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

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Chapter 7. Conclusion

At the board meeting of the Amsterdam Trading Company (HVA) on 10 January 1958, the chairman of the company stated:

> 'It does not make much sense [...] to dwell too much on the past. Unfortunately, we do seriously need to consider that our activities in Indonesia may soon come to an end as the measures taken by the Indonesian government show all too clearly a desire to expel Dutch businessmen once and for all from the management and operations of their companies.'[1]

It was a remarkable statement, at a moment when decades of investment and activity in Indonesia were coming to an end. In this thesis, I have analysed the development of private Dutch business in Indonesia and its effect on the Indonesian economy during the late-colonial and early independence periods that preceded economic decolonization. My concluding chapter now summarizes the findings relevant to the three main themes discussed in this thesis: investment, profit and linkages. In doing so, it also draws on results from three company-level case studies: Billiton Company, Deli Company and HVA.

The aim of my analysis is to contribute to the current discourse about the extent to which the Dutch presence in Indonesia was beneficial, economically speaking. Did Dutch private investment facilitate or generate economic development in Indonesia between 1910 and 1960? Was the compensation paid by foreign private companies for their use of land and resources in Indonesia commensurate with the profits accruing to them? With respect to investment, I focus on numbers of companies, their size and nationality, and the industry in which they operated. In discussing profits, my purpose has been to determine whether the profits made in Indonesia were higher than elsewhere and whether they could be considered excessive constituting a drain of resources away from the colony. The topic of linkages, finally, serves to identify the economic impact of foreign private investment in terms of the direct and indirect effects that to some extent could have compensated for the drain. I have considered two time periods: the late-

[1] NL-HaNa: HVA, 9, E. Bennink, Chairman of the Handelsvereeniging 'Amsterdam', Board meeting, 10–1–1958, 'Het heeft weinig zin [...] om onder de huidige omstandigheden uitvoerig stil te staan bij het verleden. Helaas moeten wij zeer ernstig rekening houden met de mogelijkheid dat onze activiteit in Indonesië een snel aflopende zaak is, omdat de door de Indonesische regering genomen maatregelen er maar al te zeer op wijzen, dat men de Nederlandse ondernemers definitief uit het beheer en de exploitatie hunner bedrijven wil stoten'.

colonial period from 1910 until the outbreak of the Pacific War in 1942, and the time period from the Pacific War onwards, including early independence, up to about 1960, when full economic decolonization can be said to have been achieved.

1910–1942: Investment

The years from 1870 to around 1900 formed a period of expansion of private foreign investment in colonial Indonesia. Dutch colonialism in the Netherlands Indies intensified and expanded into areas other than Java. In theory, the doors were equally open to both private Dutch investment and to non-Dutch foreign investors. In practice, however, Dutch companies were favoured by a tight network involving businessmen and Dutch officials, and companies could be required to have their headquarters in the Netherlands or the Netherlands Indies. Nevertheless, the colonial government did play a part by initiating the building of some rudimentary infrastructure and the beginnings of a fiscal system. The upshot of liberal colonial policies was that private foreign investment emerged as a vital precondition for economic development in the Outer Islands. In the event, a rather long gestation period was needed before private foreign investment reached an appreciable level, which occurred around 1910. By then, there were more than 1,500 active foreign incorporated companies and their total equity exceeded ƒ1 billion.

Initially, while interest in tropical adventures on the Dutch capital market remained tepid, a significant proportion of equity had to be provided by the founders of the company themselves. Nevertheless, by the end of the nineteenth century, joint-stock limited-liability companies became more common in the Netherlands Indies as a means of acquiring larger amounts of equity. Reinvesting profits was another way of financing further investment. Nearly half of total Dutch foreign private investment flowed in the direction of the Netherlands Indies between 1910 and 1940. This corresponds to one-quarter of total Dutch private investment.

Numerically, agricultural companies formed the majority. Tobacco and sugar were the most important crops in the early period between 1910 and 1930. The highest total number of foreign companies was reached in 1920 with 2,828 incorporated firms, including both incorporated companies with headquarters outside the Netherlands Indies and Dutch companies with headquarters in the Netherlands Indies (see Table 2.1). After this year the number of companies fell despite the fact that the economy was booming. In some sectors, such as oil, the smaller companies were taken over by larger ones and in many industries, a small number of big players such as the Deli

Company predominated. Nevertheless, most companies remained small in size, especially those in sectors with less capital-intensive production such as agriculture, manufacturing and trade.

Besides the incorporated companies, there were also government-owned companies and non-incorporated businesses. The latter category included many small Chinese shops and businesses. Most Chinese and indigenous Indonesian firms were not incorporated under Western law. The incorporated world of business in the colony was composed of a large group of small companies and a small group of large companies. Furthermore, directors of big companies were also often involved in other companies as well.

Although most private companies were optimistic about their chances during the early 1920s, many failed to stay profitable in the long run. Since many firms went bankrupt relatively quickly, the majority of firms was young. Less than 40% of those companies active in 1940 had been founded in 1910 or earlier. In terms of company law, most companies operating in late-colonial Indonesia were incorporated either in the Netherlands or the Netherlands Indies. Before the Second World War, their combined share exceeded 70% of the total number of incorporated companies, the remaining 30% being made up of non-Dutch foreign firms and indigenous Indonesian firms.

After 1900, new lines of export production evolved, notably in oil, rubber, palm oil and copra. In the major established agricultural industries of sugar and tobacco, Dutch firms still retained their predominance. However, in the rubber industry, Dutch investment now had to take second place to British companies. Non-Dutch foreign investment in tea and palm oil was also significant. The oil industry attracted Dutch, British and American investors.

To come to grips with the capitalization of the foreign firms in Indonesia, I analysed the origin of private investment. The result of this analysis was that investors in the Netherlands Indies can be divided into five categories. The largest category consisted of Dutch investors resident in the Netherlands who managed business operations in the colony from a distance. A second category can be labelled Netherlands Indies investors. They could be Dutch or have a mixed ethnic origin and were resident in the colony. Whether Dutch firms with headquarters in the Netherlands can be considered more foreign than Dutch companies incorporated in the Netherlands Indies is a matter of debate. Investors from third countries formed the third category. The fourth category consisted of Chinese investors in colonial Indonesia. They were often regarded as foreigners, although their families might have lived in Indonesia for generations. The fifth and final category consisted of indigenous Indonesians. Disregarding all other economic activities, the number and size of their *incorporated* companies remained marginal throughout the colonial

period, despite the fact that as individual farmers, craft producers and traders, Indonesians accounted for more than three quarters of all economic activities in the colony.

The majority of investors from third countries came from Europe, but the United States and Japan also made their presence felt. In order to gain a foothold in the Netherlands Indies, non-Dutch foreign investors cooperated with Dutch investors. Royal Dutch Shell for instance, was a combination of British and Dutch investors. This fact does muddy the waters because, as these companies were registered as Dutch-owned, the share of non-Dutch foreign investment would have been higher than is reflected in the registration of incorporated enterprises. The same can be said about Netherlands Indies companies. Their nationality is not always clear cut and it is possible that non-Dutch foreign investors were also included in this category. Despite the caveats, it is safe to state that up to 1940, nearly *ƒ*4 billion was invested by Dutch private investors alone, against about *ƒ*1 billion by other foreign investors (see Chapter 2.4). The lack of statistical data on domestic investment makes it difficult to estimate the share of foreign investment in total investment.

1910–1942: Profits and 'drain'

On average foreign private companies in the Netherlands Indies made a tidy profit. The three case studies I have presented were no exception. Large dividend payments are considered a solid indicator of considerable profits, but reserves, reinvestment and stock prices need to be taken into account as well. Between 1910 and 1939, two-thirds of total profits were paid out as dividend, leaving one-third to be reinvested in the Netherlands Indies. The amount reinvested was comparable to more than half of all foreign direct investment entering the colony (see Chapter 3.3). Overall, corrected for changes in stock prices, returns to investors were high, especially during the 1920s. In the 1930s returns were lower than in the Netherlands, but when the 1920s and 1930s are taken together, returns in the Netherlands Indies still exceeded those in the Netherlands. Our case studies, Billiton, the Deli Company and HVA, show a similar pattern. Although during the 1930s, they all had to cope with losses and declining profits, in earlier decades they had been highly profitable, making it possible for them to reinvest substantial amounts of capital. Proceeds were highly volatile and, therefore, it is difficult to argue on the basis of this limited sample alone that profits were excessive.

As might have been expected, a fair share of the profits flowed back to the Netherlands and other foreign countries. In the debate about colonial

drain, some argue that this share was disproportionally high, while others state that without private foreign investment, no economic development at all would have occurred in the colonies, since they were unable to raise the capital required for autonomous investment. Proponents of the latter opinion argue that it was preferable to have economic development, entailing colonial drain, than to have no economic development at all. The loss of mineral resources and the use of land handed over to foreign activities did not weigh up against the (indirect) benefits accruing to the indigenous population. The higher risk of investing in the Netherlands Indies is also often mentioned when justifying the high level of remitted profits.

On average, the drain was greater when GDP and foreign investment rose. I have made several calculations of the colonial drain and come up with a plausible estimate that it amounted to 12% of GDP of colonial Indonesia in 1920–1930 and 9.5% over the years 1931–1939 (see Figure 3.2). As these estimates may already be conceived as substantially, it seems unlikely that the colonial drain was in reality higher. This still begs the question whether colonial drain of this magnitude should be considered excessive. Assuming that 10–20% of GDP resulted from the presence of foreign capital, as may be inferred from the share of exports in GDP and the foreign share of exports, then gains did indeed exceed the drain (see Chapter 3.2 and 3.3). Whether the colonial drain should be considered excessive is hard to ascertain. Suffice it to say that the colonial drain *did* represent a very substantial proportion of GDP.

It was an inescapable fact that land was occupied by foreign investors for purposes of production. Estimates of this land occupation in Java vary from 3% to 18% of total irrigable land. Therefore, this occupation of land undoubtedly had a significant impact on indigenous agriculture. It should also be borne in mind that probably the best land was being used by foreign producers. During the 1930s, when sugar production declined, vast areas were planted with rice by indigenous Indonesians. What remains to be done is to investigate to what extent the indigenous population was compensated and benefitted from investment by foreign companies. To discover this, I have analysed various linkages.

1910–1942: Linkages

In my quest to assess the wider or indirect effects of foreign private investment on economic development in the Netherlands Indies, I examined several types of linkages. Backward linkages (when goods and services are used to enable a

production process) were found for example in the production of food and building materials. Irrigation and infrastructure such as railways that were both crucial to the sugar industry in Java, were even more significant examples of backward linkages in the sense that these facilities were indispensable in enabling production to take place. Although the sugar estates and indigenous agriculture initially competed for the same land and water supply, the indigenous producers benefitted from the irrigation works once the sugar producers departed or the land became available to them again. Moreover, the land had been made more productive than it would have been without irrigation. The irrigation works created by HVA for the Djatiroto sugar factory are a case in point, as I argued in chapter 5.

The railways connected plantations, ports and villages. Paved roads and bridges were also constructed in order to facilitate the transport of sugar and other products, but they also improved the prospects for further economic development. In the general run of things, large-scale production by foreign firms did put stress on existing infrastructure and thus new roads and railways were urgently needed. Compared to Java, the physical infrastructure in the Outer Islands was less developed. Railways constructed by foreign companies connected regions that had been completely isolated before. The railways constructed by the Deli Spoorweg Maatschappij to transport tobacco are a prime example. Ultimately, the indigenous population would benefit from this new infrastructure. On the downside, most of the equipment and machines were imported from Europe or other countries and, therefore, did not generate backward linkages in the Netherlands Indies. Only building materials such as bricks and firewood and food were sourced locally.

Forward linkages emerged when the output of an industry was used by other industries to make a new product or to improve its quality. Oil and rubber are good examples. Oil was refined and processed in the Netherlands Indies, in Cepu, Balikpapan, Pangkalan Brandan and Palembang, before being shipped abroad. Initially, smallholder rubber was processed abroad but, by the end of the 1930s, nearly all processing was taking place in colonial Indonesia. In contrast, estate rubber had been processed in the Netherlands Indies from the outset. Tin was a different story. Most of this metal mined by the Billiton Company was smelted in Singapore, the Netherlands or the United States, but not locally in Belitung, whereas some tin on Bangka was smelted locally.

Final demand linkages pertain to the additional but more indirect effects of the presence of foreign companies. The operations of these firms generated income that bolstered consumptive demand. Wages, compensation for the use of land and various other payments formed the foremost

components. Nevertheless, healthcare, housing and water supply, for instance, provided by the Billiton Company, the Deli Company and HVA, also fall into this category. Although compensation for land use would be considered adequate only by making a comparison of proceeds from the land lease with yields from cultivation by the landowners themselves, we must not lose sight of the fact that the indigenous population could not make use of the confiscated land for a long period of time. This was an opportunity cost that was also aggravated by land displacement. It is likely that some kind of coercion was applied. Confronted by the iron hand in the velvet glove, the indigenous population was forced to lease out land. Yet another complication is the unpleasant truth that the local population often had to contend with lack of compliance with contracts by companies.

It must also be conceded that, at least to some extent, local landless labourers did benefit from employment opportunities offered by the sugar and other agricultural estates in Java. Nevertheless, overall, the number of indigenous labourers working for foreign companies was less than 10% of the total labour force (see Chapter 4.4). The great majority of the indigenous population did not have to depend on the operations of these companies for income.

This leads to the matter of the use of immigrant labour by foreign companies. This option did not always reflect a shortage of available local labour. Wages for immigrant labour were often lower than those paid to local labourers, and foreign companies may also have been motivated by a desire to be able to exercise control over the workforce. Through a combination of the imposition of coercive measures and the fact that contract labourers were forced to work under the penal sanction, the companies undeniably did have more control over their labourers. Employers' organisations supported the penal sanction but, after abolishment in 1931, contracts were only offered or renewed for 'free' coolies. Nevertheless, the Deli Company and HVA both openly admitted that the penal sanction was indispensable to a high level of productivity.

In this discussion it is also important to bear in mind that wages were not the only form of compensation for work done. Food was also often provided; more important still was the (modest) provision of housing, healthcare and (some degree of) education, as I argued in Chapter 5. In this respect, Billiton provided training programmes for workers and the Deli Company built schools for the children of its workers. In contrast to the more general benefits offered by irrigation and infrastructure, it was the workers who directly benefitted from such services. The provision of these services was essential if companies were to keep productivity levels high. These benefits

could trickle down even further as other people living near the production sites could sometimes make use of hospitals and other facilities even if not employed by the firm in question. This was, for example, the case at Billiton (see Chapter 5).

Companies also contributed indirectly to irrigation, infrastructure, healthcare and education through taxation. Fiscal linkages via payment of taxes by foreign companies did increase in the long run. In the first quarter of the twentieth century, various new taxes were introduced that were payable by either the indigenous population, foreign firms, or both. Company profits were taxed at a very low rate in 1905. However, in 1925 a general income tax was introduced and taxes on profit subsequently increased. The rub was that companies could be exempted from paying tax in the Netherlands Indies if they already paid tax in the Netherlands. The operations of foreign private companies also contributed to other taxes and around 10% of the total tax revenue, or roughly 5% of total government revenue (total government revenue consists of tax revenue, but also includes non-tax revenue such as profits from state-owned companies, interest on loans and fees for licenses or concessions) was generated by private foreign companies between 1910 and 1940 (see Chapter 4.5). However, as around 10–20% of GDP originated from the presence of foreign capital, by comparison, the foreign firms can be said to have been under-taxed.

1942–1960: Investments

The Dutch lost their hold on the colonial economy during the Japanese occupation. The war had devastating effects. Besides the many human casualties and a sharp drop in living standards, foreign companies were either dismantled or converted for military use by the Japanese. Oil and rubber were of crucial importance throughout the war. Output gradually declined and by 1945 numerous factories and estates had either been destroyed or were drastically neglected. Once the war was over, Indonesia lost no time in declaring its independence on 17 August 1945. Despite the uncertainty this caused, the Dutch were motivated to repair their factories and continue operations. Billiton, the Deli Company and HVA again were no exceptions. Eventually, the oil installations were repaired and the large-scale production of rubber and tin was resumed. The Dutch also made two attempts to enlarge the area under their control by military force in 1947 and 1948–1949. They did succeed in expanding the scope of the activities of Dutch businesses, and many factories and estates again came under Dutch control. Politically, however, these military actions were a failure. Not least because the United States

threatened to discontinue Marshall Aid to the Netherlands. As this economic support was vital to the post-war reconstruction, on 27 December 1949 the Dutch conceded and sovereignty was officially transferred to Indonesia. Despite this sweeping political change, Dutch companies continued to function unimpeded. Indonesia promised that operations would not be hindered or the firms taken over. Furthermore, debts accrued by the colonial government had to be repaid to the Netherlands by Indonesia once sovereignty was transferred. As long as this debt was not fully paid off, the Indonesian government was obliged to consult with the Dutch government about economic and financial policy (see Chapter 6.2).

Feeling the writing was on the wall, following the transfer of sovereignty, several major companies set up operations in other countries so as to become less dependent on Indonesia. Billiton, the Deli Company and HVA all expanded their activities outside Indonesia. Despite these precautions, they were still fully determined to remain active in Indonesia as long as possible after recovery from war damage. The situation did improve somewhat in the early 1950s but the prospects remained ominous. Although output and export levels increased, new investments were marginal. Dutch investors were reluctant to take the plunge with new investment and the Indonesian government exacerbated the situation by introducing a stream of restrictions. Despite these hindrances, in the mid–1950s, foreign firms still played a key role in the Indonesian economy with most fresh investment done by American oil companies. About 10–20% of GDP is likely to have been generated by foreign firms, resembling the situation in the late colonial period (see Chapter 6.3).

1942–1960: Profits

After the foreign companies recovered from the depredations of the war, by the end of the 1940s they continued to operate at a profit and began to pay dividends again. In 1949 the Indonesian government also became a major shareholder in the Billiton Company and benefitted from its profits. As noted, at the beginning of the 1950s the situation looked precarious, but companies expected that profits would increase again as a result of the Korean War boom. There was a high demand for oil, rubber and tin. In the early 1950s dividend rates were still running at nearly 5% on average, that was not much lower than in the pre-war period. Billiton, the Deli Company and HVA remained profitable. During the mid–1950s, the government of Indonesia introduced a policy that made it gradually more difficult to transfer profits back to the Netherlands. Taxes increased and transfers were delayed. The result was that

more profits were reinvested by Billiton, the Deli Company, HVA and other businesses in Indonesia, even though most companies would have preferred to transfer profits abroad. Nevertheless, in the early 1950s, substantial amounts of profits were transferred overseas until the Indonesian government introduced restrictions to it in the mid–1950s. Oil companies were largely exempted from restrictions and could still transfer large amounts of profits abroad.

1942–1960: Linkages

Fiscal linkages now became the most important type of linkages. Although the foreign oil companies managed to get exemptions from some taxes, taxes on profit were raised. By 1955 nearly one-fifth of all taxes consisted of company tax. Income and profits transferred overseas were taxed more heavily, consequently more profits remained in Indonesia and were reinvested. A large share of the export tax fell on the shoulders of the foreign companies. When all these taxes are combined there is no doubt that foreign companies were more heavily taxed after independence than in colonial days. The share of government revenue derived from Dutch firms increased but, despite being more heavily taxed, companies were willing to stay in Indonesia. The three case studies show that although companies complained about the high taxes, they were still willing to continue their activities even though the prospects grew bleaker as time passed. This suggests that even if taxes had been higher during the colonial period, these companies would probably still have been willing to operate in colonial Indonesia. If so, then there was a missed opportunity here for Indonesia, which could have benefitted from higher taxes at an earlier stage.

Backward and forward linkages became less prominent during this period. Most of the construction of roads and other infrastructure by estates was carried out in the context of the repair of the war damage. Although more houses were constructed for workers by the Deli Company, less effort than before the war was made by foreign employers in the sphere of linkages. For instance, the smelting of tin ore from Belitung was still done outside Indonesia and smelting facilities on Bangka were not repaired after the war. Billiton now limited its medical care to employees and their families only, whereas earlier a larger share of the population of the island could make use of the company's medical facilities. The provision of food at reduced prices was also phased out. In the meantime, there was an increase in Indonesian employees in middle or higher positions in foreign firms. Especially from the mid–1950s, this so-called *Indonesianisasi* assumed greater importance. Training programmes for

Indonesian employees were set up by, among other firms, American oil companies. Slowly it became more difficult for Dutch companies to bring Dutch replacements to Indonesia.

The political relationship between Indonesia and the Netherlands gradually deteriorated. The greatest bone of contention was Netherlands New Guinea, still a Dutch colonial possession. The failure to reach a settlement about its future angered Indonesia and this irritation spilled over to the presence of Dutch companies in Indonesia. The crunch came on 3 December 1957, when Indonesian labour unions began taking over Dutch companies. KPM was first in line and was soon followed by other companies appropriated by the labour unions and placed under the supervision of the Indonesian military. Indonesian employees took charge of management. A full year later, on 27 December 1958, a law on the nationalisation of Dutch companies was passed by the Indonesian parliament. On balance, although the companies now had new owners, the presence of these companies in Indonesia can be seen as a lasting legacy. They remained important productive assets for the new Indonesian operators. Crucially, the role of the Indonesian state and the armed forces in the economy of Indonesia increased rapidly. In all this turmoil, non-Dutch foreign companies were spared, as were those that were only partly Dutch-owned.

Initially, the nationalisation in 1957–1959 had a profound impact on the economic development of Indonesia. In spite of the fact the situation gradually stabilized, by the early and mid–1960s, economic development was virtually stagnant with a level of GDP per capita lower than in 1941. Trade with the Netherlands vanished almost altogether but American and British companies continued their activities unimpeded. New foreign direct investment came from American oil companies and, although British and American companies were temporarily seized during the *Konfrontasi* between Indonesia and Malaysia (1963–1966), these companies were eventually returned to their legal owners.

At the time when KPM was taken over in 1957, discussions about compensation had already been initiated. The large-scale nationalisation of the Dutch companies in the following years was accepted, provided compensation was paid. To this end, negotiations with the Indonesian government in 1966 resulted in an agreement. As we have seen in Chapter 6, the upshot of this was that a total sum of *ƒ*689 million, including interest, was paid between 1973 and 2003. Indonesia's agreement to make these payments was a prerequisite insisted on by other countries to be willing to offer international aid and funding. The Netherlands, the United States and Japan supported this aid. The compensation paid to Dutch private companies was

around one-tenth of the total book value, or one-fifth of the initially claimed sum. Claimants argued that too little compensation was paid, an assertion countered by the Indonesian government that stated that Dutch assets had depreciated as a consequence of the lack of new investment (see Chapter 6.4).

Compensation versus 'drain'

The time has come to return to the main research question: to what extent did foreign private investment, particularly from the Netherlands, contribute to the economic development of late-colonial Indonesia? Three topics have been discussed in detail: investment, profit and linkages. Between 1910 and 1940, very significant amounts of Dutch capital were invested in colonial Indonesia. Around one-quarter of all Dutch private investment was made in colonial Indonesia. Although these investments were considered riskier than their domestic counterparts, in the long run substantially more profits were pocketed by firms operating in Indonesia than in the Netherlands. Large dividend payments to Dutch shareholders resulted in a considerable flow of capital back to the home country. This can, in my view, be reasonably described as a 'colonial drain'.

On the other hand, a substantial share of the profits was also reinvested in the Indonesian economy. In addition, foreign business activities provided employment for indigenous Indonesian workers. Indonesians may not initially have benefitted but did so increasingly as time progressed. In the Outer Islands, there was initially a strong preference for non-Indonesian workers, especially from China, but already in the 1910s Javanese migrants predominated in the workforce of foreign enterprises outside Java. It Is likely that wages of local Sumatran workers were pushed down by the competition from Javanese migrants.

To put our question in context, we need to acknowledge that, proportionally speaking, foreign private enterprises amounted to a relatively small part of the Indonesian economy, be this expressed in terms of output, profits, employment, or tax revenue. In both the late-colonial and early-independence periods, the activities of foreign capital contributed to no more than around 10–20% of GDP. During peak years, up to 10% of indigenous employment and income originated from those sources (see Chapter 3.2, 4.4 and 6.3).

The majority of the Indonesians remained active as peasants or informal sector workers, self-employed, not working for foreign companies. On a macroeconomic level, indigenous Indonesians were therefore not heavily dependent on foreign investment. Nevertheless, these estimated figures do

not take into account the indirect economic effects of foreign companies, nor do they include the wider effects of the reinvestment of profits in Indonesia. Wages earned by labourers working for foreign firms generated more employment and income in other sectors and industries. Some foreign companies built irrigation or transport infrastructure that had beneficial side-effects for the general public, for instance, the irrigation works constructed by HVA and the railways set up by the Deli Railway Company. Some companies, such as the Billiton Company, the Deli Company and HVA, also provided medical services and schooling, but the degree to which they were willing to do this varied widely. Initially, medical aid provided by the Billiton Company was not limited just to its workforce, but during the 1950s the company tightened its belt, which meant that only its employees and their families could make use of the medical care provided by the company. Schools were built by the Deli Company and the Billiton Company also set up in-house training programmes. Nor should it be forgotten that foreign companies and their employees also paid the colonial government tax, that benefitted Indonesia in the sense that part of those taxes were used by the government to fund public services and infrastructure.

However, these indirect positive effects are difficult to quantify. They need to be balanced against the 'colonial drain' with its characteristic features of high profitability and large-scale repatriation of earnings. Another question that also needs to be addressed is whether Indonesians would have been better off, in economic terms, in a non-colonial situation. Undeniably, foreign companies and their European owners and employees did contribute to the public purse but, as under the regressive colonial tax system, they were only lightly taxed. Foreign companies generated about 10–20% of GDP, but provided only about 10% of total tax revenue in Indonesia, or roughly 5% of total government revenue (which also consisted of other non-tax revenue, such as profits from state-owned companies, interest on loans and fees for licenses or concessions).

The foreign companies and their owners are likely to have benefitted disproportionally from the infrastructure and services which the colonial state provided. In this context, the under-taxation of foreign companies represents a missed opportunity for the Indonesian economy during the colonial period. After independence taxes did increase, leading to lower overall profitability for foreign firms and, as a result, these firms became more reluctant to invest in Indonesia. The importance of other linkages, backward and forward, now diminished. Eventually, crises, hardships and indemnification claims crowded in after the foreign companies were driven away in the wake of the political changes. Once again this put an economic burden on Indonesian

shoulders. Importantly, there are indications that up to 1942, state-backed coercion played a role in the expropriation of land that was used by European companies.

Any attempt to make a comparison between the negative and positive aspects of colonial business for a colonized country is fraught with complications. One reason for this is that items on the cost and benefit sides of the ledger are often difficult to compare directly with each other. Another is that speculative 'what if?' questions inevitably arise, calling for counterfactual scenarios in order to try to predict what could have happened if colonization had not occurred.

However, the complications do not preclude the drawing of some general conclusions. The compensation provided by colonial businesses for Indonesian labour, land and natural resources, whether this was through wages and rents or through taxation, can best be described as moderate. In some cases, coercion, ultimately backed up by the power of the colonial state, was involved in gaining access to land and labour and making production possible for the foreign firms in the first place. Some of the outflows of profits from Indonesia can be seen as reasonable returns on capital investment. For a number of years, the profitability of foreign companies was relatively high and in all financial dealings, Dutch capital clearly predominated over other Western or Asian capital. There is evidence of collusion between Dutch business interests and policy-makers, which strengthens the argument that there was significant colonial drain.

In contrast to this negative image, it cannot be denied that certain businesses in some parts of Indonesia did provide the local population with significant indirect benefits in the form of infrastructure, such as railways, roads, bridges, ports and irrigation systems, alongside other linkage effects like houses, hospitals and schools. In the long run, Indonesia did benefit from this. Up to the present day, infrastructure has remained a visible legacy of Dutch private investment in colonial Indonesia. The overall picture of the colonial past is bleak. Still, it remains a mixed message. Besides regions and industries from which foreign investment was marginal, or even disadvantageous, to Indonesian economic development, there were enclaves of synergy in which both European capital and local interests were well served.