Reproduced from *Chinese Economic Activity in Netherlands India* edited by M.R. Fernando and David Bulbeck (Singapore: Institute of Southeast Asian Studies, 1992). This version was obtained electronically direct from the publisher on condition that copyright is not infringed. No part of this publication may be reproduced without the prior permission of the Institute of Southeast Asian Studies. Individual articles are available at < http://bookshop.iseas.edu.sg >

THE CREDIT SYSTEM

(VLEMING'S CHAPTER 10)

1. Introduction

As the structure of social organization has become more complex over time, so the role of the credit system has also had to become more important and multifaceted. In modern society business life is inseparably bound with the credit system and under present circumstances the former is simply unthinkable without the latter. Therefore to gain a proper insight into the credit system in a particular country, knowledge of the organization of its business world, at least the main features, is indispensable.

The Introduction to this monograph gave a broad-brushed sketch of Chinese business life in Netherlands India and different aspects of the topic were then developed in the following chapters. Chapter 12 will discuss speculation and the futures trade. The last chapter will look at particular industries, taking appropriate local examples from certain parts of the archipelago, and emphasizing the Outer Islands. So as not to repeat ourselves unnecessarily, this chapter limits its discussion to the credit system, the organization of business life and the relationships between the various segments of the population, together with some additional remarks on each topic. Moreover, historical background on the credit and banking system is beyond the aims of this monograph, so only situations as they can be found at present will be discussed.

Credit has become the backbone of economic life in western society. In this context one thinks of the obvious difference shown by the business worlds of contemporary Europe and America, compared with any of their predecessors, in that the entrepreneur and the capitalist have moved apart. In big business, ownership and access to capital have come to be controlled by different groups of people. Consequently the credit system has taken on much enhanced significance and greatly accelerated the growth of trade, industry and world traffic during the second half of the last century. Shares and debentures, cartels and trusts, etc., have become typical phenomena of present-day western society.

To consider instead the organization of Chinese business life in Netherlands India, we obviously have to take a long step backwards on the road of social development just sketched. Generally speaking we find ourselves moving from the dominion of large enterprises back into the kingdom of small businesses and minor trading.

A valid generalization, which has to admit only one exception, is that in reality the true limited liability company remains a foreign notion to Chinese in the Indies, and such an enterprise would in most cases be beyond their financial capacity. There is also no Chinese limited liability company whose shares are officially quoted at the stock exchange. In addition to pointing out the relatively small capital base of the Chinese middle class and the fear of financial failure, we must ascribe this phenomenon primarily to the intimate nature of Chinese business life. Family bonds are very conspicuous, and although an enterprise assumes the legal form of a limited liability company, investment of capital by outsiders is usually not appreciated as it brings outside interference into the business (see chapter 7).

Normally trading banks should be able to support the issuance of shares, or other institutions should exert some control over the management of a limited liability company and thereby give it some guarantee. But such institutions obviously play no part in the matter at hand. Anyway, the different kinds of shares and debentures which occupy a prominent place in the western credit system can be excluded from our discussion.

However, it cannot be concluded that the credit system is of generally minor importance in Chinese business life. On the contrary the small Chinese merchant, the *singkeh*, as a rule starts his small business without any capital whatsoever. For assistance with credit, he must look to more successful blood relatives or clan members who can give him money in good faith, but often at very high interest rates.

There are indeed Chinese, settled here for a long time, who have succeeded in accumulating a little capital thanks to their inclination to save, their hard labour or some other reason. But they too have a need for credit, mainly because of their pronounced tendency to invest their disposable means in fixed assets.

A common phenomenon is one where the business is overwhelmingly dependent on credit in the form of goods, sometimes acquired at great expense from a third party, while the capital of the businessman himself, or a large part of it, has been invested in houses earning a relatively low rental. Jewels are also sought after as an investment. The desire to buy fixed assets seems somewhat tempered in recent times, due either to their declining value or their unsaleability; and the resultant non-liquid position of many trade businesses has made the disadvantages of such a policy all too clear. Perhaps a distrust of the tax man has had its influence here, but the main point is the disincentive arising from the nature of the investment itself.

The need for credit experienced by the Chinese middle class is further aggravated by the considerable amounts of money flowing out of Netherlands India every year in the form of interest, profit taking, and the savings taken by the many Chinese who emigrate to China and Singapore after having become rich. In their place come poor immigrants who do not create capital, especially in the Outer Islands where living conditions are less optimal.

Many rich Chinese and *kongsi* busy themselves with supplying credit, usually against accepted bills of exchange. Although these credits are sometimes covered by a security, the confidence placed in the debtor plays a major role. The securities mostly involve fixed possessions because of the preference for investing in immovable goods. As a side business, many Chinese borrow money against the mortgage of real estate, paying interest between 7 and 9 percent, and lend out the same money at a much higher interest rate between 12 and 24 percent, but with greater risks involved.

Small investors, mostly among the *singkeh*, sometimes deposit their savings with Chinese trading companies which thereby serve more or less the same purpose as a savings bank. The interest which the investor enjoys in such cases is set by the trading company. The depositor on the other hand procures a temporary but safe investment.

Chapter 11 is devoted to a special form of credit known as *hwe*, also as *julu-julu* in some parts of Netherlands India. For the time being, however, we shall confine ourselves to the subject of our present discussion.

To forestall confusion, we would like to point out that here and elsewhere in this monograph we understand intermediary trade as standing between international trade on the one hand and the masses on the other; in other words, servicing the distribution and collection of hinterland trade. Now trading, especially intermediary trading, is a field that suits the Chinese businessman particularly well. As a link in the chain between the big business end of imports and exports and the indigenous population, the Chinese have acquired as it were a monopolistic position in Netherlands India, a fact we have already noted in the Introduction to this monograph. Due to his understanding of the needs of the indigenous people, his sobriety and frugal lifestyle, the Chinese businessman is superior to the European trader; as a result of his diligence, thrift and better salesmanship, he has even less reason to fear competition from the natives.

In the Introduction we remarked that the natives as well as the European wholesalers are largely dependent on the Chinese intermediary traders who, in the course of years, have succeeded in setting up a sales organization reaching to the remotest hinterland stations. As these inland traders generally have little capital, the banks do not provide them with credit directly, with the result that they depend on the importers for credit. Hence the risks associated with irregular sales constantly niggle the big businessman and also to some extent the Chinese middleman, who in this context must be regarded as a sales agent commissioned by the European import houses, even though he is left alone to act as an independent merchant who can wield a certain monopoly. The dependence on the Chinese is even more important in exports than in imports, a point which will be explained in greater detail later in this chapter, together with a discussion of the major benefits and costs.

In the next paragraphs we shall deal with *commercial credit* in its broadest sense, then to be discussed under credit from the bank, from importers and from exporters. In dealing with bank credit we shall advance topics of particular relevance to the relationship between the European banking system and the Chinese business world. The significance of the Chinese banking system is relatively small as far as trade is concerned. It is true that in different trading centres of the Outer Islands as well as Java, Chinese banks are active, but the size of these businesses and their sphere of activity are such that they are important only to the business life of the local Chinese settled there.

2. Bank Credit

a) *Direct Import*

The most important commodity which Chinese import to Netherlands India is rice from Rangoon, Saigon and Siam. Some large European enterprises such as 'de Billiton Maatschappij' and 'A.V.R.O.S.', as well as the government tin industry in Bangka, import rice for their labourers. For the most part, however, rice needed by the big plantations in Java or by the Chinese is purchased through the intermediation of locally settled brokers who have special connections with the export centres. In addition Singapore Chinese trade rice directly to Chinese in Java and the Outer Islands without the intermediation of brokers. The Singapore trading companies can often deliver rice of better quality at a lower price through their own establishments in the producing countries. While the quantities traded to Java in this way are relatively small, they comprise a considerable part of the rice imported to the Outer Islands. The intermediation of the banks is limited to procuring or cashing bills of exchange in Singapore, and to the remittance of proceeds, both of which constitute much of the business between buyers and sellers. As a result bank credit is not required.

The banks do play an important role in the direct importation of rice from producing countries through the intermediation of brokers. According to Mr E.G.J. Gimbrère, in his book *Commercial Credit*[1], the so-called 'commercial credit' or 'merchants' credit' used to apply mostly to the importation of rice during prewar years. It was distinct from other forms of commercial credit because it was not necessary for the banker to give credit, rather the buyer simply had to declare in writing that the amount indebted would be paid if the requirements set forth in the sale were met. It could therefore be used only during the period when rice was imported by well-capitalized Chinese trading houses with names and reputations sufficiently well-known among sellers that no further guarantee was deemed necessary. The intermediation of the banks in these transactions was limited to sending the contents of the buyer's signed declaration in writing, or via telegraph, to their correspondents or agencies. Despite the disadvantage to the seller, in that the bank did not guarantee the fulfilment of the buyer's obligations, such credit provided the seller with some advantages of which the following are the most important.

1. Lower telegram costs through the use of special codes, plus the bank's independent records which prove the telegrams were sent.

2. The buyer was bound to accept the bills of exchange drawn on him as contained in the letter of credit and thus pay up, provided the documents attached to the declaration met certain requirements which prevented chicanery in case of price reductions due to quality deviations. The buyer was therefore relieved of his right to refuse bills of exchange on the basis of improper fulfilment of the sales agreement, and he could base his refusal only on the stipulations contained in the aforementioned declaration.

3. As long as the buyer's name enjoyed a favourable reputation, the banker abroad could take over the bills of exchange without much risk, since he was able to judge whether the stipulations of the declaration had been met. By these means the bills of exchange became more saleable and the seller was thus able to bargain for a better price.

4. The dispatch of the declaration's contents by the bank was regarded for all practical purposes as providing information (but without accepting responsibility) on the creditworthiness of the buyer.

To the buyer this method of finance offered different advantages, for example less stringent requirements by the banks as regards securities, and cheaper credit through economizing on risk premiums. Moreover the bank in the Indies

[1] *Handelscredieten*, Boekhandel van het Gebr. Belinfante, The Hague, 1923.

providing the credit did not actually run any risk — and in fact received a small commission by attracting customers to itself — because its conditions stipulated that the bills of exchange had to be sent by its intermediary ('exchange profit'), the rice had to be pledged to the bank upon arrival, and so on.

When the obstacles to transportation were removed after the war, the 'merchant's credit' did not succeed in regaining its former position, partly because of lack of awareness of the earlier conditions and partly because entirely new parties came to face each other. So at the present time, the contracts as a rule include the condition that a 'confirmed banker's credit' must be given 'without recourse on drawers'.

Although the meaning of the term 'confirmed credit' can create misunderstanding, it is generally understood that credit is guaranteed by the buyer's banker as well as by the seller's banker, that the seller is obliged to pay up, and that the contract is irrevocable in the sense that no alteration can be made without the consensus of all concerned. 'Confirmation', for which the confirming bank usually charges some commission to the seller's account, here actually means an added guarantee that the seller, on whose behalf the credit has been given, can insist his bills of exchange are honoured when the requirements relating to the credit have been met; and if needs be he can, in case of difficulties, take legal action in his own country.

For the meaning of the clause 'without recourse on drawers' which generally means exemption from the right to redress over bills of exchange, we refer to Gimbrère's book. The bills of exchange are generally drawn 'payable 30 days after sight, D/P (documents against payment)'. The bank which gives credit will generally regard the documents attached to the bill of exchange as an important pledge of the buyer's obligations and therefore it will insist on claiming only a certain part of the total amount of credit as a guarantee of payment. If the documents against acceptance of the bill of exchange are handed over but the goods are not then delivered in pledge to the bank, then the character of the transaction will change into one of blank credit having been given.

Here, the reference to 'the buyer' means the *last* buyer. The importation of rice into Java is a largely speculative trade, often operated by the same people who act as major sugar speculators, so that a contract can change hands many times before the final delivery. But it is always the last buyer who has to arrange the credit.

In no small measure, the risk for the banks is increased by the speculative nature of rice importation because the commodity is then released for consumption at greatly fluctuating prices. So not only do imports vary but also the consumption of foreign rice changes a great deal, because the harvested surpluses of indigenous produce, and the markedly variable prosperity of the rural population with its slight tendency to save, both exert a powerful influence.

Although rice imports have caused few losses, yet many banks show some reluctance and an attitude of caution towards the trade. Especially the English and Japanese banks place stringent requirements on the advanced security, which causes a number of difficulties because the sales contracts are drawn up in guilders. We cannot deal with this at length here since such technical matters would take up too much space. But these difficulties could be avoided primarily by drawing up the sales contracts in foreign currency, in which case the seller would have no objection to trusting whatever bank is chosen as intermediary. Under present circumstances this is not the case, because the seller will receive his advance in guilders, so he carefully selects which bank will finance the transaction based on the quoted exchange rate of guilders. The Chinese buyers refuse to make their purchases in foreign currency partly because of habit and partly for fear they will have to pay inflated rates for Siamese ticals or Saigon piastres, for which there is no regular trade in Netherlands India and hence a generally unfavourable exchange rate.

This objection is not valid for the trade with Rangoon where British Indian rupees form the unit of payment. There is however another difficulty. Where the bank in Rangoon making the payment takes over bills of exchange in its own currency (rupees) it will insist on a clause wherein the buyer concerned must pay interest — at a rate to be determined by the bank — from the date the finance is drawn until the estimated date of arrival of the expected remittance. (Indeed the bank would be unable to calculate what potential loss in interest it would need to make up in quoting its interest rate on bills of exchange drawn up in guilders.) As it stands, the interest rate often amounts to 9 or 10 per cent per annum which horrifies the Chinese in Java.

However, this attitude is misguided because, according to reliable sources, calculations show that a quotation in foreign currency plus interest is often considerably more advantageous than a quotation in guilders where exchange losses of 5 or 10 cents per *pikul* seem to be no exception. In any case, quotations for Rangoon rice in rupees have attracted little interest among the Chinese, while the Government also continues to require quotations in guilders.

The interior rice trade and its connection with the banking system will be discussed more extensively in sub-section c below.

Among the further commercial goods directly imported by the Chinese on behalf of shopkeepers, and for which the European banking institutions supply credit, we should mention soybeans (*kacang kedele*), Japanese goods such as matches, and provisions such as butter.

We have mentioned virtually everything that needs attention and so can now wind up the discussion. Credit will generally be given in foreign currency — under conditions of additional interest, as described above — often more in the form of documentation for credit payments than as credit for bills of exchange, although Japanese industry has financed the latter for its products on terms usually valid for 30 or 45 days.

In cases of imported goods which do not have quoted market prices, the bank will be less keen to advance credit because of the difficulty in realizing its security, and thus insists on stricter requirements concerning payment of the guarantee and so on. In taking over the bills of exchange from their agencies abroad, the bank's intermediary, either with or without the guarantee of a comprador,[2] will arrange for such bills of exchange to be cashed in, or the moneys simply remitted to the buyer's (or seller's) account and if needs be passed on to the foreign currency futures trade. Finally, we would like to mention that in some sectors of the import trade the banks have almost no role to play. This includes the very important trade in fish, partly to be explained by the internal organisation of the industry as well as the fact that fish are highly prone to decay.

b) *Direct Export*

Among the goods exported by the Chinese to foreign countries and financed by European banks, sugar, as is well known, occupies a prominent place.[3] Although the importation of rice is almost wholly in Chinese hands, this is not true of the sugar export industry. Consider the total harvest of the United Java Sugar Producers during the years 1919 to 1924, as cited in the figures published by the firm Gyselman and Steup. During these years, respectively 26, 19, 32, 29, 21 and 31 per cent were sold directly to Chinese merchants, mainly to the big trading companies Kwik Hoo Tong, Kian Gwan, and Oei Tjoe based in Semarang. Japanese and European houses were the other major direct buyers.

As regards the financing of sugar exports, Chinese exporters can be divided into two categories. First come the powerful, well-capitalized trading houses, of which the three companies just mentioned are the most important. As well as exporting to China, Hong Kong and British India, they export to America and Europe, both of which have been important buyers of Java's sugar since 1914, such that the exporters have their offices or agents there (for example, Kian Gwan Western Agency in London). Second, there are the smaller exporters who ship sugar primarily to Singapore, Penang and the Outer Islands (Pontianak and Palembang).

---

[2]Compradors are discussed in more detail in section 3.

[3]The topic of the extensive speculations in sugar will be dealt with in chapter 12.

The first group of exporters is generally financed by buyers in foreign countries who open bank credits against long-term bills of exchange drawn up in foreign currency, to be taken up by banks here in the Indies. In these credit arrangements the practices adopted by the buyer's country naturally take precedence, because they generally offer the advantage of not having stipulated the beneficiary at any particular bank.

The financing of the second group of sugar exporters occurs mainly through bills of exchange valid for a relatively short period of up to 30 days. They are either D/A (documents against acceptance) or D/P (documents against payment), depending on the standing of the drawer and the consignee, and whose signatures appear in place of any pledge of goods when D/A bills of exchange are accepted. Usually the creditors advance perhaps 50 to 80 per cent of the bill of exchange, and the rest is supplied after payment has been made. The difference between the invoiced price of the sugar and the final valid market price must be taken into account at the time when money is handed over in advance. The export bills of exchange in Singapore and Penang are usually drawn in dollars from banks which realize their own profit margin through the exchange rate. The bills of exchange in guilders from the Outer Islands are taken up after some percentage is deducted for the loss of interest, a risk premium and transaction charges.

Consignments in sugar seldom take place. However, with regard to other export commodities such as tobacco, hides and rubber, banks often make advance payments to the Chinese on consignment to dispatch the goods. The banks take care of shipping the goods, insurance matters and sale at the place of destination through their intermediaries or agents, or through brokers if needs be. Accounts relating to the proceeds are settled after costs and the bank's commission have been deducted.

c) *Credits for financing local trade*

In principle, these credits provide finance for goods which have a quoted market price. The Chinese traders receive a loan in the sense of a current account credited against the pledge of the goods. The usual type of this loan found in the Netherlands, whereby a certain amount must be immediately taken up with a fixed short term attached, is not to be found here, due partly to the poorer development of docking facilities. The bigger trading houses are generally established with their own facilities in harbour cities where the banks also have their complexes or godowns.

Loans taken out against the pledge of documents representing the goods are not the most common form of loan. But where such loans are taken, the documents can consist of a dock receipt, usually made out 'to the bearer', or a godown receipt issued 'in the name of', and are not required to be endorsed. Godown receipts are issued by wealthy European owners of godowns, such as Nederlandsche Handel Maatschappij, Nederlandsch-Indische Handelsbank, Internationale Crediet- en Handelsvereeniging 'Rotterdam', etc. As most of the export produce which can be used as a pledge for a loan is speculative in kind and changes hands frequently, trading is better served by papers made out 'to the bearer', rather than those 'in the name of' which cannot be handed over. In the case of a godown receipt issued 'in the name of', any new holder must pay storage costs, at least for a prescribed minimum number of days, and so is of greater advantage to the storer than a godown receipt issued 'to the bearer'.

Another problem is the lack of uniformity in the wording of these documents. For instance, we find in the various kinds of godown receipts that the storer disclaims responsibility for the content and quality of the stored articles, and this can bring about the most troublesome consequences for the borrower, even though such a turn of events is rare. Anyway there has been some effort to achieve greater uniformity in the wording of storage certificates.

Whether these storage certificates can generally meet the requirements for a loan depends on the standing of the person issuing the document, and the degree to which its wording ensures certainty before the law that the document actually represents the goods mentioned therein.

Besides the loans associated with documents, the more customary form of loan is made on the goods themselves. They can be stored for the purpose in the godowns of the bank, as is the case with sugar in the harbours along Java's north coast. The United Java Sugar Producers usually stipulates in its conditions of sale that the sugar must be delivered to the godowns of the producers or those closely connected with the producers. If the buyer is in close contact with another bank, one to whose godowns the sugar must be delivered according to the contract, then a loan will be negotiated on certification of the godown receipts. Loans on goods stored at the bank's godown offer the most suitable control over the pledge; moreover the bank can simultaneously arrange shipping orders, and insurance of the goods where necessary, with considerable extra benefit to itself.

One of the most common forms of security taken out by the Chinese involves the storage of the goods in the owner's godown until the goods are handed over to the bank by the signing of a so-called 'certificate of lease'. When the godown is not owned but rather hired by the provider of the security, then there will necessarily be a declaration by the godown's owner in which he agrees to lease it. Legally, however, such leasing can operate only if the goods in storage are covered by the authority of the creditor. This involves a stipulation whereby the party providing the security prevents any entry into the godown without the consent of the bank, managed through the 'two keys system'.

In this 'two keys system', any access to the godown required unlocking a double set of locks. One set of keys kept by the Chinese merchant is used for unlocking, while the other set is deposited in a sealed envelope at the bank. In normal cases the godown is opened by the merchant together with an employee or foreman of the bank who makes notes about discrepancies in the godown stock. As long as the sealed envelope is undamaged, the bank can show that its own personnel have not entered the godown in the absence of the merchant, although it reserves the right at any time to enter the godown by breaking the seals.

A problem with this way of giving credit is that controlling discrepancies in the goods — which can occur frequently — is usually vested in a foreman. The bank cannot afford to station a special employee at every godown during the whole of each working day, and the godowns of the different security providers may be spread far and wide. The only practical form of control involves a foreman periodically visiting the godowns in turn and, as usually happens, making a rough inventory of the goods still present. Thus there is insufficient control to prevent all fraud on the part of the security provider, so this type of credit supply depends to a large extent on confiding in the security provider. The decision as to whether such confidence is justified, and whether or not his financial capacity has undergone a decline, is a matter of the utmost importance.

Paddy is a particularly difficult security to control, especially given its widely dispersed storage places, and so the problem of whether to confide in the security provider really comes to the fore. The banks are therefore generally reluctant to offer loans on paddy and they usually require that the credit given is covered by a mortgage security. So rice hullers, who need large amounts of capital, find that while paddy is a relatively cheap commodity, hulled rice is relatively expensive.

The big rice merchants assist the credit needs of the rice hullers by advancing them money during the months of April and May. The advance has to be paid back two months later in rice valued at 40 or 50 cents per *pikul* below the market price, and to which interest has been added. When the rice huller agrees, his acceptance letter can be cashed in at the bank after having been signed by the merchant as guarantor.

A third form of loan against produce as the security is worth mentioning, namely where the security is vested in the care of a storehouse-keeper or other third party. This is the usual procedure for banks in their dealings with the European import houses, and for private banking institutions lending money against produce through the Java Bank. Among the Chinese, however, this form of credit is not found to any great degree. Nonetheless it is advantageous in specific circumstances such as when, for instance, the 'two keys system' cannot be applied because a relatively small quantity of goods is stored with a third person who simultaneously stores goods belonging to other owners at the same godown. We may suppose that the third party is regarded in good stead; indeed if he is unwilling or unable to hand over the certificate of storage, or if the bank is unwilling to lend against the certificate of storage for whatever reason, then another storer for the goods may be nominated. Such a storer will then periodically issue a report concerning the condition of the goods held there.

As well as rice and sugar, a number of other products may be used as security such as copra, soybeans, tapioca, pepper, coffee, peanuts, etc. To satisfy the bank that adequate liquidity is available, the debtor usually supplies a statement of his debt which can be lodged with the trading bank if necessary.

For the sake of completeness we should mention that, in hinterland trading too, the transfer of bills of exchange and the extension of credits carry considerable importance. If a European export company buys peanuts from a Chinese merchant in Cirebon, then the merchant must usually be supplied with credit, against which receipts can be held accompanied by certificates of storage, together with warehouse receipts and weight lists or freight bills if necessary. Such credit is also found extended to Krawang Chinese in the rice trade, Palembang Chinese in the coffee trade, to assist sales between Surabaya and Semarang in the sugar trade, etc. A further important form of credit in hinterland trade involves the banks giving guarantees to the United Java Sugar Producers on behalf of Chinese merchants who buy sugar directly.

It is often argued that when the banks advance credit to the Chinese, they overestimate the significance of the goods held in security and underemphasize the trustworthiness, financial capacity and liquidity status of the Chinese who receive the credit. This objection, which is raised mostly by insiders, need not be dealt with here. However, the risk involved in the supply of credit could be minimized by the control and regulation of the futures trade (see Chapter 12), by requiring accountants to audit the debtors' commercial books with some assistance from Chinese clerks acting as interpreters, and by making greater use of the 'comprador' whose role in the Indies is not well established (and about which more is written below).

Bank credits given to Chinese merchants to finance goods which do not have quoted market prices occur less often. The Chinese merchants involved are the relatively small trading companies engaged in retailing or the middleman trade. Their goods constitute less desirable securities for the banks because it is difficult to assess their value, not to mention the tricky legalities or the bank's difficulties in controlling its security when retail stocks form the security. For these reasons the Chinese merchants in question must furnish an additional pledge or some other security against their loans, and so cannot obtain their money directly from the banks unless they have well-capitalized businesses.

Generally these merchants are directed to seek help from their fellow countrymen, particularly those who distribute commercial stock on credit to the retailers who run short of funds or use them up in one way or another. As a rule the European import houses also sell their goods to their Chinese customers on credit, thus forming a link in the system between the banks and the intermediary traders. We will come back to this issue in greater detail in section 5 of this chapter.

3. Comprador

The term 'comprador' is of Portuguese origin, derived from the Latin *comparare* which means to adjust or to procure. The comprador is generally a Chinese who acts an an intermediary in the establishment or maintenance of relations, particularly those between Chinese traders and European trading or banking institutions. He shoulders whatever risks the transactions involve and is responsible for the Chinese personnel in the institution.

Such an intermediary used to be indispensable for the European traders. He carried out interpreter services at a time when very few Chinese had mastered foreign languages and when very few Europeans knew Chinese. From his knowledge of other countries and nations he could give information on the likely demand for goods imported to the interior and the expected supply of produce exported from there — information which could not be obtained in any other way since it was still very difficult to make trips into China. He took responsibility for providing good and trustworthy Chinese personnel and knew the creditworthiness, the family relations and the psyche of the people. In short, the intermediary made it possible for the European merchant and banker to operate on a conident and profitable basis in a large and commercially important region, and without this intermediary the difficulties could not have been overcome nor the risks evaluated. So the comprador became an important link with China's business community as a natural consequence of social circumstances, not only in trade and the supply of credit but also in shipping. As an entrepreneur within the organisation for which he worked he occupied a position of great influence and independence, like a state within a state as regards the management of his employer's business.

The position of comprador made it essential that he be a trustworthy, well-to-do, influential and respectable member of the Chinese community. His profession as confidant and intermediary between the European and Chinese traders was an honourable one, and a tradition developed in certain Chinese families whereby the role of comprador was handed down from father to son. The individuals appointed to the job of comprador regarded it as an honour to uphold the favourable reputation of their family's hereditary position.

The comprador occupied an important place in the trade not only of China but also the harbour cities of Hong Kong, Shanghai and Singapore. The same cannot be said for Netherlands India, which is hardly surprising if we look more closely at the circumstances surrounding the rise of trading institutions in this country.

Language difficulties are not so great due to the use of the Malay language. The consumption of European imports and the export of the country's products depend on the total population, and so are largely independent of the necessities and products of the Chinese, whose numbers in Netherlands India are estimated to be just under a million and so are hardly worth mentioning when compared against the native population. In trade the Chinese have accustomed themselves to the habits of the country. When in contact with other groups of the population they do not exhibit characteristics peculiar to the psyche of their nationality. Their position as a trading link alternates between representing the producers and the consumers, so there is really no reason for a comprador in the sense of a middleman linking the trade between westerners and Chinese.

The situation is different in the sphere of credit which involves the Chinese on an individual basis. Here they point to their own creditworthiness and liquidity profile during the ascertainment of risks so these are accordingly influenced only indirectly by the financial position of those groups giving backup support. Here it can surely be said there is good reason for compradors to exist in the Indies if they become the confidant of both parties and, by proving worthy of their confidence, can bring both parties together. Such a tradition does not exist in this country; the comprador must be sought out, only to find he is unaccustomed to his own role or those of the groups concerned. The danger that he might slump from the position of 'entrepreneur in the enterprise', to that of a sort of commissioner or employee of the European entrepreneur, can only be prevented by finding a Chinese who holds the requirements of a sound financial position and favourable reputation, who offers confidentiality and is influential among his fellow countrymen, and who shows enthusiasm, tact and knowledge in the matter. Should the comprador fail to meet all these requirements then he could hardly occupy an important place in the business community, the more so as his fellow countrymen may well not give their confidence at first but rather exhibit their reluctance to deal with him.

To clarify the comprador's position in banking, we would like to give an example here of an agreement between a large banking institution and a Chinese middleman.

AGREEMENT

Article 1: Bank X nominates partner A as its comprador. The nomination is accepted by partner A. Concerning this nomination the two parties have come to the agreement which follows.

Article 2: The sphere of activity of the comprador consists of:

a) introducing clients to bank X and maintaining relationships, with particular regard to clients within the Chinese business world;

b) being responsible for supervising the cash held by bank X at office B.

Article 3: The comprador is obliged to dedicate all his activities, industry and diligence to the bank's interests alone. He is thus bound not to work in, for or on behalf of other companies.

Bank X reserves the right at all times to make exceptions to this rule under such conditions and stipulations as it deems fit.

Article 4: The comprador shall devote his activities exclusively to the interests of bank X; he is thus bound to introduce all his clients only to bank X, and even if the transactions proposed by him are not suitable for bank X, he may not give his services to have those transactions settled elsewhere. On the other hand, bank X binds itself not to order other persons to carry out activities of the same character as those ordered of the comprador.

Article 5: The comprador shall act as a guarantor for bank X in all transactions settled through his intermediary services and which are likely to involve risks for bank X, unless otherewise expressly agreed in writing.

Furthermore, if bank X deems it necessary and he himself has no objection, he shall act as guarantor in transactions which have not been settled through his intermediary services.

Article 6: As proof of the guarantee mentioned in the previous article, the comprador shall:

a) countersign all credit agreements and drafted contracts, and thereby bind himself through his personal pledge as fellow-debtor with the credit taker and fellow-contractor for the correct fulfilment of all obligations arising from the agreement;

b) countersign his joint responsibility on every draft accepted by the bank;

c) at the opening of every giro account, worth up to an amount to be defined, make himself available to offer a personal pledge and be a fellow-debtor with the account holder against the bank's extension of an overdraft (but without the account holder being indefinitely granted the right to such an overdraft); and furthermore, countersign such overdrafts as guarantor.

Article 7: Furthermore, even if none of the stipulations mentioned previously has been fulfilled, the comprador shall be held responsible for those transactions settled through his intermediary services.

Article 8: The comprador may at any time, upon written notification to the bank, absolve himself from his previously outlined responsibilities as regards future transactions; however, his responsibilities resulting from his activities before lodging his notification of withdrawal will remain undiminished.

Article 9: As regards his management for bank X of the cash held at office B, the comprador shall nominate as many cashiers and other such personnel as the bank deems fit.

The nomination shall be made with the agreement of bank X which retains the right at all times to dismiss the nominees without specifying the reason and regardless of the term of employment. At the same time the capacity of the comprador to dismiss the nominees according to the conditions agreed upon during the nomination remains undiminished.

The salaries of the cashiers and other personnel shall be debited to the account of the comprador.

Article 10: The comprador shall be directly resonsible to bank X for the activities of the persons nominated by him under the preceding article. He is thus bound to provide bank X its covering indemnity against discrepancies which may arise during the management or dealing of cash, no matter how they arise, whether in the receipt, storage or payment of moneys, whether by negligence, carelessness, mistake or misconduct on the part of the comprador himself or by his nominees, whether through receipt of invalid, bad or false moneys, or for whatever other cause.

Article 11: Bank X will pay the comprador a fixed salary amounting to *f* . . . . . per month.[4] Furthermore the comprador will enjoy a

---

[4]*Strings of dots refer to confidential details of the agreement omitted from the original reproduction published in the book.*

commission, to be negotiated, on all transactions established through his intermediary services and arranged under his hand.

Article 12: The comprador will keep a separate book of accounts on all transactions, in particular recording any prescriptions made by bank X. The comprador shall be obliged to allow the bank a full inspection of the books at any time.

Article 13: Bank X reserves the right not to pay out a part of the commission (to be decided by the bank) earned by the comprador, up to a maximum of one third, and instead to keep it as deposit in order to enhance his capacity to provide the required securities.

Article 14: As security and guarantee of the proper fulfilment of all the comprador's obligations arising from the agreement, he shall take out a first mortgage with bank X, up to an amount of *f* . . . . , on the pieces of land located at . . . . ., certificate registration no. . . as noted and described in the Certificate of Ownership.

The comprador thereby cedes bank X the power of attorney to substitute him in raising the aforementioned first mortgage on the bank's behalf, appearing before the authorities concerned, sending documents or making declarations, choosing a domicile, and assisting with drawing up the mortgage agreement. He will append his signature to all the stipulations, conditions and reservations contained in articles 1178, 1185 and 1210 of the Civil Code, and in article 297 of the Commerce Code, and to all the conditions, reservations and stipulations approved by those so authorized, together with such conditions, reservations and stipulations with which the comprador has declared himself in agreement.

This authorization is irrevocable and forms an integral part of the agreement which should not be settled without the authorization.

Article 15: As a further security and guarantee, the parties C and D vouch themselves as guarantors responsible for and personal debtors in fellowship with the comprador, for all his debts to bank X which the bank can prove stem from the agreement at any future point in time. The parties will further renounce all exceptions and preferential rights which the law gives to guarantors, especially those exceptions dealing with prior earnings and those mentioned in article 1848 of the Civil Code.

This mortgage, however, should not exceed *f* . . . . Bank X accepts this mortgage.

Article 16: As yet another security and guarantee, an amount of *f* . . . .has been deposited and accepted as such by bank X. This will be held by bank X and shall not be reclaimed by the comprador before everything concerning this agreement between himself and the bank is wholly fulfilled.

In the event of damages for which the comprador is responsible, bank X is bound to avail itself of all this deposit before using either of the two other aforementioned designated securities.

As soon as a claim resulting from damages has reduced his deposit below *f* . . . ., the comprador is bound to increase it to that amount, within forty-eight hours at the latest. If possible the supplement shall be taken from the amount which bank X has held in deposit as reserved commission according to article 13.

As regards the deposited amount of *f* . . . ., the bank shall compensate the comprador with interest amounting to . . . per cent per year paid at three monthly intervals.

The comprador will also be compensated at the same rate of interest on his reserved commission, but only if and insofar as it is held at the bank for a full year.

Article 17: In all cases where bank X has suffered losses according to this agreement and wishes to claim compensation against the comprador on the designated securities, the bank has the right to define and decide unilaterally if such losses occurred and how much they amount to, and whether the comprador is therefore liable to the bank. Depending on its unilateral decision the bank may then alter its assessment of its claims on the comprador as well as on his guarantors, who shall be compelled to fulfil whatever is required of them, unless after having wholly fulfilled these requirements they prove they were not indebted, or only indebted to a lesser degree. In this case bank X shall be obliged to refund the excess but not to pay any indemnities.

Article 18: Any costs connected with demands over obligatory payments, together with the charges associated with their authorization by the bank, are debited to the account of the comprador.

Article 19: This agreement commences on . . . . and is valid indefinitely. It will finish:

a) on the death or bankruptcy of the comprador;

b) on the termination of the comprador's role after having duly notified the bank three months in advance;

c) on the bank's withdrawal from the agreement.

The last must also carry three months due notice. However, bank X shall have the right to make an immediate dismissal without regard to any notice, if one of the guarantors stated in article 15 dies or has been declared in a state of bankruptcy, or if the belongings of the comprador or one of the said guarantors fall subject to executorial or custodial confiscation, or if the comprador has committed any fraudulent behaviour or failed to fulfil one or more stipulations of the agreement to the proper satisfaction of the bank.

Article 20: Both parties agree to carry out this agreement in all its aspects and without alteration before the Council of Justice in . . . .

4. The Flow of Assets

To finish our discussion on bank credit we should comment on one more point whose more detailed examination will furnish a better insight into the economic life of these regions. We refer to the flow of assets. As we will see, little information can be collected in the absence of figures published by the banks, so it is difficult to draw conclusions. It is only in the report of the Java Bank for the last financial year, 1924-1925, that we can find some specific figures (on pages 88 and 89) which we reproduce here.

The following summary shows that a total of *f*31,897,146.90 flowed out from the Outer Islands, of which *f*8,230,259.38 came back into circulation in Java. Summarizing the figures for every office clearly shows a dire need for change in those regions where the growth of smallholder farming has had an influence.

These tables raise a number of questions which the annual report does not clarify since the quoted figures have not been provided with explanations. The most important question is how this state of affairs presented itself in previous years and what are the likely causes for the movements in capital. It is important to investigate why, for instance, an amount of almost 25.5 million guilders in banknotes, bank certificates and coins has flowed back into the Java Bank in Semarang.

As these figures from the Java Bank show there has been a large outflow of cash from the regions where smallholder farming has been strongly developed. In view of the considerable increase in total circulation during the same period, it might be concluded that a large part of the money supply in those districts remained in circulation, reflecting the greater need for cash when trading increases and market prices for smallholder produce rise.

Offices in Java	Net Inflow	Net Outflow
Semarang	ƒ 25,435,414.49	
Surabaya		ƒ 1,592,344.25
Cirebon	2,136,999.47	
Solo	2,078,983.65	
Yogya		1,204,689.65
Bandung		6,270,408.72
Malang		3,336,706.91
Kediri		7,544,159.83
Batavia		1,472,828.87
	ƒ 29,651,397.61	ƒ 21,421,138.23
Total net inflow to offices in Java	ƒ8,230,259.38	

Offices in the Outer Islands	Net Inflow	Net Outflow
Sumatra:		
Medan		ƒ 1,694,601.65
Tanjung Pura		1,252,519.72
Tanjung Balai		1,018,939.78
Pematang Siantar		4,711,212.68
Bengkalis	ƒ 649,729.84	
Kutaraja		150,043.65
Padang		208,549.29
Palembang		6,058,586.60
Borneo:		
Pontianak		ƒ 4,932,900.36
Banjarmasin		8,009,345.58
Celebes:		
Makassar		ƒ 2,762,332.07
Manado		1,747,845.36
Total net outflow from the Outer Islands		ƒ 31,897,146.90
Inflow to Java	ƒ 8,230,259.38	
Total net outflow		ƒ 23,666,887.52

On the other hand, in view of the amount of capital movement into the Java offices, we may suppose that part of the money circulating in the Outer Islands has been exported elsewhere, and most likely to where commercial relations have been maintained. This movement could be the result of cash payments for imported goods which come mainly from Java and Singapore. At least part of the money must flow back along different links of the chain into the deposits held at the trading bank's offices in Java. At the same time Singapore has been an important supply of Netherlands Indies banknotes. In this context we may infer that the flow of cash payments away from those offices of the Java Bank located in the Outer Islands must have been strongly reigned in, because otherwise the government of these regions could not have withdrawn the very large amounts which it holds as paid-up capital in its offices. Thus the total receipts of the government in the Outer Islands showed a surplus after expenses of almost 12 and 23 million guilders in 1923 and 1924 respectively. Despite the supply of cash from the Outer Islands to Singapore, demand for Netherlands Indies banknotes has increased enormously in recent years because the Singapore buyers, who prefer to operate with large cash accounts, wish to purchase rubber from the smallholders. In earlier years, when the production of smallholder rubber from different districts of the Outer Islands was less than at present, the supply of Netherlands Indies cash in Singapore generally exceeded the demand.

The frontiers of the banknote trade in Singapore are for the most part serviced through the intermediation of the so-called 'money changers', most of whom are Arabs or British Indians whose businesses include wealthy trading companies. The major buyers and sellers of Java banknotes, and the money changers too, buy Java banknotes from the banks when their own stocks are insufficient to meet demand, and sell to the banks when they cannot sell their stocks on the open market. Some of the quotations are obtained through brokers and the intermediation of compradors. As a rule the comprador responsible for a cash account held at a bank agency looks after the trade in foreign money or exchange among his other duties. In Singapore the comprador plays an important role in the banknote trade, a sphere in which his clients extend beyond the Chinese business community.

The Singapore currency exchange deals with immediate requirements as well as futures. When a bank has an immediate need for a large amount of Netherlands Indies guilders, it usually arranges a term of several days for delivery so that the money can be ordered by telegraph from its banker in Batavia. Loans on banknotes are part of the trade between money changers and the banks, usually through the intermediary services of the comprador.

A factor still to be mentioned which influences the supply of banknotes (and coins) in Singapore is the return of Chinese coolies to their native country. They take their savings with them in cash in order to change the denomination in Singapore, Hong Kong or one of the harbours of South China.

5. Credit for Importers

As already noted in the Introduction, the Chinese have monopolized the link in the chain between importers and the indigenous population. Still they remain dependent on the 'big end of trade' for their credit needs. As already pointed out the limited equity of the Chinese middleman, and his predisposition to convert his cash into other assets, introduce considerable risk into the import trade which exerts pressure on the major traders. Meanwhile the Chinese fulfil the role of commissioner or sales agent, even though they operate their business not on the basis of commission but on their own account.

The importers have established the following system. After the Chinese shopkeepers have accepted delivery of their orders on credit, the importers waive their debtors from directly acknowledging the existence and amount of debt and the day the claim becomes valid, by giving them the opportunity to transfer the financing schedule to their banker. This works because after the shopkeepers' acceptance of the goods has been provided with the importing company's signature, the shopkeepers can pledge it against a current account credit at their bank.

Discounting the acceptances rarely occurs because this type of transaction already benefits the banks which pay only some percentage (e.g. 70 or 80%) of the full amount nominally advanced. Moreover calculating the interest owed to the current account is less laborious than calculating the discount. This is a factor of some importance when dealing with numerous acceptances involving small sums, especially when the shopkeeper does not repay his bank precisely on time.

Sometimes, but only under extraordinary circumstances, the banks exclude the shopkeeper from their transactions when they pay the acceptances, thereby keeping an eye on the payment. For the advanced credit to remain liquid, it is of the utmost importance that the acceptances are paid in cash on time, and not altered in part or entirety by later acceptances involving additional interest and further terms of maturity down the track. Otherwise such short-term financing of commercial transactions would deteriorate to the level of blank credit extended for an indefinite period of time.

The importers used to apply terms to the acceptances which often ranged up to four or six months. But they have reduced the terms to a period between one and three months in recent years largely at the urging of the banks.

This method of finance is not without its difficulties. It is very difficult for the importer to acquire any insight into the morality and financial strength of his Chinese customer because confidential information is not readily available, especially when relations are just established. True, under normal circumstances the risk can be reduced when relations have been established for years, but the chances of incurring a loss build up, especially when business suffers a lengthy slowdown. When prices fall due to diminished purchasing power of the natives or whatever, it becomes difficult to sell goods and the shopkeeper's stretched resources will lead him to buy new goods on credit. Because even a small margin of loss would otherwise prevent him from fulfilling his obligations on time, he will immediately cash in on the credited goods, even at a loss, to get the money to pay old debts and thus maintain the image that he can competently fulfil his obligations. If prices continue to fall, a trend which will be hastened by these sorts of transactions when sales are difficult, then the real situation will have to come to light; the process will end in bankruptcy whose proceedings will prove that the stock of goods is unexpectedly small and the debts unexpectedly large. One bankruptcy will call forth others, the supply of credit will be reduced to avoid further losses, accordingly the small Chinese shopkeepers already facing difficult times will not be allowed to sustain their current acceptances, the foreclosures will drive prices down further, lack of confidence will continue to spread and the importers will find it hard to avoid major losses.

In such circumstances the import houses will tend to look for a scapegoat within the intermediary trade, and fail to realize that the cause of their misfortune lies in the system and its lack of co-operation. As a rule they do not place an adequate value on the purchasing power and the needs of the hinterland, the more so as the managers of the import houses in the producing countries do not keep sufficiently in touch with their representatives in the sales field on the issue of what purchasing policy should be followed. Conversely the Chinese intermediate trade remains cut off from the crucial information on the course of affairs in the producing countries.

If the importers tried to have the Chinese merchants fully stocked with goods so as to hedge themselves against personal losses when they expect a fall in prices, then obviously the middlemen would have to sit burdened with unsaleable and unpaid stock, and so could not fulfill their obligations on time given their meagre capital power. In this regard we should mention that the excessive speculation in products (and in shares and debentures) among the Chinese, especially those based in the harbours along Java's north coast, can also cause profitable trading companies to be suddenly incapable of fulfilling their obligations any longer.

Moreover there is the problem that the import houses frequently compete against each other, especially when sales are low. Compelled to extend the supply of credit further than otherwise desirable, they frequently have to condone postponed payments on the acceptances. This confuses the judgement of the risks which are likely to be run with any particular customer, and means that his obligations with competing companies either cannot be estimated or can be only crudely assessed. Therefore a Chinese often has the opportunity to take up commitments well beyond his bearing capacity, in which case the Chinese shopkeeper would be best regarded as an agent for a number of competing importers.

The banks rarely make direct loans against imported goods held by Chinese. Nonetheless importers, when they have before them a definite debtor whose status is weak, consult each other in order to extract a pledge on his stocks if possible. We would briefly like to point out that the legal regulation of the 'stock pledge' is regarded within commercial circles 'as absolutely urgent by all those interested in the issue, as the situation herein has become unbearable'. These words are from a petition on the subject, dated 1 December 1925, signed by the Netherlands Indies Bankers' Council, the 'Batavia' Importers Union and the 'Commercial Union' in Batavia, addressed to the Governor-General of Netherlands India.

6. Credit for Exporters

Finally we wish to make some brief remarks on the export trade. For our purposes this is less important than the import trade because in Java the production and trade of important agricultural produce is managed mainly by European plantations. Only smallholder produce and the forest products from the Outer Islands pass through the hands of Chinese middlemen. They have an export value worth many tens of millions of guilders a year but pale into insignificance when set against the European plantations. As mentioned in the Introduction to this chapter we will come back to the Outer Islands, where barter still holds an important place, in more detail in chapter 14.

Our previous paragraphs have described how, in the sale of imported goods, the Chinese own to a large degree of dependence on the importers, yet act as independent merchants and monopolize the sales made directly to the people. They similarly hold a very important place in buying export products from the people, but here any independence is almost totally lacking. As a rule the Chinese operates only as a procuring agent in the employ of some particular exporter — almost without exception a European firm — on whose behalf he buys products from the people by extending payments in advance. Consequently the indigenous population is to a considerable extent dependent on the European export trade, and when this trade diminishes, the people find it practically impossible to sell their products. Meanwhile, financially buoyant Chinese merchants have emerged in recent years, particularly in the Outer Islands, who enjoy a more independent stance in the export business.

The hinterland import and export trades have been less distinct than one might expect. It seems that often the Chinese who enjoys credit from the importer, and then succeeds in selling the goods before the date of due payment, uses his position of advantage to buy products from the people. Alternatively the Chinese often delivers goods on credit to the people on condition that he be sold agricultural produce in future. Thus the risk to the importer is exaggerated, the more so where the temptation exists 'to buy imported goods in order to get money in the hand'. However, because the usual term for acceptances in the import trade has been shortened in recent years, the opportunities for financing these sorts of transactions have greatly diminished.