# THE INDONESIAN ECONOMY DURING THE JAPANESE OCCUPATION

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#### **ABSTRACT**

This article is written as one of many tributes to Professor Anne Booth of the Department of Economics, School of Oriental and African Studies (SOAS), University of London, who will retire by the end of 2013. This tribute is certainly warranted as Anne Booth is without doubt a redoubtable scholar specialized in the economy and history of the Southeast Asian nations, particularly Indonesia. The article starts with discussing developments in the Netherlands Indies in the 1930s, which is followed by a discussion of developments in the Netherlands Indies on the eve of the Japanese invasion. The article then discusses political developments in Japan in the 1930s; followed by a discussion of the start of the Pacific War and the fall of the Netherlands Indies. The main focus of the article concerns the Indonesian economy during the Japanese occupation of Indonesia (March 1942 – August 1945).

Keywords: Japanese occupation, Indonesian economy, Netherlands Indies

### INTRODUCTION

In an act, which in hindsight is difficult to explain, on 8 December 1941, the Netherlands government, in exile in London after the German army had occupied the Netherlands in early May 1940, declared war on Japan. The question arises whether this was based on the strong confidence that the Netherlands government could rely on the support of the United States and Great Britain in defending the Netherlands Indies?

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00-MI-39,-No 2-2013.indd 327 02/06/2014 15:42:21

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The declaration of war happened even before the United States had declared war on Japan after the sudden Japanese attack on Pearl Harbor on 7 December 1941. In the Netherlands Indies, Governor-General Tjarda van Starkenborgh Stachouwer, announced on radio that the country was now at war. Because of this, all men on mandatory service were ordered to be present at their assigned place of mobilization on 12 December (Nieuwenhuis 1979: 11-12). On 8 December 1942 around 2,000 Japanese citizens living in the Netherlands Indies were arrested as a precautionary measure (De Jong 2002: 31).

News circulated in the Netherlands Indies that after the attack on Pearl Harbor, the Japanese army had already landed in British Malaya and was rapidly approaching Singapore, considered to be an impregnable fortress, and that Japanese planes had attacked Hong Kong. On 10 December 1941 the radio also reported that Japanese planes had torpedoed two large British battleships, the 'Prince of Wales' and 'Repulse' off the east coast of British Malaya. This news greatly worried the government and many people in the Netherlands Indies (Nieuwenhuis 1979: 12).

### DEVELOPMENTS IN THE NETHERLANDS INDIES IN THE 1930s

Like the rest of the world, the Netherlands Indies experienced a serious economic crisis in the early 1930s. As an exporter of primary commodities, it was especially hard hit when the industrialized countries cut back imports of raw materials. The cost-cutting measures taken by the Netherlands Indies government caused widespread unrest, not only among the Indonesian population who suffered the most, but also among the Europeans who were increasingly threatened by unemployment and a drop in their living standards (De Jong 2002: 23). The large European-owned large estates (cultivating tobacco, rubber, oil palm, and Manila hemp) in Sumatra's East coast (now North Sumatra province) had to lay off hundreds of thousands of their workers, many of whom Javanese. As a result, almost all of them returned to Java.

The severity of the crisis in the 1930s is indicated by the fact that between 1928 and 1934 the export volume fell by almost 4 per cent per annum, export prices by almost 20 per cent and real money supply by more than 2 per cent per annum. It is estimated that GDP of the Netherlands Indies fell by 3.4 per cent per year over these years (Booth 1998: 39).

00-MI-39,-No 2-2013.indd 328 02/06/2014 15:42:21

The worldwide economic depression of the 1930s was triggered in the United States by various factors, including the mechanization in wheat production, retained high selling prices by provision of large credits, cost reduction measures in manufacturing in the United States industries, and particularly, excessive speculation on New York's stock exchange. Not surprisingly, on 29 October 1929 a serious financial and economic crisis broke out which in a short time spread to the whole world (Gonggrijp 1949: 211), including the Netherlands Indies.

The Netherlands Indies suffered severely as it was the only debtor country in the world which only waited with depreciating its currency against gold until September 1936. As a result, the Indonesian smallholders in the islands outside of Java, particularly in Sumatra and Kalimantan, who cultivated export crops, such as rubber, pepper, coffee, maize, and forest products, became much poorer when the prices of their export crops declined by 60-75 per cent, while their expenditures did not drop as much. Not surprisingly, the circulation of money in the villages declined tremendously (Gonggrijp, 1949 217-218).

The indigenous smallholders were not burdened by fixed costs and therefore more competitive than the large estates. Whereas the plantation rubber exports were regulated by individual export licenses according to basic production quotas, smallholder rubber exports were regulated by a special export tax. This tax reduced the internal price in order to keep the peasant rubber exports as a constant fraction of total rubber exports. The ratio was fixed in favour of the plantations, since the output capacity of peasant rubber exports had expanded rapidly as a result of new rubber plantings during the boom period of 1925-1926. These young rubber trees had not yet reached maturity by 1929, the year on which the ratio was based. Because rubber exports proved to be highly price-elastic, the variable export tax generated the desired degree of restriction (McFadyean 1944: 96).

This was the situation when in September 1931, B.C. de Jonge was appointed Governor-General of the Netherlands Indies. As an extreme conservative, De Jonge had not the slightest sympathy with the aspirations of the Indonesian nationalist movement (De Jong 2002: 23). In response to a demand by Indonesian nationalists to grant autonomy (not independence!), he stated: 'We have been here for three hundred years, and we will be here for another three hundred years!' This statement clearly reflected the feelings or even the

00-MI-39,-No 2-2013.indd 329 02/06/2014 15:42:21

conviction among many Dutchmen that the possession of the Netherlands Indies was taken for granted (Wertheim 1995: 154).

Based on this statement, President Sukarno said, and other Indonesians even today say, that Indonesia was colonized by the Dutch for three hundred years, which historically is totally wrong. This statement would have implied that when Cornelis de Houtman landed in the port of Banten in 1596, he and his four ships had swept over the entire Indonesian archipelago like a tsunami!

The only positive measure taken in response to the aspirations of the Indonesian nationalists was the appointment of the Visman Commission by Governor-General Tjarda van Starkenborgh in mid-September 1940. This commission was given the task of 'enquiring into the wishes, movements and views among the different nationalities, classes, and levels, as to the constitutional development of the Netherlands Indies, and in connection with that, the position of the various groups in the population' (De Jong 2002: 28).

## THE NETHERLANDS INDIES ON THE EVE OF THE JAPANESE INVASION

After the German invasion of the Netherlands, several Indonesian organizations in Batavia issued manifestos calling on their members to stand behind the colonial government and support the authorities. Following the German invasion, and particularly after the declarations of loyalty from Indonesians, some kind of goodwill gesture might have been expected from the Indies government. However, no such gesture was forthcoming. The Governor-General took the view that no fundamental policy changes could be initiated as long as the war continued, and thus let the opportunity pass. The Boven Digoel internment camp in western New Guinea stayed in place, and the nationalist leaders Sukarno, Hatta, and Sjahrir were not released from exile (De Jong 2002: 27-28).

Meanwhile, the serious economic crisis experienced by the Netherlands Indies led the Indies' government to resort to measures such as import quotas and a licensing system for the import of Japanese products. Import restrictions were seen as particularly necessary because of the growth of Japanese imports, especially textiles which were both displacing European imports and harming domestic production. In fact, most of the arguments, which were used to justify

00-MI-39,-No 2-2013.indd 330 02/06/2014 15:42:21

the adoption of quantitative restrictions on imports, were basically concerned with the so-called Japanese threat (Booth 1998: 44).

The increasing share of Japanese imports in the total imports entering the Netherlands Indies led to a large deficit in the bilateral trade with Japan since Japan purchased much less products from Japan. The strong competition from Japanese ships in the international and interisland shipping of the Netherlands Indies caused great concern among the Netherlands Indies government (Gonggrijp 1949: 240-241). On the other hand, the lower prices of the imported Japanese products, due to the substantial devaluation of the yen, greatly benefited the Indonesian population These lower prices were largely due to the lower wages of the Japanese factory workers and greater efficiency of Japanese manufacturing due to modernization (Gonggrijp 1949: 228).

The quantitative restrictions on the Japanese imports elicited sharp protests by the Japanese government. To try to deal with these protests, the Netherlands Indies government sent an invitation to the Japanese government for a conference in Batavia. The Japanese delegation was led by Nagaoka, while the Dutch delegation was led by J.W. Meijer Ranneft, vice-president of the Council of the Netherlands Indies. On his arrival in Batavia on 3 June 1934, Nagaoka issued a statement that the relationship between Japan and the Netherlands Indies should be based on the principle of 'co-existence and the common welfare' (of both peoples) (Gonggrijp 1949: 241).

For the Japanese at stake was not only Japan's share of the Netherlands Indies imports, but also the colonial distribution system, with the Dutch insisting that not more than 25 per cent of Japanese imports could be handled directly through Japanese residents in the colony. After tough and protracted negotiations, the Hart-Ichizawa agreement was finally signed in April 1937 (Dick *et al.* 2002: 159).

### POLITICAL DEVELOPMENTS IN JAPAN IN THE 1930s

In the early 1930s the Japanese military elite, determined to extend the country's sphere of influence, came to power in Japan. Japanese expansionist ambitions on Asia inevitably led to conflict with China and the Western powers. In 1937 war broke out when units of the Japanese Kwantung army, stationed near Beijing, were fired on by units of the Chinese army while on exercise. This incident led to full-scale war between Japan and China, which

00-MI-39,-No 2-2013.indd 331 02/06/2014 15:42:21

continued for almost nine years until the end of the Pacific War on 15 August 1945 (Morishima 1984: 130) The bloody Pacific War only ended when Japan surrendered unconditionally to the Allies after American planes had thrown an atomic bomb on Hiroshima on 6 August 1945 and a plutonium bomb on Nagasaki on 9 August 1945, and after the Soviet Union had declared war on Japan, despite the neutrality pact that Japan had signed with the Soviet Union.

When war broke out with China, the Japanese army had confidently anticipated that the Chinese army would immediately surrender. However, the Japanese army found itself barely maintaining a front that stretched across an immense geographical area under tenacious Chinese resistance. The Japanese army had established the North China Development Corporation and the Central China Promotion Cooperation and was drawing up plans to develop coal, iron ore, salt, and other natural resources, and bring them to Japan for use in munitions plants. Unfortunately for Japan, there was no prospect of bringing the war with China to a quick resolution (Nakamura 1994: 106). Given these conditions, one might ask why Japan became embroiled in a war with the United States, Great Britain, and the Netherlands? (Nakamura 1994: 106).

From an economic perspective, the Japanese reasons for going to war with the Western powers were that China would not surrender to Japan, as it was supported by the United States and Great Britain. Hence, Japan applied pressure in occupied China by blockading Britain's lease territory in Tianjin during its occupation of China. As a result, relations with the United States and Britain, which had already deteriorated, steadily worsened. In fact, America announced that it was abrogating the U.S.-Japan Treaty of Commerce and Navigation. This abrogation was a momentous step, as this treaty had contained provisions which granted Japan a most favoured nation status. Once this Treaty was revoked, United States would be free to restrict or ban exports to Japan, including a ban on the export of machine tools and the most important resources for which Japan depended on America, including petrol, crude oil, and scrap iron (Nakamura 1994: 107).

After Japan had occupied the southern part of French Indochina in July 1941, the United States, Great Britain, and the Dutch in the Netherlands Indies imposed a total embargo on oil exports to Japan. As a result, Japan now faced a serious dilemma, since both its army and navy were greatly dependent on imported oil with only about a two-year supply available. Victory in China had to come soon, or Japan's aggression against China would grind to halt.

00-MI-39,-No 2-2013.indd 332 02/06/2014 15:42:21

In facing the need to act quickly and decisively, Japan faced two choices. One was to stop the war with China and withdraw its troops as America had demanded, and settle back to profit economically from the war in Europe, as it had done during World War I. The second choice for Japan was to take another step forward in establishing an economic empire in Asia without the attendant costs of conquest, if it could disentangle itself from the war with China (Reischauer 1981: 209).

But economic self-interest did not turn out to be the decisive factor. To Japan's military, withdrawal from China seemed a national loss of face that could not be tolerated. On the other hand, the United States insisted that no settlement could be arranged with Japan until the gains of Japan's aggression in China since 1931 had been relinquished. The other alternative for Japan was to go south, break America's tightening blockade by seizing the resources of Southeast Asia, ,particularly the oil of the Netherlands Indies. With this move Japan could thus achieve at one great blow the much-wanted Greater East Asia Co-Prosperity Sphere. In taking such a step, Japan had secured its rear by signing a neutrality pact with the Soviet Union in April 1941 (Reischauer 1981: 209).

# THE START OF THE PACIFIC WAR AND THE FALL OF THE NETHERLANDS INDIES

Repeating the strategy during its war with Russia in 1904-1905, Japan began the war with the United States when its torpedo and dive bombers launched a brilliantly successful surprise attack on Pearl Harbor on the island of Oahu in Hawaii on Sunday, 7 December 1941 (Buruma 2004: 111). This attack crippled the American navy with a single sharp blow, virtually eliminating its battleship fleet. Unfortunately for the Japanese, they missed the aircraft carriers, which were to prove a far more important weapon in the subsequent war. However, the attack on Pearl Harbor cleared the way for an easy attack of Southeast Asia (Reischauer 1981: 211), including Indonesia.

Actually, before the Japanese attack on Pearl Harbor, Admiral Yamamoto Isoroku, the architect of the attack, had warned Prime Minister Konoe that Japan could successfully challenge the United States for one year at the most. But what urged Yamamoto to go along with the attack on Pearl Harbor? The most likely explanation is not a *Führer's Diktat*, as in Nazi Germany's attack

00-MI-39,-No 2-2013.indd 333 02/06/2014 15:42:21

on the Soviet Union in June 1941, but weakness, even paralysis, at the highest levels of the Japanese government. If few Japanese deeply desired a war with the Western powers, nobody, except possibly the Emperor himself, was able or willing to stop it (Buruma 2004: 115).

Be that as it may, on 7 December 1941 hostilities commenced with the Japanese attack on Pearl Harbor. The war progressed far more advantageously for the Japanese than originally anticipated. Within six months, Japan had occupied Burma, Thailand, British Malaya, Singapore, the Philippines and Borneo, as well as Celebes, Java, and Sumatra in the Netherlands Indies. To the east, Japan had not only landed in parts of New Guinea, but even occupied the Solomon Islands southeast of New Guinea (Nakamura 1994: 111).

The chief targets of the Japanese operations in the Netherlands Indies were the oilfields at Tarakan off northeast Kalimantan, Balikpapan in East Kalimantan, and Palembang, in South Sumatra. In the night of 10-11 January 1942 about 6,000 Japanese troops landed at Tarakan. The oil wells had already been put out of action and the oil tanks set on fire. The demoralized troops of the Royal Netherlands Indies Army, KNIL (*Koninklijk Nederlands-Indisch Leger*) in Tarakan surrendered on the morning of 12 January (De Jong 2002: 35).

Other parts of the Netherlands Indies were already occupied in early 1942 by Japanese troops. With the fall of Singapore on 15 February 1942 to the Japanese troops and the battle in the Java Sea, when the combined ABDA (American, British, Dutch, Australian) naval forces under command of Dutch Rear Admiral Karel Doorman lost the battle of the Java Sea on 27 February, the fate of the whole Indonesian archipelago was sealed (Van den Doel 2001: 62).

In the evening of 28 February 1942 and the early morning of 1 March 1942 Japanese troops landed on four places on the north coast of Java without any hindrance. A few days later the situation for the Dutch army, including the KNIL, was already quite hopeless, also because the Indonesian population did not provide any support. In fact, in many places in Indonesia, including Batavia, Magelang and other cities, the Japanese army was welcomed enthusiastically by the Indonesian population (Van den Doel 2001: 62).

After a resistance of only nine days, on 8 March 1942, Lieutenant-General Ter Poorten, the Dutch commander-in-chief in the Netherlands Indies, signed an instrument of unconditional surrender to Japan in the Kalidjati airport in West Java, Hence, on that date the collapse of Dutch power in the Netherlands

00-MI-39,-No 2-2013.indd 334 02/06/2014 15:42:21

Indies was complete with the capture and detention of the Governor-General, the symbol of Dutch power in the Netherlands Indies. Other important Dutch officials of high rank, among them Van Mook and Van der Plas, were able to escape to Australia (Sastroamijoyo 1979: 92-93). Hence, on that date the existence of the Netherlands Indies ended *de facto* (Van den Doel 2001: 62).

## THE INDONESIAN ECONOMY DURING THE JAPANESE OCCUPATION

The Japanese occupation of Indonesia from March 1942 to August 1945 is widely regarded as a watershed in modern Indonesian history. While this notion may indeed be true for the political developments that were yet to come, the Japanese invasion also marked the beginning of economic hardship, instability and disintegration (Van Zanden & Marks 2012: 133).

Immediately following the Japanese occupation in early Marechg 1c942 the Japanese authorities requisitioned the houses of Dutch citizens to provide accommodation for the Japanese military, later also for so called Japanese 'economists'. Male citizens from countries with which Japan was at war, and thus were considered 'enemies', were put in camps, while Dutch women and their children were also put in camps, and were only allowed to take their most necessary furniture and clothes, and other utensils which they could carry. Eurasians, who could show or indicate to the Japanese authorities that they for more than 50 per cent were descendants from the indigenous Indonesian were exempted from being placed in the interned camps. But because they lacked adequate earnings to cover their basic needs, most of them had to sell any of their valuable possessions, so that by the end of the Japanese occupation, their possessions had been reduced considerably (Van Horn & Van der Maar, 2000: 11).

Economic performance during the Japanese occupation was weak at best. Initially the reason for the Japanese invasion was to secure the supply of strategic raw materials to Japan, in particular petroleum, rubber, tin, and other metals. However, by the middle of 1943, damage to Japanese shipping by Allied submarines forced the Japanese administration to put a greater emphasis on economic self-sufficiency in the different regions, so that the demands on imports and shipping were minimized (Van Zanden & Marks 2012: 134).

00-MI-39,-No 2-2013.indd 335 02/06/2014 15:42:21

During the Japanese occupation, one of the main purposes of the Japanese occupation policy was the complete elimination of Western (predominantly Dutch, but also some American and British) presence and influence in Indonesia. In Java the Dutch governing elite was put into internment camps in March and April 1942, among them the Dutch Governor-General, all heads of government departments, public servants of the Department of the Interior, several senior police officers, teachers, physicians, judges, and lawyers. Many other Dutchmen also lost their jobs and income. In addition, several symbols of the Dutch presence in Indonesia were removed, such as the statue of Jan Pieterszoon Coen and the Van Heutsz monument in Batavia, which was renamed Jakarta (Van den Doel 2001: 69), a name that has since been retained.

The detention of the Dutch officials meant that the Japanese government administration was lacking leadership, because the Japanese army did not have sufficient manpower to fill the vacant positions with their own people. To fill the vacancies in the government administration, they appointed Indonesians whom they considered sufficiently capable and experienced to head the government offices in all fields and to exercise full responsibility. Naturally, the Japanese officials held the highest positions, and acted as the supervisors of their Indonesian officials (Sastroamijoyo 1979: 93).

The Japanese officials only acted in matters closely connected with the problems or needs of their war, while the Indonesian officials were given the task of speeding up the wheels of the civil administration. However, over time their duties were extended, and they had to assist their Japanese superiors in activities directly connected with the war effort, for instance, the gathering of food (rice, eggs, meat, etc.) and the provision of forced labour (*romusha*) (Sastroamijoyo 1979: 93). So for the first time in Indonesia's modern history, Indonesian administrative officials were given the opportunity and responsibly to head Indonesia's government offices and departments.

In response to food shortages, stringent rationing applied to most basic consumer goods, especially food and textiles. As a means of control, registration was linked to the newly formed neighbourhood associations, called *tonarigumi* in Japanese. These *tonarigumi* were established in Japan in the 1930s In Japanese-occupied Java these *tonarigumi* were introduced in April 1943, and named *Roekoen Tetangga* (R.T.) (Burgers 2010: 316); they have survived until the present day.

00-MI-39,-No 2-2013.indd 336 02/06/2014 15:42:21

In response to food shortages, stringent rationing was introduced over most basic consumer items, especially food and textiles. As a means of control, registration was linked to the newly formed *tonarigumi*. The daily .ration of rice was set nominally at only 200 grams per adult, with the balance of carbohydrates made up of corn and soybean. Only sugar, which no longer had an export market, was in plentiful supply. Urban dwellers therefore had just enough to eat, even if they could not enjoy their preferred diet (Dick *et al.* 2002: 166)."

The Japanese occupation also led to the destruction of a considerable part of Indonesia's physical infrastructure, for instance harbours, railroads, and oil installations. The interisland shipping industry, consisting of steamships and motorized vessels, was halved. Hence, the outcome of the Japanese occupation was that the communications infrastructure with overseas countries was practically cut off. Only the transport and communications with Japan remained which, understandably, were totally dominated by the requirements of Japan's war machine. The roads in Indonesia were badly maintained, if at all. Moreover, all motor cars were confiscated by the Japanese. For this reason, the transport and communications with abroad, but also within Indonesia, was totally disrupted (Burger 1975: 160).

Food production declined considerably, as reflected by the fact that immediately after the Japanese occupation rice production as a percentage of the average production for the period 1937–1941 was 68 per cent, for maize 34 per cent, for cassava 44 per cent, for potatoes 73 per cent, for soybeans 40 per cent, and for peanuts 36 per cent. The total nutritious value of this lower production was only around 60 per cent of the pre-war level. The Japanese authorities also attempted to make every district in Java self-sufficient in food supplies in view of the transport difficulties. Unfortunately, these efforts were unsuccessful, because the local conditions were not adequately taken into account and because the mandatory deliveries were often sabotaged by the Javanese population (Burger 1975: 160).

It was the damage to Japanese shipping by Allied submarines that forced the Japanese authorities to emphasize economic self-sufficiency. The so-called cultivation crops, such as rubber, coffee, tea, and quinine, which had been directly connected with the world market, were cut off from their traditional export markets (Van Zanden & Marks 2012: 134).

00-MI-39,-No 2-2013.indd 337 02/06/2014 15:42:21

In retrospect, people in Java almost unanimously state that during the Japanese occupation they suffered from terrible shortages of rice, and urban people often gave testimony of seeing many people dying on the street, even though by the end of the Dutch period, Java had become self-sufficient in rice (Kurasawa-Inomata 1997: 111).

Remaining Japanese archives also show that in 1944 and early 1945 the socio-economic conditions had deteriorated to such an extent that the death rate was much higher compared with the Dutch period. It is also difficult to establish exactly what the main causes of death were, but it is likely that that malnutrition directly and indirectly increased the death rate. Japanese statistics from the Semarang Central hospital show that during the six months between February 1943 and September 1943, 832 persons were treated for starvation and 366 persons died in the hospital (Kurasawa-Inomata 1997: 111).

The Japanese occupation authorities also desperately needed coal, and had to seek it at all cost. They, therefore, decided to open a new railway line, connecting Bayah on the south coast of Banten, to the existing rail line. This railway project was very ambitious and difficult to carry out, because it had to be completed in a very short time, while construction materials and tools were in short supply. To construct this railway line, the Japanese authorities recruited millions of *romusha*, euphemistically referred to as 'economic soldiers' (Van den Doel 2001: 70).

Work started in February 1943, and large numbers of *romusha* were recruited for this project. Up to its completion in April 1944, a total of 120,000 people had been mobilized. Meanwhile, in the coal-mining project of Bayah, 15,000 *romusha* were working, of whom about 400 to 500 died every day (Kurasawa-Inomata 1997: 120).

### **CONCLUSION**

The general picture of economic conditions during the Japanese occupation is thus appalling, when taking into account the suffering of millions of Indonesians who were subjected to forced labour by the Japanese authorities, combined with a terrible famine in 1944/45. By the end of the war, the lack of maintenance and Japanese damage formed the worst problems. In addition, large parts of the railway network had been shipped to Malaya and Thailand, and bridges were broken into pieces and sold as scrap iron, while river mouths

00-MI-39,-No 2-2013.indd 338 02/06/2014 15:42:21

had not been dredged. The total loss and damage to the Indonesian economy was estimated at 2.3 billion guilders (in 1942 prices), which amounted to roughly 50 per cent of GDP of the Netherlands Indies in 1941. It would therefore require a long period of time to rehabilitate the economy, including Indonesia's physical infrastructure, and to restore the economy to normal peacetime conditions (Van Zanden & Marks 2012: 136).

On the other side of the ledger, it is certainly true that without the Japanese occupation, it would have taken a much longer time for Indonesia to become independent. The reason was that the Netherlands Indies government acted harshly against any expression or action which it considered inflammatory. Indonesian nationalist leaders, who were considered dangerous because they disturbed or threatened peace and order (*orde en rust*), including Sukarno, Mohammad Hatta, and Sjahrir, were not only imprisoned, but also exiled to faraway places, such as Flores, Bencoolen, Banda, and Boven Digoel in what was then Dutch New Guinea (present-day Papua).

Another positive consequence of the Japanese occupation was that many Indonesians, who during the Dutch colonial period, occupied lower positions in the Dutch colonial bureaucracy, gained valuable experience and skills in running a modern bureaucracy. This experience and skills proved to be very valuable when Indonesia became independent.

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00-MI-39,-No 2-2013.indd 340 02/06/2014 15:42:22