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Eng, Pierre van der

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Pierre van der Eng

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The Case of the Netherlands and Indonesia 1870-1958

Pierre van der Eng[*]

The Australian National University

Abstract

This paper explores the question whether and to what extent the economic relations between the Netherlands and its former colony Indonesia could be crucial to explaining 'metropolitan' economic development and 'peripheral' underdevelopment. It first surveys the literature on economic explanations for imperialism and the historiography involving Netherlands-Indonesia relations. The paper then generalises the broad economic importance to the Dutch economy of having Indonesia as a colony. The paper argues that the economic relevance shifted from trade to financial relations since ca.1900. Ready access to the Dutch capital market is likely to have advantaged economic development in Indonesia, albeit at the price of a shift in company ownership and a continuous transfer of dividend and interest payments to the Netherlands. The Dutch economy benefited from the relations with Indonesia, but was not particularly dependent on this relationship. This is demonstrated by the fact that after the decolonisation of Indonesia the economic ties between the two countries were severed during the 1950s. The Dutch economy entered a period of rapid growth, while the loss of ready access to the Dutch capital market contributed to economic stagnation in Indonesia.

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1. Introduction

Recent publications about the economic relations between Great Britain and British India have revitalised controversy about the relevance of economic factors in the history of imperialism. Together with publications on the economic relations between the United States and Latin America and between Japan and Korea, they have denigraded the relevance of the Hobson-Lenin thesis that capitalists required new overseas investment opportunities to postpone the collapse of capitalism, and the argument that colonies were a paying proposition.[1]

This paper assesses the economic relations between the Netherlands and its former colony Indonesia. It aims to raise the profile of this connexion in the international controversy, and to explore whether and to what extent the economic relationship may be crucial to explaining 'metro-politan' economic development and 'peripheral' underdevelopment. The paper will first list some key arguments in the international debate and survey the historiography involving the Netherlands-Indonesia relations. It will proceed with an assessment of the relevance of the general arguments in the fields of commodity trade and capital flows for this tandem. It will provide a concise indication of the contribution of income flowing from the relations with Indonesia to the Dutch economy during most of the 20th century. The paper's time span is determined by the moment colonial Indonesia was formally opened up for private enterprise (1870) and the year when independent Indonesia decided to nationalise Dutch enterprises (1958).

2. The main arguments

Without wanting to paraphrase all intricacies of (neo-) Marxist thought, the key issues may be outlined in brief. The classic theory of economic imperialism is a combination of ideas formulated by Hobson and Lenin.[2] In a nutshell, the theory suggests that imperialism is primarily driven by economic forces. Capitalists require new investment opportunities overseas to stave off falling profits at home and thereby postpone the inevitable collapse of capitalism. State-capitalist collusion is required to guarantee entrepreneurs higher rates of return. Collusion guarantees monopolistic rents and/or other mechanisms to raise factor payments (profits, interest and metropolitan wages) above competive market rates. Collusion also leads to political occupation of foreign areas and the establishment of colonies.

Neo-Marxist interpretations of economic imperialism have stretched the Hobson-Lenin thesis to cover several centuries in the development of world trade, rather than only the situation around 1900.

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1 Lebergott, S. (1980) 'The Returns to U.S. Imperialism, 1890-1929', *Journal of Economic History*, 40, pp.229-52; O'Brien, P.K. (1988) 'The Costs and Benefits of British Imperialism, 1846-1914', *Past and Present*, 120, pp.163-200; Kimura, M. (1995) 'The Economics of Japanese Imperialism in Korea, 1910-1939', *The Economic History Review*, 48, pp.555-574.

2 There is a wealth of literature on 'imperialism' and 'colonialism', which goes well beyond the Lenin-Hobson thesis. See *e.g.* Fieldhouse, D.K. (1983) *Colonialism 1870-1945: An Introduction.* London: Macmillan.

They suggest that imperialism is only one of the forms of capitalist oppression. Other arguments are that colonising countries required colonies to secure supplies of cheaper raw materials, and as markets for their manufactures.

The ‘colonial drain’ argument is based on the fact that many colonies ran a trade surplus. The extent to which the value of merchandise exports exceeded that of imports is regarded as a loss to colonies and a gain to colonisers.[3] This view ignores the extent to which a merchandise trade surplus (or deficit) covers a deficit (or surplus) on the services provided by foreign capital and labour. As Ricardo demonstrated long ago, there are few reasons to postulate that two countries cannot benefit from foreign trade.

The dynamic, or developmental argument maintains that the political status condemned colonised countries to the production of primary commodities. It presumed a structural fall in the terms of trade of primary commodities against manufactures, which prevented colonies from reaping gains from foreign trade. Although the terms-of-trade argument may have been valid in the short term, the argument fails to appreciate that improvements in productivity generally off-set adverse changes in the terms of trade.[4]

The Netherlands-Indonesia tandem has hardly featured in these discussions. Partly due to the lack of fundamental research which exposes these issues to rigorous testing. Partly because historians of Indonesia tacitly adhere to such explanations for Indonesia’s underdevelopment. Regarding the economic historiography of the Netherlands, the common opinion is that the Netherlands-Indonesia association simply does not fit Hobson-Lenin model. Industrialisation and ‘monopoly capital’ played a relatively minor role in the Dutch economy during the 19th century, which makes the Netherlands a special case among colonising countries.[5]

This view was recently confirmed by Kuitenbrouwer in a survey of the current debate on Dutch imperialism.[6] He concluded that, unlike Great Britain, ‘metropolitan’ economic interests came second to both strategic and ‘peripheral’ factors in Dutch colonial expansion in Southeast Asia. Conversely, the

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[3] Golay, F.H. (1976) ‘Southeast Asia: The "Colonial Drain" Revisited’ in C.D. Cowan and O.W. Wolters (eds.) *Southeast Asian History and Historiography.* (Ithaca: Cornell UP) pp.368-87. There is no essential difference between the Hobson-Lenin thesis and the ‘drain’ argument, apart from the fact that the Hobson-Lenin thesis states that state-capitalist collusion results in returns to capital above the opportunity cost of capital, which the ‘drain’ thesis assumes only implicitly.

[4] O’Brien, P.K. (1997) ‘Intercontinental Trade and the Development of the Third World since the Industrial Revolution’, *Journal of World History*, 8, p.93.

[5] Van Zanden, J.L. (1989) ‘Dutch Economic History of the Period 1500-1940: A Review of the Present State of Affairs’, *Economic and Social History in the Netherlands*, 1, pp.17-21; Van Zanden, J.L. (1996) ‘Introduction’ in J.L. van Zanden (ed.) *The Economic Development of the Netherlands since 1870.* (Cheltenham: Edward Elgar) pp.ix-xix.

[6] Kuitenbrouwer, M. (1991) *The Netherlands and the Rise of Modern Imperialism. Colonies and Foreign Policy, 1870-1902.* Oxford: Oxford UP; Kuitenbrouwer, M. (1994) ‘Capitalism and Imperialism: Britain and the Netherlands’, *Itinerario*, 18, No.1, pp.105-16.

success of Dutch commercial expansion was not based on its overseas contacts with the colonies, but on the development of intra-European economic connexions, in particular with Germany. Although Kuitenbrouwer discussed at length the political reasons behind Dutch imperialism, both in the Netherlands and in the 'periphery' in Indonesia, his survey was brief about perceived or actual economic reasons for the consolidation of Dutch colonial rule.

The importance of returns from Indonesia to Dutch economic development during most of the 19th century has been widely acknowledged. The role of the Cultivation System in Java and the contribution of unrequited transfers to the Dutch treasury until 1877 have been widely discussed, both at the time and in recent decades.[7] The importance of almost total monopolisation of overseas shipment of Indonesian commodities produced under the Cultivation System, using ships built in the Netherlands, for the development of the Dutch shipping and shipbuilding industries up to the 1870s is well known. The preferential treatment accorded to Dutch manufac-tures in Indonesian imports down to 1874 is also known to have been crucial to the development of the textile industry in the Netherlands. However, the general impression is that per capita economic growth was close to zero in the Netherlands up to the 1850s, despite the growing importance of foreign trade.[8] Per capita economic growth increased after mid-century, but the general contention is that this acceleration was mainly fuelled by expanding domestic demand, rather than foreign trade.

The importance of Indonesia for the Dutch economy after 1870 does not feature prominently in current Dutch economic historiography.[9] Some recent monographs have established the significance of Indonesia for individual enterprises or industries, but there is little attention to the overall importance of Indonesia to the Dutch economy during 1870-1958.[10] A concise article by Derksen and Tinbergen on the contribution of Indonesia to Dutch national income during 1925-38, published 50 years ago, is still the most authoritative study.[11]

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[7] Under the Cultivation System the colonial government commanded farmers in Java to produce cash crops. Export of this produce by a monopolised Dutch company yielded revenues for the coffers of both the colonial government in Indonesia and the Treasury in the Netherlands. See *e.g.* Van den Berg, N.P. (1885) *Debet of Credit?* Batavia: Kolff; De Jong, J. (1989) *Van Batig Slot naar Ereschuld. De Discussie over de Financiële Verhouding tussen Nederland en Indië en de Hervorming van de Nederlandse Koloniale Politiek, 1860-1900.* The Hague: SDU Uitgeverij; Fasseur, C. (1992) *The Politics of Colonial Exploitation: Java, the Dutch and the Cultivation System.* Ithaca: Cornell UP.

[8] Van Zanden, J.L. (1987) 'Economische Groei in Nederland in de Negentiende Eeuw. Enkele Nieuwe Resultaten', *Economisch- en Sociaal-Historisch Jaarboek,* 50, pp.61-64.

[9] Van Zanden (1989, 1996) omits it from his surveys of current Dutch economic historiography.

[10] For instance, the authors of a recent textbook on Dutch economic history asserted that colonial Indonesia had been very important during 1900-40, but only spent 5 of 165 pages on the issue. Van Zanden, J.L. and R.T. Griffiths (1989) *Economische Geschiedenis van Nederland in de 20e Eeuw.* (Utrecht: Het Spectrum) pp.29-33.

[11] Derksen, J.B.D. and J. Tinbergen (1945) 'Berekeningen over de Economische Beteekenis van Nederlandsch-Indië voor Nederland', *Maandschrift van het Centraal Bureau voor de Statistiek*, 40, pp.210-23.

Yet, the ‘colonial drain’ argument is a contentious issue in the economic historiography of Indonesia. It was recently re-identified as the key malefactor in explanations of Indonesia’s underdevelopment, although all intricacies of the argument have not been scrutenised.[12] In general, historians of Indonesia assume that ‘fabulous riches’ from the colonies accrued to the Dutch economy. This view was recently re-enforced by Maddison, who assumed that the Indonesian merchandise trade surplus could be equated to the ‘drain’ of funds from Indonesia to the Netherlands.[13] This indicator of ‘colonial exploitation’ is crude, but goes in Maddison’s opinion a long way to explaining underdevelopment in Indonesia and development in the Netherlands up to World War II.

Maddison did not examine the processes which determined the flow of funds from Indo-nesia to the Netherlands. There is therefore ample scope for further research on the economic relations between the two countries during 1870-1958. If the economic arguments for Dutch imperialism stand up, we would expect an intensification of bilateral trade, a prominent and growing position of Indonesian primary commodities in Dutch imports and a privileged place for Dutch manufactures in Indonesian imports. We would also expect Indonesia to have a large share in Dutch foreign investments, and profits of foreign enterprise in Indonesia to have been relatively high due to state-capitalist collusion. The paper will address each of these issues in turn.

3. Bilateral trade

Table 1 gives an overview of the development of bilateral trade of the Netherlands and Indonesia. There are some problems in the comparability of the foreign trade statistics of both countries. In particular, the discrepancy between Dutch import from Indonesia and Indonesian export to the Netherlands is caused by two factors.[14] Firstly, Dutch foreign trade statistics were not corrected for transit trade (generally to and from Germany and Great Britain) before the major revision of 1917. This explains the discrepancy between columns 1 and 10 up to the 1920s.[15] Secondly, during the 19th century most

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[12] See: Booth, A. (1990) ‘Foreign Trade and Domestic Development in the Colonial Economy’ in A. Booth *et al.* (eds.) *Indonesian Economic History in the Dutch Colonial Era.* (New Haven: Yale University Southeast Asia Studies) pp.267-95; Booth, A. (1992) ‘International Trade and Domestic Economic Development: An Indonesian Case Study’ in M. Arsjad Anwar *et al.* (eds.) *Pemerikan, Pelaksanaan dan Perintisan Pembangunan Ekonomi.* (Jakarta: Gramedia) pp.99-152.

[13] Maddison, A. (1989) ‘Dutch Income in and from Indonesia, 1700-1938’, *Modern Asian Studies*, 23 (1989) pp.645-70.

[14] Lindblad, J.Th. (1988) `De Handel tussen Nederland en Nederlands-Indië, 1874-1939', *Economisch en Sociaal-Historisch Jaarboek*, 51, pp.240-98; Lindblad, J.Th. and J.L. van Zanden (1989) `De Buitenlandse Handel van Nederland, 1872-1913', *Economisch- en Sociaal-Historisch Jaarboek*, 52, pp.231-69.

[15] It is likely that the problem continued to plague the Dutch trade statistics. The Netherlands had a significant import surplus with Germany and an export surplus with the UK during the 1920s and 1930s, which may reflect transit trade. Keesing, F.A.G. (1947) *De Conjuncturele Ontwikkeling van Nederland en de Evolutie van de Economische Overheidspolitiek 1918-1939.* (Utrecht: Het Spectrum) pp.52, 92, 140, 207 and

Indonesian goods were shipped to the Netherlands for auction. With the improvement of international communications (particularly the telegraph), Indonesian exports were increasingly shipped to the Netherlands ‘for order’. Ships received orders for their final destination outside the Netherlands at ports en route to Europe. This explains the discrepancy between columns 1 and 10 in the 1920s and 1930s. The difference between the columns 4 and 7 in the 1920s is mainly caused by variations in the unit prices of imports in Indonesia, compared to the Netherlands.

As far as volumes of trade are concerned, Table 1 indicates that the Netherlands always had an important merchandise trade deficit and Indonesia a notable surplus, both before and after Indonesian independence in 1949. Furthermore, the total value of Indonesia’s trade was much lower than that of the Netherlands. Even if the Dutch data are corrected for transit trade, Indonesia’s trade amounted to 45 percent of Dutch trade during 1872-1913.[16] In per capita terms, Dutch exports were around ƒ495 (or ƒ135 excluding transit trade), compared to ƒ8 in Indonesia in the decade after 1900.[17] In short, the Dutch economy depended to a much higher degree on foreign trade than Indonesia.

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16 Lindblad and Van Zanden (1989, p.262) provided such corrected data.

17 The Dutch guilder was official currency in both the Netherlands and colonial Indonesia. During 1870-1930 the guilder traded at around US$0.40.

Table 1: *Dutch and Indonesian Merchandise Trade, 1870-1969 (million guilders or rupiahs)*

	The Netherlands						Indonesia					
	Imports			Exports			Imports			Exports		
	from Indonesia (1)	Total (2)	% (3)	to Indonesia (4)	Total (5)	% (6)	from the Netherlands (7)	Total (8)	% (9)	to the Netherlands (10)	Total (11)	% (12)
1870-79	74	690	10.7	41	513	7.9	42	90	46.8	107	156	68.6
1880-89	88	1,080	8.2	46	864	5.3	51	137	37.2	75	191	39.2
1890-99	219	1,445	14.6	59	1,242	4.7	55	162	33.8	79	207	38.3
1900-09	366	2,463	14.9	72	2,022	3.5	73	213	34.0	103	325	31.7
1910-19	357	2,544	14.0	116	1,979	5.8	108	458	23.5	166	820	20.2
1920-29	141	2,493	5.6	158	1,672	9.5	205	932	22.0	257	1,562	16.4
1930-39	79	1,464	5.4	71	1,018	7.0	78	457	17.1	126	700	18.1
1950-59	469	11,653	4.0	277	9,693	2.9	724	6,925	10.5	1,418	8,973	15.8
1960-69	237	26,203	0.9	97	22,684	0.4	176	14,580	1.2	429	17,154	2.5

Note: Ten-year annual averages. The Dutch and Indonesian guilder were almost at par, the Indonesian rupiah depreciated rapidly during the 1950s and 1960s.
Sources: Calculated from Mitchell, B. (1981) *European Historical Statistics, 1750-1975.* (Basingstoke: Macmillan) pp.510-5 and 562-5 ; *Maandschrift van het Centraal Bureau voor de Statistiek*; *Jaarcijfers voor Nederland*; Korthals Altes, W.L. (1991) *Changing Economy in Indonesia Vol.12a: General Trade Statistics 1822-1940.* (Amsterdam: Royal Tropical Institute) pp.76-103; *Statistical Pocketbook of Indonesia.*

As far as growth is concerned, Dutch foreign trade expanded rapidly during the three decades preceding World War I, even with corrections for transit trade. This conforms with the rapid growth of world trade.[18] However, the main expansion of Indonesian foreign trade took place during 1900-29, despite the disruption caused by World War I and the volatility of global commodity markets.

In both countries total imports and exports increased faster than trade between them, which is reflected in the fall of the shares in columns 3, 6, 9 and 12. Any discrepancies in the data are not substantial enough to cast doubts on these trends. It is possible to circumvent the deficiencies of the Dutch trade statistics, by using data on Dutch foreign trade, from which an estimate of transit trade is deducted, and the Indonesian data on Dutch-Indonesian bilateral trade.[19] In that case the share of Indonesia in Dutch imports fell from 31.7 percent in the 1870s, to 19.3 percent 1880s, 15.4 percent 1890s and 15.3 percent 1900s, while the share of Indonesia in Dutch exports remained roughly contant at 15.5 percent in the 1870s, 17.4 percent 1880s, 15.3 percent 1890s and 15.7 percent 1900s, after which it started to fall. These estimates confirm the trends in the columns 3 and 6.

[18] Lewis, W.A. (1978) 'The Rate of Growth of World Trade, 1830-1973' in S. Grassman and E. Lundberg (eds.) *The World Economic Order. Past and Prospects.* (London: Macmillan) pp.11-81.

[19] Lindblad and Van Zanden (1989) p.262; Korthals Altes, W.L. (1991) *Changing Economy in Indonesia Vol.12a: General Trade Statistics 1822-1940.* (Amsterdam: Royal Tropical Institute) pp.76-103.

The bilateral trade contacts may have been of importance to the Netherlands and of great significance to Indonesia in the 1870s, but thenceforth trade links between both countries decreased continuously. This is in contrast to the development of trade relations between Great Britain and its colonies during these years, and in contrast to what economic interpretations of imperialism would suggest.

4. To obtain raw materials

The decreasing importance of bilateral trade reflects the demise of the Netherlands as the staple-market for traditional Indonesian export commodities, such as spices, sugar, coffee, tea and tobacco. During the 19th century most of these had been auctioned in Amsterdam. But the improvement of international transport and communications made it possible to auction products in Indonesia or ship them directly to overseas customers.

A major explanation for the fall of the share of the Netherlands in Indonesian exports is the termination of sugar exports to refineries in the Netherlands. After the demise of the Cultivation System in 1870, exposure to international competition forced many sugar factories in Java to re-organise their operations. Their owners updated the processing facilities, started to refine sugar in Java and increasingly shipped produce directly to overseas customers.[20] In 1870 86 percent of Java sugar went to the Netherlands, by 1880 only 10 percent. Another commodity which helps to explain the general trend is the dramatic rise of Indonesian rubber exports in the 1910s and 1920s. Most rubber was sent directly to processing plants in Singapore and the United States, rather than to the Netherlands.

Most of Indonesia's exports of raw materials were not processed in the Netherlands. They increasingly went to countries other than the Netherlands for consumption or further processing, including many other developing countries in Asia. For instance, India, China and Japan became major purchasers of Java sugar. Primary materials indeed continued to dominate Indonesia's exports up until the 1980s, but the expansion of Dutch colonial rule was obviously not accompanied by growing Dutch dominance over Indonesia's raw materials.

Nevertheless, particular commodities could have been important for the establishment and development of several Dutch industries. After 1870, the most important products among Indonesia's exports to the Netherlands were tobacco, coffee, tin ore and copra. Table 2 indicates that the Dutch share increased only over time in the case of tobacco.

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[20] Boomgaard, P. (1988) 'Treacherous Cane: The Java Sugar Industry between 1914 and 1940' in B. Albert and A. Graves (eds.) *The World Sugar Economy in War and Depression 1914-40.* (London: Routledge) pp.157-169.

Table 2: *Percentage share of the Netherlands in Indonesian exports, 1874-1939*

	——Share of export to the Netherlands——			Product share in Indonesian exports, 1905-30
	1874-1904	1905-30	1931-39	
tobacco	65.3	86.4	92.0	8.9
coffee	74.8	41.6	20.7	3.5
tin/tin ore	87.2	45.5	18.8	5.7
copra	16.8[a]	31.0	24.2	6.5

a. 1890-1903

Source: Calculated from Lindblad, J.Th. (1988) `De Handel tussen Nederland en Nederlands-Indië, 1874-1939', *Economisch en Sociaal-Historisch Jaarboek*, 51, pp.295-7; Korthals Altes, W.L. (1991) *Changing Economy in Indonesia Vol.12a: General Trade Statistics 1822-1940.* (Amsterdam: Royal Tropical Institute) pp.69-75 and 151-64.

The Dutch **sugar** refining industry had evolved on the basis of raw sugar from Java. With the refurbishing of the Java sugar industry after 1870, Dutch sugar factories increasingly changed to processing domestic sugar beet, turning the Netherlands into a sugar exporter. The position of sugar in Dutch imports from Indonesia was taken over by coffee and since the 1890s by tobacco and tin.

The auctioning and processing of **coffee** made Amsterdam a major international coffee market. In the 18th century it handled coffee from the Middle East, not just from Indonesia. The expansion of the Amsterdam coffee market in the 19th century was based not just on Indonesian coffee, but also on the rapid growth of coffee imports from Brazil and later Central America.[21] Moreover, during the 19th century Indonesia's superior Arabica coffee was increasingly shipped directly to overseas customers. Indeed, the fall in Indonesian coffee production in the 1890s due to a disease that ravaged the Arabica plantings did not affect the Amsterdam coffee market as much as the rise of other coffee markets, such as Le Havre in France.

Increasing **tobacco** imports from Java and the renowned cigar wrapper tobacco from Deli (North Sumatra) spurred the Dutch cigar industry in the late 19th century. The Dutch share in Deli tobacco exports remained 80-85 percent, despite increasing exports of Deli tobacco to the US. Although much tobacco exported from Indonesia to the Netherlands was actually transhipped to Germany, it is obvious that Indonesian tobacco sustained the Dutch cigar industry.

Until the 1920s most **tin** ore produced in the Indonesian islands of Bangka, Singkep and Belitung was smelted in Belitung and Singapore.[22] In 1928 the main tin producer *Billiton* established a subsidiary in Arnhem (the Netherlands) to smelt tin ore. Although the venture started off processing

21 Reinders, P. (1994) `"Ik ben Makelaar in Koffi": De Koffiehandel in the Negentiende en Twintigste Eeuw", in P. Reinders and T. Wijsenbeek (eds.) *Koffie in Nederland. Vier Eeuwen Cultuurgeschiedenis.* (Delft: Walburg Pers) pp.119-126.

22 Kamp, A.F. (1960) *De Standvastige Tinnen Soldaat 1860-1960 NV Billiton Maatschappij.* The Hague: NV Billiton.

Bolivian ore, after 1933 it turned increasingly to Indonesian tin ore. This arrangement mainly arose from the heavy involvement of the colonial government in the exploitation of Indonesian tin mines. But during the 1920s and 1930s increasing quantities of tin ore were smelted in Singapore and later in the US, because the smelting capacity in both Indonesia and the Netherlands was insufficient to keep up with the rapid growth of Indonesia's tin exports.

The Netherlands, in particular Rotterdam, became a major contender in the international market for oils and fatty substances in the late 19th century. This was not directly related to the expansion of colonial rule in Indonesia, but rather to the rapid growth of demand in Europe for margarine, soap and detergents. Indonesian **copra**, and later also groundnuts, soybeans and palm oil, were traded at or through the Rotterdam market. However, most Dutch imports of these products did not come from Indonesia, just as most Indonesian exports of these products did not go to the Netherlands. Dutch soap and margarine industries, in particular the two Dutch companies which amalgamated into the Anglo-Dutch *Unilever* in 1929, indeed processed Indonesian copra and coconut oil, but did not depend exclusively on imports from Indonesia.[23]

Dutch interests were central for the development of the Indonesian **petroleum** industry. The exploitation of such oil reserves in Indonesia around 1900 and the refining of raw oil in the Netherlands provided the Royal Dutch Petroleum Company with a start to maturation into the multinational Anglo-Dutch Shell oil company. But in the 20th century the *Bataafsche Petroleum Maatschappij* (BPM, 1907), its Anglo-Dutch subsidiary, was only one of the many interests which both the Royal Dutch and Shell had throughout the world. The refineries of the Royal Dutch in Amsterdam and Rotterdam did not depend on operations in Indonesia, while most Indonesian oil was refined in the country itself.[24]

These were Indonesia's most important export commodities. The country exported a wide range of other commodities which have been of varied importance to Dutch industries. For instance, Indonesia had a near-monopoly in the international production of **cinchona** bark. Since 1886 most of the bark was processed into quinine in Amsterdam, until the establishment of a similar plant in Bandung in Indonesia in 1897. Other products of minor importance to both Indonesian exports and Dutch industries are kapok, cocoa, spices, resins *etc.*

On the whole, some imports from Indonesia were of importance in the establishment of commodity trade and processing industries in the Netherlands. But it is difficult to maintain that the trade relations with Indonesia formed the base for the further expansion of such industries, as the decreasing shares of Indonesia in Dutch imports and of the Netherlands in Indonesian exports in Table 1 indicate. Section A in Table 3 gives a concise overview of the extent to which Dutch industry relied on imports from Indonesia in 1938. Such imports were not crucial to the development of Dutch industry as a whole. Indonesia only retained its importance for some Dutch industries, in particular the tobacco

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[23] Wilson, C. (1954) *The History of Unilever. A Study in Economic Growth and Social Change.* London: Cassell & Co, in particular volume 2.

[24] Lindblad, J.Th. (1989) 'The Petroleum Industry in Indonesia before the Second World War', *Bulletin of Indonesian Economic Studies*, 25, No.2, pp.53-78; Gabriëls, H. (1990) *Koninklijke Olie: De Eerste Honderd Jaar 1890-1990.* The Hague: Shell International.

industry. The high shares of rubber, sugar and tea are deceptive, because most Indonesian rubber, sugar and tea was exported to other countries. The Dutch rubber-using industry was relatively small, while sugar and tea were imported for domestic consumption.

Table 3: *The role of Indonesia in the composition of Dutch foreign trade, 1938*

	Total *ƒ* mln.	Of which from/to Indonesia	
		ƒ mln.	%
A. Dutch import of raw materials:			
Stones, cement *etc.*	14.5	-	-
Chemicals	62.5	7.5	12.0
Fertiliser	34.8	-	-
Inflammable and lubricating oils	46.8	0.6	1.3
Timber	65.0	1.3	2.0
Yarn and fibres	88.0	1.7	1.9
Rubber	4.7	2.5	43.2
Hides and leather	28.4	3.2	11.3
Coal	52.5	-	-
Metals and ores	222.6	33.4[a]	15.0
Paper and paper products	19.9	-	-
Grains and flour	85.4	2.0	2.3
Oily seeds	98.8	12.1	12.3
Fodder	12.4	2.7	21.8
Raw sugar	5.5	4.1	74.5
Tobacco leaves	21.0	11.0	52.4
Coffee	15.6	4.1	26.3
Tea	11.3	9.8	86.7
Total of these	889.7	96.0	10.8
B. Dutch export of manufactures by industry groups:			
Food and luxury foods industries	233.7	9.5	4.1
Pottery and glass industries *etc.*	7.4	0.5	6.8
Wood processing industries *etc.*	105.5	11.6	11.0
Paper industry	22.2	2.0	9.0
Textile industry	77.8	34.0	43.7
Garments industry	3.2	0.5	15.6
Leather, shoes and rubber industry	13.0	0.7	5.4
Metal industry, shipbuilding *etc.*	228.9	35.8	15.6
Printing and industrial art	9.0	2.2	24.4
Total of these	706.3	98.1	13.9

a. Of which tin ore and tin: *ƒ*32.4 million.

Source: Calculated from Derksen, J.B.D. (1946) `De Economische Beteekenis van Nederlandsch-Indië voor Nederland met Cijfers en Statistieken Toegelicht' in W.H. van Helsdingen and H. Hoogenberk (eds.) *Hecht Verbonden in Lief en Leed.* (Amsterdam: Elsevier) p.371.

5. To sell manufactures

Table 1 indicates that, except for the 1920s, the value of Dutch imports from Indonesia exceeded the value of Dutch exports to Indonesia, which suggests that Indonesia was more important to the Dutch economy for its supply of raw materials than as a market for Dutch manufactures. As noted above, the protection offered to the export of some manufactured products to Indonesia was important for the establishment and development of the Dutch textile and shipbuilding industries during the first half of the 19th century. This continued to be the case during the second half of that century, as Table 4 indicates for the textile industry.

Table 4: *Role of manufactures in Dutch-Indonesian bilateral trade, 1874-1939*

	Textiles	Machinery	Metal goods
A. Average shares of export to Indonesia in Dutch exports of manufactures:			
1874/1904	63.0	43.0	4.2
1905/1930	40.7	57.0	27.4
1931/1939	40.3	7.8	13.3
B. Average shares of the Netherlands in Indonesian imports of manufactures:			
1874/1904	51.5	62.5	65.0
1905/1930	31.5	52.8	36.1
1931/1939	20.4	31.1	13.8

Source: Lindblad, J.Th. (1988) `De Handel tussen Nederland en Nederlands-Indië, 1874-1939', *Economisch en Sociaal-Historisch Jaarboek*, 51, p.294 (note 47) and pp.297-8 (notes 84 and 90).

During the first half of the 19th century, weaving was primarily a cottage industry in the Netherlands. Apart from the spinning mills, the export of **textiles** to Indonesia did not primarily benefit big capitalist entrepreneurs, as the economic theory of imperialism would suggest. The growth of textile production after 1850 was indeed based on the expansion of textile factories, producing yarn and cloth at the expense of the cottage industry. However, the expansion of the Dutch textile industry after 1850 was largely due to the growth of production for the domestic market, rather than for overseas markets.[25]

Dutch textile producers lost their preferential access to the Indonesian market in 1874, but they maintained their share in the Indonesian market at around one-third through specialisation.[26] To

[25] De Jonge, J.A. (1968) *De Industrialisatie in Nederland tussen 1850 en 1914.* (Amsterdam: Scheltema en Holkema) pp.82-129, in particular pp.117-20.

[26] Fischer, E.J. (1981) `De Ontwikkeling van de Twentse Katoennijverheid en de Toename van de Arbeidsproduktiviteit tussen 1800 en 1930', *Textielhistorische Bijdragen*, 22, p.19; Wolters, C. (1990) `De Twentse Katoenindustrie en de Dekolonisatie. De Neergang van de Handel in "Katoentjes" naar Indonesië', *Textielhistorische Bijdragen,* 30, pp.109-132; Sugiyama, S. (1994) `The Expansion of Japan's Cotton Textile Exports into Southeast Asia' in S. Sugiyama and M.C. Guerrero (eds.), *International Commercial Rivalry in*

Indonesia they mainly supplied sarongs and bleached textiles for the Indonesian *batik* (dyeing) industry. Textile imports from the Netherlands constituted one-third of Indonesian textile imports, the rest consisting of luxury textiles from Britain and unbleached textiles from Japan. This balance changed in the late 1920s, when Japan expanded its export of bleached textiles to Indonesia at the expense of Dutch producers. The Dutch share in Indonesian textile imports gradually fell to a low of 12 percent in 1932-35. The loss of markets was not acted upon until late 1933. The regulation of Indonesian imports through quota and tariffs indeed reserved markets for Dutch textiles, but that only started to take effect in 1937.

Hence, during most of the late-colonial the trade policies of colonial Indonesia did not discriminate against textiles from third countries, and did not facilitate monopoly profits for the Dutch textile industry. Although textiles had a prime place in Dutch exports to Indonesia, the Dutch textile industry was not primarily dependent on Indonesia. For instance, Table 4 shows that most of Dutch textile exports did not go to Indonesia. In fact, most textiles were produced for the Dutch domestic market before World War II, which is where the main cause of its postwar demise can be found. The Dutch textile industry easily survived Indonesian independence and declining exports to Indonesia. It even expanded production during the 1950s, because it managed to take advantage of the enormous growth in international demand.[27] But it failed to maintain competitiveness in its main market: the Netherlands. The demise of Dutch textile industry in the 1970s was not due to the deterioration of relations with Indonesia, but to rising production costs, which triggered an international relocation of textile industries.

As noted above, the monopolisation of the shipment of government commodities during the Cultivation System benefited the Dutch **shipping** industry, thus re-enforcing the prominent position which Dutch companies had occupied for many centuries in international shipping. The industry suffered in the 1870s, when the privileged Dutch position in Indonesian trade was relinquished, and in the 1880s, due to the international economic crisis, but recovered soon after. Although Indonesia became an increasingly important node in the web of Dutch shipping lines during the 19th and 20th centuries, this web spanned the whole world.[28]

The Dutch **shipbuilding** industry depended largely on the development of Dutch shipping. It also suffered in the 1870s, but several companies were compensated by a growth of domestic demand for products from the metal, metal engineering and machinery construction industries. The shipbuilding industry bounced back after 1890, due to the general expansion of Dutch shipping as a consequence of the upswing in world trade. This is not to deny that increased shipping to and from Indonesia contributed significantly to the rapid expansion of the Dutch merchant fleet during 1890-1910. For

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Southeast Asia in the Interwar Period. (New Haven: Yale Southeast Asia Studies) pp.42-73.

27 Kockelkorn, H. (1989) 'Conjuncturele Ontwikkeling van de Twentse Katoenindustrie, 1925-1965', *Textielhistorische Bijdragen*, 29, pp.95-121.

28 De Jonge (1968) pp.132-6 and 156-8; Huijts, J.A.M.L. and S. Tils (1994) 'De Veranderende Scheepvaart tussen 1870 en 1930 en de Gevolgen voor de Handel op Nederlandsch-Indië' in E.J. Fischer (ed.) *Katoen voor Indië.* (Amsterdam: NEHA) pp.57-74.

instance, BPM alone ordered 150 ships from Dutch wharfs for the transport of oil during 1907-40.

Like the textile industry, Dutch shipbuilding survived Indonesian independence due to the enormous postwar expansion of international demand for ships and shipping, despite the fact that passenger transport dwindled due to the growth of the aviation industry. The demise of Dutch shipbuilding in the 1970s is also not related to the collapse of relations with Indonesia, but to rising domestic production costs.

Apart from the textile and shipbuilding industries, it is difficult to establish a direct links between the development of Dutch industry and colonial expansion, because since 1890 Dutch manufacturing industry entered a phase of expansion and diversification. As Table 4 indicates, the relation with Indonesia remained important up to 1930 for Dutch engineering industries, who flourished from investment in Indonesia. After 1895, the colonial government invested considerable sums in the development of infrastructure. Metal products were required for the construction of railways, bridges, harbour installations *etc.* The Indonesian economy had been opened up to private investment in 1870, but it took until the 1890s before private investment started to grow. In particular capital-intensive industries in Indonesia (such as the sugar industry) required steam-driven processing equipment. During 1881-93 around 7.5 percent of the boilers in steam generators used in Indonesia had been made by companies in the Netherlands, but by 1910-12 this had risen to 30 percent, a time when more than 50 percent of orders for new boilers went to Dutch factories.[29]

Table 4 indicates that Dutch companies lost ground in Indonesian imports of machinery and metal goods, although a clear preference for Dutch goods remained. We can only guess the general reasons for this choice, because Dutch produce enjoyed minimal preferential treatment in Indo-nesia's foreign trade regime. It is likely that the colonial government preferred to order metal goods for the construction of railways and bridges in the Netherlands.[30] Another possibility is that capital-intensive companies in Indonesia were generally foreign-owned. Dutch company owners may have preferred products from affiliated Dutch industries. Furthermore, Dutch engineering companies specialised in equipment for the processing of tropical commodities. For instance, the *Stork* company supplied installations for sugar manufacturing, which it not only sold to Indonesia, but to many other countries producing cane sugar, such as Cuba. In the 1920s more non-Dutch companies established subsidiaries in Indonesia, which may explain the growth of machinery and metal imports from Great Britain and the US, and the fall of the Dutch share.

Manufacturing exports to Indonesia were of some importance in the initial phases for a range of small Dutch industrial ventures in the 19th century. But, like the industries which initially depended on imports of Indonesian raw materials, most then diversified their overseas sales since the late 19th century, in the expansionary phase of such ventures.[31] As with the import of raw materials, by the 1930s Dutch manufacturing industry as a whole did not depend on sales to Indonesia.

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[29] Van Hooff, G. (1990) *In het Rijk van de Nederlandse Vulcanus. De Nederlandse Machinenijverheid 1825-1914.* (Amsterdam: NEHA) pp.237-38.

[30] Van Hooff (1990) pp.238-41.

After the onset of the global slump and the failure of the World Economic Conference in 1933, attempts were made to increase trade relations between the Netherlands and Indonesia. Increasing compartmentalisation of international markets and falling exports forced both countries to explore the extent to which they could support each other. But the Dutch market was too small to absorb Indonesia's commodities, while the assortment of Dutch manufactures was too limited to satisfy Indonesia's import requirements. For instance, the main Dutch foreign exchange earners (horticulture and agriculture) had little to offer for Indonesia. In short, the two economies had grown apart and their products were not complementary.[32] A system of imperial preferences, akin to the British Commonwealth, could not have had comparable results.

While avenues of greater cooperation were explored, observers pointed out that Indonesia and the Netherlands had grown apart and that foreign trade and payment policies had to conform to that state of affairs.[33] The interests in foreign trade policies were still formulated for Indonesia by the Dutch government, a situation which prompted the rise of an economic nationalism with the support of both Indonesians and Europeans in the colony.

Although difficult to specify, the net result of the regulation of bilateral trade through quota and licences has benefited sections of Dutch manufacturing industry: in particular Dutch textile industry, and, to a lesser extent the fertiliser, light bulbs and cement industries.[34] However, the preferential access of Dutch textiles to the Indonesian market was accompanied by a policy of import restrictions aimed at furthering the textile industry in Indonesia, despite the fact that Indonesian products competed with protected Dutch imports.[35] The overall trend of increasing import-substituting industrial development in Indonesia and growing integration of the Netherlands into Europe, was re-enforced when the German occupation of the Netherlands in May 1940 cut the colonial ties.

6. Export of Dutch Capital

The Netherlands has long been an exporter of investment capital. Such exports slowed down during the first half of the 19th century. This was to some extent due to the emergence of domestic investment opportunities during the hesitant first phase of industrialisation, but mainly by the rapid growth of

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31 De Jonge (1968) p.358.

32 Hulshoff Pol, D.J. (1939) `De Handelspolitiek van Nederlandsch-Indië van 1923 tot eind 1938' in P. Lieftinck (ed.) *Overzicht van de Ontwikkeling der Handelspolitiek van het Koninkrijk der Nederlanden van 1923 t/m 1938.* (Rotterdam: Nederlands Economisch Instituut) p.169.

33 Wirodihardjo, R.S. (1951) *De Contingenteeringspolitiek en Hare Invloed op de Indonesische Bevolking.* (Jakarta: Indira) pp.229-38.

34 Wirodihardjo (1951) pp.238-53.

35 Wirodihardjo (1951) pp.131-96; Matsuo, H. (1970) *The Development of Javanese Cotton Industry.* (Tokyo: Institute of Developing Economies) pp.23-5; Telkamp, G.J. (1981) `Aangepaste Technologie in Koloniale Context: The Textielindustrie in Indonesië van 1930 tot 1942' in P. Boomgaard *et al.* (eds.) *Exercities in Ons Verleden.* (Assen: Van Gorcum) pp.224-245.

investment in Dutch public bonds, fuelled by the costly Belgian war of secession in the 1830s. Still, even when domestic investment opportunities increased further after 1850, much Dutch capital found its way abroad, especially in the form of portfolio investments in Russian and Austrian public bonds and American and Russian railways.[36]

There were investment opportunities in Indonesia, especially after 1870, but Dutch investors hardly seized them. During the 19th century capital formation in Indonesia was largely generated by public investment in infrastructure, financed with revenues from the Cultivation System and realised with corvée labour. Private capital formation was in Indonesia was mainly initiated by Dutch private entrepreneurs, many of whom had started under the Cultivation System as contractors of the colonial government. However, even after the demise of the Cultivation System in 1870, the stock of foreign capital in Indonesia only expanded very gradually. Exact data are not known, but the numbers of companies with limited liability status in Indonesia indicate significant growth only after 1890.[37] This corresponds to the gradual establishment by the colonial government of preconditions for the operations of private enterprise in the form of infrastructure and a transparent legal framework.

But numbers of incorporated enterprises may be misleading, because most new ventures (apart from sugar factories) were not capital-intensive. Many of the sugar factories operated on the basis of short-term consignment-contracts with Dutch trading houses, which operated as banks. These houses supplied the required working credit on the condition that produce would be delivered to them. After the termination of their Cultivation System contracts, many sugar factories required funds to upgrade processing facilities and to expand the scale of production in order to be able to meet competition. After the 1880s many consignment-contracts started to include investment in fixed capital and thus involved a long-term obligation to sell produce to the trading houses. On the whole this meant a growing involvement of the big trading houses in the production phase. Gradually the original owners of the weaker ventures were bought out and the houses took control.[38] Ownership thus gradually changed from the Indonesia-based owner-operators to the Dutch shareholders in these trading houses.

Dutch entrepreneurs who started other ventures in Indonesia after 1870, such as plantations with tobacco or tree crops such as tea, coffee or cinchona, often raised investment capital in their own circles, rather than on money markets in the Netherlands. Banks were generally not interested in such

[36] Jonker, J. (1991) 'Lachspiegel van de Vooruitgang. Het Historiografische Beeld van de Nederlandse Industriefinanciering in de Negentiende Eeuw', *NEHA-Bulletin*, 5, No.1, pp.5-23. See also: Bosch, K.D. (1948) *De Nederlandse Beleggingen in de Verenigde Staten.* (Amsterdam: Elsevier) pp.1-23 and 59-70; A.J. Veenendaal (1996) *Slow Train to Paradise: How Dutch Investors Helped Build American Railroads.* Cambridge: Cambridge UP.

[37] à Campo, J.N.F.M. (1996) `The Rise of Corporate Enterprise in Colonial Indonesia, 1898-1913' in J.Th. Lindblad (ed.) *Historical Foundations of a National Economy in Indonesia, 1890s-1990s.* (Amsterdam: North-Holland) p.73.

[38] This story is narrated by: Helfferich, E. (1914) *Die Niederländisch-Indischen Kulturbanken.* Jena: Fischer; Helfferich, E. (1916) 'De Cultuurbanken gedurende de Laatste Jaren', *Koloniale Studiën*, 1, pp.169-207.

ventures, either because of their inexperience with such crops, or due to risks inherent in agricultural enterprises, such as pests, diseases, weather and volatile commodity markets. Raising money on the Dutch stock market was often not an option, because stock market listings required a minimum of ƒ500,000 subscribed capital. At that stage plantations could generally not meet this condition, because their capital requirements were modest compared to sugar factories. Investment was generally only required to access concessions, pay labour to clear the land, plant the soil and bridge the period until harvesting, not for expensive processing facilities.

Once such ventures prospered, they started a transitional phase during which they repaid their debts and started to plough back profits through provisions for an accelerated depreciation of assets and the formation of precautionary reserves.[39] This phase may have taken more than ten years in the case of tree crops, which means that the first enterprises started this phase in the 1890s, rapidly growing in numbers after 1900.

After this phase, ventures may have entered an expansionary phase. Expansion was generally not financed with loans from Dutch banks on the basis of accumulated assets in Indonesia. On the whole, the interest from Dutch capital markets in tropical ventures remained limited. Rather, self-made entrepreneurs in Indonesia financed expansion by incorporating their ventures. They would form a syndicate with Dutch friends and/or a large trading house on the basis of a long-term consignment-contract. Shares were issued against the assets of the existing venture, which were brought into the new limited liability company. Shares were either issued for the expansion of operations or to buy out the original owner-operators who then retired.

In both cases this implied a shift from unincorporated proprietary enterprises to legally incorporated firms. Where the original owners were bought out, the ownership of the assets often changed from the previous owner-operators residing in Indonesia to free-standing companies in the Netherlands, and in some cases to the shareholders of the big Dutch trading houses. Companies became ventures administered by salaried managers, or specialised management agencies in case of smaller companies, rather than owner-operators. Moreover, after 1900 several large mining enterprises were established in the Netherlands for operations in Indonesia. Their shares were often floated on the Dutch stock market. The upshot is that after 1900 both the top management of Dutch ventures in Indonesia and the ownership of private enterprise in Indonesia passed to the Netherlands.

This increasing reliance of private enterprise in Indonesia on the Dutch capital market explains the fact that Dutch-owned companies formed about 75 percent of foreign investment in Indonesia. After 1870 entry into the Indonesian economy was not reserved to Dutch companies. The only formal obstacles were that legislation, such as the 1899 Mining Act, required limited liability companies operating in Indonesia to be registered in Indonesia or in the Netherlands. The 1870 Agrarian Law also stipulated that long leases could only be granted to Dutch nationals or to residents of Indonesia (since

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39 This point elaborates the purport of Drake, P.J. (1972) 'Natural Resources *versus* Foreign Borrowing in Economic Development', *Economic Journal*, 82, pp.951-962.

1919 in East Sumatra).[40] In effect this meant that non-Dutch compa-nies had to establish subsidiaries in either Indonesia or the Netherlands, or use agencies. In short, Dutch companies may have found it easier to overcome institutional hurdles, because the legal systems in both countries were similar or because of the use of the Dutch language in Indonesia.

The fact that non-Dutch companies were not prevented from entering Indonesia became especially clear after about 1910, when many of them ventured into new sectors of the economy to seize opportunities which Dutch companies neglected, especially in petroleum, rubber and palm oil, and, since the late 1920s, in import-replacing manufacturing industries (such as Goodyear and the British-American Tobacco Company). Unlike Dutch plantations, these ventures were not mainly financed with re-invested profits, but with foreign direct investment (FDI). Direct capital inflows into Indonesia also increased after about 1910, due to the growing capital-intensive exploitation of mineral reserves by foreign enterprises, in particular in the oil sector. The growing involvement of such big foreign companies meant that in the late colonial era Dutch companies registered in Indonesia may have had the numbers, but not the volume.[41]

It may now be clear that the nationality of Dutch companies in colonial Indonesia causes problems. Incorporated companies operating in Indonesia may have had been registered in Indonesia. But the gradual shift of ownership to the Netherlands, as indicated above, meant that companies were increasingly controlled from the Netherlands. Likewise, foreign subsidiaries may have been registered in Indonesia, but may actually have been under foreign control.[42] On the whole, the biggest 'Dutch' companies operating in Indonesia were registered in the Netherlands, or were controlled by free-standing companies or shareholders in the Netherlands. The majority of small 'Dutch' companies registered in Indonesia were controlled by Dutch nationals of Indonesian extraction, or by Chinese residents or ethnic Indonesians.[43] This is one of the problems which plagues the estimation of the stock of foreign, in particular Dutch investment in colonial Indonesia.

Another problem is that the accumulation of foreign-owned productive assets in Indonesia was based on relatively modest initial capital injections from overseas. The inflow of private capital during 1820-1938 indeed adds up to only about one-third of the estimated replacement value of foreign-owned productive assets in Indonesia in 1938, as shown in Table 5.[44]

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40 Haccoû, J.F. (1957) *Management of Direct Investments in Less Developed Countries.* (Leiden: Stenfert Kroese) p.196.

41 Haccoû (1957) pp.202-7. Lindblad estimated that 58 percent of paid-up capital of companies operating in Indonesia was from companies with their seat in the Netherlands, 20 percent with their seat in Indonesia and 6 percent Indonesian-Chinese companies. Lindblad, J.Th. (1992) `Foreign Investment in Colonial Indonesia.' Unpublished paper presented at the conference `Island Southeast Asia and the World Economy, 1790s-1990s', Canberra, 24-26 November 1992, pp.4-5.

42 Haccoû (1957, pp.196-8) provides overview of distribution of seats for plantations in 1937.

43 Korthals Altes (1987) pp.142-4. On definition problems, see: J.Th. Lindblad (1991) `Het Bedrijfs-leven in Nederlands-Indië in het Interbellum', *Economisch- en Sociaal-Historisch Jaarboek*, 54, pp.183-211.

44 Korthals Altes, W.L. (1987) *Changing Economy in Indonesia Vol.7: Balance of Payments 1822-1939.*

Most of the expansion of incorporated private enterprise in Indonesia was therefore based on foreign entrepreneurship and financed with re-invested profits. Estimates suggest that on average one-quarter to one-third of company profits were ploughed back during 1925-38.[45] Assuming that 75 percent of profits were remitted as dividends, it is possible to estimate the accumulated re-invested profits during 1820-1938 with data on remitted dividends and profits. The estimate indeed adds up to about two-thirds of the replacement value of foreign-owned productive assets in Indonesia in 1938.[46] This estimate may be too low, because it assumes that profits were only ploughed back when dividends were remitted. It is likely that profits were ploughed back regardless, especially when most ventures were still managed by the owner-operators. On the other hand, the estimate may be too high, because it does not take account of losses due to bankruptcies and liquidations. Still, both estimates indicate the tremendous importance of re-invested profits in financing the expansion of private enterprise in colonial Indonesia.

(Amsterdam: Royal Tropical Institute) pp.72-95.

45 Only incomplete data are available. One estimate suggests that 30 percent of declared dividends were ploughed back in 1925, or 23 percent after taxes. (CKS (1930) `De Betalingsbalans van Nederlandsch-Indië in de Jaren 1925 tot en met 1929.' *Mededeeling van het Centraal Kantoor voor de Statistiek No.81.* Weltevreden: Landsdrukkerij, p.14). Korthals Altes (1987, p.41) suggests a much higher estimate of 37 percent in 1925 and an average of 26 percent for 1910-26. Other estimates are an average of 33 percent during 1925-30 (Prange, A.J.A. (1935) *De Nederlandsch-Indische Betalingsbalans.* Leiden: Batteljee & Terpstra, pp.91-2) and 33 percent 1928-39 (Geselschap, J. (1949) `Het Aandeel van de Indonesische Industrie in de Onzichtbare Invoer', *Economisch Weekblad voor Indonesië*, 15, p.1271).

46 Data in current prices from Korthals Altes (1987) pp.72-95, accumulated as follows:

$$\text{Total} = \sum_{t=1820}^{1938} (1/0.75 - 1) \times \text{remitted dividend } (t)$$

Table 5: *Stock of accumulated Dutch foreign investment, 1900-57 (million guilders)*

	1900	1914	1938	1947	1957
Foreign direct investment					
Indonesia	750	1,680	2,850	2,000	3,000
United States	20	340	690		
Other	40	250	1,270		
Total	810	2,270	4,810	4,100	
Public bonds, Indonesia	45	170	1,200	1,100	1,500[a]
Total portfolio investment	3,100	2,800	3,910	3,450	
Total foreign investment	3,910	5,070	8,720	7,550	15,200

a. Public bonds and unredeemed government-to-government loans.
Note: The data have been estimated from a range of different sources, which are not entirely comparable. They should be taken as indications of the order of magnitude.
Source: Calculated from B.P.A. Gales and K.E. Sluyterman (1993) 'Outward Bound. The Rise of Dutch Multinationals' in G. Jones and H.G. Schröter (eds.) *The Rise of Multinationals in Continental Europe.* (Aldershot: Brookfield) pp.65-66 and 92-93 (converted with current exchange rates); J.B.D. Derksen (1941) `Berekeningen over het Nationale Inkomen van Nederland voor de Periode 1900-1920', *Maandschrift van het Centraal Bureau voor de Statistiek*, 36, p.80; Callis, H.G. (1942) *Foreign Capital in Southeast Asia.* (New York: Institute of Pacific Relations) p.36; Lewis, C. (1948) *The United States and Foreign Investment Problems.* (Washington DC: The Brookings Institution) pp.298-43; 1957 Indonesia, see main text; 1957 total estimated, assuming that total Dutch capital income from abroad of ƒ760 million reflects an average return of 5 percent.

This helps to explain why Indonesia initially absorbed only small amounts of Dutch capital. Most Dutch overseas investment was in the form of portfolio investment in other parts of the world, as Table 5 indicates. Even by 1914 Dutch portfolio investment in the US was valued at ƒ2 billion, in Russia ƒ940 million, altogether much more than Dutch-owned productive assets in Indonesia.[47] The gradual transfer of ownership of companies in Indonesia to the Netherlands explains the rapid growth of the volume of Dutch FDI in Indonesia after 1900.

The biggest single category of investment capital transfered from the Netherlands to Indonesia involved the purchase of Indonesian public bonds by Dutch investors. These were popular, because they were guaranteed by the Dutch government. Indonesian public debt accumu-lated quickly during the 1920s, when the colonial government borrowed for investment in infrastructure, and the 1930s, when it borrowed to finance current expenditure, despite relentless pruning.[48]

It is now possible to understand the somewhat odd situation that the colonial government had to borrow money abroad, despite Indonesia's trade surplus. The trade surplus reflected to a large extent

47 Bosch (1948) pp.46-8; Van Horn, N.A. (1993) `Russische Schulden aan Nederland na de Revolutie', *Bijdragen en Mededelingen betreffende de Geschiedenis der Nederlanden*, 108, pp.436-7.

48 Tervooren, E.P.M. (1957) *Statenopvolging en de Financiële Verplichtingen van Indonesië.* (The Hague: Nijhoff) pp.74-125.

payments related to the foreign ownership of the assets of private enterprise, rather than payments generated by the actual inflows of past FDI. Private enterprise had to a large extent been financed with re-invested profits. These had remained unobserved, because they did not enter international financial exchange. Re-investment of profits had been necessary for two reasons. Firstly, because of the initial reluctance of Dutch investors to raise capital for ventures in Indonesia. Secondly, because there was only a very small capital market in Indonesia both during the 19th and the early 20th century.[49] Savings in Indonesia were low and exceeded by capital requirements by far, while banks in Indonesia were mainly involved in financing current operations of private enterprise. Consequently, the colonial government could not raise the required funds domestically and had to borrow overseas, despite the fact that the Indonesian economy had a substantial trade surplus.

This section indicated that most Dutch capital invested overseas was not directed towards Indonesia. The share of Indonesia in Dutch foreign investment indeed increased from 20 percent in 1900 to 46 percent in 1938. However, this change was not mainly caused by a flow of FDI from the Netherlands to Indonesia, but rather due to: (a) the transfer of ownership of private enterprises in Indonesia from Indonesia-based owner-operators to shareholders in the Netherlands; (b) the increasing value of productive assets in Indonesia due to the accumulation of re-invested profits. The upshot is that Dutch holders of shares in private companies operating in Indonesia expected payment of dividends in the Netherlands. The next question is therefore whether the actual returns to Dutch investors were significantly higher than alternative investment opportunities.

7. Profitability of Dutch capital

It is often suggested that foreign investment in colonial Indonesia was extremely profitable and that the overseas remittance of such profits robbed the country of any developmental capital. Several authors have used the ratio of dividend payments and nominal share capital to suggest that Dutch investments in colonial Indonesia yielded super-normal returns. There indeed were companies which at times paid dividends of up to 200 percent, which may have given the impression of 'exploitation'. But often these were small companies operating very successfully in lucrative niche markets. They were able to reap windfall profits or high entrepreneurial premiums for a few years, until market forces eroded extraordinary dividend rates. Moreover, easy references to such cases ignores the fact that many companies did not pay dividends or went bankrupt.

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[49] Van Laanen, J.T.M. (1980) *Changing Economy in Indonesia Vol.6: Money and Banking 1816-1940.* (The Hague: Nijhoff) pp.31-3.

Table 6: *Average dividend rates of incorporated companies in Indonesia, 1893-1938*

	Average	Sample		Total	Source
A. *Weighted* averages					
1889	10.5	(117	of	ca.400)	(a)
1900	11.0	(290	of	ca.1,300)	(a)
1913	17.5	(380	of	2,686)	(a)
B. *Unweighted* averages					
1918	17.5	(622	of	3,656)	(b)
1923	10.8	(453	of	3,288)	(b)
1928	17.9	(572	of	2,794)	(b)
1935	9.3	(402	of	2,108)	(b)
1938	9.9	(401	of	2,158)	(b)
C. *Unweighted* average					
1930	9.0	(all	of	2,838)	(c)

Sources: (a) à Campo, J.N.F.M. (1995) `Strength, Survival and Success: A Statistical Profile of Corporate Enterprise in Colonial Indonesia, 1883-1913', *Jahrbuch für Wirtschaftsgeschichte*, No.1, pp.63 and 71; (b) Lindblad, J.Th. (1991) 'Foreign Investment in Late-Colonial and Post-Colonial Indonesia', *Economic and Social Science in the Netherlands*, 3, p.205; (c) Lindblad, J.Th. (1993) `Ondernemen in Nederlands-Indië, c.1900-1940', *Bijdragen en Mededelingen betreffende de Geschiedenis der Nederlanden*, 108, p.709.

Recent publications have used the registers of incorporated companies operating in colonial Indonesia to approximate average dividend rates, the results of which are summarised in Table 6.[50] Although illuminating, it should be noted that the results are only based on the minority of companies which reported dividend payments. Moreover, Lindblad's data are *unweighted* averages, which yield upwardly biased results due to the fact that very successful companies were often small. à Campo corrected his data on the assumption that non-reporting companies did not pay dividends, which brought the *weighted* dividend rate down to 4.5 percent in 1900 and 8.0 percent in 1913. Such a correction of Lindblad's data may generate *unweighted* averages of 3.7 percent in 1928 and 2.3 percent in 1940. These corrected dividend rates do not indicate super-normal profits. In fact, à Campo's corrected estimates of 5-8 percent are only 2-3 percentage points higher than the interest rate on public bonds. They do not differ much from the average estimates of 6-8 percent returns on equity of English companies operating in Great Britain and overseas during 1870-1913.[51]

Even if adequate average dividend rates could be calculated, we should keep the character of foreign investment in colonial Indonesia in mind. Dividend rates do not give an adequate impression of the actual returns to foreign investment, because of the importance of accumulated re-invested profits.

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[50] These data refer to all incorporated enterprises in Indonesia, not only the foreign-owned ones. However, à Campo (1995, p.65) and Lindblad (1991, pp.206 and 211) maintain that dividend rates did not differ between companies with seats registered in the Netherlands or in Indonesia.

[51] Edelstein, M. (1982) *Overseas Investment in the Age of High Imperialism: the United Kingdom, 1850-1914.* (New York: Columbia UP) p.157; Davis, L. and R. Huttenback (1987) *Mammon and the Pursuit of Empire: The Political Economy of British Imperialism, 1860-1912.* (Cambridge: Cambridge UP) p.105.

These are not reflected in the nominal value of equity capital, although they should be included, because they flow from decisions by investors to give up present for future gain, which is the main characteristic of investment. For this purpose estimates of the replacement value of foreign-owned productive assets in Indonesia are required.

Table 7: *Foreign capital stock and returns in Indonesia, 1900-52*

	Foreign investment			Returns to foreign capital				Dis-count rate Java Bank	Inte-rest rate public bonds
	Total direct invest-ment	Total	Source	Paid divi-dends	Remitted dividends, profits, interest	Ratio	Ratio		
	(million guilders)					(percentages)			
	(1)	(2)	(3)	(4)	(5)	(4/1)	(5/2)	(6)	(7)
1900	729	773	(a)	24	30	3.2	3.9	4.5	3.0 [a]
1914	1,681	1,851	(a)	105	109	6.2	5.9	3.5	5.0 [b]
1922	2,650	3,500	(b)	174	242	6.6	6.9	3.5	6.0
1930	3,984	4,972	(a)	112	136	2.8	2.7	4.5	4.5
1937	2,554	4,097	(a)	173	230	6.8	5.6	3.0	3.0
1939	3,500	4,540	(c)		129		2.8	3.0	n.a.
1950	1,026	2,024	(d)		102		5.0	3.0	3.0
1951	1,316	2,490	(e)		151		6.1	3.0	3.0
1952	n.a.	2,240	(f)		93		4.2	3.0	3.0

* 1898 ** 1915 n.a. = not available

Notes: The estimates of capital stock are very rough, but not likely to be too high. If capital stock was higher, the returns to capital will be lower. 1950-52 in million US dollars.

Sources: (a) Callis, H.G. (1942) *Foreign Capital in Southeast Asia.* (New York: Institute of Pacific Relations) p.36 (converted with current exchange rates); (b) De Cock Buning, W. (1923) 'Kapitaalbelegging in Nederlandsch-Indië', *Nieuw Indië*, 2, No.8, p.6.; (c) Broek, J.O.M. (1942) *Economic Development of the Netherlands Indies.* (New York: Institute of Pacific Relations) pp.31-3; (d) A.M. de Neuman (1955) *Industrial Development in Indonesia.* (Cambridge: Student's Bookshop) p.21 and *Bank Indonesia Report for the Year 1953/54*, p.60 (converted with official exchange rate); (e) Espenshade, A.V. (1956) *Investments in Indonesia. Basic Information for US Businessmen.* (Washington DC: US Department of Commerce) p.9 and *Bank Indonesia [...] 1953/54*, p.60; (f) Oei Hong Lan (1969) 'Implications of Indonesia's New Foreign Investment Policy for Economic Development', *Indonesia*, 7, p.42; dividends, Korthals Altes, W.L. (1987) *Changing Economy in Indonesia Vol.7: Balance of Payments 1822-1939.* (Amsterdam: Royal Tropical Institute) pp.139-41 and Derksen, J.B.D. (1946) `De Economische Beteekenis van Nederlandsch-Indië voor Nederland met Cijfers en Statistieken Toegelicht' in W.H. van Helsdingen and H. Hoogenberk (eds.) *Hecht Verbonden in Lief en Leed.* (Amsterdam: Elsevier) p.373; remitted interests, profits and dividends, Korthals Altes (1987) pp.89-95; interest rates on government bonds from Creutzberg, P. (1976) *Changing Economy in Indonesia Vol.2: Public Finance 1816-1939.* (The Hague: Nijhoff) p.79 and *The Java Bank Report for the Financial Year 1952/53*, p.218; discount rate Java Bank, Van Laanen, J.T.M. (1980) *Changing Economy in Indonesia Vol.6: Money and Banking 1816-1940.* (The Hague: Nijhoff) pp.88-91 and *The Java Bank [...] 1952/53,* p.218.

Table 7 contains estimates of the actual returns to capital on the basis of approximations of this measure of the stock of foreign investment. The resulting ratios do not differ substantially from the standard discount rate of the Java Bank or the interest rate on debentures of the colonial government. This evidence suggests that the quest for investment outlets through imperialism and the expansion of colonial rule was not very successful in raising the returns to Dutch capital invested overseas. The returns to the actual amounts of foreign capital invested in Indonesia were not extraordinarily high.

The volume of foreign investment in Indonesia may have been high compared with neighbouring countries. But in per capita terms the countries of Southeast Asia were all minor recipients of foreign investment in an international context. For instance, the 1938 stock of foreign investment in Australia and New Zealand (8.5 million people) of US$4,450 million was higher than the total foreign investment of US$4,273 million in the whole of Southeast Asia (145 million people).[52]

Why did the colonies of Southeast Asia fail to attract more investment from overseas if profits there were so extraordinarily high? Why did the first Dutch entrepreneurs have to finance their ventures with capital from family and friends? The main reason is that ventures in colonial Indonesia were relatively risky, despite the presence of a sympathetic colonial government. Most were agricultural enterprises, which are by nature more prone to pests, diseases and weather conditions. Commodity markets proved to be very volatile during the period under consideration, especially during 1914-39. Many companies in Indonesia were successful, but many others did not pay dividends or went bankrupt. à Campo (1995, p.48) estimated that by 1930 only 41 percent of the companies established before 1890, 23 percent of companies established in 1890-99 and 32 percent of companies established in 1900-09 were still in business, either due to amalgamations or to bankruptcies.

This may be hindsight, but foreign enterprise in Indonesia endured significant losses after 1929. The total of retained profits less losses is estimated to have been a negative ƒ1 billion during 1930-36, implying a loss of 20 percent of the total stock of foreign investment in colonial Indonesia.[53] Thereafter, the Indonesian economy suffered from the Japanese occupation (1942-45) and the war for independence (1945-49). Both caused losses and considerable damage. In 1947 total damage to foreign enterprise was estimated on the basis of prewar replacement cost to be ƒ2.2 billion.[54] Dutch colonial rule apparently provided no safeguard against such losses.

Nor did conceding independence to Indonesia prevent the rise of economic nationalism, which, together with the controversy about Irian Jaya, caused the Indonesian government to abrogate its debt to the Dutch government and to nationalise most Dutch companies after 1957.[55] After the settlement of

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52 Calculated from Lewis, C. (1948) *The United States and Foreign Investment Problems.* (Washington DC: The Brookings Institution) pp.298-43 and population estimates.

53 Polak, J.J. (1943) 'The National Income of the Netherlands Indies, 1921-1939.', *Changing Economy in Indonesia Vol.5: National Income.* (The Hague: Nijhoff, 1979) p.66.

54 Fruin, Th.A. (1947) *Het Economische Aspect van het Indonesische Vraagstuk.* (Amsterdam: Vrij Nederland) p.47. Total losses and damage was then estimated to have been ƒ4.1 billion, *Economisch-Statistisch Kwartaalbericht* (1947) p.68.

55 Dutch shipping companies and Anglo-Dutch companies like Unilever and Shell managed to avoid

the Irian Jaya issue in 1963, the total Dutch claim for compensation from the Indonesian government amounted to ƒ4.4 billion, of which the Dutch government claimed ƒ1.9 billion for unredeemed government-to-government loans and for Indonesian public debentures guaranteed by the Dutch government. The claim of up to 1,000 nationalised Dutch companies was ƒ2.5 billion. Together, these claims exceeded Indonesia's ability to pay by far. Hence, after Dutch-Indonesian negotiations, all claims were settled in 1966 for a modest total of ƒ600 million.[56]

Thus, even if profits had been high, the majority of Dutch-owned productive assets in Indonesia were never sold off for the purpose of repatriating the proceeds to the Netherlands. Most of the accumulated productive assets remained in Indonesia. After 1957 most Dutch investors simply lost their wealth in Indonesia.

8. Returns to the Dutch economy

Estimates made by Derksen and Tinbergen (1945) of the contribution of Indonesia to Dutch national income retain authority in Dutch historiography. Table 8 contains Derksen's slightly revised and extended later estimates. This is not the place to comment extensively on the assumptions and estimating procedures which underpin these data. One crucial assumption is the multiplier of 1.7 to approximate secondary income in the Netherlands, which raises the total contribution to Dutch national income to impressive heights in the late 1920s and in 1938. But even if only the categories A.1-4 are included, which relate to the employment of Dutch capital and labour in Indonesia, the contributions to Dutch national income add up to 5.7, 2.7 and 4.2 percent respectively. These figures rang alarm bells in the Netherlands immediately after Indonesian nationalists had declared the independence of their country in 1945. They certainly nourished the popular opinion that the Netherlands could not afford to agree to an unconditional independence of Indonesia, without suffering economically.

The data refer mainly to two exceptional periods in the economic relations between the Netherlands and Indonesia: the late-1920s and the late 1930s, when Indonesia experienced strong economic growth. Apart from the rough approximations of Maddison, mentioned above, there are no consistent long-term estimates of Indonesia's contribution to Dutch national income. De Jonge suggested a contribution of inflows from Indonesia on the capital account of 2-3 percent during 1870-90, and 5 percent in 1890 if income from shipping and exports to Indonesia is included, while other

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this. To pre-empt take-overs of Dutch companies by workers and labour unions in December 1957, the Indonesian government put them under its (*i.e.* military) supervision. Nationalisation actually followed later in 1959 and 1960. See: Glassburner, B. and K.D. Thomas (1965) 'Abrogation, Take-Over and Nationalization: The Elimination of Dutch Economic Dominance from the Republic of Indonesia', *Australian Outlook*, 19, pp.158-79.

[56] The ƒ600 million would largely be paid in small portions during 1973-2002. The Dutch government also allowed the former owners of nationalised companies to deduct their losses from their taxable income. Clerx, J.M.M.J. (1992) `De Financiële Verhouding tussen Nederland en Indonesië Opnieuw Bezien (1945-1967)', *Politieke Opstellen*, 11-12, p.69.

estimates put the contribution of direct income from Indonesia at an average of 3.2 percent of Dutch national income during 1948-50, 4.2 percent during 1950-53 and 2.2 percent during 1954-57.[57]

Table 8: *The contribution of Indonesia to Dutch national income, 1926-38*

		Annual Averages		
		1926-29	1932-35	1938
A.	**Dutch primary income from Indonesia:**			
1.	Dividends and interest	257	76	155
2.	Management costs, pensions, *etc.*	49	21	29
3.	Private remittances	12	5	5
4.	Pensions public servants, furlough payments, *etc.*	26	27	26
5.	International shipping to and from Indonesia	85	35	63
6.	Dutch exports to Indonesia, 75% of total value	115	26	75
7.	Trade in tropical products and other items (rough approximation)	60	25	35
	Total	604	215	388
B.	**Indonesia's contribution to Dutch national income:**			
1.	Total national income of the Netherlands	6,000	4,700	5,150
2.	Primary income dependent on Indonesia	604	215	388
3.	Retained profits of Dutch companies in Indonesia (approximation)	50	0	40
4.	Secondary income dependent on Indonesia (70 percent of item 2)	422	150	272
5.	Total income dependent on Indonesia (items 2, 3, 4)	1,076	365	700
	Ibidem, as percentage of Dutch national income	18%	8%	14%
C.	**Other data:**			
	Income of Dutch nationals in Indonesia (approximation)	300	150	175
	Repayments of public debt from Indonesia	31	42	36

Note: Million guilders, unless indicated otherwise.
Source: Derksen, J.B.D. (1946) `De Economische Beteekenis van Nederlandsch-Indië voor Nederland met Cijfers en Statistieken Toegelicht' in W.H. van Helsdingen and H. Hoogenberk (eds.) *Hecht Verbonden in Lief en Leed.* (Amsterdam: Elsevier) p.374.

An attempt to provide consistent long-term estimates of the contribution of income from Indonesia to Dutch national income is vitiated by the fact that Dutch balance of payments data are incomplete before 1925 and do not distinguish income from Indonesia from other foreign income. Figure 1 provides three approximations of the contribution of direct income from Indonesia to Dutch national income (Net National Product at factor cost). The estimates were obtained from different sources, using the following three different definitions:

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57 1870-90, De Jonge (1968) p.356; 1948-50, M.J. Baudet and G.J. Wijers, `De Economische Betekenis van Nederlands-Indië voor Nederland. Oude en Nieuwe Berekeningen', *Economisch-Statistische Berichten*, 61 (1976) pp.885-8; 1950-57 calculated from Meijer, H. (1994) *Den Haag-Djakarta: De Nederlands-Indonesische Betrekkingen 1950-1962.* (Utrecht: Het Spectrum) p.649.

a. Total net income from the rest of the world (1900-1917, 1921-1939). These data were obtained from the official national accounts of the Netherlands;

b. Total gross income from the Dutch colonies (1921-1939), most of which from Indonesia, consisting of 70 percent of exports to Indonesia, dividends and profits, interest, total private remittances, total pensions, total payments for management costs, furlough and training, and total re-invested profits. These data were also obtained from the official national accounts of the Netherlands;

c. Gross income from Indonesia (1900-1940), consisting of 70 percent of import of goods from the Netherlands, import of ships, passenger shipping, dividends and profits, interest, 33 percent of private remittances, pensions, management costs, and net government expenditure in the Netherlands, less re-invested profits. These data were obtained from the balance of payments of Indonesia, reconstructed by Korthals Altes (1987).

The estimates under b. and c. are too high, because they refer to gross rather than net income. However, they do suggest that the direct contribution of income from Indonesia to Dutch national income may have increased from around 6 percent in 1900 to an average of 8.7 percent during 1900-39, with a peak of 11.5 percent on average during the 1920s. Most of this income consisted of the returns on Dutch capital invested in Indonesia. These estimates are significantly lower than those of Derksen and Tinbergen, because they exclude secondary income. Following Derksen and Tinbergen in assuming a multiplier of 1.7, the total annual average contribution to Dutch national income may have been a sizeable 12.4 percent during 1900-39.

Figure 1: *Share of Direct Income from Abroad in Dutch NNP, 1900-1940 (percentages)*
(see end of paper)

It is difficult to put this estimate in an international perspective, but perhaps it is relevant to note that in such context the Netherlands has always had a small economy. In 1929 the size of its economy was only 13 percent of that of Great Britain, and only 3 percent of that of the US. Due to the lack of natural resources relative to the size of its population, the Dutch economy was very open, with total foreign trade (imports and exports) being 75 percent of national income in the 1920s. This means that income from foreign trade and related economic operations overseas was bound to be relatively important to the Dutch economy.

These figures help to explain Dutch anxiety about the economic repercussions that would follow unconditional independence of Indonesia in the late 1940s. But, surprisingly, the anticipated backlash never really materialised after Indonesia's independence 1949. One reason is that in the short term the economic relations between the Netherlands and Indonesia continued. But even the disruption of these contacts after 1957 failed to depress the Dutch economy. This contradiction has hardly been addressed in Dutch economic historiography.[58]

A major explanation is the fact that the prewar contribution of the economic contacts with Indonesia to the Dutch economy can not be equated with the post-war loss.[59] That would be a static interpretation of an essentially dynamic process. After independence, a net total of 60,000 Dutch nationals returned from Indonesia to the Netherlands, where their productive labour and entrepreneurship contributed to Dutch national income. Dutch companies operating in Indonesia re-oriented their international activities and found opportunities in other foreign countries. Other nations replaced Indonesia in Dutch foreign trade. Therefore, equating the contribution of Indonesia to Dutch income with a loss neglects that there were always alternative opportunities to earn income from overseas economic relations. The main economic loss were the productive assets, which remained in Indonesia. Dutch labour and entrepreneurship, which had determined the productivity of these assets, left Indonesia and became employed elsewhere.

9. Bilateral contacts in an international perspective

On the whole, the benign effects of European integration compensated for the significance of Indonesia to the Dutch economy in the 1950s. This was not a smooth transition. It is important in this respect to realise that after World War II the Netherlands imported much less from Indonesia than it exported to Indonesia.[60] The difference reflected the fact that before the war Indonesia imported the services of Dutch labour and capital, for which Indonesia paid in the form of private remittances, dividends and interest payments. Furthermore, the Indonesian commodity trade surplus with the Netherlands did not

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[58] The only publication to address this issue at length was written 35 years ago by an American economist: Gorter, W. (1960) 'Enkele Gedachten over de Economische Betekenis van het Verlies van Indonesië', *De Economist*, 108, pp.641-58.

[59] As Baudet and Wijers (1976) argued.

[60] That is, according to the Indonesian trade statistics, see Table 1. As noted above, the Dutch trade statistics are inadequate due to the inclusion of transit trade.

suffice for this purpose. Indonesia's payments to the Netherlands were augmented with payments financed by the earnings from Indonesia's commodity exports to other countries.

Indonesia not only had a significant trade surplus with the Netherlands, but also with Australia and the US. The trade surplus with the US expanded during the 1920s due to the rapid growth of US imports of rubber, palm oil and Deli tobacco.[61] Moreover, a large part of Indonesia's export surplus with Singapore was in the end also with the US. Indonesia's commodity trade surplus with the US in part financed its deficit in the trade of goods and services with the Netherlands, and later with Japan as well.

The Netherlands used its dollar earnings (not only from Indonesia, but also from international shipping and from investments in the US) to cover its trade deficit with the US and Germany and also to export investment capital to the US and elsewhere.[62] Any assessment of the economic importance of colonial Indonesia to the Netherlands should therefore not focus on the bilateral relation alone, but rather on multilateral economic and financial relations.

This triangular relationship functioned well in an international economy relatively free from restrictions on international payments and flows of foreign exchange. It started to fray in the 1930s, although the effects were not very obvious, because the Dutch-Indonesian-US triangular relation was maintained. It came to a halt immediately after World War II, when international payments were strictly regulated in most countries.

Apart from the fact that the contribution of Indonesia to Dutch national income was curtailed at that time, the Netherlands also found itself without the prewar supply of currency from Indonesia acceptable to US exporters. Most European countries suffered a chronic dollar shortage at that time. But, unlike other countries, the character of Dutch exports was such that exports to the US could not grow enough to earn the dollars required to pay for imports from the US. By 1947 the dollar shortage threatened to thwart Dutch economic recovery. Hence, it was not primarily the recovery of the Dutch political and economic interests in Indonesia that prompted the heavy-handed Dutch military approach to the decolonisation of Indonesia, but rather the fact that a speedy economic recovery of Indonesia and the resumption of the Dutch-Indonesian-US triangular relation were considered crucial to Dutch economic recovery.

The urgent European dollar shortage was temporarily covered with US financial assistance under the Marshall Plan and the US military assistance program following the establishment of NATO.[63] This support certainly cushioned the anticipated backwash from Indonesia's independence on

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[61] Homan, G.D. (1984) 'The United States and the Netherlands East Indies: The Evolution of American Anticolonialism', *Pacific Historical Review*, 53, pp.423-46.

[62] See *e.g.* Posthuma, S. (1947) *Nederland en Indonesië als Economische Eenheid.* (Haarlem: Tjeenk Willink) pp.25 ff. The Dutch trade statistics can be used for this purpose, because the distortion in the statistics is largely caused by transit trade to and from Germany and the UK, which does not affect the Dutch trade deficit with the US.

[63] Lieftinck, P. (1973) *The Post-War Financial Rehabilitation of the Netherlands.* The Hague: Nijhoff; Van der Eng, P. (1987) *De Marshall-Hulp. Een Perspectief voor Nederland, 1947-1953.* (Houten: De Haan)

the Dutch economy. More important is the fact that the assistance took the sting out of the urgency to recover the previous Dutch position in Indonesia. Conceding to Indonesia's independence in 1949 opened the way to a perhaps more effective means of recovering the economic and financial relations between Indonesia and the Netherlands, and also the interests of Dutch private enterprise in Indonesia.[64]

Indeed, the Indonesian trade surplus with the Netherlands re-emerged in the 1950s. The Indonesian government honoured the financial-economic sections of the Dutch-Indonesian agree-ment about independence. It continued to service the outstanding debts of the colonial government held in the Netherlands, and it continued to pay pensions to former public servants in the Netherlands.[65] Dutch companies operating in Indonesia again started to remit dividends to their shareholders in the Netherlands. The real value of these earnings and their importance to the Dutch economy never recovered their prewar footing, but the earnings from the Dutch import surplus with Indonesia again contributed towards financing the growing Dutch import deficit with the US.

However, the future of foreign enterprise in Indonesia was uncertain in the 1950s, pending the preparation of new agrarian and foreign investment legislations, which were expected to impose further restrictions on access by foreign companies to Indonesian land and labour. Moreover, foreign enterprise in Indonesia had to cope with a multitude of problems, such as the continued insecurity in rural areas, increasing labour unrest, shortages of skilled and trained personnel, shortages of foreign exchange and operating credit due to the tight monetary regulations, and contradictory foreign investment policies.[66] On the whole, there were few incentives for foreign enterprise to invest in Indonesia. The country received very little from overseas, apart from development assistance and (under special conditions) new FDI from the oil companies.[67] The official balance of payments data indicate a cumulative net inflow of private capital of only US$50 million during 1950-65 and of FDI amounting to US$84

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pp.26-30 and 171.

64 Van der Eng, P. (1988) 'Marshall Aid as a Catalyst in the Decolonisation of Indonesia 1947-1949', *Journal of Southeast Asian Studies*, 19, pp.335-52.

65 Posthuma, S. (1949) `De Transferregeling tussen Nederland en Indonesië', *Economisch-Statistische Berichten*, 35, pp.1035-7; Tervooren (1957) pp.139-41, 155-7, 163-87 and 358-9.

66 On the problems of foreign companies in Indonesia in the 1950s, see *e.g.* Kraal, A. (1953) `Indonesië en Suiker', *Ekonomi dan Keuangan Indonesia*, 6: 645-767; Thalib, D. (1962) `The Estate Rubber Industry of East Sumatra', in D.S. Paauw (ed.), `Prospects for East Sumatran Plantation Industries', *Yale University Southeast Asian Studies Monograph Series No.3.* (New Haven: Yale University) pp.50-68. On labour issues, see: Hawkins, E.D. (1962) `Indonesia' in W. Galenson (ed.) *Labor in Developing Countries.* (Berkeley: University of California Press) pp.71-137. On foreign investment policy, see: Jap, K.S. (1964) `Foreign Investment Policy and Taxation in Indonesia', *Bulletin for International Fiscal Documentation*, 13, pp.323-41; Oei Hong Lan (1969) `Implications of Indonesia's New Foreign Investment Policy for Economic Develop-ment', *Indonesia*, 7, pp.33-66.

67 Unlike other foreign companies, oil companies had free disposal over their foreign exchange earnings. Hunter, A. (1966) `The Indonesian Oil Industry', *Australian Economic Papers*, 5, pp.59-106.

million during 1956-65.[68]

Still, Dutch companies in Indonesia altogether invested a considerable US$235 million during 1946-57, much of which went to the repair of damage sustained during the Japanese occupation and the war of independence.[69] These investments were again financed with retained profits, rather than an inflow of FDI from overseas. The main reason for financing new investments with ploughed-back profits was that overseas private remittances were only possible at the overvalued par rate of the Indonesian rupiah. Since 1953 this official rate was weighted increasingly with surcharges and additional taxes which pushed the effective rate of foreign exchange to such levels that the value of such transfers declined continuously.[70]

Several small and medium-sized Dutch companies sold their assets to Indonesian entrepreneurs, generally ethnic Chinese, often at a loss.[71] However, for most foreign companies the option of selling out and repatriating the proceeds was not a profitable proposition, because of the restrictions on overseas remittances. Given the restrictions on foreign trade and payments, many foreign companies in Indonesia therefore changed their operations. For instance, the rise of a large group of Indonesian import license holders forced the big Dutch *Internatio* trading company to take on trade in Indonesian manufactures. Companies registered in the Netherlands increasingly diversified their operations and branched out into other countries. During the 1950s overseas operations outside Indonesia became more important for such Dutch companies.[72]

These observations suggest that the break-up of Dutch-Indonesian economic relations in the 1950s was a gradual process, in ways which the affected Dutch parties in the Netherlands and Indonesia could anticipate. For instance, Dutch companies accelerated the depreciation of the book value of their productive assets in Indonesia during the 1950s. This gradual depreciation of the *future* value of Dutch commitments in Indonesia was of course not reflected in a decrease in the *actual* replacement value of these assets, but it helps to explain why the expencted set-back from the loss of Indonesia as a colony did not materialise in the Netherlands.

Meanwhile, the Dutch economy re-oriented towards Western Europe, grew vigorously, industrialised and grasped the opportunities which a buoyant international economy had to offer. In contrast, Indonesia had to cope with mounting economic problems. Continued 'neo-colonial' economic relations, as evidenced by Indonesia's persistent commodity trade surplus, are sometimes identified as a

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68 Rosendale, Ph. (1978) *The Indonesian Balance of Payments 1950-1976. Some New Estimates.* (PhD thesis, Australian National University, Canberra) p.81.

69 Creutzberg, P. (1977) *Changing Economy in Indonesia Vol.3: Expenditure on Fixed Assets.* (The Hague: Nijhoff) p.21. Converted from Dutch guilders with exchange rate of *ƒ*3.80.

70 Jap (1964) pp.329-36; Corden, W.M. and J.A.C. Mackie (1962) 'The Development of the Indonesian Exchange Rate System', *Malayan Economic Review*, 7, pp.37-60. Of course, Dutch nationals in Indonesia used illegal money transfers to an increasing but unknown extent.

71 In Java 120 plantation companies were sold during 1950-57. Haccou (1957) pp.190-1.

72 Gorter, W. (1964) 'Adaptable Capitalists: The Dutch in Indonesia', *Social and Economic Studies*, 13, pp.377-82; Meijer (1994) pp.594-97.

major factor in these problems. However, the real reasons for Indonesia's economic woes were much more complex.

The Korea boom (1950-52) seemed to restore Indonesia's prewar exports. However, international commodity prices fell soon after 1952, depressing Indonesia's export earnings. The multiple exchange rate system did not allow the growing deficit on the current account to be absorbed flexibly through exchange rate adjustments, at a time when Indonesia's persistent net deficit in international trade on the services account and the concomitant outflow of foreign exchange continued to worry the Indonesian government. Decreased export earnings and an increased demand for imported commodities triggered a run-down of Indonesia's gold and exchange reserves. This induced the authorities to take measures which further tightened Indonesia's foreign exchange regime. Upon such measures failing to allay the problem of dwindling reserves, the argument of continued remittances related to foreign investment was added to politically-inspired calls for the nationalisation of Dutch companies.

Debts to the Netherlands were abrogated in 1956 and Dutch companies were nationalised after 1957. But this was not the end of Dutch-Indonesian economic contacts. Although drastically reduced, direct bilateral trade continued, as Table 1 shows. Moreover, both Dutch and Indonesian companies continued to trade through third countries. For instance, the Dutch cigar industry, which still relied heavily on Indonesian tobacco in the 1950s, imported through Hamburg, while the Indonesian *batik* industry continued to import Dutch cambric textiles via Singapore. As noted above, the Dutch textile and shipbuilding industries also survived the end of an era. Rather than commodity flows, the disruption of economic contacts primarily affected bilateral financial flows, which is symptomatic for the structural change in the economic relations between the two countries during the 20th century. However, by 1957 such flows from Indonesia had lost their importance to the Dutch economy.

10. Conclusion

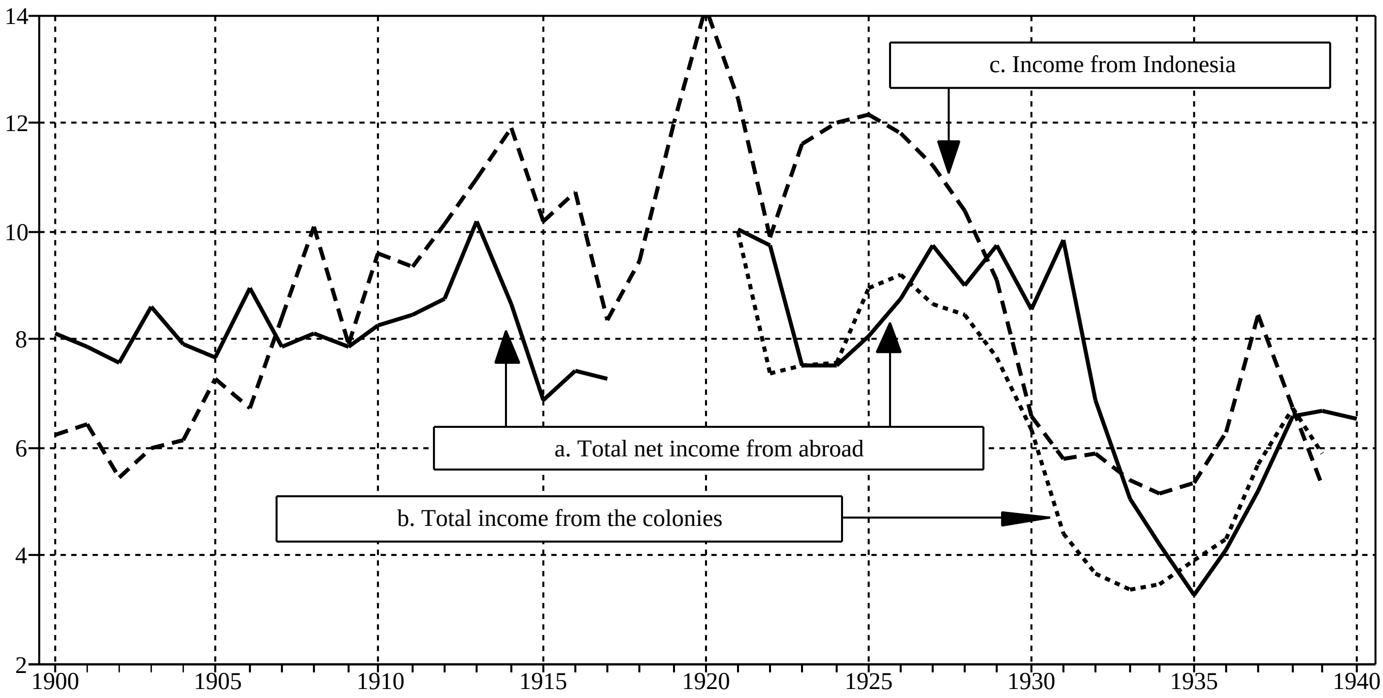
This paper has indicated that neither the Hobson-Lenin thesis, nor later neo and quasi-Marxist interpretations are very helpful in assessing the economic relations between the Netherlands and Indonesia after 1870. Apart from the fact that the evidence for the key claims in these approaches is thin, their basic shortcoming is that they provide a static explanation of what was in fact a dynamically changing bilateral relationship.

This paper has argued that the essence of the relationship shifted from trade in the 19th century to finance in the 20th century. Based on Amsterdam's function as an entrepot market, trade relations were strong in the 19th century, even if the volumes of trade of both countries remained relatively small. But, with Indonesia's economic development, it became increasingly obvious that the merchandise of the two countries was not complementary. Moreover, the development of inter-national transport and communications eroded the function of the Amsterdam market. Bilateral trade relations declined, and the emphasis shifted to financial relations. The main reason for this shift was that Indonesia's capital requirements outstripped its savings. In a way, the existing ties between the two countries gave Indonesia privileged access to the well-endowed Dutch capital market. However, the initial investment flows from the Netherlands to Indonesia were small. Partly because private investment in Indonesia was risky, partly because there were ample alternatives at home and elsewhere abroad for Dutch investors. It should therefore not be surprising that the returns to Dutch capital in Indonesia were on average not much higher than returns from other alternatives.

That does not mean that the Dutch economy did not gain from its economic relations with Indonesia. It is difficult to imagine that Dutch productive resources would have been committed there if that had not been the case. In fact, the Dutch economy relied to an increasing extent on the revenues from colonial Indonesia during the 1920s. This was caused by the fact that Indonesia did not occupy a prime position in Dutch foreign investment around 1900. Successful Dutch entrepreneurs in Indonesia used their profits, rather than new FDI, to depreciate assets, accumulate reserves and expand ventures. In this way the value of Dutch assets in Indonesia increased without substantial FDI inflows over the years. The holders of shares in such ventures generally resided in the Netherlands, which generated a flow of capital income from Indonesia to the Netherlands. This flow peaked in the 1920s, when total direct income from Indonesia contributed a considerable 9-11 percent to the small Dutch economy.

This does not underline the Leninist adage that colonising capitalist countries are so dependent on overseas investments that their economic systems cannot be sustained without them. The Dutch experience of the 1950s proved that such notions are untenable, because they iognore the fact that, apart from fixed capital, Dutch productive resources in Indonesia could be used in alternative situations. Indeed, the Dutch economy showed its resilience when it entered a phase of unprecedented rapid economic growth, without any apparent negative repercussions from both Indonesian independence and the nationalisation of Dutch productive assets in Indonesia.

A major key to explaining Indonesia's economic woes in the 1950s can be found in the financial sphere, exactly because the importance of the Netherlands to the Indonesian economy had been in the financial sphere during the late-colonial era. During the early 1950s Indonesia certainly honoured its international financial commitments, particularly to the Netherlands, but its governments took a range of measures which amounted to a self-imposed limitation of access to overseas capital markets for loans, portfolio investment and new FDI. Perhaps the experience of this decade indicates that the point was not really what Indonesia meant to the Dutch economy, but rather what the Netherlands meant for the development of the Indonesian economy.


c. Income from Indonesia
a. Total net income from abroad
b. Total income from the colonies
14
12
10
8
6
4
2
1900
1905
1910
1915
1920
1925
1930
1935
1940

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