CHAPTER FIVE

THE ROAD TO EXPANSION (1910–1930)

Early twentieth century the Netherlands Indies witnessed rapid economic growth. Unhindered by government regulations and stimulated by increasing demand in the colony and abroad, production and trade expanded significantly. The outbreak of the First World War brought trade with Europe to a virtual standstill. Trade routes had to be redirected, supply lines replaced and new markets established. After the war, the trading business boomed. Indonesian export products like sugar, rubber and oil were in high demand and prospects never looked better. Colonial trade peaked in the 1920s. Complementing each other, Dutch and Chinese commerce constituted the core of this system.

Notwithstanding the incidence of Chinese trading boycotts, collaboration between these two pivots of the commercial sector continued. The trading system itself was never disrupted. The boycotts had grown out of ordinary business disputes and after the commercial negotiating position of the Chinese had been reinforced, trade continued to be governed by the same dynamics. Speculative credit transactions, cut-throat competition and occasional foul play all played their part in this. The Dutch and Chinese commercial spheres remained highly interdependent which – especially in times of economic prosperity – easily resulted in instances of collusion.

The Late Colonial State: Consolidation and Conflict

In the 1890s the administration’s policy of political abstention was abandoned. Effective colonial rule was extended throughout the Indonesian archipelago. During the tenure of former Aceh commander General J.B. van Heutsz as Governor-General (1904–1909) the political integration of Java and the Outer Islands was largely achieved. By the late 1920s the colonial state was firmly rooted and the archipelago seemed to be functioning as a coherent whole. Impressive export-led economic expansion contributed its share to this process, although the dependence on external markets increased the vulnerability of the economy. At the same time rising Indonesian nationalism marked the development of

Around 1900 the Dutch were the undisputed rulers of a vast and populous country. In 1900 the total population of the colony amounted to 42 million, rising to 60 million in 1930. Population growth was more rapid among Europeans and Chinese than among the indigenous population. When compared to the indigenous population these groups remained tiny. Although the non-indigenous population of the Netherlands Indies doubled in size, from 0.7 million in 1900 to 1.5 million in 1930, these numbers only constituted 1.7% and 2.6% of the total.

On the island of Java the number of Europeans reached 62,500 in 1900 and would increase to about 190,000 in 1930. The Chinese population numbered approximately 227,000 in 1900 against 582,000 in 1930. The indigenous population counted 28.5 million in 1900 and would reach almost 41 million in 1930. Set against these figures the European and Chinese presence in Java was marginal, amounting to only 0.22% and 0.80% in 1900, increasing to 0.46% and 1.42% in 1930 (Boomgaard and Gooszen 1991: 113–121, 131–135, Dick et al. 2002: 112–113). Within the major cities of Java the European and Chinese presence was more marked. In 1930 Chinese accounted for 14.8% of Batavia’s, 11.4% of Surabaya’s and 12.6% of Semarang’s population. In the same year Europeans made up 6.9% of the total population of Batavia, 7.7% of Surabaya and 5.8% of Semarang (Boomgaard and Gooszen 1991: 219–221; Dick 2002: 125).

The population in the Outer Islands grew from 8 million in 1905 to approximately 19 million in 1930. The distribution of the colony’s population changed with the share of the Outer Islands rising from 20% to 31%. Exports expanded particularly fast in the Outer Islands and in the early 1920s the share of the Outer Islands in total exports exceeded 50%. The Outer Islands became the biggest earner of foreign exchange in the Indonesian Archipelago. Demand for imports in the Outer Islands lagged behind export revenues and a huge surplus was generated on the trade balance of these regions. By contrast, Java’s export revenues were spent more on purchases for foreign imports (75% on average in the case of Java against less than 50% for the Outer Islands). Therefore, the Outer Islands offered the trade balance surplus, whereas the core of Java offered the

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1 The population statistics of the island of Madura, located at the northeast coast of Java, form part of the population figures for Java. This applies for the indigenous and non-indigenous population numbers given.

Economic integration of the Indonesian archipelago followed in the wake of political and administrative integration. A single customs area for the colony was established in the 1900s. After 1904 the shipping lines of the KPM were rapidly extended to even the remotest areas of the archipelago. Monetary integration finally proceeded following several money purges and the introduction of a uniform coinage: the Netherlands-Indies guilder. Infrastructural developments such as railway and road construction, intensification of the telegraph and postal network – accompanied by the introduction of aviation and telephone – ensured regular and reliable communications.² (See also Chapter 2.)

Private business profited from these developments and was aided by the liberal trade regime with scarcely any tariffs or trade barriers to imports. (A situation that would last from the repeal of the Differential Tariff System in 1874 to the proclamation of the Crisis Import Ordinance of 1933.) In addition the expanding colonial state offered a favourable investment climate for private capital. The safety of personnel and property could now be guaranteed in virtually every corner of the colony. The prevailing tax system was appealing to (potential) investors since it allowed a substantial part of gross earnings to be retained in the business or to be paid out to overseas owners. Furthermore, the extension of business was greatly facilitated by the standardisation of legal and administrative arrangements across the different regions of the colony. Foreign investment thus saw an accumulation from f750 million in 1900 to f4 billion in 1930 (Dick et al. 2002: 115–117).³

**Ethical Policy**

The economic *laissez-faire* policy lasted until the crisis of the 1930s with one important exception. Around 1900 a new colonial policy was formulated which called for direct state intervention in economic life. The so-called Ethical Policy was officially endorsed by Queen Wilhelmina in 1901 with the announcement of an inquiry into welfare in Java. Its origins can be traced back to the 1870s when the notion of a moral obligation or ‘Debt of Honour’ (*Eereschuld*) towards the pitiful Javanese first gained ground.

³ For more details regarding the subject of foreign investment see Chapter 6, Paragraph The Incidence of Failure: Bankruptcy Cases and Business Fraud.
Still, it would take until the late 1890s before a heated public debate in the Netherlands finally put the topic on the political agenda (Idema 1924: 133–137, 155–164). The Ethical Policy sought to protect the ‘poor’ and ‘unenlightened’ Javanese peasant against the oppression by feudal Javanese overlords and ruthless Chinese. Its formulated lofty goal was to raise the prosperity of the indigenous population through direct state intervention in economic life.

The period 1894–1905 prepared the ground for the heyday of development policy in the years 1905–1920 (Boomgaard 1986; Hüsken 1994). The colonial administration promoted its principles under the slogan: ‘irrigation, education and emigration’. The improvement of irrigation facilities would raise agricultural productivity. Better education would increase opportunities for the indigenous population. Emigration to the Outer Islands would reduce the population pressure in overcrowded Java.

Implementation of the Ethical Policy was entrusted to numerous government bodies and aided by budgetary expansion. Unfortunately, the ideas put forward generated more promise than performance. Of all the initiatives investment in irrigation probably had the most tangible and lasting impact (Ravesteijn 1997). Nevertheless, growth in agricultural productivity was slow. Educational opportunities remained highly unequal as shown by a literacy rate of 7.4% of the indigenous population in 1930 (Cribb 2000: 144; Ricklefs 2001: 203). Likewise, emigration policy failed to achieve its targets with only 250,000 Javanese living in settlements outside Java in 1941.

The economic downturn of the early 1920s and 1930s started a period of consolidation and eventually deterioration of the Ethical Policy. The political will to initiate ethical programs waned as the administration embarked on a policy of expenditure cuts to balance the budget. The limited scope for action disillusioned administrators who came to view the Ethical Policy as overly ambitious. Spokespeople for the indigenous population considered the reforms hopelessly inadequate. In addition, progressive attitudes had to make way for a more conservative and repressive regime in response to growing nationalist opposition (Dick et al. 2002: 117–121; Locher-Scholten 1981: 203, 205–206; Ricklefs 2001: 193–205).

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4 Albeit with the aim of transmitting Western civilization and providing colonial enterprise with a more skilled labour force.

5 These included the Department of Agriculture, Industry and Trade (1904), the Department of Civil Public Works (1908), and the Department of Education (1908). In addition specialist agencies were created such as the Agricultural Extension Service (Landbouwvoorlichtingsdienst 1910), Civil Medical Service (Burgerlijke Geneeskundige Dienst 1911) and the People’s Credit Banks (Volkskredietbanken 1912).
The Ethical Policy turned out to be the administration’s last ‘article of faith’. Its term was a clear misnomer, inspired heavily by a new sense of destiny which accompanied the beginning of the twentieth century. ‘Progress’ became the rallying cry of the new era as shown in the frequent use of words like ontwikkeling (development), opheffing (uplifting) and welvaartsbevordering (promotion of welfare). The exponents of the Ethical Policy saw progress as the only way to modernity. Progress was seen as an evolutionary process under Dutch tutelage and modernity equalled Western civilization with the Dutch as a prime example in the Indonesian archipelago. The aim was the moral as well as material advance of the indigenous population. However, in the end the fundamental acts of exploitation and subjugation were not altered.  

Indonesian Nationalism

The Ethical Policy gave added impetus to the development of political consciousness and the rise of Indonesian nationalism. The first modern political association in the Netherlands Indies was Budi Utomo (Beautiful Endeavour). The organization was founded in 1908 to promote the cultural and educational interests of the Javanese lesser Priyayi. It was a moderate political organization which did not play an active political role and never gained much popularity. A more radical movement emerged in 1911 with Sarekat Dagang Islam (Islamic Trade Union) (Korver 1982). Set up as a Javanese traders’ cooperative to assist batik (textile) traders against their Chinese competitors it soon developed into a mass political party. In 1912 the organization changed its name into Sarekat Islam which obscured its commercial origins. Sarekat Islam achieved mass popularity and developed a popular and radical political consciousness.

Developing political consciousness in the Netherlands Indies followed three patterns of thought. First, Islamic modernism became a major political force. In the view of Islamic modernists true Islam was entirely...
compatible with modern science, technology and political power. This belief found its expression in the founding of *Muhammadiyah* in 1912 (Alfian 1969). Second, by focusing on the difficult circumstances under which people had to live within the colony socialism had significant appeal for the masses. Established in 1920 the *Partai Kommunis Indonesia* (Indonesian Communist Party, PKI) became the main exponent of this thought pattern. The third intellectual pattern envisaged the colony on a path to Western-style modernity. The benefits of modernity had to be made accessible to all people, not just a colonial or aristocratic elite (Dhont 2005). This pattern crystallized into a political movement when the *Partai Nasional Indonesia* (Indonesian Nationalist Party, PNI) was founded in 1927 by the young Sukarno, future president of an independent Indonesia.

At first the colonial authorities adopted a permissive approach to these forms of political organization. *Sarekat Islam* proclaimed loyalty to the Dutch regime, but as it spread violence erupted. In 1913/14 a severe outburst of violence in towns and villages occurred in which local branches of the *Sarekat Islam* were heavily involved (Sartono Kartodirdjo 1973: 142–185). Tensions mounted during the 1910s as ideological radicalization mixed with disappointment at the slow pace of political reform. The rising tensions culminated in the Communist uprisings in West Java and West Sumatra in 1926/27, which were rapidly and violently suppressed. The colonial government started to turn against the growing signs of discontent and radicalism from 1919 onwards. Surveillance and repression of opposition to Dutch rule was effectively undertaken by the *Politieke Inlichtingen Dienst* (Political Intelligence Service) (Poeze 1994). Political parties, trade unions, associations of all sorts, newspapers and magazines were watched and, if need be, silenced (Adam 1995; Cribb 2000: 145; Maters 1998). Nationalist leaders and party members were put under surveillance, given house arrest or deported.

This shift to conservatism and repression antagonized moderate nationalist leaders and radicalized what was called the *Pergerakan* (Movement). The name Indonesia was increasingly used amongst nationalists to reflect a feeling that the Netherlands Indies would ultimately be replaced as the political framework for the archipelago. This was formalized at a youth congress in Batavia on 28 October 1928, where the slogan ‘One people, one language, one homeland: Indonesia’ was adopted. After the crushing of the communist armed rebellion in 1926/27 the nationalists spread their ideas to a broader public, build up an organizational infrastructure and developed their political skills.
One way of achieving this was by participating in representative institutions established by the Dutch after the Decentralisation Law of 1903. This law provided a legal basis for decentralisation of authority to the local level. The first municipal governments or municipalities (gemeenten) were set up in 1905, followed in later years by regency councils in rural areas. The creation of the Volksraad (People’s Council) in 1918 was the most obvious gesture towards decentralisation and increasing popular involvement in government. However, Indonesian participation in these councils was never proportionate to the size of their community and given the restricted powers of these bodies seemed unlikely to achieve independence.10

It can only be concluded that in the period under consideration the colonial state was faced with many questions for which it could find no solution. In J.Th. Lindblad’s view the authorities tried to reconcile what was mutually incompatible. Administrative reforms embraced both decentralization and bureaucratic rigidity. Economic liberalism did not prevent the authorities from interfering with local society and economy. An ethically inspired reform policy was accompanied by fiscal restraint and increasing political repression. In the end no-one was satisfied and colonial authority could only be maintained through tightening repression (Dick et al. 2002: 123).

The Colonial Economy before 1914: The HVA in Trade and Agriculture

In his account of DJB’s centennial L. de Bree characterized the 1890s and the first few years of the following century as “possibly the most worrisome period in the history of the Netherlands Indies.” When looking back upon those difficult years in 1928 the author’s recollection of the deep sense of malaise pervading the colony was still vivid. De Bree listed several factors responsible for the colony’s economic downturn, such as the unabated slump in world market prices, the recurring incidence of cattle and crop disease and an impoverished indigenous population.

10 The issue of disproportionate participation touches upon the important issue of compartmentalization and segregation within colonial society. In general colonial rulers need a mechanism to enable a small foreign group to rule over a much larger indigenous population. To achieve this, social groups are usually kept apart to prevent them from conceiving a common interest. The Dutch produced a hierarchical, race-based society which manifested itself in separate chambers of commerce, separate laws, separate taxation etc. In fact, all aspects of life were racially distinguished from train tickets to toilets (Vickers 2005: 25–30).
Agriculture – the colony’s ‘life blood’ – had been hit especially hard and its reorganization demanded great effort. But, De Bree reminded his readers that in the early 1900s agricultural enterprise had been put on a more solid footing and could finally view the future with more confidence.

His assessment of the colony’s commercial sector was less positive. The steep price fall of agricultural products had diminished the profitability of the export trade and business had been greatly reduced. The sector’s outlook remained grim for a long time. The export branch was highly dependent upon the fortunes of agricultural enterprise and lacked the possibility of influencing the market. Consequently, exporters could only accept low prices and wait for better times. The importers fared even worse. The population’s decreasing purchasing power endangered the operations of wholesale and retail traders and led to the downfall of many. However, De Bree concluded that the importers had themselves to blame by maintaining a system of large and long-term credit extension to intermediate traders. Foolishly, no agreement to restrict this practice was reached which resulted in mounting losses (De Bree 1928: II 329–334, 421–422, 432).

De Bree’s gloomy analysis of the economic situation was supported by contemporaries who generally dated the reversal of the colony’s fortune around 1905 (De Bree 1928: II 432–433; Vissering 1920: 79–82; [Internatio] 1913: 25). Researchers today support the view that the decade before 1914 saw considerable acceleration in economic activity. There has been discussion concerning the severity of the depression in the preceding period. However, a comparison between the late nineteenth and early twentieth century shows that entrepreneurs had to operate in very different economic environments.

In general, the final three decades of the nineteenth century witnessed a distinct weakening of the markets, especially those for primary products. Expansion in world trade decelerated and this affected the colony’s economy. Trade volumes continued to increase, but much less than in the 1850s and 1860s. It would take until the beginning of the twentieth century before this slowdown in expansion was successfully reversed. The colonial economy accelerated again between the early 1900s and the worldwide depression of the 1930s. According to tentative calculations Gross Domestic Product (GDP) per capita rose about 13% over the period 1870–1900. It took less than half the time to achieve a growth of 23% over the period 1900–1913, and most of this was achieved after 1905 (Booth

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11 For an overview of this discussion, see Booth (1998: 29–34).
1998: 6). Other economic aggregates also indicate an improvement in the state of the economy (see Table 5.1). Export volume growth accelerated and increases in money supply reflected a higher incidence of monetization accompanying output growth.12

This economic expansion was export-driven and mainly derived from an improvement in the colony’s commodity ‘terms of trade’. In other words, the prices of exports on the world market rose faster than the prices of imports. This stimulated export producers to supply more to the world market. In addition, the colony’s balance of trade saw an increasing surplus since a smaller volume of goods needed to be exported in order to import a comparable volume of goods (Korthals Altes 1994: 11; Dick et al. 2002: 123–124). Still, these circumstances came into being gradually. Contemporaries would have found it hard to predict a fundamental change in the colony’s economic outlook.

In the first decade of the twentieth century it was far from clear how much longer economic hardship would have to be endured. The drop in money supply growth between 1885 and 1900 is indicative of a serious lack of economic activity. The food crop economy even failed to keep up with population growth. Per capita rice production and consumption fell after 1885 although the expansion of non-rice food crops ensured that there was no mass starvation. Judged by the downward movement of cotton cloth imports in the late 1890s and early twentieth century, indigenous

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Table 5.1. Annual average growth in major economic aggregates, 1874–1940.

<table>
<thead>
<tr>
<th>Period</th>
<th>GDP (per capita)</th>
<th>Export volume</th>
<th>Money supply¹</th>
<th>Terms of trade²</th>
</tr>
</thead>
<tbody>
<tr>
<td>1874–1900</td>
<td>–</td>
<td>3.1</td>
<td>2.7</td>
<td>4.2</td>
</tr>
<tr>
<td>[1885–1900]</td>
<td>–</td>
<td>3.9</td>
<td>1.6</td>
<td>4.1</td>
</tr>
<tr>
<td>1901–1928</td>
<td>1.7</td>
<td>5.8</td>
<td>3.6</td>
<td>5.3</td>
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<tr>
<td>[1920–1928]</td>
<td>2.3</td>
<td>7.7</td>
<td>4.8</td>
<td>6.8</td>
</tr>
<tr>
<td>1928–1934</td>
<td>– 3.4</td>
<td>– 3.9</td>
<td>– 2.2</td>
<td>– 6.9</td>
</tr>
<tr>
<td>1934–1940</td>
<td>2.5</td>
<td>2.2</td>
<td>3.8</td>
<td>2.2</td>
</tr>
</tbody>
</table>

¹ coins, notes and bank deposits
² indicating the relationship between export and import prices

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purchasing power was affected negatively as well (Booth 1998: 22, 33, 95, 100–104).

Because of the extraordinary price developments in the 1920s the aggregated numbers in Table 5.1 give a highly distorted picture of the colony’s economic performance throughout the period 1900–1928. The exceptional annual growth from 1920 to 1928 coloured the overall result, and actually influenced average values disproportionately. The price index of Table 5.2 allows a more refined picture of the change in the economic circumstances of the Netherlands Indies. It shows that until 1910 the colonial economy still had to cope with adverse trading conditions. This situation transformed during the next two decades. From 1910 there is a distinct surge in prices, albeit with severe fluctuations occasioned by events such as the First World War or the recession of 1921.

Bearing in mind the volatility in price movements, it is necessary to examine economic change year by year in order to ascertain exactly what happened. This has been done with regard to Java and Madura by looking at the value of imported and exported goods during the period 1900–1913 (see Table 5.3). These data needed to be deflated to assess real trade performance. Import and export values, as reported by customs officials at the time, were given in current prices only and subject to distortion by sudden changes in market prices. Therefore, an inflation correction has been applied to judge economic performance more accurately. Import and export values have been expressed in current as well as constant

<table>
<thead>
<tr>
<th>Table 5.2. Price index numbers, 1870–1940 (1913=100).</th>
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<tr>
<td>1870–1879</td>
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<td>1880–1889</td>
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<td>1890–1899</td>
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<td>1900–1909</td>
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<td>1910–1919</td>
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<tr>
<td>1920–1929</td>
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<tr>
<td>1930–1940</td>
</tr>
</tbody>
</table>

x = average index number
s = standard deviation indicating the relative importance of the fluctuations [expressed as percentage of the average index numbers]

Source: Korthals Altes (1994: 15, 159–166).
Table 5.3. Imports and exports, Java and Madura, 1900–1913: values (at constant prices x f1,000) and index numbers (1913=100).

<table>
<thead>
<tr>
<th>Year</th>
<th>Import Value</th>
<th>Value at constant prices</th>
<th>Export Value</th>
<th>Value at constant prices</th>
</tr>
</thead>
<tbody>
<tr>
<td>1900</td>
<td>126,909</td>
<td>39</td>
<td>184,099</td>
<td>52</td>
</tr>
<tr>
<td>1901</td>
<td>141,958</td>
<td>44</td>
<td>167,897</td>
<td>48</td>
</tr>
<tr>
<td>1902</td>
<td>127,234</td>
<td>39</td>
<td>173,511</td>
<td>49</td>
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<td>1903</td>
<td>111,453</td>
<td>34</td>
<td>186,698</td>
<td>53</td>
</tr>
<tr>
<td>1904</td>
<td>126,405</td>
<td>39</td>
<td>192,662</td>
<td>55</td>
</tr>
<tr>
<td>1905</td>
<td>138,110</td>
<td>42</td>
<td>197,240</td>
<td>56</td>
</tr>
<tr>
<td>1906</td>
<td>146,972</td>
<td>45</td>
<td>208,786</td>
<td>59</td>
</tr>
<tr>
<td>1907</td>
<td>154,136</td>
<td>47</td>
<td>228,641</td>
<td>65</td>
</tr>
<tr>
<td>1908</td>
<td>172,402</td>
<td>53</td>
<td>327,744</td>
<td>93</td>
</tr>
<tr>
<td>1909</td>
<td>182,683</td>
<td>56</td>
<td>306,136</td>
<td>87</td>
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<tr>
<td>1910</td>
<td>228,240</td>
<td>70</td>
<td>285,839</td>
<td>81</td>
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<tr>
<td>1911</td>
<td>262,467</td>
<td>81</td>
<td>328,000</td>
<td>93</td>
</tr>
<tr>
<td>1912</td>
<td>281,100</td>
<td>86</td>
<td>347,704</td>
<td>99</td>
</tr>
<tr>
<td>1913</td>
<td>325,664</td>
<td>100</td>
<td>351,706</td>
<td>100</td>
</tr>
</tbody>
</table>

1 deflated import and export values

The graphic display of these index numbers in Figure 5.1 shows the development of colonial trade from 1900 up to the advent of the First World War. The curves show that if only current prices had been used the export performance would have been undervalued with the opposite holding true for the import performance. Using the deflated import and export lines reveals that the negative economic trend of many years was successfully reversed long before the war broke out. The improvement of export conditions can be dated in 1905. Import conditions had to wait till 1907 to reach their turning point.

Knowing this, it does not seem odd that upon his arrival in Batavia in June 1906 G. Vissering – the newly appointed President of DJB – did not see any signs of the economic depression everyone had been talking about in the Netherlands (De Vries 1989b). He concluded that the colony prices (Dick et al. 2002: 125, 148). The results were converted into index numbers with 1913 as a reference point to show changes in percentages.
had finally overcome the crisis of 1884. According to Vissering, the year 1906 clearly saw the beginning of a new age for the Dutch colonial possessions in the Indonesian archipelago (Vissering 1920: 79–97; De Vries 1989a: 18).

The HVA and Agricultural Enterprise

This economic turnabout had a considerable impact upon business life in the colony. This can been in the unexpected, even dramatic, change in business strategy of the HVA in 1910. (See also Chapter 2, Paragraph ‘Van Beek, Reineke & Co. / HVA.’) Suddenly, the company stopped its flourishing and lucrative trading business, choosing to specialize in managing agricultural enterprises and exporting their products. Outsiders were stunned since the HVA had built an outstanding position in the colony’s wholesale trade. The scale and results of its trading activities contributed substantially to the company’s overall profitability and compared well with the largest trading companies. In 1910, for instance, profits accruing from trade alone amounted to at least f1,083,464.35, or 29% of total profits.13 This was in no way inferior to that of strong competitors such as the trading giant Internatio (Jaarverslag HVA 1910; Jaarverslag Internatio 1910).

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13 Unfortunately, the financial accounts of the HVA do not allow a reliable calculation of all trading results as the consignment proceeds cannot be ascertained exactly. The commission received upon sale of consigned goods was put on a general account after...
The radical change of course received a surprisingly summary treatment in the company’s annual report. In a few pro forma sentences shareholders were first officially informed in June 1911, whereas the new approach had come into effect almost six months before. Without being consulted shareholders were confronted with a major shift in policy, characterized by one observer as: *den größten, schwerwiegendsten Entschluß im Leben der Gesellschaft* (“the biggest, single most important decision in the history of the company”) (Helfferich 1914: 123). Objections were raised against this *fait accompli*, but were brushed aside with the meagre assurance that the interests of shareholders had been taken into consideration. Besides, consultation at an early stage had not been deemed necessary as Directors and Commissioners represented about half the issued share capital. As shareholders their decision to liquidate the trading business of the HVA could therefore never run against the interests of the remaining shareholders. This kind of fallacious argumentation did not fool anyone, but had to be accepted nonetheless given the powerful position of the management.14

The break with the past was presented as the logical outcome of practical considerations and sound reasoning. The past three years (1908–1910) had seen a significant enlargement of the company’s interests in agricultural enterprise which, according to the Directors, had become increasingly difficult to manage and required all of their attention. Running a complicated trading business at the same time was simply too demanding. It was furthermore claimed that the two branches were separate concerns that failed to complement each other. This reasoning was obviously for the sake of argument since the HVA had successfully combined both businesses over thirty years.

In reality Directors and Commissioners had quarrelled for years about the appropriate strategy before they could finally agree on leaving the trading business (*Jaarverslag HVA* 1910; Helfferich 1914: 130). Cutting the knot proved to be painful for a number of reasons.15 The return on trading activities was at best acceptable, certainly when compared to the results of the agricultural interests. This realization first dawned upon the

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14 NA/HVA 13 Shareholders’ Meeting 1911.
15 The following account is primarily based on the minutes of HVA Board meetings and the annual reports of the HVA. In addition, the excellent financial analysis of E. Helfferich in his Die Niederländisch-Indischen Kulturbanken has been used (NA/HVA 1, 10 and 11; Helfferich 1914: 120–143).
Directors Reineke, Ter Kuile and Vroeg in the beginning of 1908, after reviewing the general results of the import and export business. In a Board meeting on 7 February 1908 P. Reineke stated that the Singapore office showed poor prospects. Considering its importance as a transit point closure was hardly an option, because it would seriously impede the operations of the buying office in Manchester. Large textile shipments originated from England and the HVA could ill afford the loss of these vital imports. In Reineke’s opinion the risk of having to close down the Manchester office was too great as it would bring the Java import trade of the HVA to a virtual standstill. It was therefore decided that one of the Directors would investigate the situation on the spot.

On 4 September 1908 the situation was reassessed after the net results of the preceding year had become available. It turned out that with an average working capital of $3,314,000 the import trade had realized a net profit of $299,306.29, a profitability rate of 9.03%. The export trade had done even better with a 10.93% profitability rate resulting from a net profit of $115,215.98 which was based upon an average working capital of $1,054,000. These results were considered very satisfactory. However, more detailed calculations told another story. With regard to the import trade the profitability of the Surabaya office (14.31%) contrasted sharply with the offices in Manchester (5%) and Singapore (3.08%). And although imports showed a nice return in relation to the amount of capital used, a different picture arose when the result was set against the level of turnover. With turnover at almost $11,500,000, profitability reached only 3.4% which was indeed an improvement given the rate of 2.9% achieved in 1905 and 1906. By contrast, the profitability rate of HVA’s agricultural interests amounted to 24% in 1907 (*Jaarverslag HVA 1907; Helfferich 1914: 130, 136*).

Undoubtedly, Reineke, Ter Kuile and Vroeg knew that the cost-effectiveness of the trading business left much to be desired, especially considering the excellent yields of the agricultural investments. However, they were not blind to the fact that the import trade in particular had a low rate of return which could only be countered by achieving a high turnover. What worried them more was the large amount of capital needed for this purpose. In 1907 the trading commitments of the HVA had required more than $4,000,000. The question was whether (part of) this vast capital could not be put to better use by investing in agricultural enterprise such as sugar and coffee plantations.

It is clear that the company’s management had severe doubts concerning the viability of the company’s trading business. In accordance with
the steadily improving profitability and economic conditions for agricultural exports the decision was taken to focus more on agricultural business (see Table 5.4 and Figure 5.2.). The HVA’s involvement in such enterprise soared abruptly from f 8,760,000 in 1907 to f 13,406,000 in 1908. Related profits more than doubled from f 796,000 to f 1,946,000. Both accounts continued to expand the year after to f 17,214,000 and f 3,065,000. This increase was financed by enlarging the company’s own capital with almost f 10,000,000 in new shares (f 3,750,000), a debenture loan (f 4,500,000) and retained profits. No dividends were subsequently paid out in 1908–1909 for the first time in almost twenty years. Still, the financial demands of the agricultural business proved difficult to meet and in 1910 the HVA found itself in a liquidity crisis. Short-term capital to the amount of f 6,628,837.45 was provided by different creditors, but covered for only 74% by directly payable assets.

Table 5.4. Agricultural and trading activities of the HVA, 1901–1914: capital, commitments and profits (x f 1,000).

<table>
<thead>
<tr>
<th></th>
<th>Commitments</th>
<th>Profits</th>
</tr>
</thead>
<tbody>
<tr>
<td></td>
<td>Capital¹</td>
<td>Agricultural</td>
</tr>
<tr>
<td>1901</td>
<td>10,456</td>
<td>7,336</td>
</tr>
<tr>
<td>1902</td>
<td>10,291</td>
<td>6,680</td>
</tr>
<tr>
<td>1903</td>
<td>9,826</td>
<td>6,249</td>
</tr>
<tr>
<td>1904</td>
<td>9,990</td>
<td>6,019</td>
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<tr>
<td>1905</td>
<td>14,060</td>
<td>8,043</td>
</tr>
<tr>
<td>1906</td>
<td>13,881</td>
<td>8,592</td>
</tr>
<tr>
<td>1907</td>
<td>13,702</td>
<td>8,760</td>
</tr>
<tr>
<td>1908</td>
<td>16,767</td>
<td>13,406</td>
</tr>
<tr>
<td>1909</td>
<td>23,584</td>
<td>17,214</td>
</tr>
<tr>
<td>1910</td>
<td>23,273</td>
<td>20,604</td>
</tr>
<tr>
<td>1911</td>
<td>22,961</td>
<td>21,688</td>
</tr>
<tr>
<td>1912</td>
<td>22,647</td>
<td>19,884</td>
</tr>
<tr>
<td>1913</td>
<td>22,332</td>
<td>18,470</td>
</tr>
<tr>
<td>1914</td>
<td>25,514</td>
<td>18,528</td>
</tr>
</tbody>
</table>

¹ long-term capital (equities, debentures and reserves)
² after write-offs
³ excluding commission
Source: Jaarverslag HVA 1901–1914.
This situation owed much to the spectacular failure of ‘Djatiroto’, a giant sugar plantation situated in East Java between Lumajang and Jember in the residency of Pasuruan. ‘Djatiroto’ was intended to become the largest sugar estate in Java and land purchases to that effect were made as early as 1905. At the end of 1907 the total surface area of the plantation amounted to ca. 15,000 bouw or approximately 10,645 ha. In 1909 the brand-new sugar factory, equipped with state-of-the-art machinery, was ready to process an estimated daily amount of 80,000 picol (about 4,670 metric tons) of sugar cane. At this point approximately f 4,500,000 had been invested in ‘Djatiroto’ and the first harvests would have to make a substantial profit to satisfy people’s expectations.

However, results were extremely disappointing with ‘Djatiroto’ operating at a loss of no less than f 987,056.83 in 1909 and f 1,097,721.59 in 1910. Huge cane fires, poor soil fertility and a variety of other problems regarding e.g. the administrative organization, irrigation management and labour all contributed their share. The HVA was forced to write-off vast sums while re-investing almost f 1,500,000 to pay for costly adjustments.
Towards the end of 1910, $5,323,590.78$ or $42\%$ of the company’s ‘Djatiroto’ investment had evaporated. This drain on the resources of the HVA continued. The harvests of 1911 and 1912 again reported huge losses to the amount of $f\,1,283,899.90$ and $f\,963,941.10$. Instead of becoming a money spinner ‘Djatiroto’ had turned into a serious liability.\(^{16}\)

The HVA managed to survive these set-backs because of the excellent results of its remaining sugar interests, consisting of seven plantations acquired between 1892 and 1904. Their combined profits had to absorb the losses sustained by ‘Djatiroto’, but were also badly needed to support the company’s smaller interests in crops such as coffee and rubber. In 1910 the HVA owned twelve agricultural enterprises, valued at $f\,20,604,000$ and constituting $81\%$ of all its commitments (see Table 5.4 and Figure 5.2.).

The administration of these required the attention of all three Directors. Traditionally, this had been the task of only two of them, enabling the third to attend to trading matters. In a meeting on 7 October 1910 Reineke complained that it was no longer possible to keep up with all the work. The task of administering the agricultural affairs had become so demanding that he strongly recommended separating the trading branch from what had become the core business of the HVA.

Some commissioners powerfully voiced their disapproval, arguing that the positive trading results had been of considerable help the previous year. Although a trading profit of almost $f\,1,000,000$ in 1909 was exceptional, it was also part of a distinctly upward trend in trade profitability since 1905. Moreover, with an impressive $f\,2,000,000$ increase in turnover the preliminary results for 1910 indicated a higher profit than the year before. Those with serious doubts also seemed to object for nostalgic reasons. After all, the HVA had been established as a trading enterprise and this memorable past should not be discarded lightly. In addition,

\(^{16}\) In later years the exploitation of ‘Djatiroto’ did show reasonably profitable returns. Between 1909 and 1926 the yield of the cultivated sugar cane showed a twofold increase, whereas the amount of sugar produced rose from $54,800$ picol (i.e. $3,384$ tons) in 1909 to $1,319,254$ picol (i.e. $81,477$ tons) in 1926. This result was achieved at the cost of a fortune. In 1927 ‘Djatiroto’ had required a total capital investment of about $f\,25,000,000$ with exploitation costs amounting to $f\,8,000,000$ to $f\,9,000,000$ each year. When balancing total costs and benefits, these 18 years showed a modest average profit of $f\,500,000$ per year. However, this profit margin was inflated due to the high sugar prices resulting from the abnormal market conditions of the First World War and the bull market of the 1920s. These circumstances had seen windfall profits of $f\,22,000,000$ in which case costs had outweighed benefits by over $f\,700,000$ a year. No wonder that the journalist H.C. Zentgraaf would write that ‘Djatiroto’ was a business of “special dimensions” – employing over $15,000$ Javanese and Madurese labourers to name but one thing – but not a “superior sugar enterprise from an agricultural point of view” (SH, 30 and 31-05-1927; 01, 02 and 03-06-1927).
concern was raised regarding the future of more than a hundred trading employees which would be made redundant. Finally, after much deliberation, the commissioners decided to let numbers speak not emotions. According to one of them: *Het eene bedrijf is een schitterend bedrijf; het andere bedrijf is gewoon een goed bedrijf.* (“One business is a magnificent business; the other business is simply a fine business.”)

It was decided to keep the trading activities under the umbrella of the HVA, but operating independently under a different name and only loose supervision by one of the commissioners. A new import and export company was to be founded with total capital of ƒ 4,000,000 provided by the HVA. Directors and Commissioners counted on an annual net profit of up to ƒ 400,000 and average dividend payments of 8–10%. F.C. Söhlke and L.A. Willemse – senior HVA executives in charge of imports and exports respectively – were invited to become the company’s first Directors. To everyone’s surprise both men declined as they considered the risks too high and the financial rewards too low. Trade was notoriously sensitive to economic fluctuations and profits could easily turn bad. From their own experience an average net profit of ƒ 300,000 was closer to reality, especially since the new company would lack the prestige and financial resources of the HVA and suffer from a diminished turnover and profitability.

These worries, expressed by experienced traders like Söhlke and Willemse, cast the future of the trading business in a different light. Reineke pointed out in a meeting on 22 October 1910 that the two men had been right to warn against unrealistic expectations. He pointed out that the agricultural commitments of the HVA were already by far the most important in Java, employing a total capital of ƒ 30,000,000 throughout the year. The annual harvest value could be estimated at sixteen to eighteen, maybe even twenty million guilders. Managing a business of this magnitude ruled out a continuation of the trading business. Furthermore, investigation of the trading sector’s profitability in general over the last five years revealed dividend payments of 6% and far below. This was an unacceptably low return on the amount of capital invested. With the company’s liquidity dangerously low this kind of money could be put to better use. Upon reaching the end of his monologue Reineke made it clear that he favoured the liquidation of all trading activities in order to direct all resources and efforts towards agricultural enterprise.

This radical step was approved on 4 November 1910 after two rounds of elaborate discussion in which several alternatives were proposed and dismissed. Following this difficult decision, Internatio was contacted and asked whether it would consider taking over the trading business – including
The road to expansion (1910–1930)

all personnel – against payment of goodwill to the amount of $500,000. Initially, Internatio declined. Trading certain articles would conflict with the interests of consignment relations and endanger existing business arrangements. The conditions stated by the HVA were also deemed unacceptable which did not come as a surprise. Reineke had already calculated that there was hardly any goodwill. It amounted to $250,000 at best, which probably had to be sacrificed in order to persuade the new employer to take over the old staff. The HVA briefly tried to interest other trading companies such as the Rotterdam firm Jacobson van den Berg & Co., but without success. After dropping its demands, negotiations with Internatio were reopened. An agreement was reached on 23 December 1910 regarding a take-over of all the products handled in bulk, i.e. ammonia, phosphates, soap ingredients, iron, wood, cement, tar and matches. The well-known trading company Geo. Wehry agreed on 31 December 1910 to take over the remaining smaller items such as food and beverages.

In June 1912 Directors and Commissioners reported on the events of the previous year. If shareholders had expected a thorough account of the take-over by Internatio and Geo. Wehry they were to be disappointed once again. The liquidation of the trading business was hardly mentioned. Shareholders were merely assured that the matter had been settled satisfactorily and that any outstanding claims had been recovered without any loss. DJB confirmed this in a letter to its Amsterdam office which said that all clients of the HVA had paid their debts to the amount of $1,500,000 in full and on time. Finally, the annual report of the HVA stated that the settlement of the last remaining trading transactions during 1911 had seen a profit of $352,000. More than three decades of profitable trading activities had thus been brought to an end with a small financial bonus.

The dissolution of all trading commitments had an immediate and positive effect on the financial position of the HVA. The trading activities had absorbed $4,000,000 to $4,500,000 of the company’s capital each year. This money could be used to relieve the serious liquidity shortage resulting from the growth of agricultural investment. In 1910 directly payable assets had covered only 74% of short-term capital. The year after short-term capital extended by various creditors constituted only 52% of directly payable assets. This percentage was reduced to 42% in 1912. A look at the balance sheet of 1911 shows what had happened. Compared with 1910 the creditor account had decreased with $4,000,000 ($3,958,463.15 to be exact). In other words, the HVA had immediately used the additional funds at its disposal. It had reduced its dependence on capital that could be reclaimed on short notice and successfully managed to avert a severe liquidity crisis.
The glowing prospects of the colonial export business had enticed the HVA into focusing on agricultural profits. Following heavy investments, financial and management considerations soon called for a new business strategy. Directors and Commissioners ultimately bet all cards on the expansion of agricultural enterprise. The wisdom of this seemed obvious, because prior to 1914 the financial results of the HVA were outstanding. Profits increased substantially and the interests in sugar showed an impressive 20% return on capital invested. Excluding ‘Djatiroto’, the profitability rate of the sugar investments was staggering with percentages of up to 99%. At this stage the HVA was fully prepared to take advantage of the upswing on the export markets.

The Lure of Sugar in Trade and Banking

The example of ‘Djatiroto’ exemplifies the economic importance of sugar. The production and export of this product involved tremendous amounts of capital. Bankers were keen on securing part of this money. The revival of the economy in the first years of the twentieth century was above all export-driven. The colony responded to an increase in world demand for precisely those goods that the Indonesian archipelago could supply. Java’s production and export of cane sugar was particularly important in this respect. Many authors have argued that the sugar industry was

17 This recitation is a telling example of the great attraction of sugar within colonial society at the beginning of the twentieth century. As described in the biography of Anny Tan, she was told as a young child to pray for her deceased grandfather while standing in front of the family altar holding burning incense sticks (Blussé 2000a: 209). Taking place in Solo, Central Java, the anecdote can be dated around 1920 when the production and trade of sugar in Java earned hundreds of thousands of people – Dutch, Chinese, as well as Javanese – a living (Gordon 1979: 252). Some acquired mind-boggling fortunes in the sugar business. Oei Tiong Ham – the immensely rich Chinese businessman from Semarang – was generally known by the public as the ‘Sugar King’ (Radja Goela) which suggests how strongly his ‘sugar fortune’ appealed to the people’s imagination (Liem Tjwan Ling 1979; Setiono 2003: 249–276).

18 Cane sugar production was introduced to Java by Chinese migrants around 1600. The Javanese had been familiar with sugar cane as a sweetener by chewing on the stalk. Javanese sugar production – so-called *gula mangkok* – involved extracting sap from the
responsible for the colony’s economic prosperity which lasted right until the collapse of the world economy in 1930. The vigorous development of the Java sugar industry took off in 1902 when the artificial protection of the European beet sugar industry was terminated. Without the help of government subsidies and the imposition of high import duties beet sugar lost its competitive advantage on the world sugar market. Cane sugar producers welcomed this liberalization of the market with great enthusiasm.19

This was not unwarranted as demand for Java’s sugar showed an immediate increase. Rapid population growth, rising incomes and higher standards of living bolstered demand in Asia where the most promising markets – British India, China and Japan – were to be found. As a result Java’s sugar production and/or export doubled between 1902 and 1914 before stabilizing and then doubling again during the second half of the 1920s.20 Eventually, the annual amount of sugar exported from Java would exceed two million tons, whereas total production reached an all-time high of more than 3 million tons in 1930. In 1929 sugar accounted for 40% of foreign investment in agriculture (f 2,000 million) while generating a large part of the money invested in railways, shipping, port facilities, etc. (In terms of volume, sugar was by far the most voluminous item carried on railways and ships, and handled in Java’s ports.) Sugar would remain the colony’s most important export product with an average share in export earnings of 32% in the 1910s and 28% in the 1920s.21

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20 In the case of sugar, the development of factory production and export reflected each other as domestic consumption was relatively low and usually confined to homemade palm or cane sugar of lesser quality (i.e. gula mangkok). Total domestic consumption in the Interbellum has been guesstimated at a mere 100 to 150 tons a year, which amounted to less than 10% of the production destined for export (Creutzberg 1975: 63, 75; Tio Poo Tjiang 1923: 49).

21 See Creutzberg (1975: 75, 143), Gimbrère (1928: 31–32, 37), Gordon (1979: 252), Khudori (2005: 19–36), Leidelmeijer (1997: 325, 328), Dick et al. (2002: 125–126), Tio Poo Tjiang (1923: 31–36, 48). Sugar constituted the most important export commodity of the Netherlands Indies throughout the late-colonial period. As an exporter of sugar Java was second only to Cuba in the world market. After succeeding tobacco as the country’s biggest export earner in 1885, it would keep this position for more than forty years. In the second half of the 1920s it started to face increased competition from rubber (Booth 1998: 208). It would take the severe economic depression of the 1930s before rubber and petroleum finally managed to overtake sugar in terms of export value (Boomgaard 1988: 158; Booth 1998: 208; Dick et al. 2002: 125–126; Van der Eng 1993a: 188–208; Leidelmeijer 1992: 16).
This boom required huge capital outlays from planters and traders. In response, a surging need for credit developed which the banks in the Netherlands Indies were more than willing to accommodate (Djie Ting Ham 1926: 14–16). There were several reasons for this willingness to comply with the capital requests made by sugar traders. First, sugar was a bulk commodity, whose price development could be carefully monitored and for which a regulated and well-organized market existed. Second, sugar was ideally suited as collateral since it was in demand and could therefore be realized at any given time. Third, sugar loans to traders had a comparatively short running period of a few months which compared favourably with the long-term investments needed for agricultural production. This was not only psychologically reassuring, but also reduced the financial risk of the banks by preventing their assets from being tied up for too long. Fourth, with the majority of sugar deals being conducted in a foreign currency – most frequently in Pound Sterling – the extension of credit secured by sugar involved a substantial foreign exchange business. This profitable business was popular and customarily handled by the same banks from which the traders obtained their loans. This made the sugar trade a favoured finance object for commercial banks established in the Netherlands Indies (Gimbrère 1928: 74–75, 90).

Trading and Banking

The commercial banks distinguished themselves from specialized banks, such as the Cultuurbanken\textsuperscript{22} (Agricultural Banks), mortgage banks and savings banks in focusing on the extension of short to medium-term commercial credit. They essentially provided working capital to trading enterprises, although most had other (agricultural) interests as well and were thus of a ‘mixed’ nature. Around 1900 the main commercial banks active – judged by their financial basis, operational cloud, credit extension, and profit generation – included De Javasche Bank (DJB), the Nederlandsche Handel-Maatschappij (NHM), the Nederlandsch-Indische Escompto Maatschappij (NIEM) and the Nederlandsch-Indische Handelsbank (NIHB). Together,

\textsuperscript{22} The agricultural banks concerned themselves chiefly with long-term loans, usually in the form of holdings in agricultural enterprises. Given the minor importance of borrowed funds in their business operations the question can be raised whether they should be regarded as banks at all. The HVA furnished agricultural enterprises, e.g. ‘Djaitiroti’, almost exclusively with fixed capital and thus exploited its own undertakings. The Koloniale Bank and the Cultuurmachtschappij der Vorstenlanden on the other hand were mainly concerned with business on commission which closely resembled the operations of large trading companies like Internatio (Van Laanen 1980: 30; Van Laanen 1990: 255).
they accounted for the lion’s share of banking activities undertaken in the Netherlands Indies’ (Van Laanen 1980: 30–32, 92).

Until the establishment of the NIEM in 1857, DJB had been the only private financial institution to which traders could turn for credit. Certain trading companies did provide financial services during this period, but generally preferred to reduce their risk in case of longer-term arrangements by leaving their own capital base intact and using credit obtained from DJB. This situation changed from the 1860s onwards when DJB lost ground to new, more specialized banking institutions such as the NIHB and the Chartered Bank. DJB entered into competition with these relative newcomers in a number of areas, such as the direct financing of commodity trade through loans on security. At the same time, however, DJB also carried out some of the functions entrusted to a central bank such as supporting failing private banks. In other words, when private banks ran into liquidity problems DJB had to bail out its competitors by acting as a lender of last resort (Van Laanen 1980: 36; Van Laanen 1990: 250–251, 254).23

These conflicting tasks proved hard to reconcile since DJB was compelled by its charter to establish and maintain agencies throughout the Indonesian archipelago at considerable expense. Financial considerations of this kind became especially acute when the colony’s rapid economic expansion after 1900 required DJB to establish nine new agencies between 1906 and 1910 (De Bree 1928: II 439, 579).24 This doubled DJB’s existing network of eight agencies which had seen no expansion after the Amsterdam office had been founded in 1891. From a business point of view most of these investments were far from sound and financial compensation had to be sought in other commercial ventures. Established as a private corporate enterprise, with the colonial government as a major shareholder entitled to a percentage of the profit, DJB could ill afford to run a loss. To keep a surplus on its balance sheet despite higher operational costs required DJB’s management to improve the company’s cost-effectiveness. Competition with commercial banks was stepped up, especially in the lucrative financing of Java’s export trade (De Bree 1928: II 440; Djie Ting Ham 1926: 44).

23 By displaying features of both commercial and central banking DJB was a rather peculiar organization. It might best be depicted as a private bank which behaved like a commercial bank by participating directly in the financing of trade, while performing some of the tasks of a central bank such as issuing notes and acting as a lender of last resort in times of (economic) distress (Van Laanen 1980: 35–36; Van Laanen 1990: 252).

24 These included Pontianak (1906), Bengkalis (1907), Medan (1907), Banjarmasin (1907), Tanjung Balai (1908), Tanjung Pura (1908), Bandung (1909), Palembang (1909) and Manado (1910).
DJB’s renewed focus on its revenue-generating commercial activities produced splendid results in the years before the First World War. Dividends paid out after 1906 varied between 11% and 16%, whereas the colonial administration saw its part in the profit rise from a meagre f93,418.29 at the turn of the century to no less than f820,802.38 at the outbreak of war. This was accomplished by a sharp increase in capital invested against interest. In 1900 total capital investments stood at f31,593,000. This figure accumulated almost threefold until capital outlays totalled f86,773,000 in 1914. The extension of loans on security to private enterprise played an important role as the share of this kind of investment over the same period rose from 22% to 57% (De Bree 1928: II Appendices A, B, I, S).

DJB’s capability to finance this successful expansion of business owed much to its unique position within the banking system of the Netherlands Indies. The provisions of its charter allowed it to compete with the other banks on more favourable terms by making use of its note-issuing monopoly. DJB could enlarge the quantity of banknotes in circulation without repercussions as long as the bank’s specie reserves equalled at least 40% of their total worth. These notes thus constituted DJB’s principal means of credit. The surplus of gold and silver indicated the bank’s unused credit potential (Gimbrère 1928: 91–92; Van Laanen 1980: 92). The recognition that there was substantial room for improvement in this respect soon dawned upon the President and Directors of DJB. In 1903 the bank’s specie reserves covered 66% of the total value of banknotes in circulation. In 1913 this percentage had shrunk to 51%. A reduction which ‘earned’ DJB more than f25,500,000 in additional credit facilities, although it still left a gold and silver surplus of well over f12,000,000, i.e. an unused credit potential of almost f30,500,000 (De Bree 1928: II Appendices C, F, P).

Apart from the printing and transport costs of the new banknotes, DJB’s credit expansion was realized at little expense. Other banks were less fortunate. They had to finance their growing business activities by attracting outside funds on more onerous conditions. Expanding their credit operations, either through the enlargement of equity capital or the acquisition of loan capital, came at a higher price and hurt their competitive strength. More frustrating was the fact that its artificial cost-effectiveness allowed DJB to offer potential clients credit against interest rates which proved impossible to underbid. As a result, DJB built up an impressive clientele of highly reputable European and Chinese traders, accepting only the larger and most creditworthy among them.25

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25 Sugar traders preferred to settle their substantial credit demands at DJB and many of them were among DJB’s best clients. This owed as much to the low interest offered, as to
The only rival to DJB in trade finance at the beginning of the twentieth century was the NHM, although it had to concede that the most sought-after clients invariably preferred to conduct their business with DJB (Djie Ting Ham 1926: 44–45; Gimbrère 1928: 92). The dominant position of DJB among the four largest commercial banks is shown by the fact that the amount of credit extended by DJB in 1905 accounted for 44% of total credit extended by the NHM, NIEM and NIHB combined (Table 5.5). This percentage would continue to climb to 71% in 1910, before decreasing to 61% in 1914. The result is impressive since DJB's charter only allowed the extension of credit for trading purposes. After excluding the amount of credit extended by the NHM and the NIHB to their agricultural banking business, DJB’s dominance is even more telling with percentages recalculated at 54% (1905), 85% (1910), and 75% (1914).

The difference is largely explained by NHM’s financial interest in the agricultural export sector which accounted for about one-third of the company’s total banking activities in the years under consideration. The NIHB had only a very slight interest in the extension of agricultural credit following the crisis of 1884 after which it transferred most of its agricultural interests to a legally separate subsidiary: the Nederlandsch-Indische Table 5.5. Credit extension within the commercial banking system of the Netherlands Indies in 1905, 1910 and 1914 (x f1,000).

<table>
<thead>
<tr>
<th></th>
<th>1905</th>
<th>1910</th>
<th>1914</th>
</tr>
</thead>
<tbody>
<tr>
<td></td>
<td>x</td>
<td>y</td>
<td>x</td>
</tr>
<tr>
<td>DJB</td>
<td>28,870</td>
<td>28,870</td>
<td>56,660</td>
</tr>
<tr>
<td>NHM</td>
<td>29,620</td>
<td>41,400</td>
<td>24,330</td>
</tr>
<tr>
<td>NIEM</td>
<td>20,900</td>
<td>20,900</td>
<td>28,620</td>
</tr>
<tr>
<td>NIHB</td>
<td>3,200</td>
<td>3,370</td>
<td>14,070</td>
</tr>
<tr>
<td>Total</td>
<td>82,590</td>
<td>94,540</td>
<td>123,680</td>
</tr>
</tbody>
</table>

x = excluding agr. banking business
y = including agr. banking business

the fact that the trade in Java sugar was controlled by foreign companies (of English, German, Chinese and Japanese origin) with little or no obligations to the banks operating in the Netherlands Indies. These traders were not bound on account of previous financial commitments. This allowed them to choose freely where to satisfy their capital needs and contributed to DJB’s dominant position in sugar trade finance (Gimbrère 1928: 75, 92–93).
The agricultural banking activities of the NHM amounted to \textdollar{}11,780,000 in 1905, \textdollar{}13,110,000 in 1910 and \textdollar{}22,300,000 in 1914. The relative importance of these activities came down to 28%, 35% and 32% when measured against the company's total extension of credit. The NIHB was hardly involved in the financing of agricultural enterprise with credit extended to the amounts of \textdollar{}170,000 in 1905 and \textdollar{}110,000 in 1910, i.e. 5% and 0.7% of total credit extended. From 1914 onwards the company's balance sheets no longer registered any agricultural interests. It does however deserve to be mentioned that the NHM and the NILM, the latter founded by the NIHB, often accounted for more than 50% of total agricultural banking business within the Netherlands Indies right until the end of the 1930s (Van Laanen 1990: 249).

The NHM reacted to the positive change in the colony's economic outlook by establishing thirteen new agencies (1903–1913), followed by the NIHB with ten (1901–1913) and the NIEM with four (1902–1913). For the sequence of events and location of these agencies see Djie Ting Ham (1928: 50–51, 67–68, 90–91).

The NHM raised its paid-up equity capital from \textdollar{}35,783,000 to \textdollar{}45,000,000 in 1901. As a result the working capital of the Factorij was expanded from \textdollar{}8,000,000 to \textdollar{}12,000,000 in 1903 and again from \textdollar{}12,000,000 to \textdollar{}16,000,000 in 1908. Likewise, the NIHB raised its paid-up equity capital from \textdollar{}7,200,000 in 1905 to \textdollar{}19,943,000 in 1914. The working capital of the company's head office in Batavia was increased repeatedly from \textdollar{}2,500,000 to \textdollar{}9,000,000 between 1906 and 1914. The paid-up equity capital of the NIEM saw a significant enlargement as well from \textdollar{}3,000,000 in 1903 to \textdollar{}10,500,000 in 1913. See also Djie Ting Ham (1928: 14–15, 48–51, 63–65, 91–93).
more than twofold and reached over £200,000,000 in 1914. Approximately 90% of this amount was short-term credit intended mainly for the financing of trade conducted by private enterprise (Djie Ting Ham 1928: 14–17).

The developments outlined above make it clear that bank lending played a very important, if not critical, role in the business expansion of trading companies after the turn of the century.29 (Retained profits fulfilled a similar role in the last quarter of the nineteenth century when business expansion was slower and less erratic.) The provision of credit was an intrinsic part of the activities of any trader. Trading companies routinely accommodated their suppliers and/or customers either by advancing money on their crops or by agreeing to payment in instalments. The extension of credit allowed traders to undertake business activities on a larger scale and to grow more rapidly in the volume of trade handled. However, with only limited capital resources, they regularly had to pay their bankers a visit to apply for financial support. The main purpose of lending – except in crisis conditions – was to finance the movement of trade and the growing of crops.

Conversely, trading companies were valuable customers to the banks because of the range of services they used, each of which provided an additional source of commission income. Since trading activities involved the generation of a high volume of transactions even a small commission percentage could easily accumulate to a large sum. The routine banking facilities required by the trading companies involved short-term credit and exchange facilities. This credit was provided by overdrafts the size of which fluctuated with movements in trade and the commodity’s production cycle. As a sensible precautionary measure overdrafts had to be renewed on a regular basis, but they were occasionally ‘rolled over’ and could therefore acquire a position rather different from mere short-term finance.30 In addition to routine transactions, banks also welcomed one-off services provided the risk was acceptable, e.g. by giving guarantees that their clients’ bills would be honoured at maturity.

Because of the value to both sides the relationship between trading companies and banks tended to be long-term and supportive, in contrast to the familiar characterization of individual banking deals as short-term

29 The following arguments with regard to the general conditions governing the relationship between trading and banking derive from the survey of G. Jones in his book on British trading companies in the nineteenth and twentieth centuries (Jones 2000: Chapters 1, 2, 8, and 12).

30 The ‘rolling-over’ of overdrafts often meant that short-term credit facilities were in fact utilized to finance long-term business strategies.
and at arms’ length. Ties were sustained over long periods and relied as much on trust as on contracts. On many occasions the risk assessment of banks rested heavily on senior bank managers’ opinion of the managerial competences of directors and partners of the trading company, together with the degree of trust they felt could be placed in their business leaders. Naturally, loans still needed to be secured even though trading companies – as valued customers – were allowed to borrow on easier terms than many other customers. However, owing to the often intimate relationship between bank managers and their clients, this was frequently done in a rather ‘informal’ fashion. Given that the trading companies were valued customers and that the loss of one large client could destroy economies of scale in operations at certain branches, banks were prepared to be flexible in order to avoid liquidations.

De Javasche Bank and the Outbreak of the First World War

The decade before 1914 had shown the profitability of participating in the cultivation and export of agricultural products. At the same time the example of ‘Djatiroto’ had shown the inherent dangers, in particular the extreme dependence on external circumstances such as climatic conditions and erratic price movements. These factors proved difficult to foresee and impossible to influence. The outbreak of World War I in August 1914 posed a similar threat to the colony’s economic development. A sense of nervous anticipation and growing insecurity mounted throughout the summer of 1914, as it became apparent that political tensions in Europe were building. With the assassination of Archduke Franz Ferdinand – the heir to the Austrian throne – and his wife in Sarajevo on 28 June 1914 the political situation spun out of control.

On 28 July 1914, after escalating political tensions had resulted in mobilization efforts, ultimatums and scarcely concealed war threats, Austria-Hungary declared war on Serbia. An elaborate system of alliances ensured that this fateful decision set off a chain reaction which put Germany and Austria-Hungary against Great Britain, France and Russia. Other countries joined and in less than two weeks the European continent had become the stage of a military conflict of unknown proportions. The Netherlands remained neutral until the end of the war in 1918. The country was thus spared active participation in the horrendous warfare of these years. However, the side-effects of the conflict could not be avoided.
The first forebodings of trouble were cabled to DJB in Batavia on 30 July 1914.\textsuperscript{31} At this point the full-scale effects of the Austro-Hungarian war declaration had not yet materialized. Nevertheless, DJB’s office in the Netherlands spoke off utter panic ruling Amsterdam. Additional press telegrams confirmed the chaotic situation throughout the country. To the Dutch public a European war had apparently become inevitable. As a result, food supplies were being hoarded massively and bank offices were overrun in an attempt to obtain as much cash as possible. In Amsterdam people spent the night on reclining chairs in front of the Dutch central bank: De Nederlandsche Bank (DNB). The agency of DNB in Maastricht had to call in police assistance to control the agitated crowd and restore order. For safety reasons numbered tickets were distributed the following day to prevent people from jumping the queue. In addition, only five persons at a time were admitted inside the building.

DNB was not the only one confronted with people fearing an economic breakdown and anxious about their life’s savings. Huge cash withdrawals were made all over the country, primarily in coins as banknotes were no longer valued. The Rijkspostpaarbank (Government Savings Bank) accustomed to serving an average of 800 clients approximately \( f \) 200,000 in cash per day, saw itself confronted on 1 August 1914 with over 13,000 people withdrawing \( f \) 4,800,000. Meanwhile, the Amsterdam stock exchange had been forced to close its doors on 29 July 1914. The price quotations had plummeted after shares started to be traded far below their real value. This alarming flight of capital threatened to paralyse not only the financial market but the entire economy. All financial trade was thereupon suspended until further notice.\textsuperscript{32} Another indication of the deteriorating events was the decision made by insurers to cancel any coverage to war risk forthwith. These incidents pointed to a serious crisis of confidence. To prevent a complete economic breakdown firm action was urgently needed.

DNB, in close cooperation with the government and the commercial banks, responded to the pending economic crisis with the swift implementation of countermeasures. On 1 August 1914 Batavia was informed

\textsuperscript{31} This paragraph is based on DJB Board meetings and DJB reports which assessed the economic and financial situation in the Netherlands Indies right after the outbreak of the First World War (BI/DJB 97 No. 19: 166–188; No. 20: 189–202, 207–218; No. 24: 252–259; No. 32: 310–321; BI/DJB 98 No. 51: 453–467). See also Van Dijk (2007: Ch. VI).

\textsuperscript{32} This provision remained effective for more than half a year. It would take until 9 February 1915, before the stock exchange was finally reopened upon the instigation of the Minister of Finance.
that the government had agreed to reduce the obligatory specie coverage (i.e. the amount of gold and/or silver in relation to the amount of banknotes in circulation) of the Dutch central bank from 40% to 20%. In addition, the bank’s statutory obligation to exchange banknotes for specie upon request was cancelled. These and other measures greatly enhanced the financial leverage of DNB and put the financial sector on a more solid footing. Of paramount importance was the establishment of a support syndicate (Steunsyndicaat) on 29 July 1914 in anticipation of a possible credit shortfall. DNB contributed generously to this relief fund, promising to guarantee emergency loans against collateral to the astonishing amount of f200,000,000. This gesture restored business confidence to more acceptable levels and elevated DNB to the position of leading economic and financial player. In the words of G. Vissering, who had left DJB in 1912 to become President of DNB: “Suddenly, we had become the absolutely central institution, around which everything concentrated.”

E.A. Zeilinga – Vissering’s successor at DJB – strongly approved of the energetic steps taken by DNB and clearly favoured a similar approach for the Netherlands Indies. In a meeting with the Director of Finance on Sunday 2 August 1914, he encouraged powerful government intervention to prevent the economic system from collapsing in case of a full-scale European war. Zeilinga proposed several precautionary measures to improve DJB’s financial leverage and increase its field of operations. It was imperative that DJB be given the opportunity to act as a true lender of last resort. By enabling undisturbed continuation of business, consumer confidence would remain unimpaired and irrational behaviour or outright panic could be avoided. In other words, it was of crucial importance that no brakes should be applied to the economy. All efforts should be aimed at stimulating economic forces.

Zeilinga argued his case by analyzing the colony’s current economic position. He assumed that the anticipated proliferation of the military conflict in Europe would isolate the Netherlands Indies. Consequently the

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34 Within the colonial administration there were seven civil and two military departments under the supervision and command of the Governor-General. The civil departments were managed by Directors and consisted of the Departments of Law (1), Home (2), Finance (3), Public Instruction and Public Works (4), Agriculture, Industry and Commerce (5), Civil Public Works (6) and Government Works (7). The two departments of the army and the navy were headed by their commanders-in-chief. They were appointed by the crown. The civil heads were appointed by the Governor-General (Carpentier Alting 1914: 7).
The road to expansion (1910–1930)

Colony would have to depend on its own resources. The process of readjustment would doubtless be difficult and demanding of DJB. Zeilinga pointed out potential difficulties.

It is to be expected that shipping will soon be completely disrupted. The result will be a virtual stop to exports and in order to procure the means to continue agricultural enterprise people will have to call in the help of financial institutions, who in turn will have to appeal to De Javasche Bank. The sugar harvest is in full progress, the harvesting of coffee, tea and rice also demands regular expenditure [...] while the already harvested products need to be paid for upon delivery.35

He stressed that the suspension of such payments could result in a general collapse, because it would effectively halt agricultural exports. Consequently, many thousands of workers would be made redundant which could lead to trouble in Java's interior. There were other problems as well.

Furthermore, it is likely that the public will be overcome by fear and start closing their credit accounts at the banks. In order to satisfy those requests the majority of the banks will have to call in the help of De Javasche Bank. A run on the savings banks, even the Rijkspostspaarbank, is very likely and the only way to end this as soon as possible is by satisfying all requests, for which purpose however De Javasche Bank will necessarily have to help out. Therefore, it is of the utmost importance that De Javasche Bank will be able to satisfy all credit requests.36

DJB could dispose of f 9,000,000 for emergency support, but a significant increase of DJB's financial strength was of vital importance. Such an expansion of leverage would also serve the interest of the colonial administration, as Zeilinga cleverly remarked.

The government itself [...] is likewise dependent for a substantial part on the support of De Javasche Bank, now that significantly less public revenue will probably flow as a result of the general disturbance.37

Zeilinga proposed a number of measures which were readily accepted by the Director of Finance and presented to Governor-General Idenburg on Monday morning 3 August 1914. It was decided that DJB's obligatory specie coverage would be reduced, like DNB two days before, from 40% to 20%. The narrow definition of suitable collateral as prescribed in DJB's

35 BI/DJB 97 No. 19: 166.
36 BI/DJB 97 No. 19: 167.
37 BI/DJB 97 No. 19: 167.
statutes was altered to facilitate the acceptance of credit requests. Finally, the banknotes issued by DJB were declared legal tender to prevent them from being refused as payment. Idenburg offered to discharge DJB of its legal obligation to exchange banknotes for specie, but this was not considered necessary and politely declined. Upon his departure Zeilinga gratefully acknowledged the cooperation of the government and assured Idenburg that DJB would respond positively to justified credit requests, in particular regarding agricultural exports (De Bree 1928: II 441–442).

DJB's financial leverage now stood at approximately $150,000,000 and was immediately put to the test on Tuesday 4 August 1914. Before opening hours every agent of DJB was instructed to stay calm and be obliging towards all clients in an attempt to quiet the excited atmosphere. All running credit arrangements should be observed, but new requests for credit were to be scrutinized by the head office before approval. Representatives of businesses in desperate need of credit were received at the Batavia head office from early morning till late in the evening that day. All were asked to disclose the financial situation of their company after which credit possibilities were discussed. The branch offices later reported the same parade of business people anxiously seeking financial support.

In his memoirs E. Helfferich, a prominent German businessman38 in charge of the Straits und Sunda Syndicat – an investment company with numerous interests in export agriculture – vividly recalled the extreme circumstances of those days. He received a telegram from Hamburg at the beginning of August with the short and ominous message: “Don’t rely upon remittance from here.” However, hundreds of thousands of guilders were needed before the recently planted crops could be harvested. The very survival of the company depended on obtaining a loan to assure continuation of activities. After calculating the syndicate’s capital requirements for the next six months, Helfferich went to DJB and explained the difficult financial position in a conversation with Zeilinga, whom he knew personally. A few hours later he was told that DJB had decided to grant the Straits und Sunda Syndicat a credit of $300,000. In confidence Zeilinga had added: “And when that has been used up, we will see” (Und wenn das alle ist, werden wir weiter sehen) (Helfferich 2000: 270; Hiemstra 1998: 75–77, 87).

In the meantime people became increasingly restless. Fear of an economic breakdown generated an extreme demand for cash at the banks.

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39 DJB had counted on the NHM to put its considerable financial weight behind the colonial economy by conducting business as usual. In a separate meeting on 2 August 1914 it was agreed that the NHM would honour existing credit arrangements and assist its business relations provided they were creditworthy. However, the NHM interpreted the agreement differently and refused to pay out any silver to its customers. Given its stature and reputation, this decision contributed significantly to the run on the banks. The NHM was also extremely reluctant to extend credit and attempted to refer all credit requests to DJB. Asked by Governor-General Idenburg, DJB would report on these and other grievances on 11 August 1914 and concluded harshly that the NHM, driven by fear and self-interest, had done nothing in the first week of the crisis to assist those in need of credit. See also Potting (1997: 151–154, 179–180) regarding this matter.

It should be noted that the relationship between DJB and the NHM had been difficult ever since 1891 when DJB opened a representative office in Amsterdam and obtained permission to trade in foreign bills of exchange. This strengthened the position of DJB vis-à-vis the NHM and intensified the competition between the two. In 1907 the simmering conflict came to a head when DJB proposed a change of statutes in order to expand its trade in bills of exchange. The NHM reacted furiously and Zeilinga – Director of DJB at the time – was told that the NHM would obstruct DJB as much as possible. The NHM also distrusted DJB whose specie reserves were not disclosed and could prove inadequate in case of calamitous events. In 1911 the NHM therefore decided to have its own specie reserves in Batavia should circumstances prevent DJB from replenishing its stock. Before 1914 at least $7,000,000 in silver and gold coins were shipped from the Netherlands to help defend the widespread business interests of the NHM. Oddly enough, the NHM chose to guard this supply at a time it should have been put to better use (De Vries 1989: 22–24).

The difficult relationship between DJB and NHM is also recounted in a publication of the NHM (Amsterdam, 1914) entitled Samenvatting van de briefwisseling en geschriften in zake de Javasche Bank in de jaren 1907–1912.

throughout the day. Shops were overcrowded and everywhere people could be seen carrying home provisions of all sorts. These signs of panic grew on 5 August 1914 after retail traders started to refuse banknotes as payment and the NHM turned down customers wishing to exchange paper money for coins. The banks were completely overrun with people trying to exchange their banknotes for silver coins. The chaotic events reported at the cash counters repeated themselves the next day and an aggressive crowd sometimes needed to be controlled by the police. The Surabaya agent of DJB reported that people were behaving like madmen. At the Soerabiaische Spaarbank people were pushed through the windows and the office of the Soerabiaische Incasso-, Spaar- en Hulpbank was literally “besieged by a fighting mob”. It was as if the whole world hurled itself at the banks to withdraw credit (Alle Welt stürzte sich auf die Banken, um Guthaben abzuheben.) (Helfferich 2000: 269).

Amidst this anarchy and chaos eyes turned to DJB for an adequate response. Zeilinga managed to calm things down by making sure that every withdrawal was seen to without hesitation. To assuage the hoarding of silver money somewhat, he employed a simple trick by ordering that every coin be counted one by one when paying out. Furthermore, the
names and addresses of Chinese and Arab recipients were registered separately and handed over to the police in order to prevent money changers from taking advantage of the turmoil. Chinese and Arab money changers had taken the opportunity to trade coins for banknotes at a considerable premium. These banknotes were immediately exchanged for coins at the offices of DJB. This profitable scheme would naturally repeat itself as long as panic continued and people were willing to pay the unofficial higher rate. The fact that every Chinese and/or Arab was thus branded a potential profiteer was obviously considered irrelevant. What counted was the alleged positive result.

The panic slowly subsided and on Monday 10 August the situation had become more or less normal. The course of events of that extraordinary week were illustrated by DJB’s Surabaya agent. He neatly summarized what had happened at his office from Monday till Friday, showing the enormous strain put on himself and his employees (see Table 5.6). The extreme demand for cash had drained the agency’s money reserves so fast the agent had to raise the alarm on Tuesday 5 August 1914. Since it would take too long to reach Surabaya from Batavia, the Semarang agency was given instruction by phone to immediately send 1,400,000 by car under armed escort. This sufficed one day only and the agent had to repeat his request on Wednesday. Again, 1,400,000 were sent from Semarang which arrived safely by express train in Surabaya on 7 August 1914.

Table 5.6 shows that close to 9,000,000 had to be paid out in Surabaya in the five days under consideration. However, by persuading people to accept both banknotes and coins, only 35% of these withdrawals had been made.

Table 5.6. Money withdrawals at the Surabaya agency of DJB, 4–8 August 1914.

<table>
<thead>
<tr>
<th></th>
<th>Banknotes (f)</th>
<th>Specie1 (f)</th>
<th>Total (f)</th>
</tr>
</thead>
<tbody>
<tr>
<td>4–8–1914</td>
<td>1,360,000</td>
<td>782,000</td>
<td>2,142,000</td>
</tr>
<tr>
<td>5–8–1914</td>
<td>2,802,000</td>
<td>560,000</td>
<td>3,362,000</td>
</tr>
<tr>
<td>6–8–1914</td>
<td>1,000,000</td>
<td>660,000</td>
<td>1,660,000</td>
</tr>
<tr>
<td>7–8–1914</td>
<td>200,000</td>
<td>700,000</td>
<td>900,000</td>
</tr>
<tr>
<td>8–8–1914</td>
<td>380,000</td>
<td>430,000</td>
<td>810,000</td>
</tr>
<tr>
<td></td>
<td>5,742,000</td>
<td>3,132,000</td>
<td>8,874,000</td>
</tr>
</tbody>
</table>

1 in silver, with the exception of 42,800 paid in gold coins.
Source: BI/DJB 97 No. 20: 198.
in silver. The demand for cash came from clients such as the commercial banks, trading companies and “countless administrators of sugar factories, coffee enterprises etc. etc.”, and guaranteed the undisturbed continuation of business.\textsuperscript{40} It was estimated that of the total amount withdrawn only \( f 400,000 \) to \( f 500,000 \) (i.e. 12\% to 15\%) had been intended for private purposes. The hectic situation at the counter seemed to have demanded a disproportionate amount of time and effort. But satisfying the needs of the general public formed an integral part of DJB’s strategy to quell the existing unrest and restore people’s confidence as fast as possible.

After the agencies’ first reports had been received in Batavia, a preliminary balance was made up and discussed on 12 August 1914. In a week time DJB had paid out approximately \( f 12,000,000 \) in silver\textsuperscript{41} and \( f 10,000,000 \) in banknotes. (The latter amount shows that the other agencies had been less successful in persuading clients to accept a combination of banknotes and coins when withdrawing their money.) The amount of money deposited in private accounts had decreased by the relatively small sum of \( f 1,300,000 \) which was taken as an indication that the majority of transfers had served business purposes. Emergency credits had been extended to the amount of \( f 18,000,000 \) which left DJB with financial means of \( f 132,000,000 \). This proved more than sufficient since total relief support would reach a maximum of \( f 30,000,000 \) towards the end of September 1914. Zeilinga’s analysis as well as his approach to the perceived problems had been on target. DJB’s strenuous activity throughout the first week successfully stopped the panic amongst the population, and managed to keep the economy of the Netherlands Indies in gear (De Bree 1928: II 443).

\textit{The Colonial Economy after 1914}

Fear of a total economic breakdown disappeared as suddenly as it had surfaced. Life resumed its normal course with foodstuffs arriving without interruption and shipping of agricultural produce relatively unhampered.

\textsuperscript{40} The demand for cash was even higher due to a combination of circumstances. As the agent pointed out, the fasting month had just begun at which time the local population required more money to pay for food, clothes and festivities. Since the indigenous population had no use for banknotes of relatively large denominations many administrators had visited DJB to exchange paper money for coins. Being strapped for cash, companies had also closed more business deals. Land leases as well as advances on agricultural produce were thus concluded and these had to be paid in cash.

\textsuperscript{41} Java accounted for about \( f 5,000,000 \), divided between Batavia (\( \pm f 1,000,000 \)), Semarang (\( \pm f 850,000 \)) and Surabaya (\( f 3,132,000 \)). \( f 7,000,000 \) had been withdrawn in the Outer Provinces, above all on the East coast of Sumatra where agricultural enterprise (tobacco, rubber and coffee plantations) was concentrated.
After the hoarding frenzy had subsided, prices of provisions – especially rice – gradually returned to more reasonable levels. The banks abandoned their wary attitude and money was redeposited by account holders.

After an initial sharp decline, the prices paid for plantation exports started to rise significantly. Sugar prices increased 80% on average in response to soaring English demand. The import business profited from improved market prices as well which partly made up for the fact that turnover had been reduced by two-thirds. With most import houses stocked to the roof the sector seemed capable of surviving the present difficulties. (Carpentier Alting 1928: 59–62; Helfferich 1916: 172–173).

For all the sabre rattling coming from Europe, the economic situation of the Netherlands Indies did not appear particularly worrisome. In a memorandum to Governor-General Idenburg on 7 September 1914 Zeilinga wrote that no serious stagnation in trade had occurred. In general, products could still be marketed without real difficulties. He did warn the trading community, whether in import or export, that they should not ignore the fact that new markets needed to be explored. Soon, the effects of the war would make it impossible to rely on established trade routes and supply lines. “With the changing tide, a new course will have to be set.” The trading business did not have to worry, provided it actively sought alternative markets in Asia and America and, in the case of exports, would serve these markets directly from the Netherlands Indies. Zeilinga reassured the Governor-General that the colony would survive the severed economic link with the Netherlands and could benefit from an independent stance. “In time it will be shown that the Indies can take care of itself and that the Indies can do without the mother country with greater ease than the mother country without the colonies.”

Before long, Zeilinga’s assessment was confirmed. The period 1914–1918 saw an important realignment of the export and import trade with Japan and the United States as the main beneficiaries (see Table 5.7). Import provenances and export destinations shifted as shown by the opening of the Java-Pacific Line in 1915 and the Java Line of the Japanese shipping firm Osaka Shôsen Kaisha in 1916. The colonial government claimed that “commercial traffic had left long-trodden paths, sought and obtained fresh markets, and loosened ties that had existed for many years” (Carpentier Alting 1928: 65). The trade link between the Netherlands Indies and Europe had indeed been marginalized. After 1918 the trading

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42 BI/DJB 97 No. 24: 258.
43 BI/DJB 97 No. 24: 259.
mechanism partially returned to its old parameters. Europe became a prominent trading partner again, but the gains made by Asia and the United States were not lost and the economy was less exclusively geared towards the old continent.44

The neglected Japanese economic presence in the colony became visible during the exceptional economic circumstances of the period 1914–1918.45

The first Japanese probably arrived as early as 1867 when three variety artists set foot ashore in Batavia. Japan's economic involvement in the colony followed shortly after. In 1896 a Treaty on Commerce and Shipping was concluded with Japan as an outcome of which Japanese migrants were given European status in 1899. However, the number of Japanese settling in the Netherlands Indies remained limited when compared to other countries in Southeast Asia, such as the Philippines and the Straits Settlements. Two factors seem to have contributed to this difference. First, the European status denied Japanese the possibility from working as coolies which precluded large-scale labour migration. Second, the European status of the Japanese was considered an anomaly within colonial society.

Table 5.7. Geographical composition of the foreign trade of the Netherlands Indies, 1914–1922 (in millions of guilders).

<table>
<thead>
<tr>
<th></th>
<th>Europe</th>
<th>Netherlands</th>
<th>Asia</th>
<th>Singapore</th>
<th>Japan</th>
<th>USA</th>
<th>Total</th>
</tr>
</thead>
<tbody>
<tr>
<td></td>
<td>1914</td>
<td>1918</td>
<td>1922</td>
<td>1914</td>
<td>1918</td>
<td>1922</td>
<td></td>
</tr>
<tr>
<td>Imports</td>
<td>f %</td>
<td>f %</td>
<td>f %</td>
<td>f %</td>
<td>f %</td>
<td>f %</td>
<td></td>
</tr>
<tr>
<td>Europe</td>
<td>233 (61)</td>
<td>96 (18)</td>
<td>330 (48)</td>
<td>308 (48)</td>
<td>67 (10)</td>
<td>319 (28)</td>
<td></td>
</tr>
<tr>
<td>Netherlands</td>
<td>124 (32)</td>
<td>11 (2)</td>
<td>156 (23)</td>
<td>149 (23)</td>
<td>3 (-)</td>
<td>181 (16)</td>
<td></td>
</tr>
<tr>
<td>Asia</td>
<td>127 (33)</td>
<td>339 (64)</td>
<td>276 (40)</td>
<td>261 (41)</td>
<td>420 (63)</td>
<td>535 (47)</td>
<td></td>
</tr>
<tr>
<td>Singapore1</td>
<td>73 (19)</td>
<td>156 (29)</td>
<td>113 (16)</td>
<td>129 (20)</td>
<td>184 (27)</td>
<td>242 (21)</td>
<td></td>
</tr>
<tr>
<td>Japan</td>
<td>6 (2)</td>
<td>114 (22)</td>
<td>57 (8)</td>
<td>19 (3)</td>
<td>78 (12)</td>
<td>115 (10)</td>
<td></td>
</tr>
<tr>
<td>USA</td>
<td>10 (3)</td>
<td>62 (12)</td>
<td>32 (5)</td>
<td>16 (3)</td>
<td>111 (17)</td>
<td>96 (8)</td>
<td></td>
</tr>
<tr>
<td>Total</td>
<td>383</td>
<td>529</td>
<td>691</td>
<td>636</td>
<td>672</td>
<td>1,136</td>
<td></td>
</tr>
</tbody>
</table>

1 including peninsular Malaysia
Source: Carpentier Alting (1928: 102–103).

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45 The following section is based upon the research conducted by P. Post. He has discussed the topic of Japanese economic activity in several studies including his unpublished dissertation entitled: Japanse bedrijvigheid in Indonesië 1868–1942. Structurele elementen van Japan's economische expansie in Zuidoost Azië (Post 1991). The basic arguments of his research can be found in Post 1993 and 1996.
and gave rise to many problems with Dutch colonial officials. Japanese migrants were often maltreated, put in jail or refused an entry permit as officials believed them to be Chinese unlawfully demanding ‘European’ treatment. As a result the Japanese population climbed from less than 500 to 1500 between 1890 and 1910. The improvement of economic conditions around 1910 seems to have attracted more Japanese to the colony as a result of which their number rose to 4000 in 1916. After 1924 the population would rise again to approximately 6500 during the 1930s.

In order to protect and further their business interests Japanese entrepreneurs took a twofold approach. So-called Nihonjinkai (Associations of Japanese) were founded to provide mutual support. These associations served cultural, recreative and business purposes. Although their job was partly taken over by the establishment of a Japanese consulate in Batavia in 1909, they remained active. The Japanese also established close ties with the Chinese community in the Netherlands Indies. Upon their arrival Japanese merchants would live in Chinese quarters, lodge in Chinese hotels, eat Chinese food and try to establish contact with Chinese business leaders. (The latter were often connected to the large Chinese business community in Japan which had developed a strong position in the export trade of Japan towards the end of the nineteenth century.) Their Chinese connections learned the Japanese about Dutch colonial law, regional social and economic conditions, local production and demand. The economic cooperation between Chinese and Japanese would ultimately result in the establishment of Chinese-Japanese trade associations in Batavia (1913) and Surabaya (1914).

46 The Nihonjinkai were responsible for the maintenance of Japanese cemeteries as well as the funerals of destitute members of the Japanese community. They helped newcomers to find their way around and tried to manage conflicts between Japanese migrants and colonial officials.

47 The first Nihonjinkai had been established in 1897 in Medan by two owners of Toko Jepang (Japanese retail shops). Later they could also be found in Batavia, Semarang, Surabaya and Makassar.

48 The relations between Chinese and Japanese did suffer occasionally. Chinese anti-Japanese boycotts severely hampered the import and distribution of Japanese goods at various times. Their effects were however not as strong as elsewhere in Southeast Asia. The Chinese communities in the Netherlands Indies were highly differentiated which precluded the existence of a general anti-Japanese feeling. Powerful Chinese businessmen, like Oei Tiong Ham, with large interests in Japanese business also exerted their influence to subdue anti-Japanese feelings. In 1915 and 1926/27, following political incidents between China and Japan, large-scale and very violent anti-Japanese boycotts did break out, not only in the Indonesian archipelago, but also in Singapore, Siam and the Malaysian peninsula. Chinese were warned not to do any kind of business with Japanese and those that did suffered serious consequences (Fukuda Shozo 1995: 230–246, especially 231–232, 235–236; Post 1991: 162–167).
At the outbreak of the First World War 37 Japanese firms – mostly medium-sized trading companies handling a wide variety of Japanese goods – had registered in the Netherlands Indies. Most Japanese products were imported through Chinese businesses and distributed by means of Chinese networks. The war in Europe presented Japan with the opportunity to extend its commercial networks in Southeast Asia. In the Netherlands Indies large Japanese banks and trading companies, such as the Taiwan Bank, the Yokohama Specie Bank, Mitsui Bussan and Gosho, started to appear on the scene. Existing trading firms – e.g. Ogawa Yōkō, Nanyō Shōkai and Chôya & Co. – rapidly expanded their network of branches and agents. Their example was followed by the establishment of hundreds of small Japanese shops (Toko Jepang). The reliance on Chinese networks was slowly reduced. Chinese business links remained important, but would from now on be complemented by Japanese business connections who focused more on their own trade associations and institutions.

The successful redirection of commercial activity did not only benefit the Japanese. As mentioned before, it coincided with a favourable price development which enabled traders to stay in business. The importers had little to complaint. The (anticipated) dearth caused prices to rise substantially and the resulting larger profits more than compensated the smaller turnover. Old stocks continued to fetch good prices and with occasional shipments arriving from Europe the financial results remained satisfactory. Owing to increased demand export firms and plantation companies also benefited greatly from extraordinary prices, and speculation – especially in sugar – was rife. The increasing lack of sufficient cargo space came to constitute the bottleneck of trade. After 1917 large stocks started to accumulate in godowns all over the archipelago and forced sales seriously depressed the market.

Importers and exporters enjoyed a short period of unprecedented prosperity after the end of the war (see Table 5.8 and Figure 5.3). As a result of pent-up demand commodities produced were sold at fabulous prices. The quantities exported were unusually large due to the accumulated stocks of the preceding years. The windfall profits accruing from these exceptional circumstances lasted till the end of 1920 when the economy resumed a more conventional course. A fall in prices set in which continued throughout 1921, resulting in big losses for the export traders whose stocks declined in value, and the speculators who had signed forward contracts at high rates. Importers too saw their profits dwindle as they had flooded the market with goods in an attempt to regain their former
position. When big orders arrived from Europe late in 1919 and early in 1920 supplies rose to an alarming extent. Stocks were cleared at any cost and with a heavily saturated market, prices started to come down. Many import firms were forced into liquidation or obliged to reorganize their affairs.

The first signs of recovery did not manifest themselves before 1922 and it would take some years before the process of readjustment had been completed. The export sector was the first to escape the general malaise and regain high profitability thanks to the fact that world demand continued to exceed supply with regard to many of the products the colony had to offer (Dick et al. 2002: 125). This is illustrated by the following remark:

Table 5.8. Imports and exports of Java and Madura, 1913–1930: values (at constant prices $x \, f1,000$) and index numbers ($1913=100$).

<table>
<thead>
<tr>
<th>Year</th>
<th>Imports Value</th>
<th>Imports Value at constant prices</th>
<th>Exports Value</th>
<th>Exports Value at constant prices</th>
</tr>
</thead>
<tbody>
<tr>
<td>1913</td>
<td>325,664</td>
<td>100</td>
<td>351,706</td>
<td>100</td>
</tr>
<tr>
<td>1914</td>
<td>288,532</td>
<td>89</td>
<td>354,957</td>
<td>101</td>
</tr>
<tr>
<td>1915</td>
<td>276,787</td>
<td>85</td>
<td>439,884</td>
<td>125</td>
</tr>
<tr>
<td>1916</td>
<td>303,898</td>
<td>93</td>
<td>514,784</td>
<td>146</td>
</tr>
<tr>
<td>1917</td>
<td>330,681</td>
<td>102</td>
<td>457,749</td>
<td>130</td>
</tr>
<tr>
<td>1918</td>
<td>392,031</td>
<td>120</td>
<td>357,180</td>
<td>102</td>
</tr>
<tr>
<td>1919</td>
<td>521,465</td>
<td>160</td>
<td>1,418,525</td>
<td>403</td>
</tr>
<tr>
<td>1920</td>
<td>920,828</td>
<td>283</td>
<td>1,507,731</td>
<td>429</td>
</tr>
<tr>
<td>1921</td>
<td>902,800</td>
<td>277</td>
<td>663,439</td>
<td>189</td>
</tr>
<tr>
<td>1922</td>
<td>557,519</td>
<td>171</td>
<td>522,610</td>
<td>149</td>
</tr>
<tr>
<td>1923</td>
<td>457,721</td>
<td>141</td>
<td>825,879</td>
<td>235</td>
</tr>
<tr>
<td>1924</td>
<td>484,067</td>
<td>149</td>
<td>910,290</td>
<td>259</td>
</tr>
<tr>
<td>1925</td>
<td>548,222</td>
<td>168</td>
<td>845,867</td>
<td>241</td>
</tr>
<tr>
<td>1926</td>
<td>561,242</td>
<td>172</td>
<td>750,631</td>
<td>213</td>
</tr>
<tr>
<td>1927</td>
<td>574,969</td>
<td>177</td>
<td>813,923</td>
<td>231</td>
</tr>
<tr>
<td>1928</td>
<td>656,628</td>
<td>202</td>
<td>846,896</td>
<td>241</td>
</tr>
<tr>
<td>1929</td>
<td>717,784</td>
<td>220</td>
<td>714,916</td>
<td>203</td>
</tr>
<tr>
<td>1930</td>
<td>568,327</td>
<td>175</td>
<td>572,407</td>
<td>163</td>
</tr>
</tbody>
</table>

1 deflated import and export values

Yet the economic position of the Netherlands East Indies has no more regained complete equilibrium, even in 1925, than has the rest of the world. The many gaps which the War made in world-stocks are still unfilled, and this condition repeatedly causes violent fluctuations in price; the consumption of some products has increased, whereas their production has been partially suspended for some years or has not been normally extended owing to the War. Hence such commodities – we may here refer to sugar, rubber, and tea – are in a particularly favourable position at the present time.49

This assertion was certainly appropriate in 1925 when prices for many primary products were exceptionally high. Exporters were thriving and many trading companies were reaping the profit from the highly favourable market conditions (see Table 5.1 and 5.2). This greatly stimulated commercial activity. However, world price developments started to turn against

49 Quoted in Carpentier Alting (1928: 77).
the economy of the Netherlands Indies. Export prices actually lagged behind import prices and started to decline in the second half of the decade. As a result, between 1921 and 1930 the commodity terms of trade of the economy were more and more affected (see the deflated lines in Figure 5.3). Ultimately, the deterioration in terms of trade was of great consequence for the export producers in the archipelago since they had to supply ever larger quantities in order to pocket the same revenue. The colony’s exporters were unable to influence the price level on the world market. Consequently, the only sensible reaction to price changes was to seek compensation for the fall in unit prices by raising the volume of output (Dick et al. 2002: 123–125; Arnoldus 1991: 32).

Notwithstanding the dependence on exogenous factors the 1920s formed the heyday of the colonial trading system, especially with regard to exports. Economic prosperity would give rise to many instances of financial mismanagement. Frequently, the necessary capital to finance business transactions was too readily given, even when these investments were hardly warranted. Driven by unrelenting competition and unable to resist the tempting opportunities for profit during the trade boom of the 1920s, banks often supplied capital on conditions that were far from prudent. This situation lasted until the increase in the colony’s productive capacity could no longer offset the downward price movement for many of its export products at the end of the 1920s. At that point the export bubble burst, shattering the intricate financial arrangements that had made it feasible in the first place. Attempting to safeguard their substantial interests, the banks showed a willingness to support trading companies that experienced serious financial crises. They intervened directly in the affairs of their clients on a number of occasions, and/or became involved in reconstructions or liquidations of collapsing trading companies. Some banks spent the remainder of the 1930s and early 1940s trying to liquidate inherited assets in order to see some return on their investment.

In the following pages the deep financial involvement of DJB with the Kwik Hoo Tong Handelmaatschappij (KHT) – a Chinese sugar trading company – will serve as an example. DJB's special interest in this particular client dated from the 1920s when the firm neglected to settle loans due for payment. When KHT also failed to reduce its substantial overdraft, DJB started to question the company’s creditworthiness. However, it took years to discover that KHT’s financial position was fundamentally flawed and out of control. Despite direct intervention of DJB the company was forced to default on its payments and ultimately declared bankrupt. The following section examines in detail the case of KHT, focusing above all on
the company’s complicated financial relationship with DJB which lasted for about forty years and exemplifies the issues described earlier while highlighting the functioning of Dutch-Chinese commercial relations.

The Kwik Hoo Tong Handelmaatschappij: A Prominent Chinese in Sugar

On Tuesday 17 July 1894 five Chinese businessmen entered the office of public notary Houthuysen in Semarang, where they were awaited by B.V. Houthuysen himself. Two clerks, witnesses to the official procedure about to take place, were present as well. After the exchange of courtesies the visitors were invited to sit, whereupon a draft document was read aloud in Malay to make sure that its contents were fully understood. When no questions were asked, the document was signed forthwith by all those present. The legal requirements for the establishment of a new trading firm had thus been met after which the meeting quietly broke up. The deed of partnership was subsequently submitted to the Governor-General’s office in Batavia, where it was approved on 18 September 1894. Six days later, on 24 September 1894, the new firm was officially registered at the Council of Justice in Semarang. The company’s articles of association were finally published – as demanded by law – in De Javasche Courant of 19 October 1894.

These articles show, that the limited liability company Kwik Hoo Tong Handelmaatschappij (Trading Company Kwik Hoo Tong, Ltd) – operating under the brand name Gim Mo Ho or short Gim Mo50 – was formally established on 1 June 1894 in Solo, Central Java, with an issued share capital of f 200,000. The main purpose of the company was: “the trade in sugar, tea, rice, and other articles to be designated by a majority of shareholders”. The company was to be dissolved automatically after eighty years, on 31 May 1974. This period of time suggests the commitment of the initial shareholders to invest on a long-term basis. The five signatories of KHT’s memorandum of association represented the company’s sole shareholders. They

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50 The words Gim Mo stand for a ‘prosperous’ or ‘bright future’. The word Ho means ‘shop’. The brand name Gim Mo Ho translates as ‘shop with a prosperous/bright future’. By choosing this name, the founders indicated that they were confident in the success of their venture and probably hoped to instil a degree of trust in their enterprise among potential customers. It would take until 1905 before the name of the brand would actually appear in the name of the company. On 29 December 1905 KHT was officially renamed “Kwik Hoo Tong Handel Maatschappij (merk Gim Mo)” (Handboek Cultuur- en Handelszondereingen 1897: 525; De Javasche Courant, 23-02-1906). See Vleming (1926: 25–28) for the Chinese practice of giving enterprises and brands a well-sounding name.
were known to notary Houthuysen as merchants by the name of Kwik Hong Biauw, Kwik Djoen Eng, Kwik Ing Djie, Kwik Ing Sien and Kwik Ing Hie\(^{51}\) which made KHT a family enterprise.\(^{52}\) They had an equal 20\% share in KHT by investing f 40,000 either in cash or merchandise. Furthermore, a house – valued at f 12,000 and located in the Chinese quarter of Solo – was brought into the partnership by Kwik Hong Biauw (Box 5.1 and 5.2).\(^{53}\)

Box 5.1. Genealogy of the Kwik family

<table>
<thead>
<tr>
<th>Kwik Kay Hoh</th>
<th>Kwik Ing Djie / Sien / Hie</th>
</tr>
</thead>
<tbody>
<tr>
<td>Kwik Hoo Pak</td>
<td>Kwik Hoo Tong</td>
</tr>
<tr>
<td>Kwik Djoen Eng</td>
<td>Kwik Hong Biauw</td>
</tr>
<tr>
<td>Kwik Bok Ay</td>
<td>Kwik Bok Ke</td>
</tr>
<tr>
<td>Kwik Siang Kaw</td>
<td>Kwik Siang Ling</td>
</tr>
<tr>
<td>Kwik Siang Go</td>
<td>Kwik Siang Kie</td>
</tr>
<tr>
<td>Kwik Bok Gwan</td>
<td>Kwik Siang</td>
</tr>
</tbody>
</table>

N.B.: The arrows indicate a (suspected) family and working relationship.

Source: genealogy Kwik family; interview Kwee Hui Kian, 19 July 2002.

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\(^{51}\) How they were related to each other remains unclear. A genealogy of the Kwik family – provided by courtesy of E. Weinberg, a far descendant of Kwik Djoen Eng – shows that Kwik Hong Biauw and Kwik Djoen Eng were cousins. The names of Kwik Ing Djie, Kwik Ing Sien and Kwik Ing Hie suggest that they might have been brothers, although the fact that they shared the same generation name (i.e. Ing) does not rule out the possibility that they were more distant relatives. See Vleming (1926: 19–24) for the intricate Chinese custom concerning personal names.

\(^{52}\) A family enterprise is characterized by the fact that its management is (at least partly) in the hands of the capital-owning family. In other words, capital and management are not (completely) separated, which allows for a great variety of company structures. A family business can be defined pragmatically as an enterprise (partly) owned by a family, allowing members of this family to influence company policy through the occupation of at least one important management position (Arnoldus 2002: 203–204).

\(^{53}\) This brick house with a yard was bought by Kwik Hong Biauw at a public auction on 1 May 1868 for f 6,040. He presumably conducted his own trading business from here.
Box 5.2. KHT’s share capital and participants over time (1894–1916)

<table>
<thead>
<tr>
<th>Year</th>
<th>Total share capital (f)</th>
<th>Participants</th>
<th>Number of shares (x f1,000)</th>
</tr>
</thead>
<tbody>
<tr>
<td>1894</td>
<td>200,000</td>
<td>Kwik Hong Biauw</td>
<td>40</td>
</tr>
<tr>
<td></td>
<td></td>
<td>Kwik Djoen Eng</td>
<td>40</td>
</tr>
<tr>
<td></td>
<td></td>
<td>Kwik Ing Djie</td>
<td>40</td>
</tr>
<tr>
<td></td>
<td></td>
<td>Kwik Ing Sien</td>
<td>40</td>
</tr>
<tr>
<td></td>
<td></td>
<td>Kwik Ing Hie</td>
<td>40</td>
</tr>
<tr>
<td>before</td>
<td>200,000</td>
<td>Kwik Hong Biauw</td>
<td>54</td>
</tr>
<tr>
<td>1899</td>
<td></td>
<td>Kwik Djoen Eng</td>
<td>40</td>
</tr>
<tr>
<td></td>
<td></td>
<td>Kwik Ing Djie</td>
<td>53</td>
</tr>
<tr>
<td></td>
<td></td>
<td>Kwik Ing Sien</td>
<td>53</td>
</tr>
<tr>
<td>1899</td>
<td>200,000</td>
<td>Kwik Hong Biauw</td>
<td>54</td>
</tr>
<tr>
<td></td>
<td></td>
<td>Kwik Djoen Eng</td>
<td>40</td>
</tr>
<tr>
<td></td>
<td></td>
<td>Kwik Bok Tjay</td>
<td>53</td>
</tr>
<tr>
<td></td>
<td></td>
<td>Kwik Ing Sien</td>
<td>53</td>
</tr>
<tr>
<td>1903</td>
<td>200,000</td>
<td>Kwik Hong Biauw</td>
<td>107</td>
</tr>
<tr>
<td></td>
<td></td>
<td>Kwik Djoen Eng</td>
<td>40</td>
</tr>
<tr>
<td></td>
<td></td>
<td>Kwik Bok Tjay</td>
<td>53</td>
</tr>
<tr>
<td>1909</td>
<td>700,000</td>
<td>Kwik Hong Biauw</td>
<td>317</td>
</tr>
<tr>
<td></td>
<td></td>
<td>Kwik Djoen Eng</td>
<td>180</td>
</tr>
<tr>
<td></td>
<td></td>
<td>Kwik Bok Tjay</td>
<td>173</td>
</tr>
<tr>
<td></td>
<td></td>
<td>Kwik Bok Ay</td>
<td>30</td>
</tr>
<tr>
<td>1911</td>
<td>1,000,000</td>
<td>Kwik Hong Biauw</td>
<td>420</td>
</tr>
<tr>
<td></td>
<td></td>
<td>Kwik Djoen Eng</td>
<td>250</td>
</tr>
<tr>
<td></td>
<td></td>
<td>Kwik Bok Tjay</td>
<td>250</td>
</tr>
<tr>
<td></td>
<td></td>
<td>Kwik Bok Ay</td>
<td>50</td>
</tr>
<tr>
<td></td>
<td></td>
<td>Kwik Bok Ke</td>
<td>30</td>
</tr>
<tr>
<td>1916/17</td>
<td>4,000,000</td>
<td>Kwik Djoen Eng</td>
<td>3,700</td>
</tr>
<tr>
<td></td>
<td></td>
<td>Kwik Tiauw Sin</td>
<td>250</td>
</tr>
<tr>
<td></td>
<td></td>
<td>Kwik Bok Ay</td>
<td>50</td>
</tr>
<tr>
<td>1919</td>
<td>4,000,000</td>
<td>Kwik Djoen Eng</td>
<td>4,000</td>
</tr>
</tbody>
</table>

Source: BI/DJB 1802; De Javaasche Courant, 19-10-1894, 11-09-1903, 08-04-1909, 19-09-1911, 05-12-1916.
The five Kwik relatives had been operating their own businesses for many years. Kwik Ing Djie († 1899), Kwik Ing Sien († 1903) and Kwik Ing Hie († before 1899) seem to have largely withdrawn from the trading scene by the time of KHT’s establishment. They acted as silent partners and refrained from active participation in the business of KHT. Their financial interest in the family enterprise probably reflected an investment opportunity for surplus capital. The legal incorporation of the separated Kwik family business interests was masterminded by Kwik Ing Sien, who was rewarded a lifelong extra share of the annual profit (1/22nd part to be exact, or approximately 4.5%). His brother (?) Kwik Ing Djie was given the position of procurator with the power of attorney, which enabled him to keep a close eye on the company’s nominal capital.

KHT’s management was entrusted to Kwik Hong Biauw, who was appointed Director for an unlimited period of time. He operated from Solo, where he had been running his own trading business for more than 25 years. It was explicitly stated that the director would manage the partnership “without supervision of commissioners”, and he probably saw little of Kwik Ing Djie who lived and worked in Boyolali, to the west of Solo, as a well-respected member of the Chinese community.\[^{54}\] There was little or no control over the director’s decisions; the only occasion where he could be held accountable was the annual shareholders’ meeting. Kwik Hong Biauw was the undisputed head of the firm, though his position was to some extent mirrored by Kwik Djoen Eng, head of KHT’s office in Yogyakarta. He had started out for himself in 1877 under the supervision of an uncle. Though formally placed under the control of the director, he was allowed to act semi-independently.

The management structure of KHT seems to have resembled the actual situation before the trading enterprises of Kwik Hong Biauw and Kwik Djoen Eng were amalgamated. This is also indicated by the fact that there was no mention of a head office. KHT’s only two offices, in Solo and Yogyakarta, were officially described as *agentschappen* (agencies) although the enterprise was formally established in Solo. By joining forces Kwik Hong Biauw and Kwik Djoen Eng successfully incorporated their own businesses into a single, larger and – above all – better capitalized trading firm in response to a continued growth in trading operations.

\[^{54}\] Kwik Ing Djie was made ward master (*wijkmeester*) in the sub-district of Djatinam, Boyolali around 1885, and appointed Lieutenant of the Chinese in Boyolali on 18 June 1888 until his death in 1903. Being the highest Chinese officer rank in the area, this title attests to his high social status (*Regeeringsalmanak* 1885 2: 175; 1890 2: 211).
(Feldwick 1926: 599). Existing financial resources had no longer sufficed to sustain further growth and loan capital needed to guarantee future development.

The two cousins must have turned to their families for access to long term capital, as customary within the Chinese community. They had little option, since the commercial banks active in the Netherlands Indies at the time would only supply short-term funds to Chinese entrepreneurs. Fortunately, three relatives invested the large amount of f 120,000 into their trading firms, provided they would be turned into a limited liability company. Why was this condition set? The choice for incorporation is usually made to improve chances of raising funds for investment (Dick et al. 2002: 141). However, in this particular case the potential investors had already been found. Moreover, the partnership was established under the condition that only Chinese could participate. The shareholders, director, substitutes, as well as the appointed representatives of shareholders at the annual meeting, were all explicitly required to be of Chinese descent.

Limiting the involvement of outside investors denies the very rationale of incorporation and makes it clear that to all intents and purposes KHT was a family business and its founders preferred to keep it that way (Brown 1994: 256).55 One of the reasons to choose this kind of legal arrangement was because of the enhanced legal protection it offered those risking their money in uncertain business ventures. Since participants could not be held liable for more than the amount they had invested, they were better shielded from creditors demanding payment, but also from potentially disruptive family feuds. (Especially with regard to complicated issues of succession which have been called the Achilles heel of the family enterprise). The validity of the protection argument becomes evident when looking at KHT’s detailed articles of association. These state each participant’s share in the company and carefully describe their respective rights and obligations. In addition, it was stipulated that all matters regarding the trading partnership would fall under the jurisdiction of the Council of Justice in Semarang. Future disputes would therefore be judged according

55 The ‘improper’ use of incorporation was a marked feature of business life within the Netherlands as well. At the end of the nineteenth century many family companies were incorporated not to facilitate the accumulation of large capital stocks, but to escape personal liability or benefit from fiscal opportunities (Camfferman 2000:78–81). Contemporary opinion in the Netherlands Indies was well aware of such considerations. See Vleming (1926: 70–72, 74–86) and A.D.A. Kat Angelino on Chinese intermediate trade and Chinese limited liability companies (IISG/NEHA/Collection Vleming, 17, p. 58–65).
to European commercial law which evidently was considered the best possible safeguard.

Establishing a limited liability company was also helpful in gaining access to European business networks. This was of special importance to KHT, since the production of sugar – the company’s most important trading product⁵⁶ – was dominated by European entrepreneurs (Hudig Dzn 1886). Though the partners traded in a range of products, the sugar trade constituted the core of their business. There are several indications for this. First of all, it was the first product mentioned in the company’s stated objectives. Second, the books were to be balanced each year on the 31 May, or “as early as the sugar of the previous oogstjaar (harvest year) is realized.” Third, A.B. Andreas was appointed the company’s representative in dealings with the government. The administrator of the sugar factory Tjepper, located between Solo and Yogyakarta, was most likely one of the Kwik family’s sugar suppliers. He requested the Governor-General to approve the establishment of KHT and must have been a long-standing and trusted business partner.

The question remains what the five Kwik members hoped to achieve by investing such a considerable amount of their own money into the new trading firm. The provisions regarding the distribution of KHT’s profits shed some light on this. These stipulated, in the first place, that 20% of annual profits would be retained and paid into a special reserve account which would have to cover any sustained loss. The account’s limit was set at f 100,000. Together with the initial f 200,000 of share capital the company’s total capital resources would therefore ultimately stand at f 300,000. This level of capitalization would have to provide KHT enough leverage to conduct its trading business. Secondly, the remaining 80% of annual profits would be given to the existing shareholders through the payment of dividend. The only exception to this rule was the statutory remittance of 1/22nd part (i.e. 4.5%) of this percentage to the kongsie Ki Oe Kong, situated in the hometown of the Kwik family near Amoy (Xiamen) in South China.

The annual dividend was set at 6% which meant that each shareholder would receive at least f 2,400, save for Kwik Ing Sien who could expect f 3,000 each year on account of the extra percentage awarded to him as KHT’s founder. Should profits be insufficient, the shareholders were entitled to use the reserve account to make up for the difference. This dividend stabilization scheme shows that KHT’s investors valued a regular

⁵⁶ BI/DJB 103 No. 22: 143.
income. Some might even have depended on this revenue. The clause also shows that the shareholders anticipated a considerable return on their investment. It can be calculated that the annual profit was expected to amount to $16,500 or more, a minimum profitability rate of 8.25% on a paid-up capital of $200,000. This indicates that KHT was perceived to be a viable and lucrative enterprise. Whether such optimism was warranted and financial participation in KHT proved to be worthwhile remained to be seen.

*Kwik Djoen Eng: A Life in Business*

The family name Kwik originated from the coastal district of Fujian – or Hokkien as the local population called it – in South China opposite Taiwan. The correct Mandarin pronunciation of the family name is Guo which was spelled in the Netherlands Indies as Que, Kwee or Kwik, because of the phonetic interpretation of the name when pronounced in the Hokkien dialect. When referring to KHT and/or its founders the name was uniformly spelled as Kwik. Members of this clan migrated to Java as early as the seventeenth century, and were active as merchants in Batavia and Semarang (see Chapter 4, Note 2). However, the founders of KHT were no descendants of these pioneers as they arrived in Java during the second half of the nineteenth century.

As mentioned above, Kwik Djoen Eng and Kwik Hong Biauw were identified by notary Houthuysen as traders, who had been in business for quite some time. Little is known about Kwik Hong Biauw, but Kwik Djoen Eng’s career can be described in some detail. Kwik Djoen Eng (Guo Chunyang in the Mandarin pronunciation) was born in 1859 in a small village in Tongan county a few kilometres north of Amoy (Xiamen) in South China. As the third and youngest son of Kwik Hoo Pak, he hardly knew his father who died at an early age. Kwik Djoen Eng was given into the custody of his grandmother with whom he spent his childhood (see Box 5.1). Without an income earner the Kwik family was poor if not destitute. Economic hardship was part of daily life, affecting all family members regardless of their age. Even the youngest suffered and little Djoen Eng often had only one meal a day and sometimes not even that. Everyone had to contribute

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57 Man-Houng Lin (2001) describes his career on the basis of Japanese and Taiwanese sources.
58 Contemporaries interpreted the name of the village as Liao Tang Sia, situated in the district Tjwan Tjoe Hoe, which was part of the county Tang Oea Kwan (i.e. Tongan) (*De Javasche Courant*, 19-10-1894).
in order for the family to survive. In 1870, at the age of eleven Kwik Djoen Eng’s was sent to work in the nearby town of Tongan, where he spent his entire adolescence.

In 1877 Kwik Djoen Eng moved to Java where he worked under the guidance of his uncle Kwik Hoo Tong (Guo Hedong), a younger brother of his father (Man-Houng Lin 2001: 986). Kwik Hoo Tong had migrated to Semarang around the middle of the nineteenth century and managed to build up a business after years of hard work. At the time of Kwik Djoen Eng’s arrival, he operated a trading firm, modestly capitalized at $13,000. His son, Kwik Hong Biauw, had followed in his father’s footsteps by establishing his own business career in Solo around 1868. Kwik Djoen Eng learned the tricks of the trade by travelling in the interior of Central Java, one of the many petty traders roaming the countryside. He did not trade merely on behalf of his uncle and conducted his own business on the side. Kwik Hoo Tong helped his nephew in this respect by extending credit in the form of merchandise, as was customary among Chinese (Feldwick 1926: 599; De Vries 1929: 195–196; Van Gutem 1919: 123–127).

Starting without a penny to his name, Kwik Djoen Eng had to proceed carefully during the first years of his trading activities. He initially focused on accumulating capital which would allow him to expand his business. This strategy was successful, because after ten years of saving Kwik Djoen Eng could extend his interests from trading local produce to importing tea from Taiwan. This move showed his keen eye for new markets and demonstrated a transnational attitude which owed as much to his enterprising spirit as to his position as a newcomer – Totok or Singkeh – within Indonesian society. The view that Chinese entrepreneurs in the Netherlands Indies were incapable of accumulating adequate liquid capital, habitually avoided risks and generally eschewed long-term and outside investments most certainly did not apply to this young businessman in his late twenties (Post 2002: 279).

Kwik Djoen Eng first visited Taiwan in 1888 to examine investment opportunities. Baozhong tea, the kind of tea grown and processed in

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59 BI/DJB 1409 Confidential and secret correspondence Solo branch office, 09-02-1916; Kwik genealogy (in possession of the author).

60 In 1919 a secret Japanese report described Kwik Djoen Eng as little more than a coolie upon his arrival in Java (Man-Houng Lin 2001: 992).

61 Though able to communicate in Malay, Kwik Djoen Eng very much remained a Hokkien Chinese who signed his name in Chinese characters and had himself portrayed while reading Chinese literature (De Javasche Courant, 19-10-1894, 11-09-1903, 08-04-1909, 19-09-1911, 05-12-1916; Feldwick 1917: 1094).
Taiwan, had become popular among the overseas Chinese in Southeast Asia as the quality and export of tea grown on the eroded soils of Fujian diminished. With half a million Chinese living in Indonesia (Ong Eng Die 1943: 34–36), there was a huge market for this product. Kwik Djoen Eng’s entry into this new business was facilitated by the fact that Taiwan was part of the Chinese empire and inhabited mainly by Hokkien-speaking Chinese as the island was located off the Fujian coast (Roy 2003: 11–31). In other words, when he became interested in the tea trade, Kwik Djoen Eng participated in the same Fujianese subculture to which he had been born (Ong Eng Die 1943: 29–34).

Kwik Djoen Eng set out to build up a thriving tea import business. The merchandise was bought in Taiwan and shipped to Semarang through the port of Amoy (Xiamen) in China. Replicating his cautious business strategy in Java, he did not move immediately into tea production for fear of overburdening his limited capital resources. In 1899, Kwik Djoen Eng’s business was not yet listed under the sixteen main Baozhong tea firms in Tatoitia, the centre of the Taiwanese tea trade near the capital of Taipei. Here, he had established himself under the name Jinxiang. However, he already possessed a reputation as a “skilful trader”. This qualification was used in a Mitsui report of 1898 which analyzed the Taiwanese tea market and identified Kwik Djoen Eng as one of the players on the scene. At the time Kwik Djoen Eng had already returned to Java from where he continued to manage his commercial interests in the following decades. He would only sporadically return to Taiwan which did not prevent him from expanding and diversifying his tea interests, and transforming his Jinxiang company into one of Taiwan’s leading Baozhong tea cultivators cum exporters.

Operating from Yogyakarta in South Central Java, Kwik Djoen Eng also traded in a variety of agricultural products such as sugar, tea, rice, coconut oil and charcoal. He decided to work independently from his uncle some time before his trip to Taiwan, although it remains unknown when

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62 Mitsui Bussan Kaisha (Mitsui Trading Company) was the foremost Japanese trading company before the Second World War. Founded in 1876, the firm was in fact an amalgamation of the trading activities of the Mitsui family whose business roots dated from the beginning of the seventeenth century. Towards the end of the nineteenth century Mitsui Bussan Kaisha had become one of the world’s leading trading firms with branch offices in Singapore, Hong Kong, Bombay, Surabaya, London, Paris, New York, Sidney and the major Chinese cities. The company began selling tea from Taiwan to the United States in 1898 and soon dominated the trade (Man-Houng Lin 2001: 987, 1008; Post 1991: 36–37).

63 BI/DJB 1412 Confidential and secret correspondence Yogyakarta branch office, 24-04-1894; Handboek Cultuur- en Handelsondernemingen 1896.
exactly he started his own business. With few financial resources, Kwik Djoen Eng’s success or failure in business depended on his trading skills. Unlike his cousin Kwik Hong Biauw, who had been trading longer and was considered more creditworthy, he did not have access to credit from the banks.\textsuperscript{64} He managed to increase his working capital by ploughing profits back into his trading firm. This process took years to pay off, but by the beginning of the 1890s he had earned himself widespread recognition as a skilful businessman with a bright future.

The extent to which Kwik Djoen Eng had risen from his humble origins becomes clear from the comments of M.H. Roos, DJB’s office manager in Yogyakarta, in a letter to Batavia on 24 April 1894.\textsuperscript{65} In this note – marked confidential – he informed his superiors that he had been approached by Kwik Djoen Eng a few days before with a credit request. Roos was strongly in favour of accepting Kwik Djoen Eng as a new client, even though he had never met him before, arguing that he knew Kwik Djoen Eng as a highly regarded trader, who quietly went about his business and slowly but surely had succeeded in expanding his business.

Roos was so eager to have Kwik Djoen Eng as a client that he asked for permission to discount all acceptances to the order of Kwik Djoen Eng, although the latter had never asked for such ample leeway. The purpose of his visit to Roos had been to discuss the possibility of discounting acceptances signed by Tan Tiong Hap, a trader from Ngawi with whom he had conducted business for many years. Payable in three, four or five months, these acceptances never totalled more than f10,000 and, according to Kwik Djoen Eng, had always been paid in time. The initial amount of credit requested was therefore quite modest and clearly demarcated.

The use of acceptances was customary within the trading system. It served to facilitate links between wholesale and retail trade, and constituted little more than a written promise to pay someone a certain amount within a specified period of time. Upon delivery of goods the retailer would accept the merchandise by signing an IOU to the name of the wholesale supplier, after which the goods changed hands. This system of deferred payments enabled traders like Tan Tiong Hap to continue their

\textsuperscript{64} As a client of DJB’s branch office in Solo, Kwik Hong Biauw could finance and expand his trading activities with the help of an overdraft facility secured by a mortgage on several pieces of property. This credit was furthermore guaranteed by Kwik Ing Sien and Kwik Ing Djie who stood surety for their relative and thereby took responsibility for the latter's debt to DJB (BI/DJB 66 No. 72: 12; BI/DJB 66 No. 85: 127; BI/DJB 66 No. 96: 182).

\textsuperscript{65} BI/DJB 1412 Confidential and secret correspondence Yogyakarta branch office, 24-04-1894.
business in the countryside, and pay off their debt from the future sale of goods. The time gap between purchase and payment was thus filled by means of a wholesale supplier's credit. This had two major disadvantages. First of all, there was an obvious risk. Acceptances – i.e. IOU's – were not secured. The system was ultimately based on trust. If, for whatever reason, a borrower failed to meet his obligations, no one else could be held liable and the creditor might find himself holding a worthless piece of paper. Second, the regular and extensive use of acceptance credit (momentarily) deprived the creditor of substantial capital resources, that might be needed for the continuation of his trading business or could have been used for other more productive purposes.

Defaulting clients and/or liquidity shortages were recurring problems. Kwik Djoen Eng was no exception, as shown by his decision to turn to DJB for credit assistance. In so doing, he admitted to a shortfall in cash and a need for outside capital. His business had been supported by a capital base, whose increase depended on retained profits. This re-investment strategy no longer sufficed as any expansion in trading presupposed rising levels of credit extension. With more of the company's resources tied up, a capital injection was required to enable undisturbed business progress.

The solution to this problem was usually found in discounting acceptances by one of the commercial banks. This way the bank would advance money to the wholesaler on the basis of retailers' IOU's. In other words, by agreeing to discount acceptances of Tan Tiong Hap to the order of Kwik Djoen Eng, DJB would in effect advance Kwik Djoen Eng the same amount – minus interest – he expected to receive from the former in the near future. Acceptances used for this purpose were subsequently transferred to the agency concerned, where this so-called handelspapier (trading paper) was kept as collateral. Should Kwik Djoen Eng neglect to pay his debt, DJB would still be able to recover the loan by cashing in the IOU signed by Tan Tiong Hap at its date of expiration. However, should Tan Tiong Hap be unable to pay, DJB would find itself without additional security. This explains why Kwik Djoen Eng assured Roos that he had known Tan Tiong Hap for a long time and stressed that the latter had always honoured his commitments and could therefore be relied upon.

The agent did not have to take the trader's word on the reliability of his debtor. He might require additional surety by asking for the signature of one or two creditworthy persons, who could act as guarantors. If need be, the loan was to be taken over by these trusted individuals whose financial solvency ultimately guaranteed successful debt repayment. Given the interests at stake, the choice of persons had to be approved by the agent.
granting the loan. However, the high incidence of defaults and bankruptcies amongst traders made it clear that this elaborate system was far from waterproof. With everyone vouching for each other, the downfall of one trader could very easily snowball into a wave of business failures. Unable to monitor exactly who acted as guarantor for whom, the agent had no option but to trust his own judgment when assessing the possible risks attached to a loan application. More often than not, it was simply a matter of personal opinion which decided whether a trader was considered trustworthy enough.

As DJB’s appointed agent in Solo, Roos confronted these issues the moment Kwik Djoen Eng set foot in his office. Since both men had never been professionally involved, Roos lacked intimate knowledge of the applicant’s state of affairs. To determine whether Kwik Djoen Eng was acceptable as a customer, he had to rely heavily upon the opinion of others. He soon came to the conclusion that Kwik Djoen Eng’s approach to business was viewed very positively and – even more importantly – that his creditworthiness seemed solid. What persuaded him to accept the proposed deal was a letter of recommendation written by public notary W.L. de Wilde, whose services – according to Roos – had been used by Kwik Djoen Eng repeatedly. Given his profession, De Wilde’s opinion counted, and since he was also DJB commissioner in Yogyakarta, his judgement carried even more weight.

Being in close and frequent contact with Roos, De Wilde’s support was of crucial importance to Kwik Djoen Eng. Before seeing Roos, he therefore paid De Wilde a visit on 20 April 1894 requesting that he put in a good word for him. The next day Roos received a letter, which he forwarded to Batavia with the remark that he completely agreed with its content.

Amice Roos,

Kwik Djoen Eng spoke to me yesterday, regarding acceptances to his order he wished to discount at the Bank. Since the man, as far as I know, is an honest merchant, I gladly comply with his request to recommend him to You. In my opinion You can safely take acceptances endorsed by him to an amount of f 25,000.

Regards

W.L. de Wilde

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66 Handboek Cultuur- en Handelsondernemingen 1896.
67 BI/DJB 1412 Confidential and secret correspondence Yogyakarta branch office, 24-04-1894.
On the basis of this information from Yogyakarta, President and Directors of DJB were happy to accept Kwik Djoen Eng as a new customer without even demanding additional security. Naturally, Kwik Djoen Eng must have been delighted when he received word from Roos that his request for credit assistance had been granted. The decision not only enabled him to expand his business, but also awarded him greater leverage than he had envisaged. (After all, Tan Tiong Hap's acceptances had never exceeded f10,000.) Taking the f40,000 he put into KHT a few months later as an indication of his financial resources, the f25,000 he could now call upon strengthened his financial scope considerably. Under normal circumstances, i.e. by means of retained profits alone, such a large increase in capital would have taken years to accomplish. In addition, the fact that Kwik Djoen Eng had been accepted by the colony’s most prestigious bank as a client affirmed his growing reputation as a trader.

A few weeks later Kwik Djoen Eng and his cousin Kwik Hong Biauw decided to convert their trading firms into a single enterprise named after their uncle and father Kwik Hoo Tong. Little is known about the initial period of KHT’s existence, although the company did not make a strong start. In December 1894, for instance, DJB’s agent in Solo reported that Kwik Hong Biauw had not been doing very well. The President and Directors concluded that a watchful eye should be kept on his affairs. They suspected that business problems might have been the reason that he had turned his trading enterprise into a limited liability company in the first place.68 The information received from Yogyakarta regarding Kwik Djoen Eng did not warrant great optimism either. In July 1895 Roos informed Batavia that KHT’s Yogyakarta branch office had closed its first year with a turnover of approximately f700,000 with a profit of about f9,000. A profitability rate of less than 1.5% was far from satisfactory “in view of the risk connected to sales”. However, it was decided that these meagre results did not give cause for any change in DJB’s policy concerning KHT.69

This attitude can be understood by taking account of the fact that KHT’s clientele was of great significance for the Solo and Yogyakarta branch offices of DJB. Both depended for a substantial part of their earnings on business generated by KHT. According to an inspection report, dated 13 November 1895, KHT was DJB’s foremost client in the Principalities and the only one to be granted advances secured by lien on merchandise. Commercial banks like DJB favoured the extension of credit on the basis

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68 BI/DJB 66 No. 99: 188.
of merchandise, since it allowed them to recover (part of) their loans by selling the goods placed under their control in case of payment difficulties. These goods were therefore inspected regularly to make sure that the advances were still adequately secured. KHT had been extended credit against sugar and rice, all of which turned out to be in place after close inspection. Special attention was also given to Kwik Hong Blauw himself, because of his suspected motives for participation in KHT, but both his personality as his business were considered impeccable and of “undisputed trustworthiness”.70

According to KHT’s articles of association the company’s main purpose was to trade in sugar, tea, rice, and other articles. KHT’s activities did not yet include the production and import of tea from Taiwan. Kwik Djoen Eng continued to run this business separately until 1909, although tea retailing within Central Java was conducted under the auspices of KHT.71 Throughout this entire period, the records of DJB do not show a single entry regarding the tea trade. Whether Kwik Djoen Eng financed his extensive tea interests himself, or managed to find other financiers remains unclear, although he did develop close ties with the Bank of Taiwan after its establishment by the Japanese government in 1899 to support the economic development of Taiwan (Van Horn et al. 2000: 186; Man-Houng Lin 2001: 1004–1005).72

KHT’s core business after its establishment was the retail trade of goela batoe or broksuiker (lump sugar) which it produced itself in Yogyakarta. Later the company successfully expanded this business and came to operate several factories throughout Central Java.73 KHT was also very active in the import and distribution of rice. Most rice was imported from Saigon via Java’s southern port of Cilacap, although rice from West Java’s Preanger region was traded as well. DJB was closely involved in financing both businesses, normally granting KHT advances of 75% to 80% of the market value.74 The maximum credit extended was set at f300,000, divided evenly

70 BI/DJB 68 No. 74: 59–61.
71 De Javasche Courant, 08-04-1909.
72 Taiwan became a colony of Japan in 1895 after the conclusion of the Sino-Japanese war (1894–95) and would remain so until the end of the Pacific War in 1945 Roy (2003: 32–54).
73 BI/DJB 1346 Confidential and secret correspondence Semarang branch office, 07-08-1912; BI/DJB 103 No. 103: 143.
74 Numerous entries in the minutes of DJB’s weekly Board meetings in Batavia attest to the bank’s deep involvement in financing the trading activities of KHT. For instance, between 1901 and 1906 over thirty advances secured by lien on agricultural produce were discussed and approved of by the President and Directors. Almost two thirds of these
between the Solo and Yogyakarta office. Kwik Djoen Eng and Kwik Hong Biauw could therefore dispose of f 150,000 each with a limit of f 100,000 for sugar and f 50,000 for the trade in rice and other articles. This confirms that sugar was the company’s main activity utilising most of its capital resources. Other products, e.g. *kacang kedele* (soy beans) and white beans appear to have been traded only for swift returns. DJB would extend modest advances between f 10,000 and f 30,000 on these products.

For about twenty years the overdraft facilities granted to KHT remained basically the same with little or no change in the percentages advanced or in the total amount of credit extended. Credit limits were sometimes relaxed when specifically requested, but such requests were rare and only granted as a temporary measure. Nevertheless, KHT’s business activities did expand slowly, turning in a profit judged by the company’s increasing capitalization. At the end of the financial year 1901/02 KHT was capitalized at f 301,000, a sizeable increase compared to the initial f 200,000 invested in 1894. The company’s capital had thus gained f 101,000, made up of f 30,000 in reserves and f 71,000 in deposit accounts. Deposits of this kind consisted of paid out profit which belonged to one or more of the partners, but had not been withdrawn from the company. Though regarded as long-term assets, these accounts really constituted short-term capital at temporary disposal. Reserves had been built up by putting aside twenty percent of each year’s profit, from which can be deduced that KHT’s accumulated profits had reached f 150,000, i.e. an average of f 18,750 over the past eight years. This amount surpassed the f 16,500 annual profit deemed feasible by the Kwik relatives at the time of incorporation.

By these standards KHT proved a viable enterprise, even though its balance sheet of 1901/02 had shown a loss of f 11,000 which had been compensated by the reserve account. This particular shortfall came entirely from the Solo office, since the office in Yogyakarta had managed to make a profit. Nevertheless, with cash reserves of f 41,000 KHT could withstand a financial downturn. At this point, KHT’s financial resources – estimated at an impressive f 600,000 including the overdraft facilities provided by DJB – sufficed to allow further expansion. From 1902 KHT started to export sugar to China and Japan for which purpose storage facilities in Semarang and Surabaya were acquired. In both cities, KHT turned to DJB for new

requests for credit – twenty in total – originated from Kwik Hong Biauw and had been passed on for approbation by DJB’s agent in Solo (BI/DJB 75–85).

75 BI/DJB 85 No. 26: 287.
76 BI/DJB 77 No. 65: 29, No. 69: 40.
advances against sugar in storage. These were granted under the condition that all DJB agencies involved in assisting the company (i.e. Solo, Yogyakarta, Semarang and Surabaya) were to inform each other weekly on the status of their respective credit arrangements with KHT.\(^{77}\) This was to prevent KHT’s total debt account from spiralling out of control.

This new course paid off as the net result over 1902/03 increased \(f\)100,000 compared to the year before. Kwik Djoen Eng reported that total profit amounted to \(f\)89,000 to which the Solo office had contributed \(f\)26,000 and the Yogyakarta office \(f\)63,000. In line with the changing emphasis from imports to exports, far less capital had been employed to achieve this “magnificent result”. Solo deployed \(f\)220,000, whereas Yogyakarta worked with a capital of \(f\)145,000. Unlike the import business, where low profitability and high turnover went hand in hand, exporters could do more with less capital because of the absence of supplier’s credit and swift and more regular payment. This explains why KHT’s turnover of \(f\)700,000 during the year 1894/95 had seen a meagre profitability rate of less than 1.5%. This situation was reversed in 1902/03, when a profitability rate of 24% was achieved with \(f\)365,000.\(^{78}\)

In the following years the financial results of KHT proved equally impressive. In 1905 KHT closed its books with a staggering profit of \(f\)396,000 leaving the company capitalized at \(f\)575,000. Of this amount, more than half (\(f\)328,000) belonged to the partners, some of whom had decided to leave part of their profit at the disposal of KHT. By now, the reserve account should have reached its statutory maximum of \(f\)100,000, but it remained at \(f\)47,000, i.e. the level it had reached in 1903. For two years, the partners paid no attention to the provisions regarding the reserves. They apparently preferred to pocket even more money. This could prove costly in the event of disrupted family ties, a falling out between partners or, even more likely, complications arising from the death of one of them.\(^{79}\)

The first partner to pass away was Kwik Ing Hie (before 1899). His forty shares in KHT were divided among Kwik Hong Biauw (14), Kwik Ing Djie (13) and Kwik Ing Sien (13).\(^{80}\) Kwik Djoen Eng received no additional shares, which suggests he was occupying a junior position within the

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\(^{77}\) BI/DJB 77 No. 73: 70; BI/DJB 78 No. 21: 78; BI/DJB 81 No. 18: 73, No. 31: 139.

\(^{78}\) BI/DJB 1408 Confidential and secret correspondence Solo branch office, 24-07-1903; BI/DJB 80 No. 62: 40.

\(^{79}\) BI/DJB 82 No. 82: 167; BI/DJB 83 No. 42: 139.

\(^{80}\) De Javasche Courant, 11-09-1903.
partnership at the time. Kwik Ing Djie passed away on 26 July 1899. Kwik Bok Tjay inherited his father's estate including 53 shares in KHT (see Box 5.2). DJB did not hear of Kwik Ing Djie's death for more than two years, and it was only by chance that his death became known to DJB. Upon meeting Kwik Ing Sien in October 1901 agent Nieuwenhuizen – the successor of Roos – expressed his amazement that he had never seen or spoken to Kwik Ing Djie, whereupon he was told of his death. Kwik Ing Sien assured him that Roos had been informed immediately. Whether or not this was true, the whole affair was far from professional and raised serious questions as to the supervision of DJB’s clientele.\(^\text{81}\) In 1903 Kwik Ing Sien himself – the last of the three ‘silent partners’ in KHT – passed away. His 53 shares in KHT were transferred to Kwik Hong Biauw, who became majority shareholder with 107 shares against 53 shares for Kwik Bok Tjay and 40 shares for Kwik Djoen Eng (see Box 5.2).\(^\text{82}\)

**KHT’s Business Expansion**

In that same year, on 7 July 1903, a special KHT shareholders meeting was held in Semarang at the office of public notary J.H.A. van Barneveld.\(^\text{83}\) Present were Kwik Hong Biauw (Director and Solo Agent), Kwik Djoen Eng (Yogyakarta Agent), Kwik Bok Tjay and Kwik Bok Ay,\(^\text{84}\) one of Kwik Hong Biauw’s sons who was a merchant in Solo (see Box 5.1). The meeting had been convened by Kwik Hong Biauw with the purpose of changing the company’s articles of incorporation which he justified by noting “the considerable expansion in trade relations over the last few years”. KHT’s management structure needed to be revised. Important aspects like accountability, clear lines of communication, growing market exposure, increased financial commitments, the establishment of new agencies and so on required so much attention that KHT’s business could no longer be handled by Kwik Hong Biauw and Kwik Djoen Eng alone.

Next to a number of smaller changes, Kwik Hong Biauw’s proposal was to appoint principal agents in order to supervise the ordinary agents, who were to be accountable only to the Director (i.e. himself). Time absorbing tasks would be delegated to this middle management level. After endorsing his plan, the decision was made to reaffirm Kwik Hong

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\(^\text{81}\) BI/DJB 1408 Confidential and secret correspondence Solo branch office, 30-10-1901; BI/DJB 76 No. 61: 33.

\(^\text{82}\) *De Javaasche Courant*, 11-09-1903, 08-04-1909.

\(^\text{83}\) *De Javaasche Courant*, 11-09-1903.

\(^\text{84}\) *Handboek Cultuur- en Handelsondernemingen* 1902: 622.
Biauw as Director and appoint Kwik Bok Tjay as Deputy Director. Kwik Djoen Eng and Kwik Bok Ay were subsequently nominated as principal agents. These measures left Kwik Hong Biauw firmly in control and strengthened his position. In addition, he successfully managed to bring his son into the firm carrying the same title as Kwik Djoen Eng, indicating that the latter was still forced to play second fiddle.

The most intriguing of the smaller changes was the addition of a single sentence to article 23. This proved of great significance to KHT’s fortune. In the original version of July 1894, the article read as follows:

**Article 23**

The shareholders, the agents, the director, their replacements, as well as the representatives of shareholders at the general meeting have to be Chinese.\(^{85}\)

The proposed changes in management structure required only slight alterations in the phrasing of article 23, which makes the appearance of a second section puzzling:

**Article 23**

(1) The shareholders, director, deputy director, principal agents, agents, as well as the authorized representatives of shareholders at the general meetings have to be Chinese.

(2) This provision, however, does not include the founders and their descendants, even if they should change to another nationality or be equated with it.\(^{86}\)

The rationale behind this can be found in the possibility of reducing commercial risk by carrying multiple nationalities (Man-Houng Lin 2001; Post 1995: 164). This practice was well accepted amongst the overseas Chinese in Southeast Asia and made possible by the flexible nature of the prevailing nationality laws. China’s failure to provide any measure of security for its citizens abroad and their feeble minority position contributed as well. Obtaining Japanese nationality was particularly interesting for those living in the Netherlands Indies, especially after 1899, when Japanese citizens in the Dutch colony acquired European status.

This ruling also applied to the inhabitants of Japanese colonies such as Taiwan, which had been wrested from the Chinese in 1895. As a result, the legal nationality of Taiwanese was Japanese, whereby a differentiation was made between indigenous islanders (predominantly Chinese of

\(^{85}\) *De Javasche Courant*, 19-10-1894.

\(^{86}\) *De Javasche Courant*, 11-09-1903.
Fujian descent), aborigines (known as the highlanders) and those who took Japanese nationality from Taiwan but stayed in China or Southeast Asia. The Japanese referred to the last category as sekimin or Taiwan sekimin, meaning a ‘person registered in Taiwan’. Though generally resenting the Japanese, many Chinese in the Netherlands Indies were quick to recognize the advantages of registering as a Taiwan sekimin and obtaining a higher legal status in the sense that a European status offered more legal protection.

Businessmen operating from Taiwan itself also benefited from such registration as it elevated their status and helped them gain better access to Japanese government and business circles (Roy 2003: 45). With regard to the trade and production of tea, the Japanese occupation of Taiwan had had several consequences. First, with Taiwan abandoning silver in favour of gold as backing for its currency, it became more convenient to trade directly with the Netherlands Indies where a (pseudo) gold standard was in place, rather than trading indirectly through China where silver remained the most important medium of exchange. The adoption of the gold standard by Japan in Taiwan was also beneficial on account of the fact that silver declined in value throughout the late nineteenth and early twentieth centuries. This would have diminished export profits. Second, as Kwik Djoen Eng remarked himself, under Japanese rule it became cheaper to ship tea via Keelung in Northeast Taiwan. After all the use of Amoy (Xiamen) as a transit point meant paying Chinese customs duties. Third, as a colony of Japan Taiwan came to enjoy a period of economic prosperity and political stability which improved the business environment and investment climate of the country (Roy 2003: 38–40, 54).

In 1905, Kwik Djoen Eng recalled how Taiwan used to be plagued by local bandits, stating that Japanese management had dramatically changed the island within just a few years.

Kwik Djoen Eng probably started to contemplate registration in Taiwan after starting the production of tea around the turn of the century. The quality of tea produced in his factory in Tatoitia near Taipei became renowned and received first price at the Osaka fair in 1904. The available sources do not reveal how he financed this business, but Kwik Djoen Eng’s first contacts with the Taiwan Bank date from this period. The bank encouraged entrepreneurial initiative and would have welcomed financial requests for new investments. At the same time Kwik Djoen Eng must have known that his status within the Japanese business community

87 See also Taiwan Nį̓jį̓jį̓ Shinpo, 03-03-1923 as found translated in BI/DJB 2959.
would increase if he became a Japanese subject. This also applied for his partners in KHT, certainly after the company had become active in the export of sugar to Japan. To get better access to Japanese shipping and bank credit, registration as *Taiwan sekimin* was thus something to be considered.

This explains the adjustment of article 23 which prepared KHT for future developments. In the end, the urgent desire for an improved legal status within the Netherlands Indies proved more pressing, as early in the morning of Tuesday 21 July 1903, only two weeks after the shareholders meeting, Kwik Hong Biauw was unexpectedly arrested on a drug charge.

The local newspaper of Solo – *De Nieuwe Vorstenlanden* – reported about the event:

> Yesterday morning, very early, the police had the houses of several well-to-do Chinese fenced off whereupon a search was conducted the moment the doors to the street were opened. It was well prepared. The occupants were surprised, and the police found what they were looking for, i.e. opium.

> All together it must have been a considerable result.

> The question is, however, whether a punishable act had been committed. After all, the wrapping of the opium was the farmer’s. Right now, it seems obvious to assume that the farmer has disposed of his remaining opium at the last moment against reduced prices. How much is the maximum amount of opium one may have at home? In one Chinese house a basket full of empty opium cans was found.

> One may well wonder whether all that opium was for personal use or whether it had been (smuggled) traded as well.

> In any case, ever since January, so for well over half a year, the Government has sold far less opium than it could have sold had it not been for this final act of the farm. That meant a loss of profit, and one can assume that still more such opium is held by rich Chinese, who stocked up on a cheap supply at the end of last year.

> And then another question arises: Is the farmer not liable to punishment as well, for selling wholesale?...

> Finally, we have been informed that the opium has been sent to Batavia for examination in order to ascertain that the opium does not originate from the *Regie*.\(^{88}\)

The article did not identify the Chinese involved and failed to mention whether anyone was arrested. Nieuwenhuizen knew Kwik Hong Biauw to be an opium smoker and paid Assistant-Resident Hofland a visit to obtain more information.\(^{89}\) Hofland acknowledged that the houses of eight

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\(^{88}\) *De Nieuwe Vorstenlanden*, 22-07-1903.

\(^{89}\) BI/DJB 1408 Confidential and secret correspondence Solo branch office, 24-07-1903; BI/DJB 1344 Confidential and secret correspondence Semarang branch office, 28-06-1904.
Chinese, including the home of Kwik Hong Biauw, had been searched. Three times the permitted amount of opium had been confiscated from his home, a part of which appeared not to have been produced in the government opium factory in Batavia. Consequently, Kwik Hong Biauw had been charged with possession of illegal drugs. According to Hofland, his punishment would depend upon the outcome of opium tests in Batavia. Nieuwenhuizen conferred with Be Kwat Koe, Captain of the Chinese in Solo, who feared Kwik Hong Biauw might be sentenced to three months of hard labour. Convinced that the elderly Director of KHT would not survive this, Nieuwenhuizen returned to Hofland to plead Kwik Hong Biauw’s case and ask for clemency. However, Hofland merely said that justice should follow its course.

According to Nieuwenhuizen the aim of the search had been to find smuggled opium, since the abolishment of the opium farm in Solo at the end of 1902 had seen an enormous reduction in the sale of opium. Solo was one of the last areas in Java where the system of selling opium through private traders was replaced by the state-run Opium Regie. Understandably, the colonial administration tried to battle smuggling as it cut revenues. Under the Regie all confiscated opium was examined by chemists in Batavia to determine its origin. The chemical trace added to legal opium could be revealed by means of a simple test. The result served as evidence in legal cases involving violations of the opium law. Such cases were tried locally before the police roll and Landraad, and often chaired by incompetent and far from impartial civil servants. Despite the fact that Kwik Hong Biauw’s offence was negligible, he could expect to receive harsh punishment, since the authorities seemed inclined to set an example (Rush 1990: 228–229).

Needless to say Kwik Hong Biauw dreaded the trial. Kwik Djoen Eng told Nieuwenhuizen on Friday morning 24 July 1903 that his cousin was “very depressed, wishing to die rather than endure the shame of krakal (hard labour)”. According to him, the death of Kwik Hong Biauw would not effect the operations of KHT, or the firm’s legal structure since Kwik Bok Ay would get his father’s stock as his sole heir. However, should the affair cause DJB to reconsider its business relationship with KHT, Kwik Djoen Eng requested time to enter into negotiations with other commercial banks in view of the large sugar transactions being conducted in Semarang, Yogyakarta and Solo. Nieuwenhuizen requested the President and Directors of DJB not to terminate the relationship with KHT. He pointed out that over the years the company had faithfully and promptly honoured its obligations, as could be confirmed by the DJB agents in
Semarang and Yogayakarta. Still, should Kwik Hong Biauw’s position as Director of KHT be deemed untenable, he was confident that Kwik Hong Biauw would agree to step down.

In the end the drug charge against Kwik Hong Biauw was dropped and he was released from prison. A few years later Nieuwenhuizen would write that his continued involvement had been helpful, although it would go too far to attribute Kwik Hong Biauw’s acquittal entirely on his intervention.90 The examination of the confiscated drugs had shown that it was part farm-opium and part Regie-opium; a possible combination since the opium farm had only recently been abolished. Given the limited amount of opium, it was too farfetched to consider Kwik Hong Biauw a smuggler. Still, the affair had serious consequences, because the telegraphic code of KHT had been seized and remained in the hands of the Opium Regie for more than a year.91 Without this fast and reliable means of communication, KHT was seriously handicapped in its overseas business and suffered considerable financial damage, as did Kwik Djoen Eng who appears to have used the code as well to conduct his tea business.

The unpleasant confrontation with Dutch law enforcement and the biased judicial system of the colony convinced Kwik Hong Biauw and Kwik Djoen Eng of changing their legal status forthwith. This required a trip to Taiwan where a piece of land had to be bought. When the purchase deed was handed to the Japanese consulate general in Singapore on the return voyage, the owner would receive the necessary paperwork proving him to be a Taiwan sekimin and therefore a Japanese national. Within half a year Kwik Hong Biauw and Kwik Djoen Eng had made use of this Japanese “loophole” and registered themselves as a citizen of Taiwan, which automatically gave them European status upon their return to the Netherlands Indies (Post 1995: 164).92

Despite the legal difficulties KHT showed impressive financial results after the turn of the century. KHT’s business operations – above all its exports to the Far East – kept expanding and most of the company’s resources and energy were directed outward. The growing importance of sugar sales abroad made Semarang the geographic focus of KHT’s trading activities. The successful participation in the sugar trade owed much to its

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90 BI/DJB 1413 Confidential and secret correspondence Yogyakarta branch office, 17-06-1908.
91 BI/DJB 1344 Confidential and secret correspondence Semarang branch office, 28-06-1904.
92 BI/DJB 1346 Confidential and secret correspondence Semarang branch office, 19-02-1913.
high level of capitalization. This allowed the advance of money to sugar planters and speculation on future price developments. As large amounts of capital were thus withdrawn for longer periods, a high level of fixed capital was needed. However, KHT’s capital structure was geared towards short-term rather than long-term capital. This can be attributed to the fact that KHT was basically a family enterprise. Though founded as a limited liability company, the concept seems to have been of little relevance to the members of the Kwik family who failed to distinguish between private and company capital.

Kwik Djoen Eng recognized the growing discrepancy between capital requirements and business attitude. He repeatedly tried to persuade his partners to increase the amount of fixed capital, but failed to convince them. In 1907 he even called in the help of Nieuwenhuizen who agreed to travel to Solo to confer with Kwik Hong Biauw and his sons Kwik Bok Ay and Kwik Bok Ke about this matter. In the end, the combined efforts of Kwik Djoen Eng and Nieuwenhuizen succeeded, because in the first half of 1908 the decision was made to enlarge the trading firm’s working capital. Almost a year would pass to prepare all the details, but on 10 February 1909 the partners in KHT finally met in the office of public notary J.H.A. van Barneveld in Semarang. At this extraordinary shareholders meeting several decisions regarding the company’s future were to be formalized.

The meeting was opened by Kwik Hong Biauw who briefly explained that they had been called together for three purposes: to enable enlargement of the partnership’s capital, to change its management structure and to move its seat. In accordance with business volume KHT would be registered in Semarang instead of Solo. The total amount of share capital saw a substantial increase of f 500,000 and was determined at f 700,000. Kwik Hong Biauw took most of the new shares and invested an additional f 210,000 which brought his interest in KHT at f 317,000. Kwik Djoen Eng increased his share capital with f 140,000 to bring his total investment at f 180,000. Kwik Bok Tjay took an additional interest of f 120,000 to participate in KHT with f 173,000. The remaining f 30,000 were paid up by Kwik Bok Ay, who had owned no shares up till then. The new shares were fully paid in cash or merchandise. Kwik Djoen Eng partly paid for his investment by transferring his tea factory in Taiwan to the partnership in exchange for shares. KHT valued the factory at f 40,000 and continued its

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93 BI/DJB 1413 Confidential and secret correspondence Yogyakarta branch office, 17-06-1908.
94 De Javaasche Courant, 08-04-1909.
operations. In addition, the company would establish an agency in Tatoitia and return the factory’s working capital to Kwik Djoen Eng (see Box 5.2).

By bringing in his tea business, Kwik Djoen Eng bet all his cards on KHT. Judged from the changes in management this was a calculated move. Kwik Hong Biauw, who was getting older, gave up his position as Director and was appointed commissioner. This position was new and carried the right of supervising the company’s management. Kwik Djoen Eng was appointed his successor and became KHT’s second Managing Director. Kwik Bok Tjay and Kwik Bok Ay retained their management positions as Deputy Director and principal agent. At the age of fifty Kwik Djoen Eng’s had reached the social and economic status of which he had dreamt ever since he set foot on Javanese soil. He still had to accept the presence of Kwik Hong Biauw, but it can safely be argued that Kwik Djoen Eng had become the public face of the Kwik Hoo Tong Handelmaatschappij.

KHT’s capital injection of half a million guilders was needed to sustain the firm’s position within the competitive sugar trade. With a share capital of \( f \ 700,000 \) and a maximum reserve account of \( f \ 300,000 \) it was foreseen that business operations would be conducted with a total fixed capital of \( f \ 1,000,000 \). This amount should suffice to fight off the competition and provide a solid basis for further expansion. After all, KHT was not the only one interested in reaping the profits of the speculative sugar business. Within Semarang there were at least fifteen to twenty Chinese actively trading sugar.95 At the end of the first decade of the twentieth century KHT ranked among the five largest Semarang sugar firms. However, the Kwik relatives could not yet compete with the trading firms of Oei Tiong Ham (i.e. Kian Gwan) and The Ing Tjiang.96

As a major player KHT required more capital and it started to turn to other banks besides DJB. Nieuwenhuizen warned Batavia of this new development when he wrote in December 1910 that KHT had also become a client of the NHM, NIHB, and NIEM whereas it used to bank exclusively at DJB. As a result, virtually all rice deals had been lost in the past few years.97

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95 A DJB report on Chinese sugar buyers active in Semarang around 1911 mentioned eighteen of them in the following order of importance: Oei Tiong Ham (Kian Gwan), The Ing Tjiang, Kwik Hoo Tong, Gan Kang Sioe, Oei Tjoe, Goei Kee Sioe, Goei Kee Hoo, Thio Sing Liong, The Oen Hiang, The Tjoe Swie, Tjan Pit Sing, Siek Djwee Kioe, Kwong Hop, Lo An Sien, Go Boen Tjan, Tan Boen Kiem, Yoe Siang, and Tjoe Tong Sing (BI/DJB 1346 Confidential and secret correspondence Semarang branch office, 09-06-1911).
96 BI/DJB 1346 Confidential and secret correspondence Semarang branch office, 10-02-1909.
97 BI/DJB 1413 Confidential and secret correspondence Yogyakarta branch office, 08-12-1910.
KHT’s capital requirements were only temporarily satisfied. In July 1911 the company’s share capital was further increased with ₤300,000 and set at ₤1,000,000. The additional three hundred shares were divided among the different partners: Kwik Hong Biauw 103; Kwik Djoen Eng 70; Kwik Bok Tjay 77; Kwik Bok Ay 20; and Kwik Bok Ke, another son of Kwik Hong Biauw, 30. Kwik Hong Biauw’s investment in KHT now stood at ₤420,000, whereas Kwik Djoen Eng and Kwik Bok Tjay both owned a quarter of the company with an investment of ₤250,000 each. Kwik Bok Ay and Kwik Bok Ke had only minor interests in KHT with participations of ₤50,000 and ₤30,000 respectively (see Box 5.1 and 5.2).98

The renewed increase in capital was accompanied by two other changes needed to prepare KHT for further expansion. At a shareholders meeting held in Semarang on 17 July 1911, Kwik Djoen Eng said that new branch offices would be opened and that the stated purpose of the company had become too limited and ought to be reconsidered. Both points were conceded and the articles concerned were changed accordingly. The purpose of the company was now described in very general terms as [...] het drijven van handel in het algemeen in alle zaken, welke daarvoor vatbaar zijn. ("[...] trading in all matters which lend themselves for this.") No exception was made, except for the purchase of stocks and bonds which was subject to special approval by a general shareholder meeting.99 Nevertheless, KHT remained first and foremost a sugar company purchasing large quantities of the unrefined product in Java for export to Japan, China and Europe. In addition, Kwik Djoen Eng set up KHT’s own sugar factory in China at the beginning of 1911 which could apparently process 40,000 picol of sugar annually.100

Reporting a record profit of ₤900,000 in the financial year 1911/12, no one questioned the soundness of KHT’s policy.101 The Semarang agent of DJB, W.F.J. Keuchenius, wrote on 7 August 1912 that KHT had bought and sold more than one million picol of sugar in the past few months, with a large shipment of sugar still on its way to Europe. These transactions would most likely turn in a handsome profit. Since KHT had experienced no serious setbacks so far, Keuchenius summarized the company’s

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98 BI/DJB 1346 Confidential and secret correspondence Semarang branch office, 27-07-1911.
99 De Javasche Courant, 19-09-1911.
100 BI/DJB 1346 Confidential and secret correspondence Semarang branch office, 09-06-1911, 27-07-1911, and 30-08-1912.
101 BI/DJB 1346 Confidential and secret correspondence Semarang branch office, 07-08-1912.
financial position as “extremely strong”. Furthermore, he characterized those running the firm as “decent traders” with an impeccable reputation. The fact that large sugar producers such as the Koloniale Bank and the Cultuurmaatschappij der Vorstenlanden were still prepared to sell KHT sugar – despite the huge quantity the company had already purchased – was seen by him as a vote of confidence. According to him KHT could safely be counted among DJB’s most reliable debtors.

Normally, DJB’s most trustworthy clients would be awarded a maximum advance of eighty percent on sugar against a conservatively estimated market value. But, as Keuchenius explained, other banks were willing to extend Kwik djoen Eng at least ninety percent. In order to keep KHT as a customer, he had seen no alternative but to deviate from DJB’s strict regulations and negotiate a deal allowing an advance of slightly less than ninety percent. Though less favourable than the conditions offered by the other banks, Kwik Djoen Eng had preferred to continue his relationship with DJB and accepted an agreement under these terms. Keuchenius justified his unauthorized behaviour by underlining KHT’s excellent financial position which would enable it to pay its instalments regardless of a sudden and unexpected fall in the market price of sugar. However, the deal was also partly inspired by his intention to recapture the profitable ties with Chinese wholesale traders. These had eluded the Semarang agency lately because of intense competition among the banks. Keeping the highly valued sugar business of KHT was crucial in this respect and therefore celebrated by Keuchenius who knew that DJB was no longer automatically ensured of KHT’s clientele as had been the case.102

Keuchenius was not reprimanded for his decision to accommodate KHT, even though DJB had a very hierarchical structure with little room for individual initiative. The agents were expected to report on all matters and had to provide Batavia with detailed information on any subject at a moment’s notice. The procedure was to await consent from headquarters before taking any action, but this modus operandi sometimes ran counter to the profit objective of DJB and the speed required to close business deals. The lenient attitude of DJB’s management with regard to the agreement with Kwik Djoen Eng is better understood when reading Keuchenius’ confidential letter of 23 November 1912.103 In this letter he explained that

102 BI/DJB 1346 Confidential and secret correspondence Semarang branch office, 04-09-1912.
103 BI/DJB 1346 Confidential and secret correspondence Semarang branch office, 23-11-1912.
KHT would earn a nice profit that year and with the enormous profit of the previous year in mind the company’s position remained exceptionally strong. As a result he was confident that the large credits extended to KHT by the Semarang, Solo and Yogyakarta agencies would be repaid without difficulty. Keuchenius estimated that these sugar credits totalled approximately $1,000,000. With sugar loans yielding four percent interest in 1912, this would earn DJB almost $40,000 (De Bree 1928: II Appendix O). 104 Keuchenius received no rebuke from head office. In fact, his example was almost immediately followed by, for instance, the Yogyakarta agency where credit restrictions were likewise eased in an effort to keep KHT on board.105

By now, KHT’s sugar business had expanded so rapidly that the company started to exhibit the first signs of strain. The most obvious problem was a growing shortage of storage capacity. In Semarang, the company’s godowns no longer sufficed and extra godown space needed to be rented against high additional cost to store the sugar.106 In Solo, most of the sugar godowns used by KHT were judged totally inadequate. During inspection in September 1912 they were found to be crammed to the roof, making it impossible to assess the actual amount of sugar stored.107 Less noticeable, but of bigger consequence in the long term, was the growing paperwork accompanying the increasing scale of business. The number of transactions, concerning ever larger quantities of sugar, had multiplied explosively over a short period of time. With each new deal the administrative process became more complicated, requiring more attention and expertise from the office staff. In November 1912, Keuchenius expressed his dissatisfaction to Kwik Djoen Eng regarding the careless manner in which incompetent personnel took care of the details of his ever larger business.108 Regrettably, little attention was paid to these valid concerns.

Notwithstanding these problems KHT continued to expand its sugar interests. In 1913 1,350,000 picol of sugar were bought and traded for a “sweet little profit” (zoet winstje). Though the market price for sugar was significantly lower than the year before, Kwik Djoen Eng told Keuchenius

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104 BI/DJB 1856 Confidential correspondence from Semarang to Batavia regarding KHT, 04-06-1917.
105 BI/DJB 95 No. 38: 293–294.
106 BI/DJB 1346 Confidential and secret correspondence Semarang branch office, 30-08-1912.
107 BI/DJB 95 No. 38: 316.
108 BI/DJB 1346 Confidential and secret correspondence Semarang branch office, 23-11-1912.
that he preferred a so-called oentoeng tipies (small profit) and chose not to speculate on the market “as long as the price was not clear” (sebab harga belon terang). This cautious attitude was much to the liking of DJB and KHT was granted the privilege of full advances (vol voorschot) against sugar stocks already sold, but still awaiting shipment. In other words, the limit of ninety percent was dropped and the estimated value of the sugar concerned was advanced completely. The extension of credit on these generous conditions was meant to retain the banking business of KHT and keep DJB’s competitors at bay. Keuchenius knew, for instance, that the NIHB had closed deals with Kwik Djoen Eng on similar terms.

The advent of the First World War heralded an extraordinary period in the history of KHT. As a result of the war in Europe major beet sugar producers such as Germany, Austria and Russia stopped exporting sugar. Beet sugar completely disappeared from the world market and the demand for Java sugar soared. Great-Britain and, to lesser extent, France placed large orders with the traders in Java to guarantee sufficient supply. In an immediate response to these exceptional circumstances sugar prices nearly doubled in 1914 and continued to rise in the following years (Leidelmeijer 1997: 40; Tio Poo Tjiang 1923: 37). Realizing the enormous opportunities, KHT applied itself with even more vigour to the export of sugar. This paid off, because in 1914/15 the company’s profit was estimated to have reached a staggering three to four million guilders.

Conflicts and Speculation

Ironically, this outstanding result also carried the seeds of future discontent. The first signs of a simmering family conflict manifested itself at the end of January 1916, when it became known that Kwik Bok Ay, son of Kwik Hong Biauw, had suddenly left Java for Saigon taking with him f900,000 of his father’s deposits at KHT. This unauthorized action had been inspired by fear of losing a substantial part of his inheritance upon the death of his elderly father. His younger half-brother Kwik Bok Ke – the son of the second wife (mama nommer doea) – had persuaded Kwik Hong Biauw to put all of his property in the former’s name, although under Japanese law this belonged to the eldest son. Kwik Bok Ay thereupon requested his father to pay out the accumulated share in the profits of KHT to which he was

109 BI/DJB 1346 Confidential and secret correspondence Semarang branch office, 07-06-1913 and 24-07-1913.
110 BI/DJB 1409 Confidential and secret correspondence Solo branch office, 22-01-1916.
entitled as shareholder and principal agent. Owing to the excellent results of the last few years, Kwik Bok Ay himself estimated his share to be worth more than one million guilders. Fearing the legal intricacies involved in long drawn-out inheritance disputes, he took matters in his own hand after Kwik Hong Biauw bluntly refused his request. Making use of his mandate as principal agent, he took what he considered to be his legal right and left Java to try his luck elsewhere. Kwik Bok Ay ended up in Taiwan, where he invested in the trade between China and Japan and became a successful businessman in later years (Man-Houng Lin 2001: 1000).111

Kwik Bok Ay’s mandate was withdrawn by Kwik Hong Biauw the moment his disappearance was detected. Still, the family dispute was far from resolved. On 5 February 1916, J.C. Byleveld – Keuchenius’ successor as agent of DJB in Semarang – wrote that Kwik Bok Ke’s mandate as agent of KHT in Solo had been withdrawn as well. Furthermore, he announced Kwik Djoen Eng’s resignation as Director of KHT at the end of the financial year on 31 May 1916. According to him, Kwik Djoen Eng and Kwik Hong Biauw did not see eye to eye with regard to the future course of KHT and failed to agree on the necessary steps to be taken. Finally, after endless bickering, Kwik Djoen Eng decided to throw in the towel and establish a new trading firm with a fixed capital of f3,000,000 operating under the name: Handel Maatschappij Kwik Djoen Eng. Byleveld made no secret of the fact that he supported this new company wholeheartedly. Kwik Djoen Eng had become a trader to whom everyone was willing to grant credit. Even the NHM, who would not sell any sugar to Chinese traders with the exception of Oei Tiong Ham, had agreed to give Kwik Djoen Eng the same facilities as the so-called ‘Sugar King’. Whether KHT would liquidate its affairs after the departure of Kwik Djoen Eng or continue in business remained unclear. However, Byleveld expressed little faith in the viability of a company crippled by the withdrawal of millions of working capital and made it clear that for the time being he would no longer extend any credit to KHT.112

Kwik Djoen Eng offered the following explanation for these surprising developments. Despite all his attempts Kwik Hong Biauw could not be convinced of the necessity of enlarging KHT’s share capital of f1,000,000, even though the amount of fixed capital could not support the company’s

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111 BI/DJB 1409 Confidential and secret correspondence Solo branch office, 22-01-1916; BI/DJB 1856 Confidential correspondence from Semarang to Batavia regarding KHT, 05-02-1916.

112 BI/DJB 1856 Confidential correspondence from Semarang to Batavia regarding KHT, 05-02-1916.
ever expanding business. Retained profits in the form of large deposits held by different family members could not be relied upon, as these could be withdrawn at any moment. The recent affair of Kwik Bok Ay’s ‘theft’ and subsequent flight had made this all too clear. Nevertheless, the old patriarch of the firm was not inclined to increase his share in the risks and simply preferred to receive his share of the profits. This had led Kwik Djoen Eng to the conclusion that the problem could only be solved by starting out on his own.

Kwik Djoen Eng’s version of the story was contradicted by Kwik Bok Ke, who claimed that his father had actually supported an increase in the company’s share capital provided that the salary and bonus of the director would be adjusted as well. Kwik Djoen Eng’s participation in KHT earned him a very comfortable income, consisting of a substantial monthly salary, an annual bonus of one third of the profit and dividend payments since he owned one quarter of the company’s stock. As a result, Kwik Djoen Eng pocketed more than half of KHT’s annual profit. Such a disproportionately high reward was deemed inappropriate by Kwik Hong Biauw, who suggested that the bonus of the director would be cut substantially in exchange for a rise in salary. Kwik Djoen Eng refused and in the ensuing conflict Kwik Bok Ke sided with his father, who made the bonus question a precondition before considering a change in KHT’s capital structure. When viewed in this perspective, the dispute was little more than a family quarrel regarding the distribution of profits which came to the fore after the record-breaking profit of 1914/1915 had earned Kwik Djoen Eng approximately two million guilders.113

The disagreement between the two cousins could not be resolved amicably and Kwik Djoen Eng’s idea of establishing his own trading firm started to take shape. An improved outline of the new company stated that it would operate with a share capital of $4,000,000, of which $2,000,000 was initially placed. Kwik Djoen Eng was to be appointed Managing Director and could act independently without a board of commissioners and/or authorization by a general shareholder meeting.114 However, the Handel Maatschappij Kwik Djoen Eng never came into being, because of an unexpected turn of events in the first week of March 1916. In a sudden change of heart, Kwik Hong Biauw decided to sell his interest in KHT to Kwik Djoen

113 BI/DJB 1856 Confidential correspondence from Semarang to Batavia regarding KHT, 05-02-1916; BI/DJB 1409 Confidential and secret correspondence Solo branch office, 09-02-1916; De Javasche Courant, 08-04-1909.
114 BI/DJB 1856 Confidential correspondence from Semarang to Batavia regarding KHT, 08-03-1916.
Eng. Following his father’s example Kwik Bok Ke was likewise prepared to sell his interest, which offered Kwik Djoen Eng the opportunity to become the company’s majority shareholder. This would give him total control over KHT and made the establishment of his own trading firm unnecessary. Kwik Djoen Eng did not hesitate and agreed to buy out his relatives.

On 9 March 1916 f1,250,000 in banknotes of large denominations were sent from Semarang to Solo as payment for Kwik Hong Biauw, who would only accept cash in exchange for his shares. Upon hearing this, Byleveld reckoned that Kwik Djoen Eng had purchased the shares of Kwik Hong Biauw and Kwik Bok Ke at three times their nominal value. This was confirmed by DJB’s agent in Solo who questioned Kwik Bok Ke about the unusual transfer and was told that the amount had indeed been used to pay for his father’s interest in KHT. He also learned that Kwik Hong Biauw – called an eccentric (zonderling) by Byleveld – had not deposited the money at the bank, but chose to keep such a fortune in his own house. Kwik Djoen Eng now owned 700 shares in KHT which made it possible to disregard the views of the other shareholders and act at his own discretion. Of the remaining shares, 250 were in the hands of Kwik Tiauw Sin, the adolescent son of Kwik Bok Tjay (who had died on 14 May 1914), while Kwik Bok Ay still possessed 50 shares. In 1919 Kwik Djoen Eng managed to purchase these shares against payment of f450,000 (see Box 5.1 and 5.2).

To bring the company structure in line with the current situation, KHT’s articles of incorporation needed to be altered. On 18 May 1916, Kwik Djoen Eng called an extraordinary shareholder meeting in which he addressed the capital issue.

Hal Maatschappij minta tamba kapitaal sama ganti statuten atawa aandeelhouder moestie kassi garantie perkara beli goelah. The question is that the company demands more capital and has to change its articles of incorporation or the shareholders have to give [personal] guarantees in the matter of buying sugar.

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115 BI/DJB 1856 Confidential correspondence from Semarang to Batavia regarding KHT, 13-03-1916; BI/DJB 1409 Confidential and secret correspondence Solo branch office, 11-03-1916.
116 Formally, the shares of Kwik Hong Biauw and Kwik Bok Ke were handed over in three stages. As a result, Kwik Djoen Eng did not come into possession of all 450 shares concerned before 1917 (BI/DJB 1802; De Javasche Courant, 05-12-1916).
117 BI/DJB 5184 Confidential and secret correspondence Semarang branch office, 16-05-1914.
118 BI/DJB 1856 Confidential correspondence from Semarang to Batavia regarding KHT, 12-01-1921; BI/DJB 1802.
119 De Javasche Courant, 05-12-1916.
According to Kwik Djoen Eng, banks and other business connections had urged him repeatedly to increase KHT’s capital, because of the recent expansion of activities. He proposed to enlarge the company’s share capital to f 4,000,000 which he would furnish himself. The first f 1,000,000 had already been deposited; the remaining shares had to be paid for in March 1917. Reinforced by a strengthened financial basis, a new phase in the company’s history was about to commence (see Box 5.2).

DJB monitored these events closely, but showed no concern about KHT’s creditworthiness. Agent Byleveld continued to send the most reassuring messages to Batavia concerning the personal and business qualities of Kwik Djoen Eng. No critical remarks appear to have found their way to DJB’s head office. The only more balanced view of Kwik Djoen Eng in these years is given by L. Von Hemert – acting Semarang agent in the absence of Byleveld. He characterized Kwik Djoen Eng in September 1916 when the latter requested to raise KHT’s overdraft facilities temporarily from f 3,000,000 to a maximum of f 6,000,000 as follows:

In short, it is my opinion that the Director Kwik Djoen Eng, the key figure around whom everything revolves, is an honest, decent, capable tradesman, who has managed to lead his company to great prosperity, [and] in every respect is more trustworthy than most of the other big Chinese sugar traders, both here as well as in Soerabaia. I am convinced that he will do his utmost at any given time to safeguard the Javasche Bank against any loss that could hurt it because of its relationship with him; he owes too much to the Bank. On the other hand Kwik Djoen Eng is more of a speculator than necessary, and he cannot be absolved either from the charge of suffering from a kind of megalomania in conducting enormous business. These qualities could endanger the Bank, especially if he is on the books for a debt of 5 to 6 million. However, I consider his possible death a bigger danger; his administration is hopeless and at his office people do not know anything; the brokers actually have to do all the administrative work for him as well. As it turns out Kwik Djoen Eng possesses, what one could call an extraordinary mind, in which all his business affairs are engraved. If that mind was to be no longer capable of thinking, then his creditors will encounter great chaos, which no one will be able to disentangle.

However, no attention was paid to the alarming disorganisation of KHT’s office management and the clear incompetence of its personnel.

120 De Javasche Courant, 05-12-1916.
121 BI/DJB 1856 Confidential correspondence from Semarang to Batavia regarding KHT, 14-09-1916.
Having reported a profit of three to four million guilders in 1915, KHT was perceived as a financially sound enterprise. Besides, over the years the company had given no cause for complaint by faithfully paying its debts to DJB. War-time conditions also contributed to the disregard of KHT’s poor administration. Kwik Djoen Eng realized that these exceptional circumstances offered great opportunities for highly speculative deals. With a war raging in Europe, there was a lot of Dutch investment capital available in the Netherlands Indies. The Dutch commercial banks were aware of the profit margins of the sugar trade and eager to invest their money on less conservative terms than before (Post 2002: 287–289).

Without meddlesome business partners or cautious bank employees to keep him in check, Kwik Djoen Eng started trading. Living up to his reputation as a speculative trader with a preference for large transactions, he bought enormous amounts of sugar of superior quality with credit provided by several banks. Kwik Djoen Eng was confident that the market price for Java sugar would continue to rise in 1916 on account of the high demand from Great Britain and France. In a conversation with Von Hemert he reasoned that the refineries in France were either destroyed or out of operation; in Great Britain they had been shut down as well or converted into production plants for the war industry. The beet sugar harvest was no longer depressing the price of sugar, whereas the Cuba harvest would not appear on the European market before March 1917. Java sugar would be in great demand and Kwik Djoen Eng was even prepared to turn down bids and accept huge amounts of sugar in anticipation of sugar prices moving upwards.122

In an attempt to corner the Java sugar market KHT bought a total of nineteen million picol of sugar in 1916. Of this huge amount, eight million picol were purchased relatively cheaply from European sugar factories. The remaining eleven million picol were obtained ‘second-hand’, i.e. from Chinese sugar traders. Naturally, these traders charged higher prices, which including their own profit margin, and speculated on changing market conditions and price movements. Buying ‘second-hand’ was therefore more expensive and could easily lead to heavy losses if there was a fall in the sugar price. However, Kwik Djoen Eng’s ambition was to buy enough sugar to be able to influence the market and determine

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122 BI/DJB 1856 Confidential correspondence from Semarang to Batavia regarding KHT, 21-09-1916.
the price level at which he would be willing to sell. To pull this off, he required the help of several banks since KHT’s capital resources did not suffice. In November 1916 KHT had been advanced $30,300,000 against sugar estimated to be worth over $40,000,000. This amount was extended by the NIHB ($14,000,000), the NHM ($8,000,000), DJB ($6,600,000), and the NIEM ($1,700,000). In addition, DJB had also granted $2,000,000 to KHT’s Yogyakarta office secured by lien on other merchandise (Post 2002: 288).123

Kwik Djoen Eng tried to keep his competitors in the dark about his intentions as long as possible, but his largest competitors (Kian Gwan, Oei Tjoe, and the British sugar trader McNeill & Co.) found out and prevented him from buying up all available sugar.124 KHT could not set the sugar price single-handedly, but performed exceptionally well. In 1916, the company’s turnover in sugar was $180,000,000 which enabled it to pay off its debts surprisingly fast. At the end of February 1917, KHT had sold over 90% of its sugar stock and had paid its creditors over $8,000,000. It still owed the banks $22,200,000, but with signed sales contracts payment was due upon delivery. Two months later KHT’s debt had shrunk to $9,500,000. Out of nineteen million picol of sugar bought, only 400,000 picol had been left unsold. By the end of May 1917 KHT had paid off nearly all of its sugar loans and only owed $1,000,000 to the NIHB. KHT’s total sugar debt had decreased from thirty million to one million guilders in about six months. Furthermore, it had repaid DJB $1,000,000 of the Yogyakarta loan with the remainder expected to follow soon. DJB’s agent in Semarang nevertheless persuaded Kwik Djoen Eng to personally guarantee DJB’s claims against KHT as an additional safeguard. With the sharp increase in KHT’s level of indebtedness, Byleveld considered Kwik Djoen Eng’s personal guarantee indispensable for further extension of credit to KHT, although he admitted that the current situation did not require this measure. Without any

123 The indebtedness of KHT to banks other than DJB owed to the company’s increased need for credit, but also to the fact that sugar stored in godowns owned by a bank could only be pledged to that same bank. For lack of sufficient storage capacity KHT was forced to use godowns owned by the NHM and the NIHB which prevented it from pledging the sugar stored to DJB. The considerable expense involved in renting storage space which limited KHT’s choices in meeting its demand for credit, was recognized by Kwik Djoen Eng as a serious handicap. He immediately strove to solve this problem by investing more than $1,000,000 in several godowns of his own in 1917 (BI/DJB 1856 Confidential correspondence from Semarang to Batavia regarding KHT, 26-11-1916, 11-07-1917; BI/DJB 1802).
124 BI/DJB 1856 Confidential correspondence from Semarang to Batavia regarding KHT, 13-01-1917.
alternative Kwik Djoen Eng had to concede and the agreement was notarized on 7 April 1917.\footnote{BI/DJB 1856 Confidential correspondence from Semarang to Batavia regarding KHT, 27-02-1917 and 08-05-1917.}

On 29 May 1917 Byleveld reported that KHT had sold its sugar stock of the previous years. Only 200,000 \textit{picol} remained in store which would probably render a loss of \textdollar{}2.50 per \textit{picol}, or half a million guilders.\footnote{BI/DJB 1856 Confidential correspondence from Semarang to Batavia regarding KHT, 29-05-1917.} Unfortunately, the available sources do not reveal KHT’s profit margin on the vast amount of sugar that had been marketed profitably. These margins had fluctuated sharply over the years. In 1911 for instance, KHT had earned a net profit of \textdollar{}1.50 per \textit{picol}; two years later the company had to satisfy itself with \textdollar{}0.37\textsuperscript{5} per \textit{picol}.\footnote{BI/DJB 1346 Confidential and secret correspondence Semarang branch office, 07-06-1913.} Since 1916 was considered the most favourable year the Java sugar industry had ever known, the sugar trade must have enjoyed a high profit margin (Tio Poo Tjiang 1923: 37–38). On the other hand, Kwik Djoen Eng had purchased most of his sugar ‘second-hand’ and therefore relatively expensively, while his operating costs had run higher owing to increased storage and shipping fees. Still, even a conservative profit margin of \textdollar{}0.50 per \textit{picol} would have earned Kwik Djoen Eng ten million guilders. It seems likely that the actual margin was significantly higher.

By contrast, 1917 proved to be disastrous for the sugar trade. As a result of the war cargo space was scarce and had become expensive. Many traders were unable to export their produce and suffered from lack of sufficient storage. Most were unable to pay the sugar producers which led to a severe crisis in June 1917. The situation became so desperate that the Chinese sugar traders collectively decided to suspend all payments until 1 July. KHT and Kian Gwan were the only two Chinese firms to continue their business undisturbed as both had invested heavily in storage and shipping.\footnote{In Surabaya, Cilacap, Yogyakarta and Semarang KHT had eight godowns. This investment had cost \textdollar{}1,005,000, but enabled it to keep more than 1,700,000 \textit{picol} of sugar in store. In addition, any excess storage capacity could be rented out against \textdollar{}0.10 per \textit{picol} per month. By chartering ships of the KPM, Java-China-Japan Lijn (JCJL) and Japanese shipping lines, KHT managed to provide adequate cargo space. In May 1918, Kwik Djoen Eng even contemplated to buy a Japanese ship of 2,300 tons for \textdollar{}1,800,000. However, the necessary participation of DJB could not be secured and the deal was called off (BI/DJB 1856 Confidential correspondence from Semarang to Batavia regarding KHT, 25-06-1917, 27-06-1917, 11-07-1917, and 04-05-1918; Post 2002: 288–289).} The European sugar producers decided to set up the Java...
chapter five

The first trade association within the sugar business had been founded in 1894 under the name Algemeen Syndicaat van Suikerfabrikanten in Nederlandsch-Indië (ASNI) and aimed to defend its interests by operating as a collective. In 1905 the ASNI had over 200 members and at the time only twenty sugar factories were left outside the fold. The First World War drew the sugar producers even closer together. In the Netherlands the Bond van Eigenaren van Nederlandsch-Indische Suikerondernemingen (BENISO) was established in 1917 in The Hague which concluded the integration process of the industry.

KHT appears to have survived the disastrous events of 1917 unscathed. The company had sufficient capital at its disposal to cover any loss. This is indicated by the dry remark of Byleveld that Kwik Djoen Eng would have no problem in paying f1,100,000 to make up for a drop in sugar prices at the beginning of 1918. An examination of its books until 31 May 1918 led President Zeilinga of DJB to the conclusion that KHT’s business affairs were looking “very promising”. 1919 turned out to be exceptionally profitable. Due to worldwide pent-up demand, sugar prices skyrocketed after the end of the First World War (Tio Poo Tjiang 1923: 47). Initially, KHT’s total profit was estimated at f14,000,000 with the Semarang office – the centre of the company’s sugar business – contributing f10,000,000 and the remaining ten offices 4,000,000. This amount was later adjusted downward to approximately f12,000,000, but the end result was no less impressive. It enabled KHT to become less dependent on the banks and finance large business deals out of its own means. At this point KHT focused almost exclusively on the export of sugar. The production and retail of sugar in Java itself, which used to be KHT’s main source of revenue, constituted only a minor part of the company’s business.

129 The first trade association within the sugar business had been founded in 1894 under the name Algemeen Syndicaat van Suikerfabrikanten in Nederlandsch-Indië (ASNI) and aimed to defend its interests by operating as a collective. In 1905 the ASNI had over 200 members and at the time only twenty sugar factories were left outside the fold. The First World War drew the sugar producers even closer together. In the Netherlands the Bond van Eigenaren van Nederlandsch-Indische Suikerondernemingen (BENISO) was established in 1917 in The Hague which concluded the integration process of the industry.

130 BI/DJB 1856 Confidential correspondence from Semarang to Batavia regarding KHT, 04-05-1918 and 25-09-1918.

131 BI/DJB 1856 Confidential correspondence from Semarang to Batavia regarding KHT, 17-07-1920; BI/DJB 103 No. 22: 142–143.
This export strategy seemed to pay off. In September 1920, KHT’s total profit was calculated at $8,000,000. The following month, however, saw a dramatic collapse of the sugar market, as it was realized that the worldwide demand for sugar had been vastly overestimated. Consequently, orders were withdrawn and with the growing stockpiles of sugar the price went down by more than 75% (Tio Poo Tjiang 1923: 47). KHT’s estimated profit evaporated. In January 1921 it was established that the company had suffered a loss of about $5,000,000. This was a large amount, but in the eyes of DJB it was a “very good result when compared to the losses of other large sugar traders running in the tens of millions.” Thanks to its “inner strength” KHT was able to bear this loss, but decided to refrain from any speculative arrangements in the near future. For the time being, it limited itself to carrying out the regular orders of old and trusted clients like the China Sugar Refinery of Jardine, Matheson & Co. in Hong Kong. By acting as an intermediary in this particular instance, KHT only received about 0.30 per picol of sugar. However, the commission earned on these kind of transactions was guaranteed.132

DJB attributed KHT’s survival primarily to Kho Tjin Kiat, deputy manager in Semarang, who had shown great skill in dealing with the price fall on the sugar market. He had effectively run the business after Kwik Djoen Eng departed for China in October 1918. KHT’s management had been officially entrusted to Kwik Han Tjwan – a cousin of Kwik Djoen Eng – who was named Director. According to Zeilinga, Kwik Han Tjwan had little knowledge of business and his contribution to KHT’s affairs was of little value. Kho Tjin Kiat proved to be more competent and his performance was highly praised by DJB. On 28 January 1921 President and Directors of DJB expressed their complete satisfaction with Kho Tjin Kiat’s management. According to them he had steered KHT out of the sugar crisis “with a lot more success than his boss Kwik Djoen Eng would have managed.” The bank therefore frowned upon Kwik Djoen Eng’s intention to appoint his 21-year old son Kwik Siang Kaw as ‘vice-president’ in charge of KHT (see Box 5.1). The latter had hardly any business experience and Kwik Djoen Eng himself admitted that his son was ill prepared and not yet ready for such a responsible position.

Kwik Djoen Eng was nevertheless determined to get rid of Kho Tjin Kiat whom he seemed to hold personally responsible for KHT’s painful loss of

132 BI/DJB 1856 Confidential correspondence from Semarang to Batavia regarding KHT, 20-12-1920, 06-01-1921 and 19-01-1921; BI/DJB 1514 Confidential correspondence from Batavia to Amsterdam, 12-01-1921 and 28-01-1921; BI/DJB 103 No. 22: 143.
f 5,000,000 and accused of all sorts of wrongdoings. DJB decided to intervene by warning the “choleric old gentleman” that all credit facilities would be cancelled if there was any change in KHT’s current management. In the course of 1921 a compromise was reached, whereby Kwik Siang Kaw became the new head of the firm as of January 1921 with Kho Tjin Kiat in an advisory position. DJB’s reaction resulted from a growing sense of insecurity as to KHT’s financial resources. After the departure of Kwik Djoen Eng and the transfer of agent Byleveld to Bandung for health reasons, DJB found it more and more difficult to assess the company’s position adequately. With Kwik Djoen Eng in China lines of communication were longer and less secure which made KHT’s management less efficient. Important decisions took much longer as they required confirmation from Kwik Djoen Eng who rarely responded promptly. It was unclear who was answering to whom and confusion reigned when statements from Semarang were contradicted by messages from China. In addition, agent Reysenbach, the successor of Byleveld in Semarang, appeared less successful in extracting information about KHT, either from the company’s representatives or from other sources. Where Byleveld had been able to ‘force’ KHT’s management to discuss all relevant matters with him, Reysenbach seemed to lack the skills to keep himself informed about KHT as well as the Semarang trading community.133

DJB’s concern was increased by the looming war profit tax assessment that KHT faced. No arrangements had been made so far despite DJB’s insistence that sufficient funds be reserved for this purpose. Because of the enormous profits achieved during the war, the Dutch government had decided to levy a heavy war profit tax (Oorlogswinstbelasting) in the Netherlands and the Netherlands Indies. The system entailed an assessment of the so-called ‘normal profit’ – taken as the average profit attained over the years 1911–1913 – which was subsequently subtracted from the profit that the companies had realized during the war years. A positive outcome was taxed at 30%, unless it was shown that the difference could not be ascribed to favourable wartime conditions. The introduction of the war profit tax in the Netherlands Indies at the end of 1917 confronted the colonial administration with a daunting task which turned out to be more complicated and time-consuming than expected. A huge backlog was the

133 BI/DJB 1856 Confidential correspondence from Semarang to Batavia regarding KHT, 17-07-1920, 03-01-1921, 12-01-1921, 27-07-1921 and 07-06-1922; BI/DJB 103 No. 22: 142-143; BI/DJB 1514 Confidential correspondence from Batavia to Amsterdam, 28-01-1921.
result (Kamerling 1982: 196–200). In the case of KHT it took until October 1921 before it finally received a definite answer regarding its tax obligations.

According to the government tax office, KHT had earned an excess profit of f 30,000,000 during the period 1914–1919 which was taxable by 30%. In other words, the company suddenly owed the state the huge sum of f 9,000,000 in unpaid taxes. An unpleasant surprise especially when viewed in the light of KHT’s serious loss in 1920. Unfortunately, the administration could not be persuaded to take this bad results into consideration and refused to comply with a request to diminish the assessment accordingly. Since KHT did not dispute the numbers, the government’s accountants must have made a fairly accurate estimate of the company’s windfall profits during the war. Still, the company’s current financial situation did not allow payment of such a large sum of money. After tough negotiations both parties managed to reach a compromise on 11 November 1921. The government agreed to an extension of payment until February 1922, after which KHT would start paying instalments of f 500,000. The authorities would only sanction this scheme after DJB had expressed its willingness to guarantee payment of these instalments upon their expiry date. Although this decision was perfectly justifiable as it ensured the undisturbed continuance of KHT’s operations, it also illustrates how deeply DJB had become involved in the company’s business affairs.

Though KHT had failed to reserve any funds to pay for the impending profit tax, Kwik Djoen Eng was not unprepared. In order to avoid the possible seizure of KHT’s assets by the government, he had signed over the greater part of the company’s properties to his eldest son Kwik Siang Kaw some time before June 1921, only a few months after the latter had arrived in Java. At the time, Kwik Djoen Eng resided in Hong Kong where he had established a new trading company under the name Ching Siong & Co., capitalized at $ 2,000,000. This transfer of assets came as a complete surprise to Byleveld, who had taken up his former position as DJB’s agent.

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134 The war profit tax earned the government f 238 million during the period 1916–1925 (Diehl 1993: 205).
135 In June 1921 rumour had it, that KHT would have to pay a war profit tax of ‘only’ f 3,000,000 (BI/DJB 1856 Confidential correspondence from Semarang to Batavia regarding KHT, 09–06-1921).
136 BI/DJB 1856 Confidential correspondence from Semarang to Batavia regarding KHT, 20-12-1920, 18-08-1921, 01-10-1921, 30-12-1921, 03-02-1922.
137 BI/DJB 1856 Confidential correspondence from Semarang to Batavia regarding KHT, 09-06-1921.
in Semarang in 1921 after Reysenbach was given extended sick leave. Byleveld seriously doubted whether Kwik Djoen Eng had acted wisely in establishing a new firm, but did not question his motives for the time being. However, it was an ominous sign that Byleveld – who had been on very good terms with Kwik Djoen Eng personally for many years – had to learn about the existence of Ching Siong & Co. from others which compelled him to complain to Kwik Siang Kaw about not being officially informed.138

The Establishment of Ching Siong & Co.

Unfortunately, for many years DJB failed to understand Kwik Djoen Eng’s true intentions with regard to the establishment of Ching Siong & Co. Far from merely ensuring the undisturbed continuance of KHT’s operations, Ching Siong & Co. was meant to allow further expansion of a business still regarded by Kwik Djoen Eng – if not by DJB – as his personal possession. Over the years he had kept a keen eye on developments unfolding outside the Netherlands Indies – especially within the triangle formed by Java, China, and Japan – and whenever events seemed to warrant participation he had not hesitated to explore their possibilities (Man Houng Lin, 2001).

Born in Fujian, Kwik Djoen Eng maintained close cultural, economic and even political ties with China. Throughout his life, he carefully nurtured connections with his home area. He provided relief by shipping rice when his hometown was ravaged by a flood, donated money to build and maintain the lineage temple of the family in Tongan county and also established a primary school. His financial contributions earned him an official title as Salt Inspector under the Qing dynasty. As chairman of a fundraising committee at the time of the Chinese revolution, he raised 200,000 dollars abroad for which he was awarded the first patriotic medal from the Republican president and the fifth-rank performance medal from the Republican government.

As a Taiwanese tea merchant and Japanese national Kwik Djoen Eng also nurtured contacts with Taiwan and Japan. Shortly after the First World War he donated 300,000 Yuan to establish a Confucian association, entrusting Shibusawa Eiji – a famous entrepreneur of Meiji Japan – with its disbursement. The Bank of Southern China, established in 1919 with the approval of the Japanese government, owed much to his creative

138 BI/DJB 1856 Confidential correspondence from Semarang to Batavia regarding KHT, 22-06-1921, 30-12-1921; BI/DJB 1514 Confidential correspondence from Batavia to Amsterdam, 28-01-1921.
drive as well. The bank’s predecessor – the so-called Bank of the Yellow Emperor – had been established by Kwik Djoen Eng some years earlier to promote the economy and trade of Southeast Asia and South China by combining capital from Taiwan, China and Southeast Asia. In 1916, the Japanese head of the Bank of Taiwan had already come to Kwik Djoen Eng to solicit his advice after the failure of the bank to make significant inroads in Southeast Asia. In 1918, Kwik Djoen Eng successfully negotiated on behalf of the Japanese with the Dutch government to abandon a proposed ban on the import of tea from Taiwan. For this result he later met the Taiwanese Governor-General in Taipei and was given a warm welcome by the Japanese Prime Minister and Baron Shibusawa Eiiji in Tokyo. The following year he received the fifth-rank merit medal from the Japanese and in 1928 he would be awarded the fourth-rank merit medal.139

From an economic point of view, Kwik Djoen Eng was most successful as a producer and exporter of Baozhong tea from Taiwan. His business endeavours outside Java centred around his factory in the city of Tatoitia, the undisputed centre for the processing and export of Taiwan tea. Here, he managed his Jinxiang tea company from a four-storey modern building lavishly decorated in Renaissance style. In the period 1916–1934 Kwik Djoen Eng’s firm ranked first among all Baozhong tea exporting companies. Until the end of the 1920s his enterprise routinely handled about 20% of total exports, and would on occasion trade over a million kilograms of tea a year. Kwik Djoen Eng’s success made him a man of stature and he was held in great esteem by Taiwan’s leading gentry and business people.

In 1920 an advertisement was placed in the Taiwan Nichinichi Shinpo by renowned public figures calling for essays in commemoration of Kwik Djoen Eng’s sixtieth birthday. At this point, Kwik Djoen Eng could look back upon a successful and distinguished career, which had made him a wealthy and respected man. He might have decided to lean back and enjoy other, more tranquil, activities. But Kwik Djoen Eng’s occasional bouts of megalomania prevented this from happening. There would be no early retirement for him, since he was about to commence on the biggest business scheme he had ever concocted in his life. With the establishment of Ching Siong & Co. he attempted to transform himself from an old-style towkay into a modern tycoon.

139 Starting in 1897 the Japanese recognized eminent Taiwanese as Shinsho (gentlemen) and awarded them medals as part of a considerable effort to win the support of the Taiwanese elite (Roy 2003: 45).
In the eighteenth and early nineteenth centuries towkays had performed a very specific function in the migration of Chinese who were prepared to leave their mother country in search of a better life elsewhere. By acting as a travel guide cum labour broker the towkay provided an essential mediating service for which he was ideally suited by virtue of his specialist knowledge regarding labour market conditions and extensive network of personal connections. However, in the Netherlands Indies the meaning of the word shifted to become synonymous with ‘Chinese (wholesale) trader’. Even today, the word towkay, or tauke(h) in Indonesian, is used in this sense. It translates into ‘employer’ or ‘boss’, but refers generally to ‘a big Chinese businessman’ personified by a well-to-do Chinese shop proprietor and/or head of a trading company.\footnote{See Echols (1994), Mackie (1991: 83, 87–88), Oei Hong Kian (1998: 15, 305), Teeuw (1996).}

At the start of the 1920s Kwik Djoen Eng was very successful in the wholesale trade of sugar and other agricultural commodities, but did not qualify yet as a modern tycoon: a businessman of extraordinary wealth and power. The Kwik Hoo Tong Handelmaatschappij lacked an enduring and efficient economic base, comparable to that of the Oei Tiong Ham concern. This was a strong well-integrated group of companies extending from sugar production and trading to warehousing, banking, and shipping (Dick 1993; Yoshihara Kunio 1989).

Unlike the legendary Oei Tiong Ham, Kwik Djoen Eng did not compete directly with modern European enterprises in plantation agriculture which made his position less independent. His shrewd sense of timing in purchase and sales orders could not compensate this serious disadvantage. Besides, unlike Oei Tiong Ham, he showed no awareness of the need to adopt Western techniques. He employed, for instance, no Dutch personnel or Dutch-trained Chinese with similar qualifications which would have enabled him to build a more efficient business administration. His disregard for DJB’s repeated requests in this respect might have followed from an old-fashioned reverence for outdated customs. Or, Kwik Djoen Eng might have sensed the implications of a European system of administration, that could limit his room for manoeuvre by improved accountability to creditors like DJB (Mackie 1991: 83, 86–88; Panglaykim & Palmer 1989: 107–122).

Still, Kwik Djoen Eng was entirely capable of envisaging new and promising business perspectives. He certainly realized the potential of diversifying into business activities related to sugar trading. As seen he invested
heavily in storage facilities and contemplated purchasing a Japanese cargo steamer. Although there is no evidence that Kwik Djoen Eng ever wanted to operate his own shipping company, he carefully cultivated connections with Japanese freight companies, such as the Osaka Shipping Company, in the 1920s and early 1930s. This enabled him to ensure regular shipment of merchandise and also avoided becoming too dependent on the KPM and JCJL. He also kept investing in storage capacity and became a major shareholder in the Japanese Nanyo Warehouse Company. Early 1930s he moved this company's headquarters from Singapore to the Netherlands Indies where it counted among the biggest warehouse companies (Man-Houng Lin 2001: 1005). However, Kwik Djoen Eng was not satisfied by merely extending his business activities into these related businesses. He aimed at vertical integration of his sugar trading business.

Among Chinese businessmen only the illustrious Oei Tiong Ham had so far accomplished a nearly complete vertical integration of his business empire. He owned five large, high-yielding sugar plantations – which operated the colony's most modern and efficient mills – and successfully marketed the sugar produced with the help of his own storage facilities (transformed into N.V. Midden-Java Veem, 1928), a bank (N.V. Bankvereeniging Oei Tiong Ham, 1906), a shipping company (Haep Eng Moh Steamship Coy. LTD, 1911) as well as a dense network of overseas offices.

Whether Kwik Djoen Eng followed Oei Tiong Ham's lead is uncertain, but he confirmed his enterprising nature by turning away from Java towards his country of origin. As early as 1909, he had decided to invest in sugar cane fields in China. He purchased land in his native Tongan county, introduced a new sugar cane shoot variety and even invited a Japanese technician to build a sugar refinery. Unfortunately, this first attempt at business integration proved to be ill-fated as it was opposed, for unknown reasons, by the local population. When confronted with a growing and well-organized protest, that was ultimately supported by the higher echelons of the state, Kwik Djoen Eng aborted his plans and discontinued the project (Man-Houng Lin 2001: 996–997).

A decade would pass before he tried again. In October 1918 Kwik Djoen Eng left Java to embark on an extended tour for about two years which took him to places such as Shanghai, Hong Kong, Taipei and Tokyo. Scouting for investment opportunities, he finally settled in Hong Kong where he focused on the capital-intensive sugar refining industry. This was a bold initiative considering the powerful and well-organized competition faced by newcomers. It was extremely difficult for anyone to hold his own against such formidable opponents as Butterfield & Swire and...
Jardine, Matheson & Co. Operating the Taikoo Sugar Refinery and the smaller China Sugar Refinery, these two British companies controlled Hong Kong’s sugar refining industry and effectively dominated China’s sugar imports in conjunction with the Hongkong and Shanghai Banking Corporation (HSBC). In order to run their refineries efficiently and keep production costs low, Butterfield & Swire as well as Jardine, Matheson & Co. were highly dependent upon a stable supply of good-quality unrefined sugar. Java sugar, produced on large estates in great quantities of a reasonable and uniform quality, fulfilled these requirements. As a result, half to two-thirds of China’s sugar import came from Java in the early twentieth century (Osterhammel 1982: 174; Van der Putten 2001: 31).

Having participated in this trade for many years, there can be no doubt that Kwik Djoen Eng was well informed about the Hong Kong sugar market. He must have realized that he would face strong opposition when competing with the big players. He aimed to accomplish this feat with a sweeping and aggressive move, much like his failed attempt to corner the Java sugar market in 1916. The establishment of Ching Siong & Co. was an integral part of far-reaching and very expensive plans to that effect. This explains why potentially meddlesome creditors like DJB were not informed. In the autumn of 1921 Kwik Djoen Eng had also established the Ching Siong Land Investment Co., and taken a share in the local Tay Doh Bank. This news had not yet reached DJB by 1922 which shows Kwik Djoen Eng’s determination to hide his foreign business activities from unwanted scrutiny, at least for the time being.141

Apart from the fact that he was a prominent figure in the Netherlands Indies, people in Hong Kong had no idea who Kwik Djoen Eng actually was.142 Being of medium height and dressing quite plainly in a Chinese shirt and Western white pants, he was not a very striking figure. With no credentials to show for he was considered a nobody, although it did not take long before rumours regarding his wealth started to spread. His personal fortune alone was said to be more than fifty million dollars. However, the fact that he had allegedly carried with him twenty million dollars in cash when first arriving in Hong Kong struck people most. This was a truly astounding amount when considering that the richest merchant in the

141 Kwik Djoen Eng’s business activities in Hong Kong throughout the 1920s completely eluded DJB and have left no trace in the company’s archive. BI/DJB 1802.
142 The following paragraphs are based upon a Hong Kong newspaper article dating from the early 1950s which recalls Kwik Djoen Eng arrival. A copy of this Chinese article, which does not state the name of the newspaper, was provided by courtesy of E. Weinberg and translated with the kind help of Kwee Hui Kian.
city at that time was estimated to be worth no more than ten million dollars. When asked about Kwik Djoen Eng’s personal fortune in December 1921, Byleveld estimated it at more than ten million guilders, although he had to confess that he was far from sure. According to him, not even Kwik Siang Kaw could tell and so any estimate was of little value.\textsuperscript{143} Whatever the exact amount, KHT had made Kwik Djoen Eng a millionaire. By all counts, he was extremely wealthy.

It must have been inconceivable for someone like Kwik Djoen Eng not to put his capital to profitable use. However, in view of the war profit legislation of 1917, he could ill afford conspicuous capital outlays within the Netherlands Indies. After a long search the North Point reclamation works in the Hong Kong harbour area seemed to offer just the opportunity he had sought. Making use of the British colonial authorities’ interest in expanding the harbour through land reclamation and the construction of quay walls, Kwik Djoen Eng bought a huge plot of land close to the existing port. A recent survey had indicated that it was ideally suited for deep-sea shipping and could accommodate ships of up to 5,000 tons once the right port facilities were in place. Local businessmen had shown no interest so far, as it would require huge investments with no immediate returns, and could only be exploited with the explicit consent and cooperation of the government.

Kwik Djoen Eng immediately recognized the great potential of the area’s strategic location. In his opinion the site was perfect for a modern sugar factory with the available fresh water pools, storage and port facilities. Wasting no time, he ordered expensive machinery and equipment despite the fact that the sale of the land had not yet been approved by the authorities. Kwik Djoen Eng was confident that the paperwork would be no problem. Wanting to move ahead fast, he was prepared to pay a legal firm $200,000 (Hong Kong currency) if they could speed things up and settle the procedures required to purchase land within a week. After obtaining government permission in 1922 Kwik Djoen Eng closed an agreement with the Koninklijke Nederlandsche Maatschappij van Havenwerken (KNMH) on 8 August 1922 to study the existing plans for the North Point reclamation works.\textsuperscript{144} This resulted in a contract with the Hong Kong Public Works Department for the reclamation of land and the construction of a quay.

\begin{footnotesize}
\begin{enumerate}
\item \textsuperscript{143} BI/DJB 1856 Confidential correspondence from Semarang to Batavia regarding KHT, 30-12-1921.
\item \textsuperscript{144} I am grateful to F.P. van der Putten for providing me with information regarding Kwik Djoen Eng’s land development project. See also Van der Putten (2001: 167).
\end{enumerate}
\end{footnotesize}
wall to be financed by Kwik Djoen Eng through his Ching Siong Land Investment Company. The KNMH agreed to carry out this project for $884,000 and started work in 1924. It would take until 1927 before the quay wall was finished and the project completed. In the meantime, Kwik Djoen Eng had built several sugar godowns as well as modern unloading facilities.

Strangely, hardly any progress was made after 1927. Kwik Djoen Eng’s ultimate goal of establishing a large sugar refinery enabling him to compete with Butterfield & Swire and Jardine, Matheson & Co. was never realized. In addition, profitable exploitation of the quay at North Point turned out to be difficult. The only company to make use of Kwik Djoen Eng’s pet project and facilities was Ching Siong & Co. whenever it received sugar from Java that had been shipped by KHT. It remains unclear why Kwik Djoen Eng never proceeded with the construction of the refinery. In Hong Kong the word on the street was that his competitors (Chinese and Western) learnt of his intentions through the indiscretion or possibly betrayal of one of his construction engineers. How they conspired against him remains unknown but they successfully managed to thwart his plans. However, it could very well be that his financial resources had been drained. The reclamation of land, the construction of the quay and other projects had been going on for years and must have cost an absolute fortune. Besides, a considerable part of his capital was tied down in companies like the Tae Doh Bank, KHT and his tea firm in Taiwan. Last but not least, he was involved in other plans as well, charitable or otherwise, which must have diverted his attention. Whatever the reason(s), in the

145 BI/DJB 1859 Confidential correspondence from Semarang to Batavia regarding KHT, 04-04-1925, 14-12-1927.
146 BI/DJB 1859 Confidential correspondence from Semarang to Batavia regarding KHT, 07-12-1927. See BI/DJB 5188, 04-12-1928 for unsuccessful negotiations regarding the finished quay wall between the Ching Siong Land Investment Co. and the Robert Dollar Co. This shipping company had expressed serious interest in a 20-year lease with sales option, but would not pay $260,000 (Hong Kong currency) per month. In 1930 negotiations with the Chinese Bankers Association in Shanghai to sell the quay wall also failed. See also BI/DJB 1857 Confidential correspondence from Semarang to Batavia regarding KHT, 17-10-1930, 31-10-1930, 28-11-1930, 04-12-1930, 06-12-1930, 10-12-1930, 16-01-1931.
147 For instance, Kwik Djoen Eng was actively involved in the Hong Kong Fujian Chamber of Commerce. Originally a lodging house for sojourning merchants from Fujian, it was established in 1916 to represent the Fujian merchant community in Hong Kong. Dominated by Hokkien it aimed to cover all spheres of activities including businesses, social activities, disputes, protection of the “Fujian people resident in the colony of Hong Kong” as well as their activities connected with “the Fujian district, Fujian province, and China, whether residing in China or any other part of the world.” In 1929 Kwik Djoen Eng became an honourable committee member of the Fujian Chamber of Commerce, followed by his appointment as honourable chairman the year after (Kuo Huey-Ying 2005: 12–14).
late 1920s it became clear that Kwik Djoen Eng had not managed the transition from old-style towkay to modern tycoon.

_KHT's Reorganization and Downfall_

DJB did not question Kwik Djoen Eng's investment strategy, since the bank had been left completely in the dark. It must be said that DJB showed surprisingly little interest in finding out more about, for instance, Ching Siong & Co. and the rationale behind its foundation. Concerned chiefly with KHT's sugar position, the bank focused on any outstanding credit and, above all, on the regular and swift reimbursement of these loans. With Kwik Djoen Eng out of reach his personal guarantee with regard to KHT's debts of 1917 had become less convincing. DJB's agent in Semarang therefore wanted to improve the bank's position vis-à-vis KHT.

In a letter dated 30 December 1921, Byleveld mentioned the possibility of consolidating all of Kwik Djoen Eng's real estate into a building society. Less than half a year later, on 13 June 1922, the N.V. Handel- en Bouw-Maatschappij Frigga was established, incorporating all real estate owned by Kwik Djoen Eng, Kwik Siang Kaw and KHT. Consisting of land, houses and, most importantly, KHT's godowns, it was optimistically valued by Byleveld at $7,000,000. At the inaugural meeting it was agreed that Kwik Djoen Eng, owner of Frigga's capital stock of $100,000, would act as the company's sole Managing Director. It was decided that the building society would guarantee all debts of KHT to DJB. Consequently, Kwik Djoen Eng's personal guarantee was cancelled. However, in order to prevent Frigga's real estate from being sold without the bank's approval, DJB's agent in Semarang became a permanent member of Frigga's Board of Directors.148

Despite these precautionary measures DJB's management in Batavia was not completely reassured. Since the disastrous results of 1920 KHT's financial position had gradually worsened. While suffering further losses with regard to its sugar business, substantial amounts of money were misdirected into ill-considered projects unrelated to the company's core business, such as the building of numerous houses in Surabaya.149 With capital

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148 BI/DJB 1856 Confidential correspondence from Semarang to Batavia regarding KHT, 30-12-1921, 15-06-1922, 16-06-1922, 12-12-1922; BI/DJB 3354 Folder 29.

149 The capital required for the construction of these houses was provided by KHT's Surabaya office at the request of the Tay Doh Bank and Ching Siong & Co. in Hong Kong. Kwik Bok Gwan – an adopted son of Kwik Djoen Eng – saw to all transactions, since he was in charge of KHT's agency in Surabaya, as well as the registered owner of twenty three so-called building societies in the city (BI/DJB 3354 Folder 29: 7–9).
outside the country, tied down in real estate or otherwise inaccessible, KHT experienced a growing shortage of liquid assets which became apparent after 1922. DJB was often obliged to grant KHT higher advances than advisable considering the estimated market value of the merchandise pledged to the bank. Moreover, the intricate financial relationship between the different companies controlled by Kwik Djoen Eng (KHT, Frigga, Ching Siong & Co., Ching Siong Land Investment Co., Tae Doh Bank) made it impossible for DJB to exercise control or extract any reliable information. This situation was complicated, in the eyes of President and Directors, by an inadequate office administration and a highly insufficient accounting system.\textsuperscript{150} Even Byleveld had to concede in June 1923 that the administration was "not in very good shape" (\textit{niet zo puik in orde}). All decisions were still made by Kwik Djoen Eng in Hong Kong, which required consultation and caused frequent delay. Not even 'vice-president' Kwik Siang Kaw could operate independently, and in his absence no one was qualified to sign.\textsuperscript{151}

The state of KHT's affairs compelled DJB to take additional measures to better safeguard its interests. Byleveld was told on 21 March 1923 to persuade Kwik Djoen Eng to mortgage all real estate possessed by Frigga and the Surabaya building societies as collateral for the advances granted to KHT. After extensive deliberation, involving some subtle delaying tactics, Kwik Djoen Eng agreed. In January 1924 all arrangements were finally concluded, giving DJB an additional security of approximately $2,500,000.\textsuperscript{152} A comforting amount considering KHT's volume of trade and need for credit. During the period 1922–1924, the company sent about 1,5 million \textit{picol} of sugar annually to Hong Kong alone, while sugar continued to be sold to countries like British India, Burma, Straits Settlements the United States and Great Britain.\textsuperscript{153}

In September 1924 Byleveld was at long last replaced by P.J.W. Noorduyn as DJB's representative in Semarang. This change was accompanied by a different evaluation of KHT, its management and its debt position. Noorduyn strongly opposed the preferential treatment KHT had received

\textsuperscript{150} BI/DJB 1802.
\textsuperscript{151} BI/DJB 1856 Confidential correspondence from Semarang to Batavia regarding KHT, 05-04-1923, 26-01-1924; BI/DJB 1859 Confidential correspondence from Semarang to Batavia regarding KHT, 28-12-1923, 26-01-1924; BI/DJB 107 No. 11: 135.
\textsuperscript{152} BI/DJB 1856 Confidential correspondence from Semarang to Batavia regarding KHT, 20-06-1923.
\textsuperscript{153} BI/DJB 1859 Confidential correspondence from Semarang to Batavia regarding KHT, 20-09-1924.
over the years and was determined to reorganize the relationship. He considered the company’s overdraft facilities too generous, and the general attitude of the bank towards KHT far too lenient. Shocked by the fact that the company was chronically overdrawn, he emphasized the need to reduce DJB’s exposure, albeit in a gradual fashion in order not to drive KHT straight into the hands of the competition. DJB’s strict enforcement of the regulations did not go unnoticed and although both parties tried to maintain a cordial relationship, it soon became apparent that DJB’s change in attitude had caused serious damage.

On 1 May 1925 Noorduyn was informed by Kwik Siang Kaw that his father had reached an agreement with the NHM in Hong Kong to finance the sugar business of Ching Siong & Co. Any arrangements with DJB to that effect were to be cancelled. Caught by surprise, Noorduyn immediately phoned President Trip of DJB, explaining to him that this would cost DJB 70% of its business dealings with KHT. Later, Noorduyn would write to Trip that the NHM had probably convinced Kwik Djoen Eng, not so much by offering better credit terms, but by hinting at the possibility of substantially overdrawning his account without penalty. This appeared all the more likely, since the NHM agent in Hong Kong was a “very close personal friend” of Kwik Djoen Eng and – as Kwik Siang Kaw put it – “absolutely convinced of the excellent standing of Ching Siong & Co.” The agent in Hong Kong had only needed to wait for the right moment to approach Kwik Djoen Eng and telling him that the NHM was willing to accommodate his wishes by adopting a liberal credit policy.

In Noorduyn’s opinion this moment occurred with Kwik Siang Kaw’s arrival in Hong Kong late January 1925. He must have told his father the latest news – including his last-minute visit to Trip in Batavia, who had confirmed the bank’s new policy – and discussed with him the future prospects of KHT’s relationship with DJB. Since Kwik Djoen Eng was short-tempered and keen on a bargain, his decision to accept NHM’s offer was predictable. Though Kwik Siang Kaw might have had his doubts, he could only follow his father’s wishes. Upon his return in Semarang he appeared ill at ease. Noorduyn attributed this to his embarrassment at having to (partially) break off a long-standing relationship and to the fact that KHT’s administration had come to depend heavily upon his agency’s

154 BI/DJB 1859 Confidential correspondence from Semarang to Batavia regarding KHT, 29-09-1924, 17-11-1924.

155 BI/DJB 1859 Confidential correspondence from Semarang to Batavia regarding KHT, 06-01-1925.
bookkeeping. Nevertheless, within a week the administrative transfer of KHT’s sugar dealings with Ching Siong & Co. had been all but completed.\footnote{BI/DJB 1859 Confidential correspondence from Semarang to Batavia regarding KHT, 16-01-1925, 02-05-1925, 06-05-1925; BI/Indover 445 Folder B; NA/KJCJL 40.}

KHT’s involvement in the Java sugar trade had become largely invisible to DJB’s management. Now, it was even more difficult to ascertain whether KHT’s profits were being used to pay off the company’s debts or whether they were remitted to Hong Kong and used by, for instance, the Ching Siong Land Development Co. to finance the quay wall under construction. In the meanwhile KHT remained an important client to DJB. In 1926 it was still allowed a remarkable total maximum advance of f\textsubscript{25,000,000} against sugar, rice, and other products such as nuts and maize.\footnote{BI/DJB 3042 Memorie van Overgave agentschap Semarang, 28-05-1926.} KHT was a large sugar trader with a high turnover, thanks to a wide network of branch offices, but with a questionably low profit margin which left it vulnerable to price fluctuations.\footnote{BI/DJB 1859 Confidential correspondence from Semarang to Batavia regarding KHT, 24-10-1927.}

Table 5.9 below shows the minimum quantities of sugar required to keep KHT’s offices running throughout the year. According to a statement by KHT’s head office in Semarang on 11 July 1927, these amounts were necessary to meet local demand and to enable distribution among the various territories. It was stated explicitly that the figures cited were not speculative but real. Based upon past business experience, they should therefore give an accurate picture of KHT’s annual sugar business.

According to these numbers, KHT had to buy and sell at least 200,000 tons of unrefined sugar per year to run a sound operation. The actual figures for 1927 support this assertion. 228,738 tons of sugar were bought against total sales of 222,212 tons in mid October 1927.\footnote{BI/DJB 1859 Confidential correspondence from Semarang to Batavia regarding KHT, 28-12-1926.} In 1923 the company had shipped only 125,000 tons which seems to suggest that KHT grew rapidly throughout the 1920s (De Vries 1929: 195). With one third of total sales China constituted an important component of KHT’s business. All sugar destined for this country, and most likely for some other territories as well, was sold to Ching Siong & Co. which took care of delivery and further transhipment. KHT did not require forward payment for these

\footnote{These quantities represented a value of f\textsubscript{39,443,000} and f\textsubscript{38,445,000} respectively, leaving a deficit of close to f\textsubscript{1,000,000}. The sale of the remaining 6,526 tons of sugar ought to make up for the difference, although the current market rate made this unfeasible in the eyes of DJB’s agent in Semarang (BI/DJB 1859 Confidential correspondence from Semarang to Batavia regarding KHT, 24-10-1927).}
Table 5.9. Average annual sugar turnover of KHT in 1927 (divided by territory, in metric tons).

<table>
<thead>
<tr>
<th>Territory</th>
<th>Sugar Turnover</th>
</tr>
</thead>
<tbody>
<tr>
<td>Semarang</td>
<td>12,000</td>
</tr>
<tr>
<td>Djocja</td>
<td>9,500</td>
</tr>
<tr>
<td>Solo</td>
<td>7,500</td>
</tr>
<tr>
<td>Cheribon</td>
<td>8,000</td>
</tr>
<tr>
<td>Batavia</td>
<td>6,000</td>
</tr>
<tr>
<td>Soerabaia</td>
<td>6,000</td>
</tr>
<tr>
<td>Singapore</td>
<td>8,500</td>
</tr>
<tr>
<td>Hongkong</td>
<td>20,000</td>
</tr>
<tr>
<td>Amoy (Swatow included)</td>
<td>7,000</td>
</tr>
<tr>
<td>Shanghai (Hankow &amp; Tientsin included)</td>
<td>40,000</td>
</tr>
</tbody>
</table>

Total 124,500

Europe varying between 75,000 and 150,000

British India

Source: BI/DJB 1859 Confidential correspondence from Semarang to Batavia regarding KHT, 11-07-1927.

With sugar prices going down after 1925, KHT reported a small loss of about f100,000 in 1926. Initially, the results for 1927 seemed to make up for this – showing a profit of f400,000 halfway through the year – but with a depressed sugar market at hand KHT was ultimately confronted with a loss of similar proportions. Addition to the company’s worries was a staggering tax debt of f9,676,887.67. Payment had been successfully stalled in the past, but the authorities grew increasingly impatient. This debt burden – f8,039,775.83 in war profit tax and f1,637,111.84 in income tax – required urgent settlement and could no longer be neglected. Fortunately,

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160 BI/DJB 1859 Confidential correspondence from Semarang to Batavia regarding KHT, 07-12-1927.
161 BI/DJB 1859 Confidential correspondence from Semarang to Batavia regarding KHT, 14-07-1927, 24-10-1927, 02-06-1928.
the government was prepared to forget about the claim in exchange for payment of a lump-sum. Initially, a pay-off was demanded of half a million gilders, but after tough negotiations the tax inspector settled for immediate payment of f277,000 and complete reimbursement of income tax in monthly instalments of f5,000. This agreement was reached in May 1928. Once again DJB played its part on behalf of KHT, because the deal only came through after the bank declared itself prepared to guarantee the f277,000 transfer.162

Unpleasant circumstances did not give Kwik Djoen Eng much time to enjoy his victory. On 29 February 1928, just before the tax settlement, Kwik Siang Kaw died after a short illness. This left KHT in a state of disarray and made Kwik Djoen Eng’s presence in Java imperative. With the future of his company at stake, he booked passage on a ship to Batavia where he arrived on 15 March.163 Before travelling to Semarang, Kwik Djoen Eng first discussed KHT’s financial position with the President and Directors of DJB.

The report of this meeting shows the company’s distressing financial situation and emphasizes the virtual absence of liquid assets. Kwik Djoen Eng attributed these severe cash flow problems to the excessive number of outstanding claims among Chinese import clients which he felt could only be recovered “very gradually”. According to him, it would take three years to retrieve all of KHT’s outstanding credit in Java’s interior which he estimated to be f6,000,000. Given earlier statements by Kwik Siang Kaw, the President and Directors of DJB considered f4,000,000 closer to the truth, although this did not change the fact that long-term credit arrangements tied up too much of KHT’s capital. As a result, the company was frequently left with no other choice but to overdraw its account. DJB was uncomfortable with this recurring situation which had become routine and appeared uncontrollable. At the time of Kwik Djoen Eng’s visit KHT’s account was heavily overdrawn to the amount of f884,000.164

Kwik Djoen Eng was told to restrict the overdraft facilities granted to KHT’s retailers in Central Java. The DJB agents in Yogyakarta, Solo, and

162 BI/DJB 1859 Confidential correspondence from Semarang to Batavia regarding KHT, 28-12-1926, 07-01-1928, 22-05-1928, 02-06-1928, 25-08-1928.
163 BI/DJB 1859 Confidential correspondence from Semarang to Batavia regarding KHT, 29-02-1928, 16-03-1928.
164 BI/DJB 1541 Confidential correspondence from Batavia to Amsterdam, 19-03-1928; BI/DJB 1859 Confidential correspondence from Semarang to Batavia regarding KHT, 29-03-1928; BI/DJB 1857 Confidential correspondence from Semarang to Batavia regarding KHT, 08-12-1928.
Cirebon were given clear instructions to see to this, but ordered to proceed cautiously for fear of disrupting KHT’s daily operations too much. F.H. Westerling, who had succeeded Noorduyn as DJB’s agent in Semarang in May 1926, did not need to be convinced of the importance of a careful approach. Having watched KHT’s business operations closely for two years, he made the following observation with regard to the company’s credit policy.

The outstanding amount owed by debtors [to KHT] is considered by Kwik Djoen Eng as permanent working capital […] advances, that are never repaid, but are written off annually. These debtors are bound hand and foot to KHT and through the circulation of goods and products large profits are made […], especially in times of economic prosperity among the indigenous population, which is the case at present. Should KHT have to liquidate its affairs,[…] these advances, that run in the millions, would undoubtedly be lost.166

When supervising the reorganization of KHT’s affairs, Westerling told the other agents not to accept new debtors and make sure that the existing debt was slowly reduced.167 To make sure that his instructions would be understood, he gave an example of the procedure to be followed in the case of credit sales with a running period of three months.

Chinese A buys on 1 January 1928 f 5,000 worth of tea to be paid for on 1 April. On 1 April he pays f 5,000, but at the same time asks for new goods. From now on, he will not be allowed, as before, to receive another f 5,000 or more in goods, but only less e.g. f 4,000, so that […] the outstanding amount is gradually reduced.168

With an improved cash flow KHT’s chronically overdrawn account would hopefully become a thing of the past. Notwithstanding the fact that the amounts in question were amply covered by the f 2,500,000 of mortgaged

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165 Under the existing credit arrangements, KHT’s stock acted as security and was stored in godowns which could not be accessed without prior authorization from DJB.
166 BI/DJB 5188 Confidential correspondence from Semarang to Batavia, 14-07-1928.
167 This strategy appears to have worked. On 10 December 1928, for example, the Solo office extended credit to the amount of f 697,000. Three and a half years later, on 31 May 1932, the same office had managed to reduce its outstanding credit by 42% to f 404,000. In the same period, the Yogyakarta office saw its total outstanding credit decrease by 45% from f 529,000 to f 293,000. However, these reductions could only partially solve KHT’s liquidity problems, since the company’s capital was primarily tied up in its export activities (BI/DJB 1859 Confidential correspondence from Semarang to Batavia regarding KHT, 04-12-1928, 29-12-1928; BI/DJB 1860).
168 BI/DJB 1859 Confidential correspondence from Semarang to Batavia regarding KHT, 29-03-1928.
real estate administered by Frigga and the Surabaya building societies, DJB insisted on repayment of any surplus debt. As it was stated, the existence of surplus debt partly invalidated the purpose of having £2,500,000 act as “additional security in case of unforeseen circumstances.”

The President and Directors also hoped that a less generous credit policy would curb Kwik Djoen Eng’s tendency to pursue business on a scale disproportionate to the amount of capital available. This applied not only to his highly speculative sugar dealings, but also to several representatives of KHT, who had started to import textiles without asking and/or receiving approval from the KHT head office in Semarang. Westerling pointed out that this was very undesirable. KHT should refrain from such experiments and concern itself solely with its traditional lines of business: i.e. sugar, tea, and rice, supplemented by products such as soy beans, coconut oil, and flour.

Traditionally, the trade in these products had rendered a nice profit. In Westerling’s opinion this was confirmed by the annual results of KHT’s offices in Yogyakarta, Solo and Cirebon, which had closed their books in 1928 with a combined profit of £450,000. This result led him to conclude that KHT’s core business was essentially healthy, although the company reported a net loss of £220,000 in 1928. Westerling supposed that the registered profits were cancelled out in Semarang because of high expenses, loss-making speculative transactions, or money transfers. In his words: “There is a leak somewhere, but one can only guess how and where it arises.”

He suspected that profits were withdrawn from the company and most likely moved to China where, for obvious reasons, they were hidden from DJB. This did not constitute an immediate problem, since Kwik Djoen Eng’s standing within China still enabled him to obtain large sums of money on short term if necessary. Nevertheless, Westerling rightfully concluded that KHT’s fortunes had come to depend completely upon the

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169 Underlined in the original. BI/DJB 111 No. 2: 8.
170 BI/DJB 1859 Confidential correspondence from Semarang to Batavia regarding KHT, 29-03-1928, 28-07-1928.
171 BI/DJB 1859 Confidential correspondence from Semarang to Batavia regarding KHT, 29-12-1928; BI/DJB 1857 Confidential correspondence from Semarang to Batavia regarding KHT, 15-03-1929.
172 Ibidem; BI/DJB 1859 Confidential correspondence from Semarang to Batavia regarding KHT, 29-12-1928.
173 From September 1928 onwards, for instance, KHT had repeatedly used the NIHB in Semarang to transfer more than $ 500,000 to the Singapore branche of Ching Siong & Co. According to the NIHB office in Singapore no business transactions seemed to justify these transfers (BI/DJB 1859 Confidential correspondence from Semarang to Batavia regarding KHT, 04-12-1928, 13-12-1928, 18-12-1928).
creditworthiness of Kwik Djoen Eng in China. This made DJB’s present situation uncomfortable. Under these circumstances it had no reliable means of adequately assessing the latter’s financial position. Besides, Kwik Djoen Eng had shown himself increasingly recalcitrant, if not untrustworthy. By buying almost 400,000 picol of sugar ‘second hand’ in the last few months of 1928, he had broken his promise to limit speculative sugar deals and decrease the amount of sugar in stock. Furthermore, KHT’s account was still overdrawn and this had substantially increased since August. In addition, Kwik Djoen Eng no longer supported the adoption of a European book-keeping system subject to regular accountant’s control.174

Complaining that DJB’s demands were disregarded, Westerling suggested a different course:

I therefore ask myself whether DJB should concern itself with KHT’s business and make demands that will not be honoured anyway. Is it not more desirable to limit the extension of credit to KHT in such a way that DJB knows what to expect in any event, and to end the relationship should Kwik Djoen Eng fail to honour his promises?175

He proposed a meeting with Kwik Djoen Eng in Batavia in order to make definitive arrangements regarding KHT’s overdrawn account and, if possible, solve DJB’s risk exposure in this particular case.176 President and Directors took Westerling’s worries seriously and on 1 February 1929 Kwik Djoen Eng attended a meeting with, among others, President Trip and agent Westerling at DJB’s head office.177 Also present were Kwik Djoen Eng’s third son Kwik Siang Ling, the intended successor to the deceased Kwik Siang Kaw, and – surprisingly – DJB’s former agent J.C. Byleveld, who had been appointed commissioner of KHT in August 1928, and now acted as Kwik Djoen Eng’s personal advisor.178 During the ensuing discussions Kwik Djoen Eng not only promised to pay back the large overdraft, but also gave his word that he would redeem all advances granted to KHT against produce by the end of May. Apparently he had enough of DJB

174 BI/DJB 1859 Confidential correspondence from Semarang to Batavia regarding KHT, 13-06-1928, 04-12-1928.
175 BI/DJB 1859 Confidential correspondence from Semarang to Batavia regarding KHT, 04-12-1928.
176 BI/DJB 1859 Confidential correspondence from Semarang to Batavia regarding KHT, 04-12-1928.
177 BI/DJB 1857 Confidential correspondence from Semarang to Batavia regarding KHT, 08-12-1928, 05-02-1928; BI/DJB 111 No. 45: 661, 667-675.
178 BI/DJB 1859 Confidential correspondence from Semarang to Batavia regarding KHT, 13-06-1928, 03-08-1928, 04-08-1928, 14-08-1928.
meddling in his affairs and, as he had told Westerling personally a few weeks before, wished to be relieved of any obligation to provide the bank with information.

This proposition must have been music to the ears of Trip and Westerling. DJB was more than willing to cooperate and even granted Kwik Djoen Eng upon his request an additional $400,000 for two months, provided that he and his sons personally guaranteed KHT’s liabilities to the bank. Kwik Djoen Eng – scheduled to leave for Hong Kong on 22 February to take care of other business interests, especially his harbour plans – also committed himself to return to Java immediately upon DJB’s request. In the meanwhile commissioner Byleveld would act as a contact between DJB and KHT until the deal had been settled for which purpose he would stay in Semarang until the beginning of June. A few days after, President and Directors told Westerling, that they would reconsider the relationship with KHT after the complete redemption of its debt, whether it could be continued, and if so, on what terms.

As it turned out, Kwik Djoen Eng kept his word and managed to repay approximately $5,000,000 of outstanding debt (mainly advances against produce) by selling most of KHT’s stock. On 31 May 1929, KHT owed DJB only $200,000 and both parties entered into negotiations to discuss a new credit arrangement. DJB was once again prepared to advance money against produce, although KHT’s privilege of receiving the estimated value of basically an unlimited amount of sugar was cancelled. From now on, only 90% of the estimated value would be advanced with a maximum of $5,000,000. Furthermore, overdraft facilities were not negotiable, contrary to the past when KHT had overdrawn its account with $600,000. Since KHT’s diminished credit no longer required the same additional security, DJB was willing to relinquish some of the mortgaged real estate and settle for $1,000,000 instead. In combination with the 10% already negotiated, this provided a sufficient safety margin. In the end, these conditions were accepted by Kwik Djoen Eng and on 19 June 1929 a new credit arrangement between KHT and DJB was put in place.

The new settlement was valid until 31 May 1930 which gave KHT about a year to demonstrate its good intentions and improve its financial

179 Kwik Djoen Eng also had to mortgage the premises of yet another building society in Surabaya, which had not been included in the earlier agreements with DJB. Furthermore, remittances were received from Hong Kong whereas some outstanding debts were collected as well (BI/DJB 1802).

position. Unfortunately, this was prevented by the outbreak of a worldwide economic crisis in October 1929. The resulting economic contraction led to declining orders and investment and caused a severe slump in business within months of the New York Stock Exchange collapse. KHT experienced the repercussions as its debtors failed to honour their commitments which severely affected the company’s cash flow. In May 1930 DJB’s agent in Yogyakarta wrote that the overdraft facilities of KHT’s branch office were completely utilized at all times. A few weeks earlier, J.C. van Waveren – DJB’s new agent in Semarang – had written that KHT had exhausted its liquid assets. Admittedly, the new Director – Kwik Siang Ling – turned out to be willing and sincerely tried to make ends meet by firing incompetent managers, closing down loss-making offices, concentrating on debt collection, and boosting retail sales. But, in Van Waveren’s view, Kwik Siang Ling could not stand up to his father in Hong Kong whose word remained law.

Despite KHT’s precarious financial situation Kwik Djoen Eng persisted in conducting speculative sugar deals, drawing on the debt account of Ching Siong & Co. at KHT. These transactions drained KHT’s cash reserves even further, because remittances from Hong Kong were irregular and often insufficient. In addition, on more than one occasion the company was instructed by Kwik Djoen Eng to transfer considerable amounts of money to China and Taiwan which naturally added to its severe liquidity problems. To make matters worse, KHT was also confronted with the financial consequences of a lost law suit, that would add up to f 132,000.

These negative developments diminished DJB’s confidence in the viability of KHT. In 1930 the maximum amount to be advanced to KHT was

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181 BI/DJB 3042 Memorie van Overgave agentschap Yogyakarta, 21-05-1930.
183 This law suit dated back to February 1920 and concerned a shipment of KHT sugar to Bombay which had been refused on account of being overdue. The London-based trading firm Finlay, who had purchased the sugar from KHT and resold it to several British Indian firms, accused KHT of breaching its delivery contract. As a result, Finlay had been forced to take back 250 tons of sugar, which could only be sold on the ‘open’ market against a loss of approximately f 108,000. Kwik Djoen Eng contested this account and stubbornly refused to pay Finlay the difference. Between 1922 and 1929 both parties saw each other repeatedly in court over this matter, but after appealing four times without success KHT’s lawyers advised against the continuation of legal proceedings. Next to the original amount KHT also had to pay the legal costs which over the years had accumulated to f 24,000 (BI/DJB 1857 Confidential correspondence from Semarang to Batavia regarding KHT, 06-07-1931; BI/DJB 5188, 04-12-1928, 04-09-1929).
therefore adjusted from f 5,000,000 to f 1,250,000 on the basis of 80% instead of 90% of the estimated product value.\textsuperscript{184} Again, Van Waveren tried to persuade Kwik Siang Ling and Kwik Siang Go\textsuperscript{185} – the second son of Kwik Djoen Eng and Deputy Director of Ching Siong & Co. – to focus on KHT’s core business: i.e. the trade in tea from Taiwan, the production of lump sugar, the exploitation of the company’s rice and gaplek (dried cassava) factories in Wonogiri and Solo, and the retail trade centred around Solo and Yogayakarta. Furthermore, to alleviate KHT’s cash problems, he urged them to sell out of stock as much as possible and stop trading in unprofitable products like tapioca, gunny bags, vermicelli, coffee, and textiles.\textsuperscript{186} The following year saw no improvement however. KHT continued to suffer financial difficulties and saw no chance to relieve its cash shortage. In the middle of 1931 DJB reckoned that f 450,000 of outstanding credit in Java’s interior should be considered lost. The bank counted itself lucky to have reduced its risk exposure the years before.\textsuperscript{187}

Because of the lasting economic crisis, KHT’s outlook was bleak. Kwik Djoen Eng’s repeated promises to remit money proved meaningless and it became evident that no immediate relief could be expected from China. At this point, Van Waveren characterized KHT as “nothing but an empty shell”; a subsidiary company of DJB under Chinese management.\textsuperscript{188} His recommendation to restrict credit facilities even more was followed in July 1931. The maximum amount to be advanced was lowered to f 630,000 with a safety margin of 30% instead of 20%.\textsuperscript{189} In the following period KHT's financial position deteriorated monthly. On 5 December 1931, Van Waveren learned that Ching Siong & Co. had incurred heavy losses and could no longer pay its bills. Kwik Siang Ling himself acknowledged that the company was on the verge of bankruptcy. KHT was indebted to the Chartered Bank for about f 300,000 because of business arrangements it had signed previously to accommodate Ching Siong & Co.\textsuperscript{190} Luckily,
according to Kwik Siang Ling, most of KHT’s ties with Ching Siong & Co. had been severed in July 1931. Van Waveren asserted that had Kwik Siang Ling not annulled all of Ching Siong & Co’s. old claims against KHT, the company would have been much worse off.191

From July 1931 Westerling’s ‘leak’ no longer existed and Van Waveren even spoke of a turning point in KHT’s history. Since Kwik Djoen Eng had officially severed his ties with KHT in 1929 – by transferring all of his shares in KHT and Frigga to Kwik Siang Ling192 – KHT could finally act independently, at least in theory. The import of tea from Taiwan was KHT’s only remaining viable business. KHT had dominated the Javanese market for many years and its brands were much in demand. In 1926, 80% of Taiwanese tea imports came in through KHT, although this had dropped to 40% in 1931 due to the company’s problematic financial position. The tea trade constituted its final hope and Kwik Siang Ling decided to close down the Semarang office and concentrate all remaining business activities in Solo and Yogyakarta. Disaster struck before any positive results could be reported. KHT’s tea trade had always been financed by the Bank of Taiwan, but in February 1932 the bank suddenly refused to grant any further advances. Van Waveren attributed this decision to the bad financial situation in Japan, but later concluded that KHT owed the Bank of Taiwan the considerable sum of f180,000.193

Negotiations with the Chartered Bank and the Bank of Taiwan diminished KHT’s chances for survival and DJB’s confidence in a favourable outcome decreased. President and Directors of DJB asked themselves what surprise might be next and started to wonder whether KHT could survive. Because of the bank’s collateral – still valued at f1,000,000 – DJB’s position was considered secure. Nevertheless, in March 1932 the maximum amount to be advanced to KHT was once again lowered and set at f500,000. At the same time, KHT’s account showed a deficit of f636,000. The harsh economic conditions prohibited the collection of outstanding debt as well as

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191 At the beginning of 1929, for instance, KHT had owed Ching Siong & Co. f1,600,000 on balance (BI/DJB 1857 Confidential correspondence from Semarang to Batavia regarding KHT, 15-03-1929).
192 After the death of Kwik Siang Kaw in 1928, Kwik Djoen Eng had somehow obtained his shares in KHT. On 15 October 1930, Kwik Siang Ling put these shares into the N.V. Gim Mo Tjan. This limited liability company had been established in Yogyakarta on 8 July 1929 by Kwik Siang Ling and Kwik Siang Go (BI/DJB 1857 Confidential correspondence from Semarang to Batavia regarding KHT, 17-01-1930; BI/DJB 3354 Folder 25: 1, 3; BI/DJB 1802).
193 BI/DJB 1857 Confidential correspondence from Semarang to Batavia regarding KHT, 05-12-1931; BI/DJB 1858 Confidential correspondence from Semarang to Batavia regarding KHT, 22-02-1932; 05-03-1932, 08-03-1932.
the sale of any property and it proved impossible to reduce this amount to more acceptable levels. DJB had to accept this uncomfortable situation, but remained confident that its position was covered.194

On 16 September 1932 Van Waveren evaluated the past six months in a letter to Batavia in which he concluded that the existing relationship between DJB and KHT could not be continued. He had been almost exclusively preoccupied with KHT, but in spite of his efforts the result had been negative. He acknowledged the exceptional circumstances, but also claimed that KHT’s management was incompetent and incapable of breaking with old habits. Kwik Siang Ling was willing and prepared to supply information, but lacked the determination and authority to impose his will. His father was always in the background. Though old and sick Kwik Djoen Eng was still actively involved in all matters concerning KHT, as were many other Kwik family members. Van Waveren called this “system of family and friends” disastrous, since most were not qualified to perform their tasks and unconvinced of the serious situation. To continue like this was out of the question.

Van Waveren realized that a withdrawal of the overdraft facilities combined with a cashing in of the banks security (stocks and real estate) would lead to KHT’s bankruptcy. Unwilling to do this, he proposed to stop granting advances against produce and to release f 200,000 worth of tea and several other items in order to give KHT a last chance to continue its business. The credit against promissory notes, which enabled the company to finance the margin between the estimated value of the produce and the percentage DJB was willing to advance, would be continued for the time being. To reduce KHT’s debt as much as possible, the entire sugar stock was to be sold after which the account would be fixed. Van Waveren reckoned that this would bring KHT’s total debt to DJB to approximately f 1,150,000, covered by mortgages on real estate with an estimated value of f 1,047,300. President and Directors of DJB accepted this proposal. However, to safeguard the bank’s interests they deemed it necessary to have full control of Frigga, particularly since on 30 July 1932 Frigga had acquired the shares of all but two of the Surabaya building societies. Since DJB’s charter did not permit the purchase of Frigga’s shares, Van Waveren bought them for f 100 from N.V. Gim Tjan Moh on 30 September 1932.195

194 BI/DJB 1858 Confidential correspondence from Semarang to Batavia regarding KHT, 05-03-1932, 10-03-1932, 15-03-1932, 19-03-1932, 23-03-1932.
195 BI/DJB 1658, 16-09-1932; BI/DJB 1802.
As of 1 October 1932, after nearly forty years, KHT could no longer enjoy the credit facilities of DJB. The bank appears to have had little confidence in KHT’s chances of survival, because no arrangement was made with regard to its substantial debt. Without the burden of a repayment scheme, the company managed to remain in operation for another year. On 25 November 1933 Van Waveren was informed that Kwik Djoen Eng would return to Hong Kong the following day. It was rumoured that KHT had transferred most of its stock in Solo to another firm by the name of Toko Kiem Tjiang and that from now on any payment of KHT’s debtors would be received by the new firm.

Van Waveren immediately travelled to Yogakarta and Solo to ascertain the truth of this worrying news. In Yogyakarta he was told that Kwik Siang Ling had accompanied his father and would return in three weeks. According to the deputy manager business was very bad and the Yogyakarta office would therefore be liquidated on short notice. In Solo Van Waveren could not find a representative of KHT to answer his questions. He thereupon went to Toko Kiem Tjiang which turned out to be stocked with KHT merchandise.196

An investigation of KHT’s books made it clear that Toko Kiem Tjiang was established by Kwik Siang Ling’s wife with a starting capital of f30,000 which had been withdrawn by Kwik Siang Ling himself from KHT’s account. Apparently, the new firm was to take over KHT’s tea trade, since it had purchased the right to use KHT’s tea trademarks for the next fifteen years against payment of f25,000. The books also showed that debtors had been promised to be relieved of their obligations upon immediate payment of a percentage (between 50 and 20%) of their debt in cash. This had enabled the Kwik family to transfer about f100,000 to China and Taiwan in the course of the year. In other words, KHT had been effectively stripped of all its assets.

The principal creditors, DJB, the Chartered Bank and the Bank of Taiwan, were not prepared to accept this. They decided to close down the operations of KHT after nearly forty years of existence. Upon his return to Java in January 1934, they forced Kwik Siang Ling to liquidate KHT voluntarily. This guaranteed their preferential treatment, although their expectation of being repaid cannot have been very high.197

If KHT’s balance sheet of 31 December 1933 was any indication, the credit they had once extended would be very hard to retrieve. The

196 BI/DJB 1659, 30-11-1933.
197 BI/DJB 1659, 07-12-1933; 29-01-1934.
During the 1930s and at least up to 1947, Kwik Siang Go repeatedly tried to regain possession of KHT and Frigga property. During the war, he even tried to solicit the support of the Japanese. His attempts to negotiate a new settlement were, however, unsuccessful and Kwik Siang Go remained empty-handed (BI/DJB 156 Confidential correspondence from Batavia to Amsterdam, 05-02-1935; BI/DJB 1802; BI/DJB 1659, 13-11-1934, 24-01-1935; BI/DJB 3354 Folder 25: 7).

KHT’s downfall left DJB with a claim of f 1,145,601 that would prove impossible to recover. This was not recognized at the time. As late as November 1934 Van Waveren still confidently asserted that DJB did not have to fear bankruptcy of KHT since the real estate mortgaged to the bank provided sufficient security. This collateral consisted of the premises owned by Frigga in Semarang, Surabaya, Yogyakarta and Solo. KHT itself had no virtually no assets, although the book values appeared to contradict this (see Table 5.10).

However, entries such as ‘Ching Siong & Co.’ (f 920,961), ‘Gim Moh Chan’ (f 423,459) and ‘Gim Siong’ (f 1,454) were either creations of Kwik Djoen Eng or family-related and therefore worthless. The same applied to the ‘family members’ that were indebted to KHT for f 712,697. The miscellaneous entry going by this name included a personal debt of Kwik Bok Gwan of approximately f 550,000. The adopted son of Kwik Djoen Eng and former agent of KHT in Surabaya had fallen out with his foster father as early as 1925 after which he had left Java for Amoy (Xiamen). Since he had declared in writing that he no longer recognized Kwik Djoen Eng as his father, his debt to KHT was irrecoverable.

Those assets that were real could only be liquidated at great expense due to the crisis conditions of the 1930s. As a result, the entries ‘Land &
Table 5.10. Balance sheet of the N.V. Kwik Hoo Tong Handelmaatschappij, 31–12–1933.

<table>
<thead>
<tr>
<th>Assets</th>
<th>Book value (f)</th>
<th>Liquidation value (f)</th>
<th>Liabilities</th>
<th>Book value (f)</th>
<th>Actual debts to be paid (f)</th>
</tr>
</thead>
<tbody>
<tr>
<td>Land &amp; Buildings</td>
<td>160,388</td>
<td>26,000</td>
<td>Capital</td>
<td>500,000</td>
<td></td>
</tr>
<tr>
<td>Steam launch</td>
<td>2,000</td>
<td>2,000</td>
<td>Reserve</td>
<td>685,835</td>
<td></td>
</tr>
<tr>
<td>Inventory</td>
<td>5,000</td>
<td>5,000</td>
<td>DJB</td>
<td>1,145,601</td>
<td>1,145,601</td>
</tr>
<tr>
<td>Shares</td>
<td>5,000</td>
<td></td>
<td>Chartered Bank</td>
<td>170,993</td>
<td>170,993</td>
</tr>
<tr>
<td>Debtors (stocks)</td>
<td>20,685</td>
<td>–</td>
<td>Taiwan Bank</td>
<td>43,612</td>
<td>43,612</td>
</tr>
<tr>
<td>Sundry debtors</td>
<td>77,236</td>
<td>40,000*</td>
<td>Indisch</td>
<td>840,861</td>
<td></td>
</tr>
<tr>
<td>Family debtors</td>
<td>712,697</td>
<td>–</td>
<td>Frigga</td>
<td>652,079</td>
<td></td>
</tr>
<tr>
<td>Ching Siong &amp; Co.¹</td>
<td>920,961</td>
<td>–</td>
<td>Butterworth &amp; Co.</td>
<td>35,000</td>
<td></td>
</tr>
<tr>
<td>Gim Moh Chan²</td>
<td>423,259</td>
<td>–</td>
<td>Creditors</td>
<td>20,685</td>
<td></td>
</tr>
<tr>
<td>Gim Siong³</td>
<td>1,454</td>
<td>–</td>
<td>Finlay process</td>
<td>10,000</td>
<td>5,000</td>
</tr>
<tr>
<td>Cash and Bank</td>
<td>1,992</td>
<td>1,992</td>
<td>Sundry creditors</td>
<td>24,942</td>
<td>15,000</td>
</tr>
<tr>
<td>Loss</td>
<td>1,914,906</td>
<td>–</td>
<td>Family creditors</td>
<td>20,001</td>
<td></td>
</tr>
<tr>
<td></td>
<td></td>
<td></td>
<td>Gim Siong⁴</td>
<td>86,805</td>
<td></td>
</tr>
<tr>
<td></td>
<td></td>
<td></td>
<td>Thay Tong⁵</td>
<td>101,111</td>
<td></td>
</tr>
<tr>
<td></td>
<td></td>
<td></td>
<td>Gim Moh Chan⁶</td>
<td>8,053</td>
<td></td>
</tr>
</tbody>
</table>

4,345,577          | 73,992          | 4,345,577             | 1,380,205              |

¹ Ching Siong & Co. (Singapore, Hong Kong, Taipei)
² Gim Moh Chan (Taipei, Shanghai), branch office KHT
³ Gim Siong (Hong Kong)
⁴ Gim Siong (Amoy, i.e. Xiamen), managed by Kwik Han Tjwan (Kwik Djoen Eng’s cousin)
⁵ Thay Tong (Amoy, i.e. Xiamen), owned by Gim Siong
⁶ Gim Moh Chan (Taipei), branch office KHT
* The right to collect these debts was ceded to DJB on 29-07-1932 to serve as additional security.
** The shares of this building society were owned by Frigga from 30-12-1932 onwards.
Source: BI/DJB 1802; BI/DJB 3354 Folder 25: 3.

Buildings’ and ‘Sundry debtors’ were reassessed at only 28% of their book value. It is hard to understand why DJB’s collateral security, upon which the credit arrangements with KHT ultimately rested, never received a similar critical review. Not even during the reorganization of the credit arrangement with KHT in 1929 was a thorough assessment conducted.
At one point DJB’s management was warned not to disregard the uncertain value of Frigga, but little notice was taken. In a discussion with agent Westerling in December 1928, W.C.B. van der Zwaan – a lawyer as well as a commissioner of DJB in Semarang – characterized Frigga as the only “weak link” in the current agreements with KHT. By drawing attention to the fact that DJB might be forced to execute Frigga’s assets at a less appropriate moment in time, he put the finger on the spot. This scenario, though hardly credible before the crash of New York’s Stock Exchange, happened in the 1930s. As a result of the economic crisis, real estate turned out to be unsalable. Instead of an asset, Frigga threatened to become a liability as the exploitation of the company’s property (mostly rents) barely covered its upkeep. The management of Frigga’s premises took a disproportionate amount of time and energy with discouragingly little result. In the end DJB struggled to break even. It should not come as a surprise that upon the Japanese invasion in 1942, DJB had managed to reduce KHT’s debt less than 1% to f1,137,432.

The downfall of KHT resulted from interacting circumstances over a long period of time. While some delayed the company’s demise, others actually accelerated the process. This makes it hard to ascertain the most important causes leading to the company’s bankruptcy. Of all the plausible reasons, four stand out, i.e. the personality of Kwik Djoen Eng, the establishment of Ching Siong & Co., the intricate relationship between DJB and KHT and, finally, the economic conditions of the 1930s.

Despite the ultimate failure of KHT and Ching Siong & Co., Kwik Djoen Eng’s life epitomizes the proverbial rags-to-riches tale. Starting his career in 1877 as a destitute Chinese migrant, he slowly climbed the social and economic ladder in the decades to follow. Parallel to the colony’s economic progress, his commercial success dated from the start of the century. Before the First World War he was a moderately successful trader in sugar, but he really made his fortune during the period 1914–1919. It was the war that made him a millionaire and after the cessation of hostilities he had become part of Java’s commercial establishment. Between 1915 and 1925 KHT was a highly successful contender within the colony’s lucrative sugar business and for a while Kwik Djoen Eng seemed capable of challenging Oei Tiong Ham, the ‘Sugar King’ himself.

201 BI/DJB 1859 Confidential correspondence from Semarang to Batavia regarding KHT, 28-12-1928, 29-12-1928.

202 It should be noted, that this amount did not include the interest on KHT’s debt account which had accumulated to f480,000 between January 1934 and January 1942 (BI/DJB 1802).
At the age of sixty, Kwik Djoen Eng had accomplished everything he might have wished for. Being a man of independent means he could indulge himself and do whatever he pleased. The house he had built in Salatiga at the main road to Semarang (Toentangse weg) attests to the enormous wealth he had acquired. This immense building, which still exists today and is known in Salatiga and surroundings as gedung ‘Jun Eng’, was erected between 1921–1926. At the time, it was rumoured to have cost the incredible sum of f 3,000,000. The huge residence had four pagoda-shaped towers, one on each corner, and a large domed edifice in the middle, representing Kwik Djoen Eng’s four sons and himself. The many rooms were richly decorated in a colonial style which showed both Western and Chinese influences, having tiled floors with a variety of decorative themes, stained glass, and a clear preference for marble adornments. Besides this luxurious interior, the occupants could also enjoy a lavish ornamental garden, a large pond, a zoo, and a tennis court. Since the entire estate comprised no less than 12 ha. of land, there was even room for a coffee plantation.

By building his own ‘palace’ Kwik Djoen Eng confirmed his accomplishments. However, his unbridled ambition required more than public recognition and could only be satisfied with repeated success in business. In order to make the transition from a successful to an exceptional entrepreneur and become a true business tycoon, he moved to Hong Kong where he established Ching Siong & Co. and invested heavily in land and harbour development. Unfortunately, these investments did not yield...
sufficient profits and Kwik Djoen Eng often used KHT's capital resources in an attempt to prop up his fledgling business initiatives. Throughout his career he never differentiated between the various companies he owned, simply considering them an integral part of his trading business. As a result, he did not hesitate to use the proceeds of one firm to make up for the losses of another.

Capital to him was a tool of circulation rather than a tool of accumulation. Investments were often used to establish and/or maintain links with customers and merchant networks and not necessarily to maintain profits. DJB disapproved of such methods which it viewed as irrational and typical Chinese, but could not persuade him to alter his conduct. Being strong-willed – or stubborn – Kwik Djoen Eng was seldom inclined to follow the advice of others. He was a born leader with a gift for business, who preferred to act boldly and was willing to take a chance. These character traits also had a distinct negative connotation: he could be authoritarian, shrewd, and prone to irresponsible speculation or outright gambling.

The intricate relationship between DJB and KHT complicated matters even further. Kwik Djoen Eng always tried to establish a personal bond between himself and the agent in question by making regular visits to his office and inviting him to his home for dinner. It is obvious that he succeeded particularly well in the case of Byleveld whom he even employed at a later stage. Likewise, the agent of the Bank of Taiwan as well as the agent of the NHM in Hong Kong were not impervious to his charm. This was of little consequence as long as economic conditions were good.

Throughout the 1920s, KHT could profit from the high world demand for sugar and the outstanding performance of the Java sugar industry. With excellent supply conditions at home and lucrative prices abroad, the commercial banks were very keen to finance the sugar trade. This explains why DJB was prepared to accept almost anything from a big client like KHT and would even overlook occasional dubious dealing. But with the advent of the economic depression and the near total collapse of the Java sugar industry in the 1930s this favourable situation vanished. When the economic tide started to change for the worse, the hidden transfer of KHT's capital was no longer acceptable and, with a sense of regret, the decision was finally taken to terminate a remarkable forty year business relationship.