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Oei Tiong Ham Concern: The First Business Empire of Southeast Asia

Introduction

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Oei Tiong Ham Concern was a sugar-based conglomerate in the Netherlands Indies (or Indonesia in the postwar period), founded by a peranakan Chinese named Oei Tiong Ham (1866-1924). N.V. Handel Maatschappij Kian Gwan was a sugar-centered international trading company, and N.V. Algemeene Maatschappij tot Exploitatie der Oei Tiong Ham Suikerfabrieken was a sugar production company which operated five sugar plantations and mills in Java. From sugar, Oei Tiong Ham diversified into other products. Kian Gwan became over time a general trading company with offices abroad. In the early 1930s, it had Kian Gwan Western Agency, Ltd., in London, Kian Gwan (Malaya), Ltd., in Singapore and Kian Gwan Company, India, Ltd., which covered British India and China, with offices in Calcutta, Bombay, Karachi, Shanghai, Hong Kong and Amoy. And to facilitate trading as well as to expand business interests, the warehousing company N.V. Midden Java Veem, the regional shipping company N.V. Heap Eng Moh Steamship Co., and the bank N.V. Bank Vereeniging Oei Tiong Ham were set up. Furthermore, in Kreet, Malang in East Java, where a sugar plantation and a sugar mill were operated, Oei

Tiong Ham started tapioca production by setting up a plantation and a flour mill. In addition, he went into property development and management (mainly to provide housing for the workers on the plantations).¹⁾

A plantation in Java was quite different from what we usually know of as a plantation. For example, Oei Tiong Ham Concern did not own the land it used to grow sugar cane. Agricultural land belonged to indigenous peasants, and no corporation was allowed to buy it. Thus, it had to be leased from peasants. Furthermore, no manual labor could be brought from outside. It had to come from the peasants in the area where the plantation was located. A corporation could invest in land improvement and infrastructure, and organize and manage agricultural production on the land it leased. So, in this respect, it was not a sub-contract system, but it differed from a typical plantation—an expanse of contiguous land over which the owner had complete control.

In the prewar period, Oei Tiong Ham Con-

1) For an overview of Oei Tiong Ham Concern in the early 1930s, see "The Story of Kreet," [Semarang], Handel Maatschappij Kian Gwan, 1932 and "The Oei Tiong Ham Concern: A Short Survey of its Development and Progress," [Semarang], Handel Maatschappij Kian Gwan, 1934.

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cern was the first as well as largest Chinese-owned business empire in the region we call today the ASEAN. It started growing rapidly in the 1890s, and had become a diversified business group by the early 1910s. In the prewar period, Thailand was the backwater of Southeast Asia, and it was not until the 1930s that a modern business conglomerate began appearing there in its embryo form (for example, the Wang Lee group). In the Philippines, a modern business appeared earlier than in Thailand, but it was confined largely to a single industry (for example, China Banking Corporation), and no modern business conglomerate appeared there in the prewar period. In British Malaya, since it became an important supply source for the West and the Chinese were given a great deal of freedom in the economy, as in the Netherlands East Indies, modern business conglomerates appeared relatively early, but none equaled the size of Oei Tiong Ham Concern. The business fortunes of such successful tin miners as Eu Tong Sen and Loke Yew were more limited in size as well in scope, and also they were short-lived. The Ho Hong group built by Lim Peng Siang in the 1910s was the most diversified group in Malaya at that time, but it could not have been larger than Oei Tiong Ham Concern (which, after all, managed five sugar plantations and owned five sugar mills, among others), and, since it started to decline after the First World War, its life was short. Tan Kah Kee's business empire, which reached its peak a little later than the Ho Hong group, was also limited in scope and, as in the case of the Ho Hong group, short-lived (it began facing financial trouble in the late 1920s and went bankrupt several years

later).²⁾

The trading company Kian Gwan was founded by Oei Tiong Ham's father, Oei Tjie Sien (1835-1900), an immigrant from Tong-an in Ch'uanchou District, Fukien Province. Unlike most of the Chinese who came to Southeast Asia in the 19th century, Tjie Sien seems to have had a basic Chinese classical education in his youth. For some reason, he became involved in the Taiping Rebellion, and had to flee the country. Around 1858 he came to Semarang in Central Java, where he started petty trading. His granddaughter, Oei Hui Lan, describes his position at this stage as follows:

With his small hoardings he purchased cheap porcelain saucers and bowls which he peddled from door to door in baskets hung from a bamboo yoke. He bargained doggedly, haggled shrewdly over each copper coin, then re-invested infinitesimal profits in more bowls and saucers and small packets of rice. Slowly, painstakingly, Tjie Sien managed to save [Koo 1943: 6].

Semarang was a good place for a Chinese to settle. It being the major harbor for Central Java, such native produce as sugar and gambir were brought there to be shipped outside, and Chinese wares and other foreign products passed through there for distribution in the city and its hinterland. In fact, at the time Tjie Sien arrived, Semarang was the largest commercial city in all Java. Batavia did not have much hinterland trade, and in the case of Surabaya, it was after the advent of corporate

2) For further discussion on Chinese capitalism in this period, see [Yoshihara 1988: Ch. III].

capitalism and the age of steamships that it became the premier city of Java [Onghokham 1989: 160].

In the mid-19th century, when Tjie Sien arrived in Semarang, the production of export crops was still under the government-supervised culture system. Thus, despite its premier position in trading, Semarang did not have such vitality as it would enjoy in the late 19th century. It was with the passage of the Agrarian Law in 1870 that Dutch private capital began pouring into Java to set up plantations and processing facilities (sugar plantations and mills in particular). As a result of such large inflow of capital from the Netherlands, the commercial landscape of Java (as well as Sumatra later on) went through a dramatic transformation. In particular, Central and East Java emerged as the major center of sugar production in the world. As the port of Central Java, Semarang began experiencing a rapid increase in business activities, especially in sugar and sugar-related trading, in the 1870s.

Oei Tjie Sien was well prepared to take advantage of this expansion [Liem 1979: 8-18]. After several years of hard work, he set up the trading company Kian Gwan in 1863. At this stage, it may have been an ordinary trading company, but Tjoa Soe Tjong and Liem Tjwan Ling tend to give us the impression that at that time, Kian Gwan was already a large, modern company. Liem Tjwan Ling says that Oei Tjie Sien had saved three million guilders by that time [Liem 1979: 10], whereas Tjoa Soe Tjong says that it was formed as a limited liability company and managed by an outsider named Ang Tai Lion [Tjoa 1963: 604]. There is no data to refute these

claims, but it is difficult to take what they say at face value since they may be unconsciously exaggerating the modernness of Kian Gwan at that time, projecting into it the modern embryo of what later came to be known as Oei Tjong Ham Concern. Undoubtedly, however, with Kian Gwan, Oei Tjie Sien became a wholesale trader (a considerable improvement of his fortune from a peddler), and in the next few decades, with hard work and business acumen, he made it a respectable trading company.

It is most natural to think that Kian Gwan formed the basis for Oei Tjong Ham's business career. In fact, Tjoa Soe Tjong and Liem Thian Joe expect us to believe that [Tjoa 1963: 604-605 ; Coppel 1989: 184]. But Liem Tjwan Ling and Oei Hui Lan, though they do not deny this interpretation, tell us, in passing, a legend which can throw a different light on it. This is about a retired German consul who decided to spend the rest of his life in Java. He leased a house from Tjie Sien and came to know his son, Oei Tjong Ham, who often visited him to collect rent. The German subsequently became quite impressed with his ability, and offered a substantial sum of money (Oei Hui Lan says it was 300,000 guilders, whereas Liem Tjwan Ling says it was 300,000 dollars) for Oei Tjong Ham to start a business. Oei Tjong Ham used this money to buy sugar mills in the 1890s [Koo 1943: 12; Liem 1979: 48].

This may be regarded as sheer legend, but Oei Tjong Ham may have first gone into business on his own, become fairly successful in this way, and taken over his father's business, Kian Gwan. His life philosophy and method of business seem to have been quite

different from those of his father. Tjie Sien was proud of being a traditional Chinese. He spoke Chinese at home, wore a Chinese dress and a pigtail, and ate Chinese (Hokkien) food. And he insisted on having his family follow a Chinese life style [Liem 1979: 17-18]. In contrast, Oei Tjong Ham was more modern-oriented. On the difference between them, his daughter Hui Lan makes the following observation:

He [Oei Tjong Ham] was out of sympathy with the narrow, conventional Chinese of Semarang [to this group Oei Tjie Sien belonged] and wanted to be entirely independent. Though it was impossible to break his racial ties, he adopted as many occidental ideas as possible both in his private life and in his business affairs [Koo 1943: 32-33].

He had loathed his queue, found it both incongruous and embarrassing, but was forced to keep it as long as Grandfather Tjie Sien was alive. Once Papa's hair was cut in European style he sprayed his head each morning with Pinaud's hair lotion . . . [Koo 1943: 34].

This difference in life philosophy between father and son must have caused conflicts between them in doing business together, and may have eventually resulted in his son's independence. Oei Hui Lan states the problem as follows:

He [Tjong Ham] was soon plunged into further conflict with his father, whose narrow, old Chinese business methods made

him chafe with impatience. Increasing friction seemed unavoidable unless Tjong Ham launched out on his own [Koo 1943: 11].

In the mid-1890s, when Oei Tjong Ham was still in his mid-twenties, which was several years before his father died, he began buying sugar mills. If he became independent because of his differences with his father and thus without his help, how did he amass such a large sum of money as needed to buy five sugar mills at that time? He may have been an extraordinarily clever trader and made a fortune in a short time, but it may be more reasonable to think that he had a financial backer, such as the former German consul as told in the legend.

This legend becomes more credible as we start questioning how Oei Tjong Ham came to know the Western method of business. He went to a Chinese school, and did not speak Dutch. Liem Tjwan Ling says that Oei Tjong Ham understood some Dutch since he signed letters in Dutch without getting them translated. But Oei Hui Lan says that "he never succeeded in learning a word of Dutch" [Koo 1943: 33], and this is confirmed by Oei Tjong Ie [Interview: Oei Tjong Ie 1989: 191]. About signing letters, if they were ordinary letters, Oei Tjong Ham may have trusted his subordinates, and thus, it could not be taken as evidence of his understanding of the Dutch language.

If he did not understand Dutch, how did he talk to Dutchmen? There is no question that he did talk with some Dutchmen on intimate terms. Although Oei Tjong Ie denies this [Interview: Oei Tjong Ie 1989: 191], his half-sister Hui Lan tells us about Sijthof, the

Dutch Resident of Semarang, who became an intimate friend of Oei Tiong Ham's. Unlike in British Malaya, where few British officials spoke Malay and Chinese businessmen had to know English if they wanted to talk with them, many Dutch officials and businessmen spoke Malay well, and could talk to Chinese who learned the language. Although it may not have been on intimate terms, Oei Tiong Ham must have discussed in Malay complicated legal problems with his Dutch lawyer, Baron van Heeckren [Koo 1943: 50].

When Oei Tiong Ham was still struggling, contacts with Dutchmen must have been difficult. The two contacts cited above came after he became a successful businessman. So, a person like the former German consul becomes important in understanding his early years. He was retired and had a lot of free time; he was educated enough to tell about the West and its way of business (to act as a German consul, he must have had some education); and since he decided to retire in Java, he must have spoken Malay. When Oei Tiong Ham went to collect rent, he may have spent a lot of time with him discussing various matters in Malay, and paid a number of purely social visits in addition.

Another thing to note about Oei Tiong Ham's early years is the fact that he made a substantial sum of money as an opium trader. Until around 1904, when the system was abolished and the government-operated opium *regie* took over, the Dutch colonial government divided Java into various districts and made opium trading in each district the monopoly of its license holder. The license was granted on an open-bidding basis to a trustworthy Chinese who offered the highest

bid. Under this system, for about ten years starting in the early 1890s, Oei Tiong Ham became a major license holder in Central and East Java (in Semarang, Yogyakarta, Surakarta, and Surabaya), and seemed to have made a profit of about 18 million guilders [Coppel 1989: 185; Liem 1979: 31-32]. Tjoa Soe Tjong argues that Oei Tiong Ham and some other Chinese traders at that time used profits from opium trading for business modernization [Tjoa 1963: 604].

A Chinese business usually remained small, being family owned and family managed, but Oei Tiong Ham was an exception. To understand what made him different from a typical Chinese businessman, we should first note some of his personal attributes. As Liem Tjwan Ling points out, he was a bright person and a hard worker [Liem 1979: 28-29]. When he was studying in a Chinese school in Semarang, he was the best student among his classmates. After he started working, he rarely left his office before his employees, and at home, he usually went to bed after midnight. Also, he was probably a very energetic person. A glimpse of this is given in the following description of his appetite by his daughter Oei Hui Lan:

Catering for my father was a difficult task, as he was an enormous eater. . . he started off [his breakfast] with a few mangoes or papayas, followed by a bowl of steaming porridge and climaxed with six fried eggs and several slices of liver garnished with lavish curls of bacon, all washed down with bowls of tea. To compose his nerves after this exertion father smoked two fat black cigars [Koo 1943: 33].

Of course, there were possibly many bright, energetic persons at that time, so this was hardly a sufficient condition for business success. We should, however, keep in mind some of the innate personal attributes which had bearing on his success.

What made Oei Tiong Ham different from an ordinary successful businessman was his business method. He built his business very much like an empire builder in the West, by building up professional management and diversifying into related fields. There were other businessmen, like Lim Peng Siang, who created a conglomerate in Malaya at about the same time (though a little later and not as diversified as Oei Tiong Ham Concern), but what made him really unique among the successful Chinese businessmen at that time was the creation of professional management. In his case, it was the recruitment not only of competent Chinese from outside the family (for example, he employed many professionals, e.g. engineers who graduated from universities in the Netherlands), but also of a number of Dutch professionals (engineers and managers). In the late 1930s, at the Krebbe factory alone, several Europeans were working, and at the other four sugar mills, at least all managers were Dutchmen [Interview: Oei Tjong Ie 1989: 195]. Certainly, there were some Chinese companies which employed one or two Westerners, but there was none which systematically employed so many Western professionals as Oei Tiong Ham Concern did. Basically, Oei Tiong Ham needed them to make up for the lack of skills and know-how which the Chinese had not yet mastered. He delegated authority to these professionals (Dutch as well as Chinese), and concentrated

largely on their supervision and business strategy.

About a typical Chinese businessman, Tjoa Soe Tjong says: "Conservatism, nepotism, and a limited knowledge of modern finance and organization were his weaknesses" [Tjoa 1963: 605]. Even if the last problem was solved with the spread of education, the first two problems remained as barriers to Chinese business modernization, especially in the late 19th century and the early 20th century when Oei Tiong Ham was building his empire. From the viewpoint of the typical Chinese who were accused of nepotism and conservatism, modern business techniques such as delegation of authority were too risky, for by trusting outsiders, for example, they were more likely to be cheated than rewarded. Although this was true in general, Oei Tiong Ham's innovation was to recognize that there were some competent Europeans and Chinese outside the family who could be trusted, identify those people and use them in his business. He must have made some mistakes in judgment and suffered from their consequences, but he made more right judgments and from this, reaped large profits, clearly much larger than the losses he suffered from misjudgments.

It is interesting to ask how he could identify competent, trustworthy people, but there is no light shed on this in past writings. What has simply been done is to attribute it to his innate or acquired skill by stating that "[he] had a knack for finding right people" [Interview: Oei Tjong Ie 1989: 191] or that "he had a remarkable flair for choosing brilliant up-and-coming associates" [Koo 1943: 57]. But we can be more specific about the contents of the

skill. Since in hiring or promoting someone, it is not certain whether he will ultimately turn out to be trustworthy, decision has to be made with some uncertainty, and some people may have the skill to reduce it, one which they have acquired over time in interpersonal relationships. Explaining how such a skill is acquired or how it has been acquired is not simple. But another aspect of finding the "right people" is identifying the functions of a post to be filled and looking into the qualifications of a person to be appointed to the post, and this can be more easily explained. For example, Oei Tiong Ham did not appoint a university graduate to the top post of the trading company Kian Gwan, because he thought that a "daring gambler" would fit it better than a university graduate who probably lost the gambling instinct in the process of rational education [Tjoa 1963: 606]. This view was formed probably through his experience in sugar trading, the major activity of Kian Gwan, which was quite speculative due to wide price fluctuations. A little before he left for Singapore, Oei Tiong Ham promoted a bookkeeper without university education (Tan Tek Peng) to the top post of Kian Gwan [Liem 1979: 192].

Entrusting management to people like Tan Tek Peng had some drawbacks. Tan Tek Peng may have been a "daring gambler" and been good at earning profits for Kian Gwan. But he did not probably understand, or if he understood, did not attach enough importance to the need for building a rational business organization. In Japan, for example, at the time Tan Tek Peng was promoted, university graduates were becoming dominant among the top managers of major, especially zaiba-

tsu, companies. It was becoming more important for a top Japanese manager to act as the coordinator of a management team, which tried to gather as much relevant information as possible (if necessary, from abroad) and base their decision on rational calculation. At the same time, Western business methods were studied to improve on the incentive system which would best motivate the employees. But in the Concern, after Oei Tiong Ham's death, the non-university graduates like Tan Tek Peng tried to dominate the university graduates by emphasizing "intuition" in doing business and downgrading the importance of up-to-date information in decision making. Oei Tjong Tjay, who took over Kian Gwan from his half brother Tjong Hauw in the early 1950s, blames Tan Tek Peng partly for the organizational mess he inherited. Tjong Tjay replaced Tan Tek Peng with university-educated Tjoa Soe Tjong [Interview: Oei Tjong Tjay 1989: 226].

Oei Tiong Ham was well aware that Chinese businesses often suffered from the succession problem. One major problem was that in the Chinese family, all sons could claim a roughly equal share (this was unlike primogeniture practiced in prewar Japan), and often decided to split up the business founded by their father instead of running it together. Sometimes, the father created as many businesses as the number of sons, instead of concentrating on the expansion of his main business, in order to make sure that the transfer of ownership would go smoothly after his death or retirement. Oei Tiong Ham wanted to make sure that this would not happen.

A more difficult problem was to whom ownership should be transferred. As a typical Chinese, he did not want his daughters to inherit it. He had 13 sons and 13 daughters, so half of his children were left out.³⁾ In the case of an unincorporated firm, which was the typical case at that time, this could be decided within the family, but in the case of such a large company as Oei Tiong Ham Concern, to disinherit the daughters was a problem since it could come under the Dutch civil law, which was more egalitarian than the Chinese *adat* law and gave the right of inheritance to daughters. Originally, such family matters as inheritance were settled within the Chinese community, but when a serious dispute arose concerning large inheritance, it was often taken to a Dutch court and settled there [Onghokham 1989: 161]. So, even if Oei Tiong Ham decided to disinherit his daughters or any sons, this could be challenged in court. This seems to have been a major reason why he finally left for Singapore where under the Anglo-Saxon law, it was possible to disinherit some children [Interview: Oei Tjong Tjay 1989: 224].

The next thing to do was to decide whether he should choose all his sons as his heirs or only some of them. Apparently, he could try some sons in business, especially those who had left school by the early 1920s when he went to Singapore. Among them, apparently, all but Oei Tjong Swan and Oei Tjong Hauw were judged to be incompetent, and were disinherited from his business. Then the remaining question was what to do with the younger sons who had not been tried (one

was still in the mother's womb at the time of his death). For some reason he decided to let all of them inherit his business, thus naming nine heirs altogether. They were one son from the third wife, four sons from the fifth wife, and another four sons from the seventh (or second from the last) wife.

This decision may not have been final, and he may have wanted to change it as his younger sons got older and worked in his business. He probably wanted to weed out those he judged incompetent, as he had done earlier. But unfortunately, he died suddenly of a heart attack in 1924 at the age of 57. So, this remained as an unfinished job [Interview: Oei Tjong Ie 1989: 217].

In the beginning, the succession problem did not seem to be too serious. Only two sons (Oei Tjong Swan and Oei Tjong Hauw) had reached majority and participated in management. Of course, there must have been some friction between the two. But before it got worse, ostensibly for health reason, Oei Tjong Swan decided to pull out (he sold his share to the other brothers) and left the Netherlands East Indies for Europe. This made it possible for Oei Tjong Hauw to become a dominating figure in the family.

As a whole, Oei Tjong Hauw managed Oei Tiong Ham Concern fairly well. Under his management, Kian Gwan extended its international as well as national network, and Oei Tiong Ham Concern went into new areas, such as rubber processing in Sumatra, which was to become the mainstay of Kian Gwan Indonesia in the postwar period, when sugar ceased to be a viable export commodity under the socialistic government of Sukarno. Oei Tiong Hauw, however, probably because of

3) For a list of his wives and children with birth dates, see the following appendix.

his limited education (he was educated in Semarang and never went to college), did not seem to understand well that success in modern business depends on organizational development and efficiency. For example, unlike the pyramid structure of a Japanese zaibatsu, there was no holding company for the group. With the power he wielded in the 1930s, he could have set up a holding company and put all major operating companies under it if he had wanted to. Then, he could have pooled the profits of those companies into the holding company and use these to pay dividends to the family shareholders to keep off incompetent brothers from the company [Interview: Oei Tjong Tjay 1989: 260].

But he did not set up a holding company, and no dividends were ever paid during his tenure. Then in the late 1930s, as the younger brothers reached majority, problems began cropping up, because even if some of them did not want to get involved in business, since there were no dividends to their shares, the only way to assure a steady income was to participate in management. Eventually, all brothers who received inheritance participated in management (the last brother who joined the company was Oei Tjong Tjay, the last son of Oei Tjong Ham's, who joined the company in December 1948), and as was usually the case, some sons turned out to be incompetent, in particular the three full brothers of Oei Tjong Hauw. When they started exercising their rights, problems became serious, but not much could be done since they had an equal share as the more competent brothers. For example, if they wanted something badly, even if it was not a viable business proposition, they could have it [Inter-

view: Oei Tjong Ie 1989: 207]. As a result, discipline weakened, the line of authority got blurred, and the exercise of strong leadership became difficult. This is regarded as one major reason for the decline of Oei Tjong Ham Concern in the postwar period [Interview: Oei Tjong Ie 1989: Section 15]. Oei Tjong Hauw's sudden death in 1950 (due to a heart attack) added to the problem. After this, there was no overall organizational control: the branches the brothers controlled became their own "fiefs" [Interview: Oei Tjong Tjay 1989: 258].

Tjoa Soe Tjong argues that a Japanese zaibatsu avoided the succession problem because it recruited its successor from outside the family [Tjoa 1963: 607], but this is not true. He seems to have mistaken the managing director for the successor of a Japanese zaibatsu. The main reason for its long life was the separation of management from ownership. In the case of the Mitsui zaibatsu in Japan's modern period, the owner family rarely interfered in management; they left it to its professional managers. This practice was established in the process of evolution over the preceding few centuries, as a matter of necessity to perpetuate the family business. For a young conglomerate like Oei Tjong Ham Concern, this sort of tradition could not be expected, but Oei Tjong Ham at least could have restricted the participation of his heirs in management to one, or at most a few, by making the rest of his heirs rentiers and strengthening the professional management. The strength of a Japanese zaibatsu lay in the independence its professional management enjoyed.

The ownership structure created problems

and hindered the smooth development of Oei Tiong Ham Concern, but a change in business climate in the postwar period was possibly a more tragic thing for its history. Unlike in the other former colonies in the ASEAN region, independence did not come smoothly in Indonesia. It had to be fought for, and the political leadership which came to power after independence rejected most of the economic institutions which the Dutch had created during the colonial period. It is true that this anti-colonial reaction was moderate in the beginning, but it accelerated over time as Sukarno gained more power.

The most serious change for Oei Tiong Ham Concern was government interference in the economy. Tjoa Soe Tjong argues that this started as early as the 1930s (soon after the Great Depression began) [Tjoa 1963: 651], but at that time, it was to regulate production and distribution to overcome the problems created by the Depression and was not intended to be long-lasting. That is, it was intended to save capitalism, not to destroy it. In the postwar period, however, the nature of government interference changed. Initially, it was used to change the ownership structure of capitalism as well as superimpose socialism (government ownership) on capitalism, but later when the government became more disillusioned with capitalism (especially after 1955 when the Ali Sastroamidjojo government was formed), it was used more and more to replace capitalism with socialism. Under this setting, any capitalist institution had to suffer; Oei Tiong Ham Concern had to suffer more, being the symbol of success of the Chinese which the Indonesian government thought of as something of a collaborator of

Dutch colonialism.

Under this setting, Oei Tiong Ham Concern declined, but it was not destined to disappear. Although smaller in size, it could have survived the Sukarno period and expanded again in the New Order period, which revived capitalism and has created a number of new business conglomerates. Oei Tjong Ie argues that one important reason for the end of its life was a lack of strong leadership in the Oei family after the death of Oei Tjong Hauw in 1950 [Interview: Oei Tjong Ie 1989: 199, 211]. According to him, the best candidate to succeed Tjong Hauw would have been himself, but he was bypassed and the youngest brother, Tjong Tjay, was selected. But, Tjong Ie argues, Tjong Tjay was too young at that time (he was around 27), and having lived most of his life abroad, he did not know the Indonesian language and had difficulties in adjusting to the rough and tumble of postwar Indonesian politics. He was simply the wrong person to head Indonesian operation at that time, and let it be taken over more and more by professional managers like Tjoa Soe Tjong whose loyalty to the family did not seem too strong [Interview: Oei Tjong Ie 1989: 211].

All this is refuted by Tjong Tjay [Interview: Oei Tjong Tjay 1989: 227]. Although he was inexperienced in the beginning, he sought advice from his nephew Oei Ing Swie (Tjong Hauw's eldest son) as well as from Tjoa Soe Tjong. He acted as president director or chairman of the board of directors of Kian Gwan Indonesia, but in decision making, he always consulted with Ing Swie and Tjoa Soe Tjong, and if there was a difference of opinion, he accepted a decision if the other two supported it. Tjong Tjay argues that Tjoa

Soe Tjong was a loyal as well as capable manager and that Tjong Ie is not objective since Tjoa Soe Tjong objected to the way Tjong Ie wanted to manage Kian Gwan Indonesia: his way was to use Indonesia as a smuggling base for his Singapore operation.

Tjong Tjay did not stand idle, either, when the business environment was changing in Indonesia. Tjong Ie argues that since Tjong Tjay could not speak Bahasa Indonesia, he could not develop close contacts with the military which, according to Tjong Ie, controlled Indonesia [Interview: Oei Tjong Ie 1989: 202]. But Tjong Tjay argues that in the 1950s, it was politicians who controlled the government, and that having close ties with the military was not as important as his brother argues [Interview: Oei Tjong Tjay 1989: 229]. Tjong Tjay approached Partai Sosialis Indonesia (PSI) and developed close contacts with its leaders, such as Professor Sumitro Djojohadikusumo. In a way, Oei Tjong Ham Concern became the financier of PSI. At the same time, Tjong Tjay developed close ties with the moderate faction of Partai Nasional Indonesia (PNI). Unfortunately, the political situation changed quickly in the 1950s, and once powerful persons were out not only of the government but also of the country (for example, Professor Sumitro). In the late 1950s, politics became too radical for capitalists like Tjong Tjay, and there were no political leaders who were powerful enough to protect his business.

At this point, as his brother Tjong Ie argues, he should have stayed in Indonesia and developed close ties with the military. But by 1958 he had become fed up with Indonesia and left for the Netherlands. And

since there were no Oei shareholders left, management was entrusted to Tjoa Soe Tjong. This is possibly a sore point for Oei Tjong Ie. He argues that if he had been allowed to head Kian Gwan Indonesia, he could have developed close ties with the military and depended on them for protection [Interview: Oei Tjong Ie 1989: 206]. His brother Tjong Tjay agrees that he was a super-contact man and that he could have found a patron among the military leaders [Interview: Oei Tjong Tjay 1989: 240]. If he had, confiscation might have been avoided.

The history of Oei Tjong Ham Concern ended abruptly on July 10, 1961, about two years before it was scheduled to celebrate its centennial. On that date, deciding on the suit filed by the government, Pengadilan Ekonomi (the court for economic crimes) in Semarang issued a confiscation order [Tjoa 1963: 677]. The Indonesian government and the Oei family entered into the first legal battle in the Netherlands on a blocked reserve fund held by Bank Indonesia in Amsterdam. The fund was originally deposited with the Javasche Bank, but after the bank was nationalized and renamed Bank Indonesia, it became a deposit with Bank Indonesia. The Oei family asked Bank Indonesia in Amsterdam to release the fund, but the bank refused, so they sued the bank in the Netherlands. They won the case and got the reserve fund back [Interview: Oei Tjong Tjay 1989: 248], but the government seems to have felt sore about it. Oei Tjong Ie feels that the suit in Semarang was the Indonesian government's retaliation for it.⁴⁾

Many Indonesian Chinese feel that the chief

4) Letter from Oei Tjong Ie (December 21, 1987).

tormentor of the Oei family was the public prosecutor Gunawan. It is said that being a fervent nationalist, he hated the Chinese, in particular, Oei Tiong Ham Concern as the symbol of Chinese success. From the Indonesian nationalist viewpoint, however, he was an incorruptible nationalist whom Oei Tiong Ham Concern could not bribe, and took action against it since it had violated law. It is not clear which view is correct, but he was clearly the product of Indonesian nationalism which had a streak of anti-Chineseness at that time. But it is wrong to think that he acted alone. As Oei Tjong Tjay argues, the confiscation of his company was a result of the political change in the socialist direction which started in the mid-1950s. From the direction in which the country was moving, Tjong Tjay argues, confiscation was a matter of time. What surprised him a little was that it came sooner than expected. And he does not think any particular person masterminded the confiscation, but if a single person should be named, it must be President Sukarno himself since he was at the vanguard of the political change at that time [Interview: Oei Tjong Tjay 1989: 249]. After all, he cleared a legal barrier by issuing a law which acted against the legal defense launched by the Oei family [Interview: Oei Tjong Tjay 1989: 251-252].

The Indonesian government could not touch Oei Tiong Ham Concern's subsidiaries and assets abroad. The offices in Singapore, Amsterdam, New York, and Bangkok remained, but they were seriously affected by the confiscation, because their activities centered around the trade with Indonesia. Without ties with Indonesia, it was difficult to survive. The New York office soon closed, and

the Amsterdam office cut down its operation drastically, whereas the Singapore office declined gradually over time and today remains only as a small engineering firm; Kian Gwan (Malaya) no longer exists. It is only the Bangkok office which did well in the post-confiscation period [Interview: Oei Tjong Ie 1989: Section 13].

To those who are familiar with successful Chinese business families in Southeast Asia in the prewar period and in the early postwar period, the Oei family seems a little odd. A typical successful Chinese family at that time was very Chinese-oriented: the members spoke Chinese and retained a great deal of Chinese culture. If they spoke English or another Western language, they spoke it as the second language. In the case of the Oei family, the first generation (Oei Tjie Sien) was very Chinese, and the second generation (Oei Tiong Ham) was still Chinese though his Chineseness was not as much as his father's, but the third generation Oeis had little Chineseness left. Even Oei Tjong Hauw, who headed the family for about 25 years since the mid-1920s, did not have a good command of a Chinese language; he went to a Dutch-medium school in Semarang and seemed to have conducted business largely in Dutch and Malay (to be more exact, *pasar* Malay). His half-brother Tjong Tjay, who took over after his death, spoke neither Chinese nor Indonesian well. The brothers talked to each other in Dutch. In many ways, the third generation Oeis were Dutch-oriented. Yet, they were not only accepted in the Chinese community but also regarded as its leader [Interview: Oei Tjong Ie 1989: Section 13].

The so-called *peranakan* Chinese in Indonesia, to which the third generation *Oeis* belong, was a different breed of Chinese in Southeast Asia. In the other countries in the region, except a small group of *baba* Chinese in Malacca, the people who were regarded as Chinese usually spoke Chinese. Those who did not were quickly absorbed into indigenous society and were not regarded as Chinese anymore. In Thailand, for example, where there was a constant influx of Chinese from southern China over a long period of time, a large number of their descendants seemed to have been "lost" to Thai society. In the Philippines, too, the assimilation process went on; the more recently assimilated Chinese were called *mestizos* and as Filipinos, spearheaded economic and social changes in the country [Wickberg 1964].

However, this sort of assimilation did not take place in Indonesia. The Dutch kept the Chinese separate from the indigenous population by restricting their freedom of residence and traveling. As in other Southeast Asian countries, since Chinese women did not come in a large number until the late 19th century, the Chinese usually took indigenous women as their wives, and their children grew up under the cultural influence of indigenous mothers. But because of the Dutch policy to keep the Chinese separate from the indigenous population, they remained a culturally separate group. But they were not Chinese in the sense that the term is usually understood. Instead of Chinese, they usually spoke Malay (some even spoke Dutch in addition in the late 19th century), and absorbed a number of indigenous customs. But they were more Chinese than indigenous, at least

on the surface, since they retained (or were forced to retain) Chinese names, hair and dress styles, and some other characteristics. This group constituted the *peranakan* Chinese, in contrast with the China-born, Chinese-speaking "*singkeh*." In the 19th century, it was from this *peranakan* group that the business elites of the Chinese community, called *cabang atas*, came. For example, the tax and revenue farmers and Chinese officers (such as major and lieutenant) who were chosen from the *cabang atas* group were predominantly *peranakan* Chinese [Onghokham 1989: 163].

There was no strong reason for the *Oei* family to remain culturally Chinese. The *peranakan* Chinese they dealt with usually spoke Malay, and their major product, sugar, had a stronger linkage with the West than with the Chinese (its market was there and machines necessary for its production came from there also). And to carry on a modern business conglomerate, there were more advantages in being Dutch-oriented than Chinese-oriented. For example, to handle its legal problems, Dutch-trained and Dutch-speaking lawyers provided better services (and protection), and for trade finance, Dutch (and possibly to some extent British) banks had more money to lend and offered a wider range of services. And the colonial bureaucracy which they had to deal with frequently, despite its manifestly *laissez faire* policy, was Dutch-speaking. If the Chinese language skill was really needed, people who spoke Chinese could be hired. But the areas where it was necessary were quite limited (such as the distribution of imported consumer goods to retailers).

Today, it is not unusual for a large Chinese businessman in Southeast Asia not to speak Chinese. Such a Chinese businessman is usually non-Chinese educated and more familiar with Western business techniques (he has gone to either an English-medium school or local language-medium school, and may have even studied in the West). His Chinese cultural base is weak and, in some cases, dubious, but we consider him Chinese because carrying a Chinese name or being the son or grandson of a Chinese immigrant, he is regarded as an outsider by the indigenous society and has developed some Chinese identity. The third generation Oeis are this type of Chinese who became more prevalent among the successful Chinese in the postwar period.

The Oei family was a precursor of the Chinese business community in another way. By building a large business based on delegation of authority and professional management, Oei Tiong Ham shattered the stereotype that the Chinese are tradition-bound and cannot develop a modern business organization. Despite this accomplishment, however, critics may argue that he kept his business family owned and in this respect, he was not fully modern—at least, he was more traditional than some of the Chinese businessmen today who actively use the stock market for raising capital. But one should note that among the large companies (like Japanese zaibatsu) in prewar Asia, a family-owned company was the norm and that a family-owned company was often better run than a public company. A family-owned company may have to become eventually a public company if it wants to continue to grow in the com-

petitive environment, but there is no need to do this in a relatively early stage of development since accumulated profits and borrowings from financial institutions can easily make up for the capital which can be raised in the stock market. However, family management is often a poor substitute for professional management. And thus, for a considerable period of time, professional management is a by far more important parameter defining business modernization than public ownership. What Oei Tiong Ham did was not full-scale but intermediate modernization; given the historical circumstances, intermediate modernization was the only choice left and the surest way to full-scale modernization. It should be remembered that in Japanese modernization, the zaibatsu did not go beyond intermediate modernization until the postwar period.

Oei Tiong Ham was a business pioneer in still another way. It is often thought that Chinese capital is commercial and financial capital, or that since the Chinese do not want to invest in such long-term assets as industrial machinery, Chinese capital cannot become industrial capital. But this view is completely wrong. In Southeast Asia today, there are many Chinese-owned big factories (for example, Liem Sioe Liong's Indocement in Cibinong, Indonesia, which is the biggest cement complex in Asia) and high-story buildings (for example, OUB Centre in Singapore, which is the tallest building in Asia). And that view was proven wrong by Oei Tiong Ham almost a century ago when he began investing in sugar mills. Given an environment in which long-term calculation is possible, the Chinese are willing to invest in

long-term assets, and thus, Chinese capital can be converted into industrial capital. If this is not done, it is because the Chinese feel insecure in their countries of residence and since they have to take capital with them when they have to leave, they want to keep their capital in liquid form.

To get into the manufacturing industry, one major problem the Chinese faced was modern technology. But this turned out not so serious a barrier as generally thought. It is true that in order to establish modern industry and spearhead technological progress on a corporate level, there has to be a well developed technological environment supported by learned institutions, but it is not terribly difficult to master mature technologies. In the case of Oei Tiong Ham Concern, a number of Dutch engineers were used, but as some Chinese came back with engineering degrees from the Netherlands, they began taking over technical posts from the Dutch (for example, Yap Kie Ling, who replaced two Dutch engineers in the headquarters in Semarang in the 1930s [Liem 1979: 218]). Lower levels of technical skill had been handled by the Chinese staff much earlier (for example, the skill to work on an engine was probably first mastered on a steamship and transferred later to factories such as sugar mills [Interview: Oei Tjong Ie 1989: 195]). In a way, Oei Tiong Ham Concern was a pioneer in the replacement of Western engineers with Chinese and the introduction of new technologies, which became more common among the Chinese firms in later, especially postwar, years.

The growth and decline of Oei Tiong Ham Concern make us acutely aware that businesses are, as the French historian Fer-

nand Braudel would argue, "the subset of a greater set" [Braudel 1979: 458-461]. One crucial component of the greater set is the attitude of the government toward business; especially how much freedom the government gives to business and how political power is regulated when it is exercised over business. In Dutch Java, the Chinese were discriminated against in many ways (e.g. they were not allowed to travel freely or reside in the place of their choice), but Chinese discrimination became less of a problem from the late 19th century [Ongkokham 1989: 173], as the colonial government created the institutional order in which Dutch private capital could play a major role in development. Oei Tiong Ham and many other Chinese benefited from this legal-institutional order.

Unfortunately, after independence, the colonial economic order was rejected in Indonesia. This was also bound to happen in the Philippines and Malaya, but in Indonesia, since the people had to fight for independence, rejection of the colonial order came sooner and in a more drastic way than in the Philippines and Malaya where there were no political upheavals in the transition to independence. What replaced the colonial economic order of Indonesia was eventually a government-dominated, autarkic economy. Foreign capital was regarded more and more as an instrument for perpetuating colonialism and finally nationalized by the government (Dutch capital in 1957, British capital in 1963, and American capital in 1965). And also, there was an anti-Chinese feeling as a reaction to Dutch colonialism: Indonesian leaders tended to regard the Chinese as the collabora-

tors of the Dutch in the exploitation of their country. Government intervention in the economy was not bad by itself, but Indonesia, like many other newly independent countries, did not know how to rationally contain and regulate the exercise of government power in the economy. Like a typical revolutionary illiterate in economics, Sukarno, who emerged as the dominant leader of Indonesia in the 1950s, rejected capitalism as a supporting institution of colonialism and in the process of replacing it with socialism, destroyed the efficiency of the economy. It was under this anti-Chinese and anti-capitalistic setting that Oei Tiong Ham Concern declined.

What made the situation worse was considerable skepticism about economic liberalism and support for extensive government interference among the intellectuals who had been influenced by socialist and liberal political ideologies in the West. This intellectual atmosphere still remains today and affects the role of government in the economy. But one has to realize that when government is not good government, extensive government interference can easily bankrupt the economy. It may be emotionally difficult to accept the possibility that one's own government is not good, but if it is not good, it is better to face up to the reality. To judge whether a particular government is good or not and whether it will improve in performance in the near future may not be easy, but in Indonesia, judging from past records and the miserable standard of living today, government performance is far from satisfactory, and the economy seems to considerably improve if economic liberalism was restored as the dominant economic ideology.

One may argue that government intervention is necessary to control Chinese economic power and promote indigenous participation in the modern economy. We are well aware that the Chinese are still a political and social problem in Indonesia, but it should be realized that economic development is a terribly difficult task. In the early postwar period, as a sort of negative reaction to the prewar ideologies to perpetuate colonial rule, optimistic views on the prospect for development became dominant among the intellectuals in both developed and developing countries, but after a few decades of independence, economic development (in the sense that the masses, being liberated from poverty, enjoy a decent standard of living) is still a distant hope. Optimism still remains strong, but if the past records and prevailing economic situation are objectively reassessed, one would get struck with the enormity of the development problem. The Chinese problem should be dealt with within this context.

The decline of Oei Tiong Ham Concern in the postwar period and its confiscation by the Sukarno government in 1961 were undoubtedly painful events for the Oei family as well as for the people who worked for the company. At the same time, they were tragic events for the Indonesian economy as a whole. In that period, all rationally run businesses suffered, being subjected to the abuse of governmental power. But this was tolerated because the intellectual climate at that time was such that something was intrinsically wrong with the economic liberalism of the colonial period. Fortunately (from the economic viewpoint), Sukarno was ousted from power in 1965, and a new political

order was established. As a result, the economy has improved in the past two decades, but a legacy of government intervention still remains strong.

What a developing country like Indonesia has to do is to restore the old liberal economic ideology which regards private initiative as the primary force of economic development. Certainly, economic development (as just defined above) cannot be brought about in a short time, but a great deal can be done to improve the economic situation. For example, since the gap in wages between Japan and Indonesia, which is over 40 times,⁵⁾ can generate export, Indonesia can export a number of products soon and still more in the near future as more capital is accumulated and more experience is gained. This increase in exports will enable Indonesia to reduce the gap in wages and income with Japan and raise its living standard. Of course, Indonesia can direct exports to other countries (especially high-income countries). What is important is to realize that trade can act as the engine of growth. But for this to come about, the economic system of the country has to restrain and regulate the exercise of government power in the economy and encourage private initiative. This is essentially what the old liberal economic ideology preached. There is nothing wrong with an old ideology. In fact, new ones caused a fiasco and brought economic misery to postwar Indonesia. In

view of economic slowdown in recent years in the country, now is a good time to reflect on the virtue of the old economic liberalism which brought about the rise of such an Indonesian business empire as Oei Tiong Ham Concern. If it is restored, we may be able to witness the rise of dynamic capitalism which once spearheaded economic development in the country and will undoubtedly do so again in the future.

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5) According to the most recent issue of *Asiaweek* available at the time of this writing (June 3, 1988), Indonesia's per capita GDP is \$500, while Japan's is \$22,825.

Appendix: The Oei Family

I. Oei Djing Poe (1789-1877)

wife: Tjan Moay Nio (1792-1857)

sons

1. Oei King Tjien
2. Oei King Tauw
3. Oei Wie Sian
4. Oei Sien Tjo
5. Oei Ing Soen
6. Oei Tjie Sien

II. Oei Tjie Sien (1835-1900)

wife: Tjan Bien Nio (1839-1896)

sons

1. Oei Tiong Tjhian (left in China)
2. Oei Tiong Ham
3. Oei Tiong Bing
4. Oei Tiong An (stillborn?)

III. Oei Tiong Ham (1866-1924)

wife	children
a) Goei Bing Nio	1. Oei Tjong Lan (f) (1886- ?) 2. Oei Hui Lan (f) (1889-)
b) The Khiam Nio	1. Oei Djoe Nio (f) (1903- ?)
c) The Tjik Nio	1. <u>Oei Tjong Tee</u> (m) (1895- ?) 2. Oei Hwan Nio (f) (1897- ?) 3. <u>Oei Tjong Swan</u> (m) (1899- ?) 4. Oei Oen Nio (f) (1900- ?) 5. Oei Tjong Yoe (m) (1903- ?) 6. Oei Tjong Tiong (m) (1904- ?) 7. Oei Liang Nio (f) (1906- ?) 8. <u>Oei Tjong Liam</u> (m) (1906- ?) 9. Oei Siok Kiong Nio (f) (1910- ?)
d) Ong Tjiang Tjoe Nio	1. Oei Siok Kiong Nio (f) (1907- ?) 2. Oei Bien Nio (f) (1913- ?)
e) Ong Mie Hoa Nio	1. <u>Oei Tjong Hauw</u> (m) (1904-1950) 2. Oei Swat Nio (f) (1908- ?) 3. <u>Oei Tjong Tjiat</u> (m) (1909-1957) 4. <u>Oei Tjong Yan</u> (m) (1912- ?) 5. <u>Oei Tjong Ik</u> (m) (1916-)
f) Njoo Swat Ting Nio	1. Oei Siok Ing Nio (f) (1915- ?)
g) Ho Kiem Hoa Nio	1. <u>Oei Tjong Ie</u> (m) (1918-) 2. Oei Twan Nio (f) (1920-) 3. Oei Tjong Bo (m) (1922-) 4. <u>Oei Tjong Hiong</u> (m) (1923-) 5. <u>Oei Tjong Tjay</u> (m) (1924-)
h) Tan Sien Nio	1. Oei Siang Nio (f) (?- ?)

- N. Oei Tjong Tee (III-c-1)
children: 1. Oei Ping Yan (f)
 2. Oei Leodi (f)
- Oei Tjong Swan (III-c-3)
children: 1. Oei Ing Tjhing (m)
 2. Oei Ing Hing (m)
 3. Oei Ing Bian (m)
 4. Oei Ing Wan (m)
- Oei Tjong Liam (III-c-8)
children: 1. Oei Ing Siang (m)
 2. Oei Ing Ie (m)
- Oei Tjong Hauw (III-e-1)
wife: Be Hien Nio
children: 1. Oei Ing Swie (m)
 2. Oei Ing Lhie (m)
 3. Oei Ing Gie (m)
- Oei Tjong Tjiat (III-e-3)
wife: B. Betuwe
- Oei Tjong Ik (III-e-5)
wife: L.A. Livain
children: 1. Oei Ing King (m)
 2. Oei Ing Tjiang (m)
 3. Oei Ing Tjee (m)
 4. Oei Lian Hwa (f)
- Oei Tjong Ie (III-g-1)
wife: M.S. Mathysen
children: 1. Oei Ing Tjien (m)
 2. Oei Ing Kiang (m)
- Oei Tjong Hiong (III-g-4)
wife: Oei Tien Nio
children: 1. Oei Ing Tjong (m)
 2. Oei Siok Tien (f)
 3. Oei Siok Ing (f)
- Oei Tjong Tjay (III-g-5)
wife: M.L. Blanc
children: 1. Oei Siok Lian (f)