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Deli Bank: The Tjong Brothers and Chinese Overseas Banking in the East Coast of Sumatra

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Abstract

After experiencing two major events in the second decade of the twentieth century—the Xinhai Revolution and the First World War—Chinese overseas capitals in the South Seas (Nanyang) simultaneously faced a turning point that greatly affected their fortunes. After the formative years of the Chinese overseas enterprises through the Late Qing period in the 1890s to the Chinese Revolution in 1911, the post-war political and economic order began to inexorably transform the structure of preexisting commercial and financial networks shared among the Nanyang Chinese magnates. The paper's primary objective is to chart the rise and fall of the Chinese business pioneers in Nanyang by retracing the example of the formation of the financial network of the prominent Tjong family of Medan in the early 20th century. Focusing on the establishment of Deli Bank as the first Chinese formal banking institution in the East Coast of Sumatra, the author seeks to explore the socio-economic factors that contributed to the setting up of such a financial institution in an economic hinterland like Deli at the time. Simultaneously, this paper also bids to examine the elements responsible for the devastating insolvencies of the once feted Nanyang capitalists.

Keywords: Tjong A Fie; Tjong Yong Hian; Deli Bank; Chinese Overseas; Medan; Banking

1. Introduction

On 9 September 1910, President of De Javasche Bank (DJB), Dr Gerard Vissering wrote to the French consul at Weltevreden-Batavia, Count Despreaux de Saint Sauveur. The letter was written to answer some inquiries about the monetary reforms, which had taken place in some parts of the Dutch East Indies, most recently on the East Coast of Sumatra. In the correspondence, the Head of De Javasche Bank slightly mentioned Deli Bank and the Chinese headmen as follows:

Quelques-uns des plus riches Chinois opéraient déjà dans la même direction. Ils avaient fondé la Banque de Deli, qui pour les ouvriers à journée (les coolies libres) faisait ce que le Bureau d'immigration faisait pour les ouvriers qui avaient signé un contrat (les coolies de contrat). Cette Banque de Deli tirait également sur ces villes chinoises, et à cause de l'ascendant que les chefs chinois, formant en même temps la direction de cette Banque, avaient sur leurs compatriotes, on consentait sans difficulté à accepter ces chèques de la Banque de Deli. Ainsi en peu de temps cet ouvrier illettré, gens des moins civilisés du monde, s'est fait à un instrument d'échange financier des plus modernes, le chèque sur l'étranger. En effet un beau succès de la civilisation [1].

Some of the most affluent Chinese were already operating in the same direction. They had founded the Deli Bank for day labourers (free coolies), as the Immigration Office did for indentured labourers (contract coolies). Deli Bank targeted Chinese-populated cities, and because of the influence of the Chinese headmen—who were also the directors of the Bank—on their compatriots, they [the Chinese coolies] contentedly agreed to accept the cheques from Deli Bank. Thus, in a short time these Chinese coolies, one of the least civilised people in the world, became acquainted with one of the most modern instruments of financial exchange, the cheque on the foreigner. Indeed, a great success of civilisation.

Gerard Vissering, who was appointed as the President of the Netherlands India's circulation bank in 1906, was perhaps the right man in the right place at the right time in addressing the concern of monetary reforms in Chinese-concentrated economic hinterlands like Medan during the first decade of the twentieth century. Besides chairing the highest position in De Javasche Bank and later President of De Nederlandsche Bank from 1912 to 1931, Vissering was also an erudite expert in Chinese monetary and banking system. Although objections were raised against Vissering that his ideas were mainly focused on the 'modern' thing, namely Western financial economics [2], the excerpt above—which sounds rather condescending—indicates a hint that Chinese banking institutions like Deli Bank had played a certain role in promulgating the Dutch banking system and financial services built on it among the Chinese population in Deli, and the DJB's head would have realised the significance of it. Therefore, this paper seeks to explore the formation

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of once the most ambitious business in East Sumatra, which had accumulated from capitals built on an unsavoury start of the plantation economy and the ‘coolie questions’, to the fortune amassed through the transboundary *kongsi* network represented by influential Chinese figures in the once-cherished fluorescent economic hinterland in Southeast Asia: Deli.

2. The Formative Years: Chinese Migration to Deli and Capital Ammassment

Prior to the discussion of the establishment of Deli Chinese banking institutions, perhaps it is crucial to have an overview of the formation of the plantation economy on the island and demonstrate how it had precipitated a massive flow of Chinese migration to the area. The author believes that the establishment of the banking business in the early decades of the twentieth century as a by-product of the Chinese capital ammassment is inseparable from the economic and political systems devised in the nineteenth century. The timeline in this section is divided into three parts—first, the period before the Dutch expansionism to the northern part of Sumatra; second, the period of the massification of Dutch tobacco estates in the East Coast of Sumatra and the influx of Chinese indentured labour; third, the period of the massive increase of the Chinese population in the East Coast of Sumatra and the emergence of local affluent Chinese as community leaders.

2.1. Early Years of Trade in Sumatra and the Dutch Expansionism

Sumatra, particularly the northern part, played a limited role in trade with its surrounding territories until the middle of the nineteenth century. It was only the traders of Aceh Sultanate in the northwest Sumatra who brought their pepper to market in Penang and sold it further to American, European, and Indian buyers. Others were the secluded Chinese traders in the south, but they did not form any significant part of the district’s economy [3]. One of the dominant trade ports of the time was undoubtedly Singapore, especially since the preliminary treaty permitting the British to set up a trading post was signed between the Temmenggong of Johor and Sir Stamford Raffles in January 1819 [4]. Penang, as a British trading post established in 1786, had its strategic position replaced by the new settlement of Singapore, although its significance in the region’s remained intact. In this sense, the British Straits Settlements’ strong influence in trade also affected the emergence of river ports in Sumatra, which most of them were concentrated further south (e.g., Rokan, Siak, Kampar, and Jambi) following the birth of modern Singapore as the region’s central trade hub.

East Coast of Sumatra, on the contrary, remained ‘untouched’ before the mid of the nineteenth century. John Anderson, a Scotsman dispatched by the British in his detailed report *Mission to the Eastcoast of Sumatra* in 1823, illustrated the abundance of natural advantages in Deli and saw ‘a very few Chinese’ who were not worthy of notice elsewhere [5]. Nevertheless, the fast-expanding ports of Penang and Singapore eventually brought a transformation to the East Coast of Sumatra by the 1860s. It should be noted, however, that before the Dutch extended their influence on the district, Straits Chinese merchants, predominantly Penang traders, had established connections with sultanates of the East Coast of Sumatra, such as in import and export duties, and opium monopolies [3].

The rapid industrialisation of Europe and North America in the later nineteenth century prompted a great demand for raw materials. The official abolition of slavery in America in 1865 and the opening of the Suez Canal in 1869 had provided Southeast Asia with advantages in supplying materials on demand. Monopolies as the crystallisation of Western capital started to be used to pioneer plantations for tea, coffee, tobacco, sugar, nutmeg, and indigo [6]. The demarcation of two territories—Malaya and Dutch East Indies—as a result of the Anglo-Dutch Treaty of 1924, had consequently allowed the Dutch to gradually expand their territory on the soil of Sumatra. As the Dutch reached the frontier in the East Coast of Sumatra, without exception, it was one of the marginal lands, but soon it was transformed into the economic hinterlands reflecting the zeitgeist of the mid to the later nineteenth century.

The massive boom started after a Dutch tobacco trader, Jacob Nienhuys (1836-1927), was dispatched to Deli on the East Coast of Sumatra to buy the local tobacco by the Dutch authorities who recently had just established relations with local sultanates. Nienhuys was then permitted by Sultan Mahmoed Perkasa Alam Shah of Deli to cultivate a tobacco plantation in Labuhan by the mouth of Deli River, and hence with some Chinese labour from Singapore grew an initial crop in 1863 [7]. Deli’s temperature, altitude, soil structure, precipitation, cloudiness, humidity, and sunshine suggested that this marginal land was remarkably suitable for tobacco cultivation. *Tembakau Deli* or the Deli tobacco leaf soon rose to fame as it received recognition in Rotterdam as the finest quality, sold for the price of 1.49 gulden per half-kilo, and became the preferred wrapper in the world’s cigar production [3].

2.2. Tobacco Plantations and the Chinese Indentured Labour

Even marginal land was made available as the Dutch colonial power expanded, labour remained the principal constraint. As there was reluctance on the natives in Deli and inland Toba, the expansion of the estate after Nienhuys with triumvirates of tobacco traders established Deli Maatschappij in 1869 would never be a feasible mission without importing Chinese plantation labour. In Deli, ways of extracting labour were unavailable while the sultans of Deli had land to offer but not labour. Native Batak from inland North Sumatra and Malay populations could be neither persuaded nor compelled by local sultans or Dutch authorities to work for the estates [8]. Consequently, the Dutch planters were required to seek their personnel elsewhere—initially coolies from the British Straits Settlements and China. The first Chinese indentured coolies in Deli arrived in 1864 via the Straits Settlements, and in the following year, the Dutch planter Jacob Nienhuys brought 88 Chinese labours from Penang. The indentured labours had a work contract of

three-year, in which they had to pay back the advance payment they received prior to their arrival. Initially, Chinese coolies recruitment was conducted through the Singapore or Penang-based coolie brokers known as *khehthau*. *Khehthaus* were usually affiliated with a secret society or *hoey*. The brokers were known to act actively in avoiding shipments of coolies directly from mainland China to Deli, as no profit could be made from such kind of recruitment [7].

Moreover, Deli had an unsavoury reputation of its ruthless agents, both the planters and the coolie brokers in the Straits Settlements. As the Sultan of Deli had given the planters authority over their employees, plus the absence of an established judicial, police system and a code of civilised conduct, representations against ill-treatment by planters were often made by commentators [3]. The coolie brokers who did the supply of workers for Deli plantations also acquired an exceptionally bad reputation for kidnapping Chinese workers in Straits Settlements and shipping them off to Deli plantations, who offered a better remuneration for each coolie successfully transported [3]. As early as 1871, this bad reputation was being fostered in China, the Straits Settlements, and even in Batavia in 1917, generating an expression used in correspondence among officials, namely: “*Liever dood dan naar Deli*”, better death than to Deli. Notwithstanding the name Deli had acquired, the Chinese indebted immigrants consistently increased through the end of the 1870s and 1880s. The so-called Protector of Chinese was established in both Penang and Singapore in 1877 to combat abuses against the workers by *khehthaus*. From 1880 onwards, coolies were no longer recruited from the Straits Settlements, but directly from China. Direct shipping of coolies from the southeastern ports of China has allowed the Dutch planters an affordable means to supply their labour needs. As tobacco prices reached their peak level in the 1880s, a colossal increase of Chinese coolies was also aligned with the Dutch planters in their estate territorial expansionism, owing to the direct recruitment from China [7].

2.3. From the Unmissed Yümin to Imperialist Capitalists

Dirk Buiskool pointed out that there was a contradiction between the massive amount of Chinese male emigrants who moved throughout Southeast Asia and the prohibition on leaving the country. Prohibition on leaving the home country was based on the principle of ancestor worship, as by emigration, worshipping was threatened to be disrupted [7]. Apart from the ban on emigration lifted in 1894, Confucianism also encouraged people not to leave home or travel far from their ancestral boundary. The situation, however, might differ for people in the southern provinces of China, even decades before then emigration was officially allowed by the end of the nineteenth century. There are at least three possible explanations for the Chinese exodus before 1894.

Firstly, and perhaps the main reason that stimulated the emigration, was the outbreak of the Taiping Rebellion from 1850 to 1864, precipitating a pandemonium and dynamic movement of people inside China or outward, especially those who were severely impoverished. Secondly, those who ignored the ban and chose to leave home would usually do so as a last resort, when the pressure of population growth or natural disaster left no alternative. Thus, the Confucian Ming and Qing rulers viewed the Nanyang sojourners as *yümin* or unproductive vagabonds who would not be missed. Seen as potential rebels by the rulers, the prohibition for the sojourns to leave home was somewhat relaxed in its application to permit the “trouble-makers” to find self-imposed exile outside the home [9]. Thirdly, the invention of financial remittance between China and the South Seas could be another factor that stimulated emigration. Besides, the remittance system had also boosted Nanyang’s reputation as a promising investment destination.

Theoretically, the planters had the obligation to repatriate the Chinese coolies. However, thousands of them stayed behind voluntarily even after their indenture expired and settled in villages at the plantation’s peripheries or urban areas like Medan, Tebing Tinggi, or Pematangsiantar [7]. One of the reasons are all these “free” Chinese who used to be *huagong* (Chinese indentured labour), who had their ancestry at Hokkien or Kwangtung, indeed were loyal to their villages at home, their clans, their genealogy, kinship systems, extended families, or secret societies which facilitate their well-being and networks during their ‘sojourn’ [10]. Such bonds became significant elements for the Chinese sojourns to associate—initially from underground societies to public enterprises in later days.

Nevertheless, one should be noted that the era of cultivation had provided an open room for competition among the Chinese, meaning that anyone with a commercial acumen would have an opportunity to rise, regardless of their background. Not only were the Dutch pressing their campaign to develop Sumatra, but the entire period ahead, from the time of their arrival to the end of the nineteenth century, was notably a *laissez-faire* time in Dutch colonial history. In these formative years, the role of the affluent Chinese in revenue farming operations had given them the privilege to access the network of the Dutch authorities and the local sultanates.

The economic liberalisation started in the 1870s, consequently, gave the affluent Chinese an opportunity to become imperialists themselves, as the Dutch eventually turned to Chinese land-development firms which were granted revenue farms by the colonial authorities during the era of *cultuurstelsel* or cultivation system. Naturally, it does not sound engaging that Chinese under contract to European firms could be called great entrepreneurs as initially the capital investment was not Chinese and the Dutch were the innovative spirit behind such projects. However, it should be noted that behind the door, prominent Chinese entrepreneurs utilised the so-called *kongsi* or cooperation to amass capital to launch their private concerns [9]. The following section introduces prominent Chinese entrepreneurs of the East Coast of Sumatra that rose to power at the end of the nineteenth century to the early decades of the

2. The Tjong Brothers: Chinese Headmen of the East Coast of Sumatra

As the Dutch expanded the scale of tobacco plantations in the East Coast of Sumatra, followed by the large influx of Chinese indentured labour, surveillance and control of these indispensable labourers came to the surface as a matter of necessity. The Dutch colonial authorities, lacking the necessary knowledge of the languages spoken by the Chinese indentured labours and their culture, realized that direct rule of this large group of immigrants was not plausible, and it has been an unspoken agreement that the colonial authorities would avoid unnecessary interference in the daily life of the Chinese [9]. At the same time, casualties among Chinese plantation labourers with their overseers, which was observed as having a catastrophic impact on the whole economic plan for the island, had placed the Dutch old slogan of 'let the Chinese take care of their own affair' under a test.

In the East Coast of Sumatra, administrative leadership, political leadership, commercial leadership, and socio-cultural leadership of the Chinese community were taken over by the Hakka entrepreneurs—Tjong Yong Hian (1850-1911) and Tjong A Fie alias Tjong Fung Nam (1860-1921). Both Tjong Yong Hian and Tjong A Fie had their ancestry in Meixian (Moyhian) in the northeast of Kwangtung Province, a district which is often dubbed as "the capital of the Hakka diaspora" [11]. Tjong Yong Hian, who is a ten-year senior of Tjong A Fie, departed the Swatow port in 1867 and arrived in Batavia after a twenty-day voyage. For three years, Tjong Yong Hian worked for his relative from the same lineage—Cheong Fatt Tze, a Taipu-born Batavia Hakka, who by 1877 was farming most of the government monopolies of the East Coast of Sumatra [12]. In three years, Tjong Yong Hian was entrusted by Cheong Fatt Tze to form a *kongsi* (business partnership) to start rubber, coconut, coffee, and tea plantations in Yogyakarta. Tjong Yong Hian's proximity with Cheong Fatt Tze had given him another privilege after he landed in Labuhan Deli at the end of the 1870s. In 1884, Tjong Yong Hian was made Lieutenant of Chinese in Medan, Captain of Chinese in 1893, and Mayor of Chinese in 1898, serving under ten residents in the East Coast of Sumatra.

The younger Tjong A Fie, who arrived in Labuhan Deli in 1878, also had a relatively similar career with his older brother upon arrival. By the time Tjong A Fie moved to Medan in 1890, he had acquired monopolies and real estate business, which were built on his network with the Straits Chinese *kongsis*. Tjong A Fie's achievement and domination in several fields of Chinese business network apparently allowed him a smooth promotion to the post of the Chinese official—1905 as Chinese Captain with full authority and in 1911, Tjong A Fie succeeded Tjong Yong Hian as Mayor and thus became the leading representative of the Chinese community in the East Coast of Sumatra [7][12].

The Hakkas, like the Tjong brothers, only represented 8.7% of the Chinese population in the East Sumatra Plantation Belt in 1930. Nevertheless, they had long held a virtual monopoly of official positions throughout northern Sumatra—as Chinese Captains and Mayors. This tradition was started with the predominance of Cheong Fatt Tze in both the Dutch East Indies and the British Straits Settlements, especially Penang [3]. Seizing power and commercial base build upon Cheong Fatt Tze's patronage extended outside of the Netherlands Indies across the Straits of Malacca to Penang at the British Straits Settlement, the Tjong Brothers of Medan became the most affluent Chinese on Sumatra at the time. Business acumen seems to have run in the family. Not only the trading firm Chong Lee and Company was founded by the pair and soon became the leading Chinese trading concern in Medan [13], the Tjong brothers were also entrepreneurs who predominantly acquired monopolies and real estates at the East Coast of Sumatra and Penang. Again, this social and economic privilege was made possible through strategic marriages and assisted by the tycoon Cheong Fatt Tze.

These leverages owned by the Tjong brothers, at the same time, placed them in an integral part of the recruitment and control of thousands of Chinese labourers [9]. While the Dutch system had always been reluctant in encouraging the growth of Chinese kingpins, the Dutch fundamental dependence on coolie labour for the tobacco estates had left the colonial authorities with no choice but to consult the prominent Chinese accordingly. As this paper focuses on the financial network of the prominent Chinese in the East Coast of Sumatra and its surroundings, the following explores further the invention of remittance system at Deli along with the involvement of the Chinese headmen.

3. Tong Sian Kiok: The Coolies' Remittance Bureau in Deli

It has been widely known that the Chinese indentured labourers were recruited through the coolie brokers or *khekhhaus* and the old comers of *laukheks*. The presence of 'post bureau' or *sinkiok* which at a later time functioned as remittance bank for the Chinese coolies in Deli is yet under-explored, while the aftermentioned Deli Bank has always been assumed as the first Chinese financial institution on the East Coast of Sumatra. Firstly, it should be noted that on the economic achievements, there had been the banking sector, which played a uniquely pivotal role—not only in financing new enterprises and accelerating growth in the Netherlands India [15], but also in promoting emigration of labourers. The infamous *poenale sanctie* or penal sanction under the Coolie Ordinance granted to the planters to 'obtain a sufficient and regular labour supply' had mostly ended in abuses and violence on the indentured labourers [16], fostered an unsoundness of Deli in China as well as the Straits Settlements as early as 1871 [3]. Labour shortage had always been the central issue among the planters at the East Coast of Sumatra, as the costs of contract labour on Sumatra's East Coast were about seventy per cent higher than of free labour on Java, but due to the overpopulation of Java wages were considerably low. Furthermore, the recruitment which was highly dependent on the Straits Settlements and China for Chinese contract labour

procurement had created a closed labour market to the financial advantage of the employer.

Nevertheless, ill-treatment and racial hatred as the result of the infamous Coolie Ordinance had endangered international relations, for the rise of Chinese nationalism in the early twentieth century led to interventions of the Chinese authorities on the migration of their subjects. B. Hoetink, who was made the Official for Chinese Affairs in Deli as the Dutch colonial authority started the implementation of penal sanctions in 1880 lamented in *De Indische Mercur*: “[...] of the Chinese emigrants from Southern China who sail to Nanyang, only a small number come to Deli and in recent times the inclination to come here seems to have diminished, resulting in the desired Chinese labour has become scarce and expensive” [17]. The first Chinese remittance bureau in Deli, the Tong Sian Kiok, was hence founded in June 1905 by the recommendation of Hoetink in combining the interests of the planters with that of the Chinese coolies working in outlying plantations, a non-profit foundation helping to send the coolies’ savings and letters to their families in China. The post-service was established in cooperation with Tjong Yong Hian and Tjong A Fie, both Hakka officers [14]. Hoetink explained that this remittance bureau could prevent the coolies’ losing their savings to their foremen, to gambling and opium, and at the same time facilitate correspondence and promote emigration since it would strengthen the opinion in Southern China that Deli was not a bad environment to work.

4. 1906 as a Watershed in East Coast of Sumatra’s Monetary System

Circulation of foreign currency during the first decade of the twentieth century in Deli indicates a new clue of the necessity of establishing formal banking institutions in the Dutch frontier, as observed in both establishments of De Javasche Bank (DJB) as Dutch colony’s central bank and a Chinese bank as supporting financial institution. A detailed report written in October 1906 by Gerard Vissering, President of De Javasche Bank, pointed out how New Straits dollar—the legal tender in the Straits Settlements—was strongly predominant in East Coast of Sumatra, and caused unpopularity of Netherlands India’s guilders [18][19]. Such inclination was vividly observed among the Chinese traders and labourers, whereas for the traders, trade was almost exclusively with the entrepôts of Penang and Singapore and formed a special route of commodity and money flow between the two shores. As far as the Chinese labourers are concerned, the repatriated coolies would receive their remuneration in New Straits dollar, rejecting any other forms of currency. The circulation of New Straits dollar in the East Coast of Sumatra was eventually existed up to the 1920s [20], indicating the challenge for the Dutch in dissolving the Straits influence over Sumatra’s East Coast, and in disseminating the Netherlands India’s currency at Sumatra Plantation Belt.

The inception of banking institutions as an effort by the Dutch to monitoring the monetary circulation and trade activities on the East Coast of Sumatra was the last act of soft confrontation between two major powers in the Strait of Malacca. In retrospect, the legitimacy over Sumatran soil which the Dutch held power *de jure* under the ratification of the Treaty of London (1824) and the Sumatra Treaty (1871) was unsettled up to the end of the First World War. This is sustained by the fact that the British influence could not be eradicated whilst the Dutch were attempting to settle the conflicts with the native population and bolstering the mono-cultural economy at the East Coast through the preservation of trans-straits lucrative trade and labour procurement from the Straits Settlements. The endeavour to untangling the overlapping influence and competition of two powers over the East Coast of Sumatra, with the *finale* of fully incorporating the East Coast of Sumatra into the Dutch East Indies had been complicated—on account of the presence of Chinese as middlemen that bridged two coasts, publicly and secretly.

5. The Founding of Deli Bank

In two years following the founding of Tong Sian Kiok, the Tjong brothers started the most ambitious project in their career—establishing the Deli Bank. Enacted as the first Chinese bank under the Dutch corporate law as a *naamlouze vennootschap* or limited company, the Medan Hakka tycoons-built Deli Bank set out as a pioneer of Chinese formal banking in the Dutch East Indies. The founding of Deli Bank has again involved the participation of business magnates from Penang, namely Cheong Fatt Tze, Khoe Tjaw Tiong, and Tjia Tjoen Seng [21]. The bank was naturally a Chinese bank that offered financial services such as remittance and lending for Chinese clients in Deli at the time. Queeny Chang, the eldest daughter of Majoor Tjong A Fie, reminisced the heyday of her father’s bank as follows:

Mr Lee Kong Chian, true to his words, visited us. Papa asked Big Brother to show him around. They went first of all to the Deli Bank where Big Brother pointed out that it had been founded by my father and some of his old friends including Tio Tiauw-set (Cheong Fatt Tze), Papa’s original benefactor. At the time, the bank could already be compared with the foreign banks in the city. It had all the Chinese clientele. [22]

The first decade of the twentieth century witnessed a sporadic establishment of financial institutions in Deli. From the abovementioned Tong Sian Kiok in 1905, De Javasche Bank (DJB) as the Dutch Indies central bank of circulation also opened an

agency in Medan in July 1907. Just a month after Medan's DJB, Deli Bank was established as the first formal Chinese bank, capitalised by the local Chinese chiefs—the Tjong brothers and their transboundary counterparts. Godley argues that Deli Bank was perhaps the most significant project undertaken by the Tjong brothers. This enterprise was the first well-capitalised and Western-style Chinese banking operation on the island. Michael Godley also added that Deli Bank filled a great gap in more traditional overseas Chinese business practices and made it possible for Chinese planters to compete on at least a small scale with the large European enterprises [9]. Although only survived for 14 years (liquidated by De Javasche Bank in 1921), the author argues that the establishment of Deli Bank accelerated the modernisation of Chinese enterprises in Deli and encouraged unprecedented scale of Chinese investment in the East Coast of Sumatra. This section reviews the statute of Deli Bank and attempts to analyse the backgrounds that prompted the Chinese entrepreneurs in Medan to establish a formal financial institution in their community. Below is the statute of Deli Bank. As the author has no access to *Javasche courant*, which contains a complete statute of the bank, the descriptions below are based on a *De Sumatra Post*'s article reporting the founding of Deli Bank.

The authorisation had been granted for the incorporation of the joint-stock company "Deli Bank" to be established in Medan. The founders are *Majoor der Chineezen* Tjong Yong Hian, and *Kapitein der Chineezen* Tsiong Tsiok Fie alias Tjong A Fie, both residing in Medan. Tjong Yong Hian acting as: a. owner in his own name, b. as the power of attorney for Cheong Fatt Tze, merchant, residing in Batavia, c. as the power of attorney for the *Lieutenant titulaire der Chineezen* Khoe Tjaw Tjong, merchant, residing at Tandjong Balei in the Asahan district. Tjong A Fie acting as: a. owner in his own right; b. as the power of attorney for Tjia Tjoen Seng, formerly *Lieutenant der Chineezen* at Kotaradja (Aceh), now dealer, residing at Penang in the British Straits Settlements.

The name of the company is "Deli Bank". Its registered office is in Medan, where it has its principal place of business. Deli Bank may establish agencies and correspondent offices inside and outside the Netherlands East Indies. The objective of the company is to carry out all kinds of banking activities, such as providing business loans, whether secured or not; discounting bills of exchange and commercial paper; trading in bills of exchange; providing futures against collateralised products and movable property; conducting cash business; opening accounts; and entering into consignment agreements. The company does not own any movable or immovable property other than for its own use; however, in the event that the debtor fails to fulfil his or her obligations, the company may purchase for itself the movable or immovable property pledged as security for a credit granted, in order to avoid loss, but such property will have to be sold as soon as this is deemed advisable.

The company shall be incorporated on 20 June 1907 for a period of operation for one hundred years. The capital of the company is set at three million guilders, which is divided into three thousand shares and each share is worth one thousand guilders. The composition of share ownership is as follows—Tjong Yong Hian 150 shares; Cheong Fatt Tze 200 shares; Khoe Tjaw Tjong 100 shares; Tjong A Fie 100 shares; Tjia Tjoen Seng 100 shares, altogether 650 shares. These shares have been paid up by cash deposit. The remaining 2350 shares will be issued in accordance with the need for working capital, such that the entire company capital must be issued by the end of December 1917 at the latest, unless the Governor-General extends the term.

The company is managed by two Managing Directors, one of whom is appointed as the company's executive officer, and in the event of a difference of opinion with his fellow Managing Director, he has the casting vote. The Managing Directors (*directeuren*) are supervised by three Supervisory Directors (*commissarissen*). For the first time, in deviation from the provisions applicable to the shareholders, Cheong Fatt Tze with the highest authority and Tjong Yong Hian were appointed as Managing Directors, while Tjong A Fie, Khoe Tjaw Tjong, and Tjia Tjoen Sen as Supervisory Directors. [21]

In-depth literature research is required to study why the establishment of Deli Bank as the first official Chinese banking institution had been a matter of necessity for the Chinese community in Medan and Deli. Through this paper, the author suggests that there are at least three possibilities that serve as the founding grounds of the Deli Bank. First, the economic liberalisation that accelerated the expansion of plantations and gave the Chinese the opportunity to diversify their business, had simultaneously yielded the diversification of financial products. The Chinese urbanisation to urban areas in the first decade of the twentieth century had promoted entrepreneurship among the small industrialists and traders, signifying that letter bureau or coolie brokers could have no longer relied upon as fund providers.

Second, the massification of distribution and trade networks among the Chinese on the East Coast of Sumatra could be interpreted as an opportunity for the Dutch bank to acquire potential Chinese clients that are requiring a credit. The Dutch authority's agreement on the establishment of Deli Bank as a Dutch corporate body (*Naamlooze vennootschap*) could be a measure to control the fund circulating among the obscure *kongsi* (Chinese partnership) networks and altering the prospective entrepreneurs that could not be funded by the Dutch banks to Deli Bank as an intermediary bank. And lastly, following the urbanisation of the Chinese that precipitated a huge increase of Chinese traders' population in the early years of the twentieth century, it could have been a crucial issue for the Dutch authority to protect and clearly emphasise their economic sphere in Sumatra. The high intensity of trade between Deli and the Straits Settlements, supported by the proximity of the leading businesspeople among these two territories, had even concerned the Dutch for the risk of capital drain from the soil of Sumatra. The founding of Deli Bank could be interpreted as the Dutch intention to separate the overlapping ecosystem of trade and finance between two shores.

6. World War I and Chinese Banking in the Dutch East Indies

Until the crisis engendered by World War I, the relationship between the Chinese traders and the Dutch banks could be regarded as a mutualistic relationship as both profited through the use of product-collateralised lending [23]. The roles of the Chinese in the economic life of the Dutch East Indies are—in certain branches of the import and export trade the Chinese do significant business in rice import, and tobacco or sugar export, while domestically the Chinese occupy a predominant place in the distribution and the retail trade. Before the First World War, a large part of the credit requirements of the Chinese was covered by European banks; this is particularly true of exchange transactions resulting from the import and export trade, while many receivables from Chinese customers also end up as collateral with European banks via the large import houses [24].

Credit plays a significant role in Chinese business. However, the Chinese did not always bring a correct view of risk and liquidity and that it was very easy to induce the Chinese to do business with much more credit than could be found in any European enterprise. Of course, one should not generalise this rule just like that; there are certainly many Chinese businessmen who do not lose sight of liquidity and solidity. And most of them are very susceptible to sensible pressure from non-Chinese lenders to observe the right proportions. But this does not alter the fact that the Chinese, left to their own devices, like to do more with other people's money than the Europeans usually do.

From the European perspective at the time, care for liquidity and solidity of the loans is the first requirement in banking. Stuart argues that large profits could not be made in banking; one works with small margins and whoever loses sight of the rules of liquidity, runs aground after a shorter or longer time. This type of business does not particularly suit the Chinese, who are used to working with the larger margins of trade and are prepared for the larger risks that can be accepted there. Over the years, several Chinese banks have been established in the Dutch Indies, but only a few of them had published regular balance sheets and annual reports. The Dutch bankers hence came across a peculiarity of Chinese businessmen, assuming the Chinese like to keep their business among themselves and avoid publicity to the outside world [24].

World War I indeed transformed the relationship between the Dutch banks and the Chinese banks in the Dutch Indies, as large sums of money flowing into the market from the banks led to rampant speculation by the Chinese traders, which in turn engendered a crisis when prices of tobacco or sugar dropped during the World War I [23]. After the First World War, the Dutch banks started to restrict supplying funds to the Chinese traders, seeking to suppress the speculation of the traders. The Chinese traders would then seek credit from a Chinese bank as an intermediary bank, but usually ended up in small transactions due to the poor debit management of the Chinese bank. Restrictions that had led the Chinese banks no choice but to provide credit to their clients under strict regulations from the central bank, could be one of the possibilities that brought Chinese banks with poor risk and liquidity control to the verge of collapse.

The case of Deli Bank, however, still requires further studies on various factors that could have contributed to insolvency. As Mrs Mimi Tjong, the granddaughter of Majoor Tjong A Fie ever mentioned through one interview with the author, Deli Bank was in very poor management under the second generation of the family, in terms of Majoor Tjong A Fie's son-in-law and his confidant. The sudden change of regulations as a result of war and any other possible external factors could have largely impacted the survival of the bank. Nevertheless, the factor of human error as could be found in the corporate governance of a family business is something worth to be considered in analysing the failure of a banking institution as shown in the case of Deli Bank, now a souvenir of the past glory of Deli Chinese headmen.

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