**CORPORATE STRUCTURE AND PROFIT IN LATE COLONIAL INDONESIA**

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**Introduction**

In a slim brochure brought out in 1937, a trader at the Amsterdam Stock Exchange expressed his unreserved enthusiasm about investment of private Dutch capital in colonial Indonesia. ‘We are of the opinion,’ the trading firm wrote, ‘that we can, without exaggerating, say that no nation I the world is more favourably endowed in terms of natural resources, climate and available labour than our East [Netherlands East Indies] (Nederlandsch-Indische Fondsen 1937: 11).[[1]](#footnote-1) Drawing on dividend payments made by some 60 companies traded in Amsterdam over a period of three decades, 1906-1936, the brochure cites impressive profit rates ranging from an annual average of 10 per cent in rubber cultivation to 30 per cent at the tobacco estates of Deli in North Sumatra (Nederlandsch-Indische Fondsen 1937: 8). But do such handsome long-run returns on capital investment actually represent the situation at large in the economy of the Netherlands Indies during the late-colonial? The purpose of this conference contribution is to explore the possibilities of generalizing about the high level of profitability of doing business in the overseas colony.[[2]](#footnote-2)

Transcending the level of perception of the individual investor to obtain a kaleidoscopic overview of the entire world of business in the colony presupposes access to comprehensive detailed statistics. Our main source is an annual directory of incorporated business firms in the then Netherlands Indies (Handboek). This directory offers a near-complete coverage of enterprises owned and managed by Europeans or by Chinese residents, whilst, regrettably, leaving out virtually all business activities undertaken by indigenous Indonesian residents. Firm-specific information in this source includes full company name, year of incorporation, location of headquarters, issued equity capital, occassional dividend payments, specification of operations and locations and, finally, names of the directors.[[3]](#footnote-3)

The time frame of analysis is the period 1920-1930, which embraces exuberant optimism in the aftermath of the First World War, a sustained economic boom throughout the 1920s and the prelude to the worldwide economic depression of the 1930s. For that purpose, the issues of the *Handboek* for the years 1920, 1925, 1926 and 1930 were excavated.[[4]](#footnote-4)

This paper contains three sections concerning respectively the population of business firms at large, changing investor preferences and indications of profitability within the constraints as imposed by the availability of statistics and methodological pitfalls. The latter point refers in particular to the use of dividend pay-out rates as a proxy for net profits. Dividend payments reflect a trade-off by management between providing returns to investors and re-investing profits in the company; sometimes it is one or the other, sometimes gains may be sufficient for both. In addition, dividend payments are by definition related to issued equity, that is to shares that in the current situation may represent a different value compared to the time of issue. Nevertheless, keeping necessary caveats in mind, dividend rates remain the best possible proxy when seeking to cover a large number of individual firms rather than undertaking an in-depth study of the accounts at the level of the individual company.

**The incorporated world of business**

The firms included in the *Handboek* were by definition incorporated under Dutch law, which, as mentioned, effectively precluded almost all operations by indigenous Indonesians. The incorporated world of business in the colonial economy had only emerged on an appreciable scale since the turn of the century with the 1910s figuring as the true *Gründerzeit* of business in the colonial economy. Of all firms listed in 1920, only 14 per cent dated from before 1900, whereas no less than 57 per cent had been incorporated within the preceding decade alone.[[5]](#footnote-5) Some new firms were set up in the early 1920s, as inferred from comparing data for 1925 with 1920, but more still were discontinued.

The total number of individual incorporated firms fell from some 3740 in 1920 to 3500 in 1925 and further to 2860 in 1930, a reduction within the space of one decade of about 24 per cent, which testifies more to the euphoria among investors than to the viability of the firms set up. At the same time, however, accumulated capital invested in the Netherlands Indies, as measured by issued equity of the incorporated firms, increased, from 2.8 to 4 billion guilders between 1920 and 1925 and further to 4.4 billion by 1930.[[6]](#footnote-6) The increase in accumulated investment, largely by foreign capital, amounted to 55 per cent over the decade, or 5.5 per cent on average per year. The combined effect of fewer firms but more capital was a marked increase in the average size of an incorporated company, from 765,000 guilders in 1920 to 1.2 million in 1926 and further to just above 1.5 million in 1930.

A characteristic feature of the incorporated world of business in colonial Indonesia was the co-existence of a small number of very large companies alongside a very large number of small companies. On all occasions, in 1920, 1925 and 1930, the top 10 largest firms, as expressed by issued equity, included the same seven corporations (Appendix).[[7]](#footnote-7) These seven included the leading three private Dutch banks in the colony – NHM (Nederlandsche Handel-Maatschappij), NIHB (Nederlandsch-Indische Handelsbank), NIEM (Nederlandsch-Indische Escompto-Maatschappij) -, as well as the two major oil companies – BPM (Bataafsche Petroleum Maatschappij) and Dordtsche Petroleum, and two agglomerations of shipping companies – Nederlandsche Scheepvaart Unie and Vereniging van Nederlandsche Scheepvaart-Maatschappijen. In addition, Rotterdamsche Lloyd was included on two occasions, 1920 and 1930, but not in 1925 or 1926. The copra-processing firm *Insulinde* ranked eighth in 1920 but went bankrupt shortly afterwards. The list for 1925 (and 1926) includes the main interisland shipping firm KPM (Koninklijke Paketvaart Maatschappij) and the largest Chinese-owned conglomerate, Oei Tiong Ham, but by 1930 these two had dropped twelfth and fourteenth rank respectively. By that time, however, the trading firm HVA (Handels Vereeniging ‘Amsterdam’) with substantial interests in the sugar industry moved up to eighth rank.

The high degree of concentration of invested capital is underscored by the impressive share held by the top 10 firms: 21 per cent in 1920, 26 per cent in 1925 (or 1926) and 27 per cent in 1930. Extension of the ranking to include the 20 largest firms inflates the share held by the top echelon to 29 per cent in 1920, 34 per cent in 1925 (or 1926) and 36 per cent in 1930.

The distribution of incorporated firms across branches of industry was highly uneven. For purposes of analysis it was determined to apply a broad scheme of classification consisting of seven categories: agriculture, finance, manufacturing, mining, trading, specialized services, and other activities.[[8]](#footnote-8) Subcategories were identified for all of these general categories with the exception of trading, where the information was often couched in such general terms that any kind of trading could be implied.[[9]](#footnote-9)

In terms of numbers of firms, agriculture was the largest category, followed by trading. These two categories accounted for approximately 38 and 23 per cent respectively of all incorporated firms in the years covered here. The two amorphous categories labelled ‘Services’ and ‘Other’ were, taken together, good for another 27 per cent. Numbers of firms remained small in finance, manufacturing and mining. The proportion held by each category stayed more or less the same over time, which suggests that the overall decline in numbers of firms affected all types of business to roughly the same degree.

The high degree of variegation among incorporated firms may be illustrated by our sample from 1926. In that year, according to the *Handboek*, colonial Indonesia housed 53 coffee estates, 19 cinchona growers, 256 rubber estates, 98 sugar factories, 75 tea plantations, 44 tobacco estates, 46 banking institutions, 53 insurance companies, 11 textile factories, 45 oil companies, 24 cinemas, 88 hotels, 63 ice factories, 41 pharmacies, 83 printing houses, 73 construction companies and 208 real estate firms next to the unspecified 825 corporations engaged in trading. Needless to say, such a list does not include participants in the colonial economy whose firms were not incorporated.

The distribution of invested capital, as indicated by issued equity, differed from the one based on sheer numbers of firms. The share of agriculture in the grand total was about the same, 39-40 per cent, but both finance and mining held a larger proportion of total invested capital, whereas the share of trading in capital endowment was far smaller than in number of firms. Similarly, the combined share of services in the total was considerably smaller when calculated from amounts of equity. The outcome need not surprise us. Financial institutions and mining companies are by nature likely to be larger on average than trading and service companies often catering to a local demand. Preferences among investors for different branches of industry and different types of businesses are discussed in some detail in the following section of the paper.

Approximately three out of four incorporated companies cited a location for its head office within the colony. Most favoured locations were Batavia and Surabaya, together accounting for about 38 per cent of all incorporated companies. These two cities were as secondary centres of colonial economic activity supplemented by Semarang and Bandung in Java and Medan in North Sumatra. Among locations for a head office in the Netherlands, Amsterdam ranked first, seconded by The Hague, whereas London counted as the sole location of more than negligible significance outside both the Netherlands and its colony. Top-ranking large concerns maintained headquarters in the Netherlands at considerable geographical distance from actual operations, but small trading and services firms combined management and activities to one location close to customers.

A final feature of the incorporated world of business in the colonial context refers to ethnicity and origin of investors. In earlier explorations of this source, I chose to differentiate between categories of investors along a sliding scale of entrenchment with respect to local conditions of doing business (Lindblad 1998: 72-73). Those most entrenched were obviously indigenous Indonesians who, as said, scarcely figure at all in the formal registration of economic activity. The next category in line consisted of Chinese entrepreneurs in Indonesia, Dutch subjects but not Dutch citizens, conceived as ‘foreigners’ although they may have lived for generations in the Indonesian archipelago. Then follows what we may call ‘Netherlands-Indian’ businessmen, who were of Dutch or mixed ethnic origin who lived in and were fully oriented towards colonial society whilst retaining, at least indirectly, a bond with another nation, usually the Netherlands. Less entrenched in a literal sense of the word were Dutch investors in the Netherlands who managed operations, literally, at great distance. In the final category, at the extreme end of the degree of entrenchment, we come across investors from third countries, above all from the United Kingdom that ranked second to the Netherlands as a source of foreign direct investment in late-colonial Indonesia (Lindblad 1998: 14).

Preliminary analysis suggested a wide discrepancy between numbers of firms and their capital endowment as differentiated by such categories. Dutch firms were few in number but commanded the lion’s share of invested capital. Netherlands-Indian firms, on the other hand, were numerous but had little capital. Chinese investors were similarly present in significant numbers but registered for even smaller amounts of capital than their European rivals in local colonial society (Lindblad 1998: 74, 78).

The present analysis shuns away from the differentiation by shades of entrenchment, in particular the hazardous identification of who was Dutch and who was Netherlands-Indian. This leaves us with one huge category of basically Dutch origin, firms controlled by Dutchmen either in the Netherlands or in the Netherlands Indies. Companies in this category account for the overwhelming majority of all incorporated firms and also for the lion’s share of equity. The single other sizeable category of investors contains the Chinese-owned incorporated firms in the colony. Their numbers climbed to a total of about 650 in the mid-1920s but then fell to about 530 by 1930. In all years observed, they accounted for about 18 per cent of the total number of incorporated firms. Their share in aggregate equity, however, was far lower, oscillating between 3.4 and 4.5 per cent.

The great variety in sizes, branches of industry and identity of investors testifies to the dynamic character of the world of incorporated business in colonial Indonesia during the 1920s. The next step is to look at which opportunities attracted the most attention from investors of capital in the colonial setting.

**Investors’ targets**

The years between 1920 and 1930 witnessed the most spectacular spurt of economic growth in Indonesia before independence. According to recent calculations by Pierre van der Eng, total real GDP increased by 36 per cent between these two years. The implied annual growth rate was admittedly below the one later to be realized under Suharto’s New Order, yet far above the one recorded for the intervening decades (Van der Eng 2010: 296, 305). The growth was strongly export-oriented. Total export revenues in real terms climbed to some 1.4 billion guilders during the immediate post-war inflationary peak in 1919/20 only to settle at a stable level of some 750 million guilders per year throughout the first half of the 1920s. Declining prices reduced the total in real terms to less than 500 million guilders by 1930. This level of export revenues was higher than at any time before in Indonesian history and far higher than during the subsequent economic depression, let alone the following Japanese occupation and Indonesian Revolution (Dick et al. 2002: 124). The decline in unit prices for primary products in the world market, from 1925 onwards, was partially offset by enlarged volumes of production. The export economy of late-colonial Indonesia benefitted from an exceptionally wide range of primary products for which foreign demand kept increasing. In 1920, sugar ranked first due to very high prices, but in 1925 rubber was the largest single earner of foreign currency. At the same time, colonial Indonesia was the largest supplier of crude oil in the region, one of the foremost tin miners in the world and a highly successful producer of tobacco, coffee, tea and copra (Dick et al. 126). The sustained expansion of export volumes required considerable investments in production capacity and this is where the increase in issued equity in incorporated firms fits in.[[10]](#footnote-10) Whether much of the gains from exports actually stayed in the colony is a different matter to which we shall return in due course.

*Figure 1. Issued equity by industry of incorporated firms in colonial Indonesia, 1920-1930.*

Source: Handboek 1920, 1925, 1926, 1930.

The overall distribution of investment, as expressed by issued equity, shows a striking stability over time (Figure 1).[[11]](#footnote-11) A noteworthy change in position occurred with the wide assortment of services labelled ‘Other’ for which the share in the total increased between 1920 and 1925 at the expense of mining and trading, both suffering a slight decline. Export agriculture remained the most favoured target for investors in colonial Indonesia in the 1920s, but the momentum of expansion touched sectors of the economy less connected with foreign trade as well. This suggests that the export expansion generated substantial backward and forward linkages in the services sector.

The overall increase in capital held by the corporate world business between 1920 and 1930 amounted to 55 per cent. This rate of increase was neatly mirrored by agriculture: 57 per cent. Other services, however, grew much faster, more than twofold, whereas the pace in finance and mining was considerably slower at 34 and 27 per cent respectively. Such differences in the way investment was accumulated may be explained on structural grounds. Export agriculture and services at large offered more opportunities for newcomers or investors who had just set up business than finance and mining where a limited number of investors could draw on existing sizeable reserves.

Natural rubber was the famed success story of the 1920s, familiar to Europeans from dramatic literary accounts of estate life in North Sumatra and also reputed among indigenous smallholders in Kalimantan for windfall profits from participation in world trade. Rubber estates accounted for 35 per cent of all equity in agricultural firms; with a jump by 56 per cent between 1920 and 1930, rubber faithfully matched the enlargement of the agricultural sector as a whole. Among individual crops, sugar ranked second with a share in the agricultural total rising from 9 to 15 per cent over the decade; the rate of increase was exceptionally high at 165 per cent. Tobacco was in the third rank with a share in the agricultural aggregate rising from 6 to 8 per cent.[[12]](#footnote-12) The twenty odd cinchona farms in West Java accounted for a negligible one per cent of total equity in agriculture, but they supplied the world with the raw material for a drug indispensable in combatting malaria before penicillin.

There was a stronger tendency to concentration to one single industry in other sectors of the colonial economy. Two-thirds of the capital in finance was held by banks, whereas the oil companies were responsible for more than 70 per cent of equity in mining. The high and rising share of ‘Other services’ in the grand total can be largely ascribed to the rapidly expanding transport sector with shipping concerns at the forefront. The share of transport companies of all kinds neared 75 per cent of all equity ascribed to this sector. Services such as cinemas, hotels and ice factories may have played a prominent part in peoples’ lives, but they remained marginal as targets of investment. The largest individual branch in so-called specialized services was real estate, followed at some distance by construction.

Preferences among investors gradually shifted towards larger units as is testified by the increase in average size of incorporated firms: 50 per cent during the first half of the 1920s, 35 per cent during the second half. The increase of average size reflects both the continuous accumulation of equity by firms doing well and the disappearance of firms that did not prove viable. The increase in size applied to almost all branches of industry, although there were exceptions to the rule, such as copra and tea in agriculture, machinery in manufacturing, and also cinemas and pharmacies in services.

Firm size was obviously strongly related to the type of activity undertaken. The largest size was found in the oil industry, rising from 6.2 to 13.1 million guilders on average over the decade, and in banking, climbing from an average of 5.5 to 10.4 million guilders. It is recalled that give of the top 10 individual corporations were in petroleum and banking. Among agricultural pursuits, rubber estates were initially the largest with an average size of 1.4 million guilders, but they were surpassed by the both tobacco estates and sugar factories. By 1930, tobacco estates ranked first at 3.7 million guilders, followed by sugar factories at 3.3 million and rubber estate at 2.7 million guilders on average. Other agricultural firms, notably in coffee, copra and tea, were far smaller. Firms in services were similarly of modest dimensions, even in transport, where large shipping concerns existed alongside large numbers of local car sellers. Ice factories were usually larger than cinemas and hotels. The average size of ice factories rose fourfold between 1920 and 1930 to an average of 600,000 guilders in 1930, more than twice as much as the average hotel and four times as much as the average cinema.

The origin of investors played a part, too. Sugar and tea in Java, tobacco in Sumatra, tin mining off the Sumatra coast, banking and insurance in Batavia and Surabaya, interisland shipping – these branches were for all intents and purposes monopolized by Dutch capital. Rubber, the newest and quickest expanding branch of export agriculture, attracted rising volumes of investment from the United Kingdom, but other opportunities for investors from third countries were few and far between. At the time, in the 1920s, the petroleum industry in colonial Indonesia was still virtually monopolized by the Anglo-Dutch joint venture BPM as their American rivals had not yet made inroads into the Dutch colony.

The most conspicuous non-Dutch participation in the corporate network in the 1920s was on account of the Chinese. Their firms were small with an average size amounting to merely 150,000 guilders in 1920 and still short of 300,000 guilders by 1925 and 1930, scarcely more than the average hotel and smaller than the average ice factory. Two-thirds of the Chinese-owned incorporated firms were in trading but these firms were on average even smaller than other Chinese companies. A fair number of Chinese firms focused on services such as real estate and construction and were by definition small-scaled. The one exception to the rule was agriculture from 1925 onwards due to the large amount of equity attributed to the sugar concern Oei Tiong Ham, the single most successful Chinese businessmen of his time in Indonesia.[[13]](#footnote-13) The strong involvement by Chinese entrepreneurs in local trading and other services in colonial Indonesia is undisputed and it remains puzzling why their companies were officially registered at such modest proportions. Chinese businessmen may have deviated from standard practice by not re-investing part of profits by issuing more equity. This hints at other reasons for formal incorporation than to mobilize working capital.

The targets chosen by investors focusing on colonial Indonesia in the 1920s can be reasonably well explained against the wider framework of export-oriented economic expansion in the colony, a process that embraced side-effects throughout the economy and offered incentives for expansion to local non-Dutch entrepreneurs as well. The next step is to take a closer look at what happened to the gains from investment in a booming colonial economy.[[14]](#footnote-14)

**Good times before bad times**

Ever since Indonesian economic history emerged as a discipline in its own right, one of the most burning questions has been why the Dutch bequeathed such a poor country to the Indonesians at independence despite an impressive growth record during at least part of the late-colonial period. This question has resurfaced time and again in the recent succession of economic histories of Indonesia (Booth 1998: 328-330; Dick et al. 2002: 144-145; Van Zanden and Marks 2012: 130-132). An explanation was found in the substantial outflow of funds from the colony to the mother-country, in particular through payment of ‘excessive’ dividends to shareholders in the Netherlands by companies with operations in the colony (Maddison 1989). A controversy arose about how to interpret the scope for outflows created by a large surplus in the balance of trade, or the various specified flows on the colony’s current account (Van der Eng 1993; Gordon 2010). An important obstacle to consensus was that the discourse was pursued at the macroeconomic level of analysis, whereas a microeconomic approach is required in order to gain an understanding of profitability of private business firms.

The sheer proliferation of Dutch-owned companies in colonial Indonesia makes it next to impossible to scrutinize profitability in more than a handful of selected companies.[[15]](#footnote-15) As a result, the discussion easily remains confined to reiterating spectacular instances of lavish dividends, which does not bring us much further than the brochure from 1937 cited at the inception of this paper. The *Handboek* offers an opportunity to generalize from firm-level data, although this source suffers from shortcomings next to the difficulties with applying dividend rates as a proxy for profitability mentioned in passing above.

Apparently, the compilers of the annual directory of incorporated firms in colonial Indonesia left it to the firms themselves whether or not to disclose information about dividend rates. Some did so, some did not. The only possible conclusion is that missing data on dividend rates in the *Handboek* cannot be construed to mean that no dividend was paid out. Nevertheless, although partial and incomplete, the *Handboek* data on dividend rates do offer a rare indication of levels of profitability as realized by at least some of the incorporated firms operating in colonial Indonesia in the 1920s. The coverage here embraces 855 firms, or 23 per cent of the total number in 1920, 625 firms in 1925 (18 per cent), 441 firms in 1926 (13 per cent), but only 194 firms in 1930 (7 per cent).

If, for the sake of argument, the incidence of underreporting is assumed to be constant, then the steep drop in numbers of firms with payments stated could reflect changes in business conditions, from the euphoria prevailing around 1920 and in the first half of the 1920s to adverse effects of declining world prices in the second half of the decade, culminating in the approaching economic depression of the 1930s. This hypothesis, presented with necessary caution, is supported by the changes in the average dividend rate of firms reporting payment in the first place, from about 21 per cent in 1920 and 1925 to 14 per cent in 1926 and 12 per cent in 1930. Incidentally, dividend rates at such a level would be greeted with satisfaction by shareholders under most circumstances.

*Figure 2. Indications of average dividend rates in selected sectors reportedly paid out by incorporated firms in colonial Indonesia in 1920, 1925, 1926 and 1930.*

Source: Handboek 1920, 1925, 1926, 1930.

Note: Services combines specialized services and ‘other services’.

A differentiation of average dividend rates by economic sector can only be sensibly carried out where numbers of firms reporting dividend payments are sufficiently large; no averages by sector were calculated for finance, manufacturing and mining. The largest numbers of firms reporting dividend payments were in 1925 for agriculture (369 firms), in 1920 for services (314 firms) and in the same year for trading (239 firms). These are the qualitatively best indications of profitability as expressed through the proxy variable of dividend rate. The least reliable indications are for averages based on the far smaller number of cases for which dividend payments were given in 1930 (84 firms in agriculture, 57 in services and 26 in trading).

Average reported dividend rates by sector often deviated somewhat from the overall pattern (Figure 2). Rates in agriculture were lower than the overall average in 1920, but higher in 1925 and slightly lower in 1926, only conforming to the general pattern by 1930. By contrast, rates in services were lower than the overall average in 1925 but higher in 1926, again conforming to the general pattern by 1930. Rates in trading were slightly above the overall rate in 1920, but far lower in 1925 and roughly the same in both 1926 and 1930. Judging from these indications on the basis of a limited sample, the best bet for investors was to go into services in 1920 and 1926 but to give priority to agriculture in 1925.

When surveying individual branches of industry, the number of cases becomes crucial when assessing the reliability of the calculated average. The highest average dividend rates in agriculture were recorded in 1925 with sugar factories at 43.5 per cent (29 firms), tea plantations 26.2 per cent (26 firms) and rubber estates 17.6 per cent (84 firms). By 1930, sugar was down at an average rate of 9.9 per cent (29 firms) while rubber recorded 11.3 per cent on average (19 firms).[[16]](#footnote-16)

Among services, particularly high average rates were found above all in 1920, such as 27.2 per cent in real estate (91 firms), 23.1 per cent in ice factories (27 firms), 20.9 per cent in the hotel business (33 firms) and 15.5 per cent in transport (64 firms). The year 1926 also saw some impressive average dividend rates in this sector, for instance 18.9 per cent for transport of all types (25 firms), again ice factories with 23.4 per cent (also 25 firms) and, finally, pharmacies with 12.1 per cent (32 firms).

A common standard rate of dividend payment is 6 per cent, as indeed affirmed by the trader on the Amsterdam Stock Exchange in 1937 (Nederlandsch-Indische Fondsen 1937: 9). This standard is often applied to the real value of equity as determined by the latest quotations in the stock market. However, careful study of accounting records in annual reports of individual corporations reveals that this norm of 6 per cent was generally applied to the nominal value of equity, not the one under influence of fluctuating share prices.[[17]](#footnote-17) It goes without saying that the impressive dividend rates cited here were far above such a norm. On the other hand, the booming 1920s were succeeded by the dismal 1930s when many firms were not in a position to pay out any dividends in the first place.[[18]](#footnote-18) A higher than ‘normal’ dividend rate, therefore, served as a compensation for lower of zero dividends in bad years.

Spectacularly high dividend rates were recorded for some individual firms, often with comparatively small equity endowments. In 1920, 77 individual firms reported dividend payments in excess of 50 per cent, 16 of them even above 100 per cent. The 77 top earners for their shareholders made up 9 per cent of all firms reporting dividend payments in that year. In 1925, this top category in terms of dividend rates comprised 54 firms or an almost identical relative share of the total. In both 1920 and 1925, the very highest rate amounted to 200 per cent, in the former year paid by the pharmacy-cum-real estate company of R. Klaasesz. in Semarang and in the latter year by the Basilam estate in Langkat (North Sumatra). The year 1926 saw a shrinking category of firms with only eight firms paying more than 50 per cent, scarcely 2 per cent of firms reporting dividend payments at all at that time. Top payer was an ice factory in Batavia that doubled in real estate and was known under the appealing name *De Mooie Hoek* (‘The Beautiful Corner’) in , By 1930 the shrinkage of the top category went one step further. Only two companies were left in the category with dividend payments above 50 per cent, including a hotel and a rubber estate with British owners, located in North Sumatra; they paid out dividends in the range of 95 and 58 per cent respectively in the very year when the effects of the world economic depression were already widely felt.

A slightly different method of analysis entails combining the information about dividend-reporting firms in all four years under observation. This generates a new data set consisting of 873 individual firms that paid out dividends at any time during the four years studied. An important difference between this data set and the four annual data sets is that the former consists solely of unique, individual firms, whereas the latter contain repeated entries of the same firm at different points in time. For each individual firm, an average is calculated based on the number of years in which actual dividend payment was reported. The overall average dividend rate for the entire data set of 873 individual firms amounts to 12.6 per cent. Within this data set, we find a top group of 25 individual firms paying on average more than 50 per cent per year in one or several of the years observed. Another 90 firms paid between 25 and 50 per cent, whereas 263 paid more than 10 but less than 25 per cent dividends. Some of the 873 individual firms were small, others large, but there no statistically significant relationship could be established between firm size, as expressed by issued equity, and the dividend rate, calculated as an average applying to the four years observed.

Again, some companies can be noted for highly satisfactory returns to shareholders. They include large well-publicized corporations such as the oil giant BPM (23.3 per cent on average over the four years), Billiton in tin mining (22.7 per cent) and the Deli Maatschappij in tobacco (19.25 per cent). Smaller and far less well-known corporations were the ones with the highest dividend rates as calculated over the four years. Examples include the Santosa tea estate (200 per cent), the agricultural firms Watoetoelis-Poppoh and Soekaboemi (86.25 and 81 per cent respectively) as well as the sugar factories Poerwokerto and Tjepper, both paying out 79 per cent on average.

The calculations presented above do not conclusively resolve the issue of the profitability in the colonial economy, let alone disputes over the colonial drain to the metropolitan mother-country. Yet, they do reaffirm the potential scope for handsome profits in the good times of the 1920s preceding the bad times of the 1930s, whilst also bringing to attention variations across branches of economic activity and moments of observation.

**Conclusion**

This conference paper offers a preliminary report of research in process concerning the profitability of incorporated firms operating in late-colonial Indonesia. The focus is on the period between 1920 and 1930 and the chief source is an annual directory of incorporated companies. With the aid of firm-specific information in this source, an overall sketch is provided of the business structure in the colonial economy to the extent that it was incorporated under Dutch law. This overview stresses the great variety in types of economic activity and size distribution in particular. The predominance by Dutch private capital is reaffirmed, whereas Chinese entrepreneurs in trading and other services formed the sole sizeable non-European category in the corporate network.

The gradual enlargement of incorporated business firms between 1920 and 1930, as expressed by issued equity, is linked with the export-based economic expansion of the time, which allows for a careful differentiation by branch of industry. Export agriculture remained the foremost target for investors, but substantial commitments were also made in mining and finance. Although the expansion was largely export-driven, it affected other parts of the economy as well. The overall increase in size of firms was accompanied by a decline in numbers of individual firms. The increase in average firm size revealed a tendency towards concentration in the corporate world of colonial business.

Despite shortcomings in reporting, the primary source offered a sufficient basis for cautious indications about levels of profitability, which, again, could be subjected to a differentiation by branch of economic activity. Export agriculture and mining offered the greatest potentials for making profit for shareholders, but highly satisfactory dividend rates were realized also in transport and minor service branches such as ice factories. All caveats notwithstanding, results tentatively reinforce the popular image that investing in colonial Indonesia during the 1920s was a highly profitable pursuit.

*Appendix. The top 10 largest incorporated firms in colonial Indonesia in 1920, 1925 and 1930.*

Issued equity in millions of guilders

|  |  |  |  |
| --- | --- | --- | --- |
| Rank | 1920 | 1925 | 1930 |
| 1 | BPM (210) | BPM (300) | BPM (300) |
| 2 | NHM (100) | Vereniging Ned. Scheepvaart (200) | Vereniging Ned. Scheepvaart (200) |
| 3 | NIHB (60) | NHM (150) | Ned. Scheepvaart Unie (50.3) |
| 4 | Ned. Scheepvaart Unie (50 | Ned. Scheepvaart Unie (75.3) | NHM (150) |
| 5 | Stoomvaart Mij. Nederland (40) | Dordtsche Petroleum (66) | NIHB (100) |
| 6 | Oliefabrieken Insulinde (30) | NIHB (60) | Rubber Mij. Amsterdam I (75) |
| 7 | Dordtsche Petroleum (30) | Bank voor Indië (50) | Dordtsche Petroleum (60) |
| 8 | Lindeteves (25) | NIEM (50) | HVA (50) |
| 9 | NIEM (25) | KPM (50) | NIEM (50) |
| 10 | Rotterdamsche Lloyd (25) | Oei Tjong Ham (40) | Rotterdamsche Lloyd (50) |

Abbreviations:

BPM = Bataafsche Petroleum Maatschappij

NHM = Nederlandsche Handel-Maatschappij

NIHB = Nederlandsch-Indische Handelsbank

NIEM = Nederlandsch-Indische Escompto-Maatschappij

HVA = Handels Vereeniging ‘Amsterdam’

KPM = Koninklijke Paketvaart Maatschappij

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1. ‘We meenen daarom zonder overdrijving te kunnen zeggen, dat er geen land ter wereld is, waar de omstandigheden wat bodem-rijkdom, klimaat en beschikbare werkkrachten betreft, gunstiger is dan in onze Oost’. I am grateful to Ewout Frankema for drawing my attention to this source and to Mark van de Water for locating a scarce copy. [↑](#footnote-ref-1)
2. An earlier report on my current research on foreign investment in colonial Indonesia was entitled ‘Booming business in colonial Indonesia: Corporate strategy and profitability during the 1920s’ and presented at the 23rd conference of the International Association of Historians of Asia, held at Alor Star, Malaysia, on 23-27 August 2014. [↑](#footnote-ref-2)
3. Previous publications based on this source include Lindblad 1991 and A Campo 1996. [↑](#footnote-ref-3)
4. I am particularly grateful to my student assistants Thomas de Greeve and Jelmer Puylaert who entered the data from the source into a database. [↑](#footnote-ref-4)
5. All information on business firms stems from relevant issues of the *Handboek*. The date of incorporation is given in 98 per cent of all cases. [↑](#footnote-ref-5)
6. Issued equity in other currencies than the Dutch/Netherlands Indies guilder was converted into guilders using fixed exchange rates applied at the time, such as £ 1 = ƒ 12.10, $ 1 = ƒ 2.49, DM 1 = ƒ 0.59 and ¥ 1 = ƒ 1.21. [↑](#footnote-ref-6)
7. The top 10 ranking does not include the *Koninklijke* (Royal Dutch), together with Shell Transport & Trading, proprietor of BPM, the largest single firm operating in the Netherlands Indies. The top 10 rankings for 1925 and 1926 are identical. [↑](#footnote-ref-7)
8. The source itself applies a number of global categories, notably agriculture, mining, trading, banking and insurance. Yet, there are numerous discrepancies between activities as implied by these categories and as can be derived from the information about the specific firm. Precise designations of the nature op operations, therefore, presuppose a case-by-case scrutiny. Firms occasionally stated multiple aims of activities, which could only be resolved by choosing the one likely to he the main objective. [↑](#footnote-ref-8)
9. Our differentiation within the global categories makes use of the following subcategories: Agriculture: coffee, copra, cinchona, vegetable oils, rice, rubber, sugar, tea and coffee; Finance: banking, non-banking financial services, insurance; Manufacturing: machinery, textiles, wooden products; Mining: petroleum, non-oil banking; Specialized services: construction and real estate; Other services: cinema, hotels, ice factories, pharmacies, printing, publishing and transport. [↑](#footnote-ref-9)
10. It needs to be pointed out that a substantial and increasing part of the effort to enlarge exports was driven by indigenous smallholder producers in the Outer Islands who delivered rubber and copra in particular to the world market. These producers had limited needs for investment capital and generally did not incorporate their enterprises. See furgther Touwen 2001. [↑](#footnote-ref-10)
11. Mining and manufacturing are grouped together with the former occupying a far larger proportion of the combined total than the latter. Services combines the small category of specialized services with the far larger one labelled ‘Other’ in the preceding discussion. [↑](#footnote-ref-11)
12. For a fair number of incorporated firms, operations could not be linked to one single crop. The share of these firms, bundled together, was as high as 38 per cent in 1920 but fell to 28 per cent in 1925/26 and stayed at that level. Some of these firms may have produced rubber, others may have gone into tobacco or tea. [↑](#footnote-ref-12)
13. Doubt has been cast on the reliability of the fortune attributed to the Oei Tiong Ham concern. Cf. Knight 2013: 150, n. 77. [↑](#footnote-ref-13)
14. For a fuller discussion, see also the conference contributions by Frank Ochsendorf and Mark van de Water. [↑](#footnote-ref-14)
15. An oft-neglected source is the detailed documentation provided by **XXX** Dutch firms when seeking compensation from the Netherlands government for the nationalization by the Indonesian authorities in 1959. A summary of this information was brought out in the series Changing Economy in Indonesia (Creutzberg 1977), but the original data, kept at the Department of Foreign Affairs in The Hague have rarely, if ever, been subject to research by economic historians. [↑](#footnote-ref-15)
16. No average dividend rates are cited for branches where less than twenty individual firms reported dividend payments. [↑](#footnote-ref-16)
17. At a later stage I hope to publish a case study of investment in colonial Indonesia and British Malaya undertaken by the British managing agency Harrisons & Crosfield. [↑](#footnote-ref-17)
18. A further extension of the data set based on information extracted from the *Handboek* will enable a comparison between business conditions in colonial Indonesia in the 1920s and the 1930s. [↑](#footnote-ref-18)