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Modern Global Trade and the Asian Regional Economy



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Preface

This is the fifth volume in a monograph series published by the Socio-Economic History Society, Japan, and Springer. It contains four articles related to the role of Asia in the global trade of the modern era and four reviews of books about the economies of Asia. All the pieces were originally published in the Society's Japanese-language journal, but some changes have been made to the English versions in order to make them accessible to a wider readership.

As globalization accelerates, in other words, as the economic and social interdependence of different parts of the world becomes ever greater, historical research has shifted in response, from a focus on individual nations to the origins and processes that have deepened ties across the world. The result has been the emergence of global history as a discipline that uses comparative history and the history of the connections joining different regions and countries as its two main approaches (Mizushima 2008; O'Brien 2006). Haneda (2016) has called for scholars of East Asian history to adopt this conceptual framework.

Meanwhile, historical research on Asia in Japan itself since the 1980s has taken a regional view of the transformation of Asian countries that occurred from the nineteenth century against the background of the growing interconnectivity of the world economy, leading to the theory of "intra-Asian trade zones" (Sugihara 1996; Hamashita and Kawakatsu 1991). One element in this transformation was the deepening of an interdependence between Asian economies that already existed in the eighteenth century as a result of regional trade and human interactions. Another element was the interconnectedness of different economies, as can be seen—for example—in the processes involved in industrialization. The result has been an accumulation of research on merchant networks and trade in Asia, and the role of coastal cities.

For example, Naoto Kagotani can be seen as representative of the scholars working on the nature of Asian trade zones. Studies of the challenges faced by Japan after its 1859 incorporation into the treaty port system have traditionally emphasized "the impact of the West", as evidenced by military power and technology. But Kagotani (2000) has demonstrated "the impact of Asia" in the form of the trade networks that Chinese merchants had already created, both within Asia

and beyond. Similarly, Furuta (2000) has examined the re-exporting activities of Chinese merchants centered in Shanghai, who sold cloth originally manufactured in Britain throughout East Asia, including the Japanese city of Kobe. Her research shows how this “Shanghai network” served as a bridge between the Japanese market on one side and British industrial capital on the other, passing over the barriers between nation-states to link domestic, intra-Asian, and extra-Asian trade.

In fact, the appearance of merchants and commodities that cross borders without any direct links between the original country of export and the final country of purchase is an important feature in the development of global trade in Asia. These movements of people and things determined the nature of global trade throughout the world, while also deepening their links with empires, which themselves had a wide political and socioeconomic influence through the establishment of colonies, foreign settlements, treaty ports, and the like (Kagotani and Wakimura 2009). The relationship joining the wide-ranging political authority of empires to merchants and commodities that move across borders is one of the important themes that intersect research into global trade and research into the regional economic history of Asia. The four articles in this volume examine this issue in relation to different topics, areas, and times.

Chapter 1, the article by Yūko Kudō, uses the trade in Java sugar, the main export item for the Dutch East Indies, to examine the relationship between the Dutch banks that provided purchasing capital and the Chinese merchants who handled distribution. She shows the dramatic effect on this relationship of the 1917 collapse in the price of sugar, at the time of the First World War. Before then, the two sides were interdependent: the banks provided purchasing capital with sugar as the collateral, while the merchants secured customers. Afterwards, however, banks adopted a policy of risk avoidance, trading directly with high-powered merchants but using Chinese banks as intermediaries in their dealings with small and medium ones. In Chap. 2, Atsushi Kobayashi clarifies the importance of Chinese merchants in the development of Singapore as a hub for diversified intra-regional trade through their role as mediators between their local counterparts and merchants of Western origin.

Chapter 2 refers to the links between Asia and the West in the cotton trade; these are further analyzed by Kazuo Kobayashi in Chap. 3, with particular reference to British colonies in Africa. His case study of the firm of Thomas Lumley, a British merchant, shows that re-exported cotton textiles from India were the favored item of exchange for slaves on the African market. In Chap. 4, Toyomu Masaki reveals that links joining the long-distance trade in Asian commodities carried to Western countries by Western merchants to trade between the same countries and Africa also played a significant role in the case of France and its colonies. Here, the focus is on *guinée bleue*, the dark blue cloth of Indian origin that France exported to Senegal, and the economic links between colonies in India and Africa that arose from their joint incorporation into the French Empire.

While the four articles focus on the interactions within Asia and beyond with relation to trade, the book reviews examine studies of Asian comparative history. The works in question are a comparative analysis of the economies of Japan, Europe, and Asia by Osamu Saitō (Chap. 5); a collection of articles that present tropical zones as an alternative paradigm to existing economic analyses of temperate zones (Chap. 6, edited by Kaoru Sugihara, Kōhei Wakiyama, Kōichi Fujita, and Akio Tanabe); a collection of articles that examine various examples in early modern Asia of the “Industrious Revolution” model of labor-intensive economic development in land-scarce areas (Chap. 7, edited by Mario Ōshima); and a collection of articles that question the Western model of the development of market economies by examining the market order found in China (Chap. 8, edited by Kazuko Furuta).

Finally, I would like to thank Louisa Rubinien for her translation of Chaps. 1 and 6 and proofreading of Chap. 2; Dr. Helen Ballhatchet for her translation of Chaps. 4 and 5 and proofreading of Chap. 3; and Dr. Kōichi Inaba for translation of Chaps. 7 and 8.

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About the Editor

Tomoko Shiroyama is a professor in the Graduate School of Economics, the University of Tokyo. Professor Shiroyama received her B.A. and M.A. from the University of Tokyo and was awarded a Ph.D. by Harvard University (History, 1999). Her book *China During the Great Depression: Market, State, and the World Economy, 1929–1937* (Harvard Asia Center, 2008) has been translated into Chinese and Japanese and was awarded the Masayoshi Ohira Memorial Prize in 2012. Her research is on the banking and monetary system of modern China, the finance of Chinese businesses, and the trans-regional movement of goods, people, and institutions in Asia. Her most recent book, co-edited by Chi Cheung Choi and Takashi Oishi, *Chinese and Indian Merchants in Modern Asia: Networking Businesses and Formation of Regional Economy* (Brill, forthcoming), examines the internal dynamics of Chinese and Indian merchant houses in the nineteenth and twentieth centuries, and explores their relationships with the Western powers in the region. Shiroyama is currently leading a project supported by the Japan Society for the Promotion of Science called “Hydrosphere and Socioeconomics in Modern Asia: Exploring a New Regional History Using a Database and Spatial Analysis”, which combines meteorological history, hydrological history, and socioeconomic history.

Part I
Asian Merchants and Commodities in the
Global Trade of the Modern Era

Chapter 1

Dutch Bank Transactions with Chinese Traders in the Dutch East Indies: The Java Sugar Trade and the 1917 Sugar Crisis



Yuko Kudo

Abstract This paper examines the trade in Java sugar, a major export of the Dutch East Indies, to ascertain the nature of the relationship between Chinese traders and Dutch banks from a financing perspective. Focusing on Semarang in Central Java, the center of the Chinese merchant-based sugar trade, the paper clarifies the mechanism by which sugar moved from mill to purchasing dealer to export. It particularly focuses on the changes in purchasing by Chinese traders triggered by the 1917 sugar crisis late in the First World War. Prior to the sugar crisis, Dutch banks and Chinese traders had a relationship of interdependence: with export sugar serving as collateral, banks provided funding to traders who secured buyers for the export sugar. However, with the start of World War I, the large sums of money flowing into the market from the banks led to rampant speculation by the traders, which in turn engendered a crisis when sugar prices dropped in 1917. In the wake of this crisis, the Dutch banks established the Java Association of Sugar Producers (Vereenigde Javasuiker Producenten: VJSP) in Surabaya to centralize sales of Java sugar. In the 1920s, VJSP established sales controls, prioritizing sales to European companies and to the Japanese trading companies newly entering the market. At the same time, the Dutch banks restricted the supply of funds to the Chinese traders, seeking to suppress speculation through a careful selection of suppliers and by supplying funds indirectly through the mediation of a Chinese bank. Semarang's Chinese traders thus fell into two distinct categories—powerful traders who had their own capital and overseas sales experience, and the small- and medium-sized traders—while the market shrank to small-scale transactions centered principally on resale.

Keywords Bank · Chinese · Dutch East Indies · Sugar · Trade

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1 Introduction

Java sugar production increased at the start of the 20th century, and as a major export product, sugar developed into one of the colonial economy's leading industries. The main theme of this paper is to clarify the role of Java's Chinese traders in the sugar trading and export process, and by examining the relationship between Dutch sugar companies and financial institutions, to ascertain how Chinese trading entities entered the industry in the colonial era. In particular, I will examine the business relations between producers, financial institutions, and Chinese traders and the changes triggered by the sugar crisis of 1917.¹

A number of studies have produced research on the early 20th century Java sugar industry, principally through the lens of production, capital, foreign markets, and local residents' labor and land problems. It has been noted that while Dutch capital was overwhelmingly dominant in the production sector of the sugar industry's structure as a whole, the distribution and export sectors were highly mixed, with Dutch companies but also other European and Asian firms as well. This was related to the fact that the Java sugar market was cut off from the metropole in the Netherlands when it began consuming beet sugar after the turn of the century and that exports to Asia were strengthened as a result (Tio 1923; Japan External Trade Research Center 1944; Kano 2003, pp. 113–130).

In recent years, attention has also focused on the role of Chinese traders in the distribution sector, as part of research on the structure of sugar trade within the East and Southeast Asian region as a whole. Hirai Kensuke, for example, noted the entry of exports to China by Chinese traders in Southeast Asia, as part of a broad examination of the changing relationship between Java sugar and Japanese refined sugar in the Chinese market (Hirai 2010, pp. 71–92).

In addition, Knight argued that the major Chinese traders in Java strengthened their relationship with the Bank of Taiwan with a view to trading in the East Asian market. (Knight 2010, pp. 477–515). In this way, it is understood that Chinese traders in Java played a certain role in the sale of Java sugar, and that, especially in the case of leading traders such as Kian Gwan and Kwik Hoo Tong, the international networks and multinational nature of the trade built between Japan and China became the driving force for development (Yoshihara 1989, pp. 137–175; Post 2002; Claver 2014, pp. 283–348).

There has not been much emphasis, however, on placing “Chinese sugar traders” in the structure of Java's sugar industry as a whole, by tracing, for example, the economic conditions in the Dutch East Indies under which certain sugar producers with international operations, entered into and developed the business. In fact, besides the influential Chinese traders mentioned above, many nameless Chinese traders also entered the sugar-buying trade, and during the Java sugar industry's peak period in the 1920s, Chinese traders accounted for 30% of total sugar purchases. There have

¹“Chinese traders” here refers to Chinese people involved in trade. Besides the managers of trading companies registered as corporations (the *handelsmaatschappij*), this also includes merchants that operated under company or individual names.

not yet, however, been any analyses of small and medium-scale traders and how they conducted their business.

This paper therefore focuses on Semarang, a central Java port town where of the Chinese merchants' sugar trade was centered. It seeks to elucidate the flow of funds between Dutch banks and Chinese traders through an examination of the records of their transactions.² It focuses in particular on the sugar crisis of 1917, discussing the reasons behind the greater restrictions on funds to Chinese traders, along with the impact of that change on the traders themselves, the Dutch banks, and the producers, who had been deeply interdependent in the sugar trade of the early 20th century.

The main historical materials used here are documents from the *Nederlandsche Handel—Maatschappij* (NHM), and the Dutch East Indies Commercial Bank or *Nederlandsch—Indische Handelsbank* (NIHB), representatives of the *cultuurbanken* that were at the core of the Java sugar industry.³ The *cultuurbanken* not only provided long-term funding to the sugar industry but also received income in the form of fees paid for accepting consignments of produced sugar. Records remain that pertain to their transactions with the Chinese traders. I also use materials from *De Javasche Bank* (DJB), which, as the colony's central bank, was deeply involved in colonial policy. Besides issuing bonds, this bank also handled commercial lending. The correspondence exchanged among its branches, along with reports of all kinds, offer insight into the bank's relationships with the Chinese traders and about the economic situation at any given moment. Records of the *Vereenigde Javasuiker Producenten* (VJSP), the sugar sales control agency established toward the end of World War I, are useful principally to pertain to verify the conditions under which sugar was sold in the 1920s and the means by which purchasers procured their funding.

The period under discussion, from the beginning of the 1900s to the mid-1920s, is divided into three phases. In the first phase from the early 1900s until World War I, when exports of Java sugar were reaching full scale, *cultuurbanken* loans to Chinese traders for sugar purchases increased rapidly (Part 1). The second phase was the chaotic period of the First World War. The sudden rise in sugar prices during the war led to feverish speculation by Chinese traders, which in turn led to the 1917 "sugar crisis." Prices plummeted and Chinese traders collapsed one after another. In response to the crisis, the *cultuurbanken* and sugar mills became more vigilant in their relations with Chinese traders, and established controls on sales (Part 2). The third phase was during the 1920s, when the sales controls were in effect. Exports

²Java sugar's production area is concentrated between the central and eastern parts of the island, and Surabaya and Semarang were the major ports for shipping the product. Whereas leading European trading companies dominated the trade in Surabaya, in Semarang, the most active sugar trading was by major Chinese traders.

³*Cultuurbanken* is a generic term not only for financial institutions that supplied long-term funding to agricultural enterprises but also for those that owned and operated their own farming enterprises. It was a corporate form that, due to the sugar crisis of 1884, systematically dominated the entire sugar industry, including sugar factories and financing, through the cultivation of sugarcane. In the mid-1920s, the *cultuurbanken* owned or managed roughly 80% of total sugar mills. (Helfferich 1921; Nihon Boeki Kenkyujo 1944, pp. 125–140; Kano 2003, pp. 118–124).