

## A PROVISIONAL INQUIRY INTO THE ECONOMIC PROSPECTS IN NETHERLANDS NEW GUINEA

### SUMMARY

#### I - Introduction

The Netherlands and Indonesia have not yet reached an agreement about New Guinea. In the controversy the Indonesians show themselves unanimous in their wish to acquire sovereignty over New Guinea, though it is to be doubted if the masses of the Indonesian population have any clear notion about the issue. On the Netherlands' side opinions are divided.

To avoid misunderstanding it is emphasized that the „New Guinea problem” does not constitute an economic problem for the Netherlands. The natives of New Guinea whose development has not advanced beyond the neolithic stage, are among the most primitive people of the world. After innumerable centuries of total isolation the sudden contact with modern civilisation though unavoidable, may well prove dangerous to them, and without a strict and wise guidance may even threaten their very existence. By annexing western New Guinea in the first quarter of the 19th century the Netherlands have undertaken the responsibility for the wellbeing of the indigenous population of this territory. This responsibility cannot now be shirked and it is up to the Dutch to introduce the Papua into the modern world.

There is no reason to suppose that the decision taken about New Guinea at the Round Table Conference was based on economic considerations, and it may be taken for granted that neither losses or gains in New Guinea nor the safeguarding of economic interests in Indonesia will determine the future policy of the Netherlands Government. Nevertheless it is interesting to inquire into the possible economic consequences of a continued Dutch sovereignty over New Guinea. Moreover, many of the arguments used in the discussion of the New Guinea problem among the Dutch are of an economic nature. These arguments are hardly ever based on facts, because there is so very little known about western New Guinea. Generally the blackest pessimism prevails, while on the other hand many individuals and groups give way to an unbounded optimism. It stands to reason that truth must be somewhere in between these extremes but it is not so easy

to be more specific. Only a part of the country is covered by the administration; the other areas are economically speaking terra incognita. Besides, very little information is available about the territory under control.

The only generally known facts are that the Government budget closes with a relatively large deficit which is made up by the Netherlands Government, that imports are very much in excess of exports and that a loan of some D.fl. 40 million is negotiated to supplement the worn out and insufficient material equipment.

But is this state of affairs which seems to justify a pessimistic view permanent or can an improvement be expected in the near future? More specifically, is it possible to reach an equilibrium in the balance of payments and a balanced budget without financial assistance of the Netherlands? To find an answer to this question is the chief aim of the paper.

#### II - New Guinea before 1950

**HISTORY** Though New Guinea had been discovered in the beginning of the 16th century it did not arouse any serious interest until the beginning of the 20th century. It had been annexed by the Netherlands as early as 1824 but it was not until 1898 that the first two Government posts were established. The mission started its activity in 1855, at first with exceptionally little success. Since the beginning of the 20th century many exploration parties scoured the country but the administration kept mostly to the coast.

When considering the economic development one must bear in mind the dualistic nature of the New Guinea economy. Two entirely different economic systems, the Papuan neolithic system and the modern western system are meeting face to face, without however intermingling to any extent.

**PAPUAN ECONOMY** It is difficult to give a general characteristic of the Papua because the many tribes differ greatly in practically every respect. None of the tribes have any knowledge of metal-work, pottery or weaving, and the people live in small selfsupporting communities.

The first economic contact with the outer world was made through the trade in plumage of the birds of paradise. After this trade had been prohibited a small quantity of other goods, mostly forest products, was sold to non-indigenous merchants.

**WESTERN ECONOMY** Chinese shopkeepers were the first non-indigenous settlers in New Guinea. Some of these exploited tiny coco-nut estates. After the first world-war a few German settlers came over from the former German part into the Dutch territory. Trials to settle

Eurasian colonists as small-scale farmers ended in disaster, chiefly because of a deficient organization. A few companies started agricultural estates but before 1942 no estates had progressed beyond the experimental stage. Only the mineral oil exploration looked promising, though here also the production stage was not yet reached when war broke out.

REASONS FOR THE SLOW DEVELOPMENT

There are five factors chiefly accountable for the slow development of western New Guinea.

- 1 - Vast swamps and steep mountains hamper communication.

- 2 - The soil is not extremely fertile and leached by the heavy rains.

- 3 - The lowlands are badly infested with malaria.

- 4 - The country is so thinly populated that there is a serious shortage of labour.

- 5 - It is difficult to acquire plots because the indigenous population considers even waste land as subject of certain unalienable rights.

The difficulties mentioned were not so great in themselves but retarded progress chiefly because conditions in the other islands of the Indian archipelago were so much better.

THE WAR AND ITS CONSEQUENCES

The Japanese occupation put a stop to all western activity. After the liberation by the allied armies in 1944 who built a few enormous warbases on the northcoast, New Guinea once again came into a backwater. The Netherlands East Indies torn by internal strife could not spare any attention for this „underdeveloped territory” and only the oil-company resumed its work.

### III - *The years after the transfer of sovereignty*

The new government was determined to boost the New Guinea economy but in this policy was greatly hampered by the consequences of the separation from the rest of the former Netherlands East Indies.

- 1 - A new administrative body had to be built up.

- 2 - The enormous increase of the non-indigenous population brought about a shocking shortage of houses that had to be remedied.

- 3 - The channels by which imports had hitherto reached New Guinea were cut. Only by granting a monopoly to one firm the supply could be restarted. Local produce was also insufficient for the increased population.

- 4 - For the export trade too, new channels had to be found. Moreover, production was very low owing to a lack of inducements goods and coastal shipping facilities.

- 5 - Transports and communications had to be put on a new footing.

- 6 - A new currency was introduced, the New Guinea guilder at par

with the Dutch guilder. Transfer between Holland and New Guinea and vice versa was freed from restrictions. The Netherlands Foreign Exchange Fund supplied the necessary foreign exchange under a strict supervision of the Netherlands authorities.

The Netherlands Government has agreed to supplement the budgetary deficit. Because payment is made in Dutch guilders there arises the unique situation that the budgetary deficit constitutes the chief source of foreign exchange.

- 7 - The oil-company, the N.V. Nederlandsch Nieuw Guinee Petroleum Maatschappij (N.N.G.P.M.) provides all foreign exchange it requires itself, in return it is allowed to retain the foreign exchange proceeds of oil-exports. The company imports all requirements of its numerous employees itself, and is in practically all respects selfsupporting.

### IV - *Quantitative analysis of the present economy*

The description of events has not thrown any light on the quantitative relations. To do this single statistics might be used. It is better however to combine the statistics into a system of national accounts, because that gives an insight in the mutual interrelations. The system of national accounts has been developed in western countries and is based on a money-economy proper. But New Guinea is a country with a dualistic economy, where a very large part of economic activity is carried on without the intermediary of money. It might be possible to attribute a money value to transactions in that sphere but this value would be highly fictitious. Therefore the inquiry was limited to the western sphere, and only the money-transactions of the indigenous population in that sphere were taken into account.

Even with this limitation a quantitative analysis was not at all easy because of a lack of data. New Guinea has not yet got a statistical apparatus therefore statistical information is very scarce. Besides, one cannot go back to a year about which all the information has been published, because the inquiry must concern a year after the transfer of sovereignty. One of the chief sources of available information is the Government budget and unfortunately the published budget for 1950 was computed with an insufficient knowledge of the facts, so that it does not give a clear picture of what really happened. Therefore the year 1951 had to be taken as a starting point though with a few exceptions there were no real data but only estimates available.

Owing to the said lack of data the national accounts had to be drawn along very simple lines indeed. The chosen groups are the following: 1. Government; 2. army and navy; 3. the Netherlands (this account is the balance of payments); 4. indigenous population; 5. non-indigenous producers; 6. non-indigenous consumers. All accounts are drawn up in millions of guilders to one decimal place.

The various accounts are to be found on the pages 72, 79, 80, 81, 86, 87, 88, 89 and 90.

Unfortunately there was not sufficient information to base each set of figures on separate and independent data. Therefore there is an insufficient check which leads to a high margin of possible error.

Though only the Government budget and estimates for the other factors are available for the year 1952 accounts were drawn up for that year also. These accounts are to be found on the pages 93, 94, 97, 98, 100, 101, 102, 103 and 104.

The tables show that New Guinea has a budget which is far from balanced as the Netherlands subsidy in 1952 is still nearly equal to the whole of tax returns.

#### V - *Future developments*

A positive statement about developments in the future is evidently impossible. On the basis of the foregoing analysis it is possible however to ascertain how development of the possibilities that are now visible might influence the balance of payments and the budget. Thus an answer might be found to the chief question: is equilibrium possible in a foreseeable future.

Therefore accounts have been drawn up similar to the accounts for 1951 and 1952 for a future year, which for arguments' sake has been called 1962. The accounts are based on the following assumptions:

- 1 - That the uncertainty about the political future no longer hampers private enterprise.
- 2 - That a sufficient number of entrepreneurs are willing to develop the economic possibilities.
- 3 - That export-prices though lower than in 1951 are still reasonable and that import-prices remain on the same high level.
- 4 - That the Government's material equipment will then be sufficient.
- 5 - That no major new projects require large investments by the Government.

Starting from these assumptions the now visible possibilities are:

Exports of native produce can be increased to a value of some fl. 15 million.

Estate-agriculture can hardly be expected to contribute materially to exports in ten years time.

The yields of forestry may be about fl. 3,5 million for the Government and about fl. 5 million for private enterprise.

Small-scale farming by European and/or Eurasian colonists shall probably not have progressed beyond the experimental stage.

Tunny-fishing together with a cannery may bring in fl. 4 million and the production of dried fish another fl. 0.5 million.

The founding of small scale factories producing for home-consumption

may be expected. A small export of goods processed from local raw materials (e.g. sago) is also possible.

A Government ship-yard for repairs may render services to foreign ships.

Prospects for mining are favourable but it is yet too early to bring any yields from mining into the picture. Only an increased production of mineral oil by the N.N.G.P.M. may be expected.

The accounts based on the foregoing are to be found on the pages 125, 126, 129, 130, 135, 138, 139 and 140.

#### VI - *Concluding remarks*

The tables show a balanced budget and an equilibrium in the balance of payments. This does not mean that this result is to be expected with any certainty or probability in ten years time but only that such a result is possible without any spectacular new discoveries. Though the figures are as a matter of course largely based on fantasy positively nowhere the limits of the possible have been passed.

In the sketched stage of development New Guinea will still be dependent upon the financial assistance of the Netherlands because it will not yet be able to finance its military expenditure. Besides, redemption of the Netherlands' loan will not yet be possible. But the picture drawn of the year 1962 is only a stage in a further development that cannot now be assessed. It is not at all impossible that in a further future New Guinea will be entirely independent financially from the Netherlands Government.

It will be necessary in an early stage to bear in mind the requirements of this further development, especially when using the available manpower. For the future mining is the most promising for a speedy development and therefore it is extremely important to leave manpower in reserve for future mining-projects. If necessary projects in the field of agriculture requiring much labour must be postponed until it is certain that the labour required cannot be used to more advantage in mining.

Only a minority of the male population can be recruited for labour with the western enterprises, because:

a - by drawing away too large a number of able-bodied men not only the village-economy, but also the entire social structure is disorganized;

b - the impact of modern civilisation can much better be withstood in the own village community.

The Government therefore aims at educating the indigenous worker to be an independent small-scale farmer rather than a wage-earner.

Experience under more or less similar conditions in Africa has shown that 5 % of the men can be recruited for labour elsewhere, another 5 % can be put to work within a radius of not more than a two days journey from the village while another 15 % can do work locally without damaging the social and economic structure. The exact number of the population of

New Guinea has not yet been ascertained. The calculation on page 149 is based on extremely rough estimates of the male population. This calculation (for what it is worth) shows a slight reserve for mining or eventually for estate-agriculture after 1962. The mountainpapuas have not been taken into consideration because it is doubtful if these can be transported to the lowlands without serious damage to their health. For projects in the central mountains there is thus a considerable reserve of labour.

Finally it must be stated that two of the assumptions on which the calculations for 1962 are based presuppose a certain policy of the Netherlands Government, t.w. the assumptions 1 and 4.

The question of the future political status could not be discussed at length because it is not an economic question, though it is not an arbitrary supposition that the Dutch are more able to lead the Papua into the modern world than the Indonesians are. If the Netherlands Government should come to share this opinion it is absolutely necessary that not the slightest doubt is left about its intentions because the least uncertainty is prohibitive for economic development.

As regards the assumption about the material equipment of the New Guinea Government, it is shown that no very great sums will be needed. Impoverished as Holland may be the sums required will not be beyond its capacity. If the Netherlands Government should not be willing to supply the necessary money, a loan of some D.fl. 50 million, a yearly gift of round about D.fl. 10 million for about ten years in addition to the military expenditure, an equilibrium in budget and balance of payments will be out of the question and thus in the long run New Guinea will cost the Netherlands very much more.

BEVOLKINGSCIJFERS VOOR HET ONDER BESTUUR  
GEBRACHTE GEBIED VAN NEDERLANDS  
NIEUW GUINEA PER ULTIMO 1950

| Ressort<br>(afdeling)    | Papoea's | Euro-<br>peanen | Indo-<br>nesiërs | Vreemde<br>Ooster-<br>lingen | Totaal  |
|--------------------------|----------|-----------------|------------------|------------------------------|---------|
| Noord Nieuw Guinea . . . | 100.531  | 5.361           | 1.187            | 610                          | 107.689 |
| West " " . . .           | 83.119   | 2.897           | 5.942            | 1.537                        | 93.495  |
| Zuid " " . . .           | 44.894   | 227             | 3.534            | 475                          | 49.130  |
| Centraal " " . . .       | 71.072   | 31              | 32               | —                            | 71.135  |
| Totaal . . .             | 299.616  | 8.516           | 10.695           | 2.622                        | 321.449 |