 50% owned by the Dutch government and after the transfer of sovereignty the Indonesian government took over this share. Its headquarters was moved to Jakarta while Indonesian board members were installed. Nationalisation did not occur during this period, but several Royal Dutch Shell oilfields had already been taken over by Indonesians after the war and were never returned to the company.¹⁹⁷

¹⁹⁴ Lindblad, *Bridges to new business*, 200; Mackie, 'Indonesia's government estates and their masters', 342; R.M. Sarwoko and R. Hendro Koosman, *Kumpulan ketentuan-ketentuan dan pengumuman-pengumuman BANAS; (husus untuk penggunaan dinas)* (Jakarta: Badan Nasionalisasi, 1961) 23; Siahaan, *Industrialisasi di Indonesia*, 320–322.

¹⁹⁵ Nobel and Fennema, 'Economische elites na de dekolonisatie van Nederlands-Indië. Verlies van posities, desintegratie van netwerken, verschuiving van zwaartepunten', 19; Lindblad, *Bridges to new business*, 219; Lindblad, 'Politieke economie en de dekolonisatie in Indonesië', 143; Aden, *Oil and politics in Indonesia 1945 to 1980*, 167.

¹⁹⁶ Bartlett, *Pertamina: Indonesian national oil*, 119–123; Howarth and Jonker, *A history of Royal Dutch Shell: Powering the hydrocarbon revolution, 1939–1973*, 231.

¹⁹⁷ Purwanto, 'Decolonisation and the origin of military business in Indonesia', 164; Bartlett, *Pertamina: Indonesian national oil*, 119–123; Pham Van Thuy, *Beyond political skin*, 202; Howarth and Jonker, *A history of Royal Dutch Shell: Powering the hydrocarbon revolution, 1939–1973*, 230; Lindblad, *Bridges to new business*,

Takeover of Chinese companies

During the 1950s the Indonesian government tried to limit the economic role of the ethnic Chinese as well, but this was more difficult than reducing the influence of the Dutch. Chinese economic activities were more connected with rural areas and the indigenous population compared with Dutch activities. During the 1950s many new Chinese companies were established in Indonesia. Chinese companies, were as a group, more diverse and complex than Dutch firms. The ethnic Chinese consisted of Indonesian citizens, as well as citizens of the People's Republic of China and a smaller group that supported Taiwan, so taking measures against the Chinese would automatically affect Indonesian citizens and lead to a difficult situation for the Indonesian government.¹⁹⁸

By 1955, a start had been made by the Indonesian government in banning foreign nationals from operating rice mills. Until that time, many Indonesian citizens of Chinese descent still had dual citizenship and the government specified that persons with sole Indonesian citizenship were preferred to operate the rice mills. After limiting harbour activities for the Dutch, the Indonesian government also tried to exclude Chinese from these operations. In reality this proved more difficult than expected and initially the government wanted to transfer these activities to indigenous Indonesians by 1956, but was later delayed to 1959.¹⁹⁹ After the takeover and nationalisation of Dutch companies, the Indonesian government turned its attention increasingly to Chinese businesses. Next to the Indonesian government, ethnic Chinese businessmen, including both Chinese and Indonesian nationals, were dominating the Indonesian economy after the departure of the Dutch. Chinese investment is considered here as domestic investment, whereas my focus is on foreign investment. Some Dutch trading activities were taken over by Chinese businessmen, who even managed to increase their economic influence in the country.²⁰⁰

163; Lindblad, *Foreign investment in Southeast Asia in the twentieth century*, 105; Aden, *Oil and politics in Indonesia 1945 to 1980*, 124; Sarwoko and Koosman, *Kumpulan ketentuan-ketentuan dan pengumuman-pengumuman BANAS*, 492.

¹⁹⁸ Thee, 'Indonesianization', 12; Thee, *Recollections*, 14; Thee, *Indonesia's economy since independence*, 14–20; Redfern, *Sukarno's guided democracy and the takeovers of foreign companies in Indonesia in the 1960s*, 108; Lindblad, *Bridges to new business*, 216.

¹⁹⁹ Thee, 'Indonesianization', 15.

²⁰⁰ Lindblad, 'The economic decolonisation of Indonesia', 15; J. Thomas Lindblad, 'Emerging business elites in newly independent Indonesia', in: Jost Dülffer and Marc Frey (eds), *Elites and decolonization in the twentieth century* (London:

In 1959 Indonesia was about to ratify an agreement concluded at the Bandung Conference in 1955 with the People's Republic of China regarding citizenship of Chinese born in Indonesia. Anti-Chinese sentiments emerged, and in May 1959 a regulation was issued banning foreign nationals, including Chinese, who did not have Indonesian citizenship, from trade in rural areas. Operations had to be transferred to indigenous Indonesian citizens by 30 September 1959. The purpose was to strengthen the economic position of indigenous Indonesian businesses. Before the regulation could be brought into action, a new cabinet was installed by Sukarno as part of the Guided Democracy in July 1959.²⁰¹ In November 1959 the Indonesian government proceeded with a comparable decree which became active on 1 January 1960. A result was that many Chinese had to relocate. Some went to other cities and towns in Indonesia, but some 120,000 people moved to China. Chinese businesses were confiscated directly by the Indonesian government, whereas in the takeover of Dutch companies the military and labour unions played a large role. This regulation would affect thousands of small companies. In 1959 there were 168,000 businesses with a 'foreign' character. Of these, 125,000 were trade companies and a majority of them were operated by ethnic Chinese without Indonesian citizenship. Inevitably, this badly hurt the relationship between Indonesia and the People's Republic of China as well. Later in 1960, further implementation of this regulation was partly suspended.²⁰²

New foreign direct investment

After the nationalisation of the Dutch companies, American and British companies were the most prominent foreign non-Asian companies in Indonesia, with Japan gradually becoming another important investor. The United States and the Soviet Union both provided loans and grants to Indonesia. Especially in the late 1950s and early 1960s, the Soviet Union

Palgrave Macmillan, 2011) 74–93, in particular 89; Booth, *The Indonesian economy in the nineteenth and twentieth centuries*, 118.

²⁰¹ Thee, 'Indonesianization', 16; J.A.C. Mackie, and Charles A. Coppel, 'A preliminary survey', in: J.A.C. Mackie (ed.), *The Chinese in Indonesia: Five essays* (Melbourne: Thomas Nelson, 1976) 1–18, in particular 11.

²⁰² Redfern, *Sukarno's guided democracy and the takeovers of foreign companies in Indonesia in the 1960s*, 108; Thee, *Recollections*, 14; Lindblad, *Bridges to new business*, 145; M.C. Ricklefs, *A history of modern Indonesia, c. 1300 to the present* (Bloomington: Indiana University Press, 1981) 225; Thee, 'The Indonesian government's economic policies towards the ethnic Chinese: Beyond economic nationalism' in: Leo Suryadinata (ed.) *Southeast Asia's Chinese businesses in an era of globalization* (Singapore: Institute of Southeast Asian Studies, 2006) 76–101, in particular 87–88.

strengthened its relationship with Indonesia and increased spending on the country. Indonesia became the largest non-communist receiver of Soviet aid. Aid received from communist countries increased after 1956 and between 1957 and 1965 it was estimated to be more than \$550 million. Including military aid, this amount could have been more than one billion dollars. Indonesia managed to get support from non-communist countries as well. Total grants and loans received from non-communist countries was estimated to be roughly \$1.1 billion, more than half originating from the United States.²⁰³ After 1963, when the *Konfrontasi* began between Indonesia and Malaysia, support from the United States nearly vanished whereas communist support remained strong.²⁰⁴ There was a clear tendency of the Indonesian government to prefer loans and grants above foreign direct investment, since this would mean that there was less dependence on foreign firms.²⁰⁵

The foreign investment law of 1958 urged new investors to form joint ventures with Indonesian businesses, and foreign investors had to comply with regulations about employing and training Indonesian staff.²⁰⁶ Yet, official foreign direct investment between 1956 and 1965 amounted to only \$84 million, which was entirely invested in the oil industry, mainly by Americans.²⁰⁷ The estimated value of all American-owned investment in Indonesia, however, increased between 1954 and 1959 from \$262 million to \$401 million. Not much new foreign direct investment took place during the period between the nationalisation of the Dutch companies and the onset of

²⁰³ Fakhri, *The rise of the managerial state in Indonesia*, 143–144; Rosendale, *The Indonesian balance of payments, 1950–1976*, 103–112; Saltford, *The United Nations and the Indonesian takeover of West Papua, 1962–1969*, 7; Jones, *Indonesia: The possible dream*, 122; Mahajani, *Soviet and American aid to Indonesia*, 8–10, 16–18; Aden, *Oil and politics in Indonesia 1945 to 1980*, 182; Paauw, *Financing economic development*, 346; Agung, *Twenty years Indonesian foreign policy 1945 1965*, 384; Joyce Gibson, 'Foreign enterprise and production-sharing', in: Tjin Kie Tan, Heinz Arndt and Lance Castles (eds), *Sukarno's Guided Indonesia* (Brisbane: Jacaranda Press, 1967) 89–101, in particular 89.

²⁰⁴ Agung, *Twenty years Indonesian foreign policy 1945 1965*, 492; Pierre van der Eng, 'Konfrontasi and Australia's aid to Indonesia during the 1960s', *ANU Working papers in economics and econometrics*, No. 493 (2008) 1–22, in particular 6; Pierre van der Eng, "Send them a shipload of rice": Australia's food aid to Indonesia, 1960s–1970s', *Australian Journal of Politics & History*, Vol. 1 (2021) 50–66, in particular 55.

²⁰⁵ White, 'Surviving Sukarno: British business in post-colonial Indonesia, 1950–1967', 1304.

²⁰⁶ Mackie, 'The 1941–1965 period as an interlude in the making of a national economy: How should we interpret it?', 326–328; Redfern, *Sukarno's guided democracy and the takeovers of foreign companies in Indonesia in the 1960s*, 129.

²⁰⁷ Rosendale, *The Indonesian balance of payments, 1950–1976*, 81.

the New Order under Suharto in 1966.²⁰⁸ Flows of foreign investment became insignificant, especially after Sukarno announced in August 1962 that private foreign investment was only welcome if profits were not transferred abroad.

In 1960 a new law was passed for the oil industry. Existing oil concessions for the foreign oil companies were prolonged for one year and the government received 60% of profits. The government wanted to control the oil industry entirely but in 1963 it realized that state companies were not yet at the technological level of foreign oil companies. Therefore, foreign oil companies could continue operations. In 1960 the Basic Agrarian Law was signed as well. The result of this law was that foreign, mainly British, estates with concessions dating back to the colonial times had to renegotiate their estates while one-third of their areas had to be surrendered. Concessions expiring before 1965 came into the hands of the Indonesian government.²⁰⁹

Takeover of British companies

After the Indonesian government had taken over Dutch and Chinese companies, it took until 1963 before British operations were affected as a result of the *Konfrontasi*.²¹⁰ Initially, British operations were allowed to continue, but uncertainties increased. When the formation of the Federation of Malaysia took place in 1963 and Malaya was merged with North Borneo, Sarawak and Singapore, this was seen by Sukarno as a form of neo-colonialism by the British. In order not to aggravate the situation, some companies such as Shell and Unilever replaced British staff with Dutch managers. After the West Irian conflict was solved in 1962 Dutch staff was more favoured compared to British staff.

In West Java, British companies were put under custody of the Indonesian government. In January 1964 attempts were made to take over the management at Unilever. Eventually the firm came under supervision of the government and companies in West Sumatra, such as Harrisons & Crosfield,

²⁰⁸ Lindblad, *Foreign investment in Southeast Asia in the twentieth century*, 105.

²⁰⁹ Aden, *Oil and politics in Indonesia 1945 to 1980*, 237; Redfern, *Sukarno's guided democracy and the takeovers of foreign companies in Indonesia in the 1960s*, 144; Golay et al., *Underdevelopment and economic nationalism in Southeast Asia*, 196; White, 'Surviving Sukarno: British business in post-colonial Indonesia, 1950–1967', 1292; Mackie, 'The Indonesian economy 1950–1963', 32, 36; Karl J. Pelzer, 'The agricultural foundation', in: Bruce Glassburner (ed.), *The economy of Indonesia: Selected readings* (Ithaca, NY: Cornell University Press, 1971) 128–161, in particular 147–148; Hunter, 'The Indonesian oil industry', 270.

²¹⁰ Sievers, *The mystical world of Indonesia*, 185.

were taken over by the unions.²¹¹ Workers at Shell in Plaju, in South Sumatra, occupied the refinery and the military took over the refinery in Balikpapan. By April 1965 all British companies had been put under control of the government, including Shell. However, to what extent operations were affected differed according to the company. At the beginning of 1965, the relationship between Indonesia and the US also became tense as a result of growing fears about the political developments. After operations from Shell had been taken over, facilities of Caltex and Stanvac were occupied by workers. However, the management remained in the hands of the same people since the Indonesian government argued that this industry was vital to the economy and, therefore, operations had to be guaranteed.²¹²

Unlike the Dutch companies, the British companies were also assured that if the conflict over Malaysia was solved, control of the companies would come into British hands again. In late 1966 the conflict between Indonesia and Malaysia was settled, and in 1967 Unilever returned to its business in Indonesia again. At the beginning of 1968, Harrisons & Crosfield took control of its estates again and later in the year the British banks started operating again. Shell, however, had been sold to the Indonesian oil company Pertamina for \$110 million.²¹³

Linkages

With the takeover and nationalisation of Dutch companies, Dutch staff was increasingly replaced with Indonesian personnel. Nearly 50,000 Dutch people left the country, which opened a lot of possibilities for Indonesians to take over

²¹¹ Redfern, *Sukarno's guided democracy and the takeovers of foreign companies in Indonesia in the 1960s*, 258; White, 'Surviving Sukarno: British business in post-colonial Indonesia, 1950–1967', 1297–1298, 1306; Lindblad, 'British business and the uncertainties of early independence in Indonesia', 157; Stoler, *Capitalism and confrontation in Sumatra's plantation belt, 1870–1979*, 159; Pham Van Thuy, *Beyond political skin*, 190; Ulf Sundhaussen, *Politik militer Indonesia 1945–1967. Menuju dwifungsi ABRI* (Jakarta: LP3ES, 1986) 292–299.

²¹² White, 'Surviving Sukarno: British business in post-colonial Indonesia, 1950–1967', 1301; Lindblad, *Bridges to new business*, 206; Sluyterman, *Dutch enterprise in the twentieth century*, 170; Lindblad, *Foreign investment in Southeast Asia in the twentieth century*, 106; Aden, *Oil and politics in Indonesia 1945 to 1980*, 260; Pham Van Thuy, *Beyond political skin*, 190–191; Agung, *Twenty years Indonesian foreign policy 1945 1965*, 401–402.

²¹³ White, 'Surviving Sukarno: British business in post-colonial Indonesia, 1950–1967', 1303, 1312–1314; Lindblad, *Foreign investment in Southeast Asia in the twentieth century*, 106; Aden, *Oil and politics in Indonesia 1945 to 1980*, 278; Wood, *Intermediate cities in the resource frontier*, 65; Sievers, *The mystical world of Indonesia*, 207.

their positions. At the time of the takeover of the Deli Company, around half of the staff was Indonesian but this number increased quickly in the following period.²¹⁴ The American oil companies in particular sent Indonesian employees abroad to study and by 1959 this number for Stanvac had reached 59. Training programmes initiated by the private corporations proved more successful and efficient than programmes supported by universities or the government. By 1959 the Indonesian government organisations in charge of the former Dutch companies and other Indonesian departments had started their own courses and seminars to train managers and other staff. During the 1960s more than 300 people were also sent to higher education institutions in the Soviet Union in order to study engineering and gain technical knowledge.²¹⁵ PPN-Baru argued that with the departure of Dutch staff, much valuable knowledge had been lost.²¹⁶ This was also true for interisland shipping. The lack of knowledge led to a lower productivity for Pelayaran Nasional Indonesia (PELNI, Indonesian National Shipping) compared with KPM.²¹⁷

Between the end of the Second World War and the nationalisation of Dutch companies, the infrastructure seriously deteriorated. The overall effect of less foreign investment had repercussions for the construction and maintenance of bridges, roads and irrigation systems. Although recovery started during the 1950s, even by 1967 only a small percentage of the roads was deemed in good condition. Rail transport recovered faster, in 1960 surpassing the peak of the 1920s in passenger and freight numbers.²¹⁸ Another

²¹⁴ Tanjung, 'The Indonesianization of the symbols of modernity in Plaju (Palembang), 1930s–1960s', 318; Howarth and Jonker, *A history of Royal Dutch Shell: Powering the hydrocarbon revolution, 1939–1973*, 231; Hunter, 'The Indonesian oil industry', 263; Redfern, *Sukarno's guided democracy and the takeovers of foreign companies in Indonesia in the 1960s*, 152–153; Lindblad, 'The importance of indonesianisasi during the transition from the 1930s to the 1960s', 17–18; Sluyterman, *Dutch enterprise in the twentieth century*, 170; Sluyterman, *Kerende kansen*, 219; NL-HaNa: Deli Maatschappij, 41, Annual report 1957, 5.

²¹⁵ Fakhri, *The rise of the managerial state in Indonesia*, 144; Farabi Fakhri, *Authoritarian modernization in Indonesia's early independence period. The foundation of the New Order State (1950–1965)* (Leiden: Brill, 2020) 89–90; NL-HaNa: HVA, 9, Board meeting 27–6–1958.

²¹⁶ Fakhri, *The rise of the managerial state in Indonesia*, 273; Hawkins, 'Labor in developing countries: Indonesia', 225; Hunter, 'The Indonesian oil industry', 263.

²¹⁷ Daan Marks, 'The economic consequences of decolonization. The "special" case of Indonesia', in: J. Thomas Lindblad and Peter Post (eds), *Indonesian Economic Decolonization in Regional and International Perspective* (Leiden: KITLV Press, 2009) 157–174, in particular 171.

²¹⁸ Marks, *Accounting for services*, 118–123; Booth, *Agricultural development in Indonesia*, 106.

effect of nationalisation of foreign companies and departure of foreigners was a declining tax base.²¹⁹

Economic growth

Until the mid-1950s, exports developed relatively stably, whereas after 1957 the situation became more volatile. The nationalisation of Dutch companies brought a shift and some companies were idle and not productive during 1958. Smallholder production, in particular of rubber, increased. An accelerating inflation reached its peak in the mid-1960s, aggravating the situation, and much illegal trade and smuggling took place.²²⁰

Profits from export crops such as palm oil, rubber and tobacco declined during 1958 as a result of falling prices, but not necessarily because of lower output. That effect on the economy of Indonesia had more to do with international market developments than with the takeover of foreign companies. Productivity, however, did seem to be effected by the takeover. Knowledge and skills did disappear and it did take some time before the Indonesian institutions gained the required knowledge to operate the businesses.²²¹

Nevertheless, the nationalisation of the Dutch companies came as a shock for many business owners. They were unprepared and the Indonesian successors faced a big challenge to make sure that productivity would remain high. Gradually in 1959 and 1960 the situation improved again, although falling oil prices in 1960 and a lower rubber production tempered the export value again. One of the reasons for lower rubber production was slow replanting before the takeover and many rubber trees were already old and unproductive. Overall, the area planted with crops and numbers of workers were back to their previous high level. Dutch directors of HVA stated that they were not disappointed with the performance of their Indonesian successors. GDP did fall during 1958, however, but showed a recovery in 1959 and 1960, although real growth rates were lower than before 1958 and growth had virtually stagnated by the mid-1960s.

²¹⁹ Marks, *Accounting for services*, 141; Redfern, *Sukarno's guided democracy and the takeovers of foreign companies in Indonesia in the 1960s*, 88; NL-HaNa: HVA, 9, Board meeting 6-9-1957.

²²⁰ Booth, *Economic change in modern Indonesia*, 47; Paauw, *Financing economic development*, 350; Lindblad, *Bridges to new business*, 42; Mackie, 'The Indonesian economy 1950-1963', 64.

²²¹ Marks, 'The economic consequences of decolonization. The "special" case of Indonesia', 171.

It is speculative, but it is possible that growth rates in the late 1950s and early 1960s could have been higher if Dutch companies had not been nationalized. Especially taking into account the high taxes paid by these companies, significant amounts of money would remain in Indonesia. On the other hand, the Americans still had a firm position in the oil industry in Indonesia. A clear effect of the nationalisation of Dutch companies was the decline of the trade between Indonesia and the Netherlands. In 1957 the Dutch share in exports from Indonesia dropped from 17% in 1957 to less than one per cent in 1960. By 1960 around three-fifths of the area of the estates was operated by the Indonesian government and the position of British and American rubber estates also declined, whereas that of Indonesian smallholders improved.²²²

The share of the labour force that worked in the agricultural sector even increased between 1953 and 1961 from 61% to 73%. A drop of the workforce in manufacturing was visible, whereas the share in services slowly increased. Further industrialisation of the Indonesian economy did not happen during this period and structural retrogression took place with an increase of labour-intensive production. However, in terms of GDP, the manufacturing and service industries became more important in contrast to the agricultural sector.²²³ Despite the growth in per capita GDP in the 1950s, GDP per capita was still lower during the early Suharto years than before the Second World War. Much of the observed growth was recovery from the war and the Indonesian Revolution. It would take another decade, the early 1970s, before the peak of GDP per capita of 1941 was surpassed.²²⁴

²²² Lindblad, *Bridges to new business*, 201–202; Lindblad, 'The economy of decolonization in North Sumatra', 99; Lindblad, 'The economic decolonisation of Indonesia', 17; Booth, *The Indonesian economy in the nineteenth and twentieth centuries*, 65; Paauw, 'From colonial to guided economy', 183; Meijer, *Den Haag-Djakarta*, 597, 646, 650–653; Mackie, 'Indonesia's government estates and their masters', 339, 348–349; Mackie, 'The Indonesian economy 1950–1963', 2832; NL-HaNa: HVA, 9, Board meeting 3–10–1958.

²²³ Booth, *The Indonesian economy in the nineteenth and twentieth centuries*, 70–72; Paauw, *Financing economic development*, 209–211; Lindblad, 'Economic growth and decolonisation in Indonesia', 99–100; Van Zanden and Marks, *An economic history of Indonesia 1800–2010*, 153; Glassburner, 'The economy and economic policy', 12; Booth, *Colonial legacies*, 168–170.

²²⁴ Van der Eng, 'The real domestic product of Indonesia, 1880–1989', 369–370; Van der Eng, *The 'colonial drain' from Indonesia, 1823–1990*, 9, 35; Van der Eng, 'Indonesia's growth performance in the twentieth century', 158–160; Van Zanden and Marks, *An economic history of Indonesia 1800–2010*, 134, 150–152; Lindblad, *Bridges to new business*, 38; Lindblad, 'Economic growth and decolonisation in Indonesia', 98; Booth, 'Government and welfare in the new republic: Indonesia in the 1950s', 59.

Indemnification claims

The issue of compensation came to the fore immediately after the takeover had begun. The first company to demand compensation was KPM. In December 1957 KPM asserted that the Indonesian government was responsible for the seizure of its ships and therefore the KPM demanded a compensation of f114.5 million for 40 ships if they were not returned within four months.

KPM had insured its fleet at Lloyd's of London and British Ambassador McDermott told the Indonesian government that a compensation this large would have serious effects for Lloyd's. In March 1958 representatives of Lloyd's discussed the matter with the Indonesian government. The Indonesian government was put under pressure and the Indonesian Prime Minister Djuanda had no choice but to release all 40 ships on 20 March 1958. KPM had to remove its ships from Indonesian waters and even though the company got its ships back, KPM was disappointed that its operations in Indonesia had come to an end. And while the Indonesian government did not take possession of any of KPM's ships, most of the former 10,000 Indonesian employees of KPM had already been employed by the national shipping company PELNI.²²⁵

The nationalisation of Dutch companies was to be accepted, but on condition that compensation was paid.²²⁶ By early 1963, diplomatic relations between Indonesia and the Netherlands improved after the New Guinea issue had been settled. This paved the way for talks about compensation for the nationalized companies and this would be the concluding piece of the economic decolonization. Between 1963 and 1966 the Dutch and the Indonesian government negotiated about the payments. Initially, the Dutch claimed a sum of f1,800 million, including interest, which later was reduced to f1,260 million.²²⁷

Finally, on 7 September 1966, after Suharto had ascended to power, a settlement was concluded between Indonesia and the Netherlands. Indonesia would pay f600 million (f689 million including interest) as a compensation

²²⁵ À Campo, *Engines of empire*, 568; Lindblad, *Bridges to new business*, 184; Dick, *The Indonesian interisland shipping industry*, 24.

²²⁶ Lindblad, 'Economic growth and decolonisation in Indonesia', 105.

²²⁷ NL-HaNa: Deli Maatschappij, 41, Annual report 1963; De Jong, and Lessing-Sutherland, *"To forget the past in favour of a promise for the future"*, 15, 17; Van Galen, *Fiasco van goede bedoelingen*, 239; NL-HaNa: Ministerie van Buitenlandse Zaken, 1965–1974, 25238, Financial situation in Indonesia, 26–4–1966.

for the nationalisation of Dutch companies.²²⁸ Payments were made from 1973 to 2003. In 1965 Indonesia had already paid f36 million and each year instalments were paid to the Dutch government. One reason why Indonesia agreed to this settlement was that the payments were necessary in order to receive international funding and aid in the future. Also from the Netherlands. Indonesia had to pay compensations to the Dutch but received new money in return. In particular Japan and the US were in favour of these new programmes. The Dutch Ministry of Foreign Affairs was responsible for distributing the money to individuals and companies that had filed a claim. Already in 1962 the Bureau Schadeclaims Indonesië (Bureau for Indemnification Claims in Indonesia) had been created to handle the distribution. Claimants had until 19 August 1969 to register for claims.²²⁹

The money was paid in three different stages. First, to individuals who filed claims with a relatively low value. Second, larger claimants with claims up to f250,000, and finally, large companies. Since the money was paid by Indonesia in instalments, it took several years before larger claimants received their money. In order to solve this issue, several measures were taken. Two funds listed on the Dutch stock exchange were created. Belindo and Claimindo enabled Dutch companies to issue their claim to one of these funds in return for shares in the company. As a result, it was not necessary for individual companies to suspend operations until the last payment of 2003 had been received.²³⁰

In total 4,775 individuals and 827 legal entities, most of which were cultivation companies and other enterprises, had filed a claim. Eventually, a total sum of f466 million was paid to individuals and companies. This was roughly one-tenth of the book value of the companies, or one-fifth of the f2.7 billion that was initially claimed by individuals and companies. On average, smaller claimants received a relatively larger share of their claim compared

²²⁸ Besides against Indonesia, claims were also filed against Egypt and several Eastern European countries. The claim with Egypt was settled for f6 million, whereas the Eastern European countries combined paid more than f30 million, G.N.J. van Wees, 'Compensation for Dutch property nationalized in East European countries', *Netherlands Yearbook of International Law*, Vol. 3 (1972) 62–96, in particular 65–76; NL-HaNa: Ministerie van Buitenlandse Zaken, Bureau Schadeclaims Indonesië, Inventaris 3–2–2020, 10.

²²⁹ De Jong, and Lessing-Sutherland, "To forget the past in favour of a promise for the future", 18, 24–26; Lindblad, *Bridges to new business*, 208; J.M.M.J. Clerx, 'Financiële verhouding tussen Nederland en Indonesië opnieuw bezien (1945–1967)', *Politieke opstellen*, 11–12 (1992) 59–71, in particular 69; Van der Eng, *Economic benefits from colonial assets*, 24; Van der Zwaag, *Tjoeroeg*, 173–174; De Graaf, *Voor handel en maatschappij*, 379–380.

²³⁰ De Jong, and Lessing-Sutherland, "To forget the past in favour of a promise for the future", 26, 32, 34; Van der Zwaag, *Verloren tropische zaken*, 301.

with larger claimants and companies. Another f223 million went to the Dutch state as a compensation for halting the payment of bonds after the termination of the agreements of the RTC. The compensation paid was around 12% of the initial claim of f1.9 billion.²³¹

The compensation for Lindeteves was more than f4 million, for the Deli Company it was more than f4.5 million and for KPM it was f6 million. This was around 15–20% of the initial claim of these companies. Compensation for HVA was higher with f23 million, which corresponded to more than 20% of the claimed value.²³² The total value of seized property was estimated at f2.7 billion and the book value of the seized companies was f4.5 billion. The previous owners of the companies argued that this compensation was only a fraction of the estimated value and not enough.

The Deli Company initially wanted to sell its activities in Indonesia to another company for f125 million in 1958. This figure was gradually reduced to f50 million and eventually the company claimed f31 million, of which slightly more than f4.5 million was paid. A large part of the assets from the former Dutch companies remained in Indonesia.²³³ Before the takeover, the Deli Company valued all its possessions in Indonesia at an impressive f450 million. The company buildings were valued at nearly f130 million, whereas the 22,600 houses for labourers were valued at almost f129 million. Depreciation, however, was large at rates of 10–20% per year. During the time between the takeover and the final claim by the Deli Company, the value of its possessions in Indonesia had dropped considerably.²³⁴ Many assets of Dutch companies in Indonesia had already been written off after the Second World War and the Indonesian Revolution, leaving numerous companies with zero book value even, though profits had been reinvested in the years preceding the nationalisation.²³⁵

²³¹ De Jong, and Lessing-Sutherland, *“To forget the past in favour of a promise for the future”*, 25–30.

²³² NL-HaNa: Ministerie van Buitenlandse Zaken, Bureau Schadeclaims Indonesië, 4726, KPM, 19–2–1971; NL-HaNa: Ministerie van Buitenlandse Zaken, Bureau Schadeclaims Indonesië, 4811, HVA, 15–3–1971; NL-HaNa: Ministerie van Buitenlandse Zaken, Bureau Schadeclaims Indonesië, 4967, Lindeteves Jacoberg, 16–4–1971; NL-HaNa: Ministerie van Buitenlandse Zaken, Bureau Schadeclaims Indonesië, 5229, Deli Verenigde Maatschappijen, 18–5–1971.

²³³ De Jong, and Lessing-Sutherland, *“To forget the past in favour of a promise for the future”*, 13; Lindblad, *Bridges to new business*, 207–208; Clerx, ‘Financiële verhouding tussen Nederland en Indonesië opnieuw bezien (1945–1967)’, 69; Van der Eng, *Economic benefits from colonial assets*, 24; NL-HaNa: Deli Maatschappij, 113, Nationalisation 28–2–1958; NL-HaNa: Ministerie van Buitenlandse Zaken, Bureau Schadeclaims Indonesië, 5229, Deli Verenigde Maatschappijen, 18–5–1971.

²³⁴ NL-HaNa: Deli Maatschappij, 116, Nationalisation 25–5–1959.

²³⁵ Lindblad, *Bridges to new business*, 184–185; Meijer, *Den Haag-Djakarta*, 594.

6.5 Conclusion

At the start of the Japanese occupation, the foreign estates and companies had to halt their operations in Indonesia. Companies were taken over by the Japanese or had to start producing crops that were important to the Japanese war machine. Despite Indonesia's proclamation of independence on 17 August 1945, the Dutch wanted to restore colonial rule and continue its business as usual. Dutch companies had already started with reconstruction in late 1945. After the two military actions, sovereignty was transferred on 27 December 1949, but this was not the end for Dutch private business in Indonesia. Operations were continued until the late 1950s. The firms recovered from war and revolution and once again became profitable. New investment was made, although on a smaller scale than before the war and several companies expanded activities outside Indonesia. At the same time, American companies in particular kept investing large sums of money in the oil industry in Indonesia. The oil companies were also responsible for a large share of the fiscal linkages. The importance of foreign private companies for the economic development of Indonesia during the first half of the 1950s was particularly visible through fiscal linkages. Company taxes increased and more profits from Dutch, American and other foreign companies remained in Indonesia compared with earlier periods. The construction of new infrastructure or other linkages only materialised on a small scale.

Nevertheless, the situation for many Dutch companies grew increasingly difficult during the second half of the 1950s. Labour issues and land occupations occurred and it became increasingly difficult to transfer profits back to the Netherlands or to bring Dutch staff to Indonesia. Although some Indonesian employees managed to get higher positions in companies, for the Indonesian government and the labour unions progress was too slow. In December 1957 Indonesian labour unions took control of numerous Dutch companies. This was enforced by the Indonesian government, which placed the seized firms under military supervision. Until the takeover of Dutch companies the foreign private sector remained important for the economic development of Indonesia and American oil companies continued their operations. In terms of export revenue the share of foreign companies even increased. During this period the contribution of foreign private investment to the GDP of Indonesia was comparable with the late colonial period.

After the takeover of Dutch companies Dutch staff had to repatriate and companies were henceforth run by Indonesians. Training and education of the staff became a new task for the Indonesian government and related institutions. From 1959 onwards, most Dutch companies that had been taken

over were nationalized. In 1966 the Dutch and the Indonesian governments made an agreement for compensation of the nationalisation of the Dutch companies. This payment was estimated to be around 10–20% of the value of the companies. This sum was too small according to many Dutch companies, but taking into account the depreciation over time, which was more than 10% per year, a compensation of nearly *f*700 million, including interest, seemed more than fair in my opinion. Economic decolonization appeared near-complete by 1959. But after the regime change in 1966, foreign investment would soon rush back to Indonesia to help rescue an economy struck by its isolation from the outside world.

