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Special Edition: Tribute to the late Professor John Tiley

CONTENTS

5	Editorial: Tribute to the late Professor John Tiley Margaret McKerchar
6	'Managing Tax Avoidance: Recent UK experience' John Tiley – Annual Lecture Melbourne 2007 with comments by Ann O'Connell (in blue) Ann O'Connell
32	'Send a strong man to England - capacity to put up a fight more important than intimate knowledge of income tax acts and practice': Australia and the development of the dominion income tax relief system of 1920 C John Taylor
74	The Tiley trilogy and US anti-avoidance law Erik Jensen
87	Locke, Hume, Johnson and the continuing relevance of tax history Jane Frecknall-Hughes
104	Taxation in Australia up until 1914: the warp and weft of protectionism Caroline Dick
130	Exploring innovations in tax administration: a Foucauldian perspective on the history of the Australian Taxation Office's compliance model Robert B Whait
162	Taxing Jamaica: the Stamp Act of 1760 & Tacky's rebellion Lynne Oats, Pauline Sadler, Carlene Wynter
185	Not argued from but prayed to. Who's afraid of legal principles? Hans Gribnau
218	Progressivity in the tax transfer system: changes in family support from Whitlam to Howard and beyond Helen Hodgson
238	The impact of British colonial rule on the Malaysian income tax system Ern Chen Loo and Margaret McKerchar
253	The Dutch East India Company's tax farming in 18th century Malacca Diane Kraal and Jeyapalan Kasipillai

The Dutch East India Company's tax farming in 18th century Malacca

Diane Kraal* and Jeyapalan Kasipillai#

Abstract

This study concerns eighteenth century Dutch East India Company (VOC) tax farming practices in the Southeast Asian port town of Malacca. Empirical data from VOC archives are used to determine the value of VOC's tax farming. Adopting a qualitative methodology, and drawing on perspectives from Adam Smith's tax maxims, the study focuses on determining the impact of the VOC's tax farming practices on Malacca's taxpayers, whether they were inter-continental or local intra-island traders, townspeople, or Malay farmers. The study facilitates a further understanding of the global phenomenon of tax farming practice and its demise. Findings suggest that the impact of the VOC's Malacca tax farming varied across groups of taxpayers, but more negatively affected minority and local Malay groups, demonstrating why Adam Smith's governance maxims still guide government tax policy in many countries today. The study complements the paper published from the 2012 Tax History Conference in Cambridge, which covered the nineteenth century handover of Malacca by the Dutch to the British.

*Dr Diane Kraal is a Senior Lecturer in the Department of Business Law and Taxation, Monash University, Australia. #Professor Jeyapalan Kasipillai is the Deputy Head of School at Monash University Malaysia and an Adjunct Senior Research Fellow for Monash University Australia. Dr Kraal acknowledges the research grant from Monash University Australia (Faculty of Business and Economics); and archival assistance from the National Archives of The Netherlands and the International Court of Justice Library, The Hague. The authors are grateful for the comments from Prof. Ferdinand Gul and delegates at the Australasian Tax History Chapter meeting, June 2013, Queensland, Australia; and Martijn Maarleveld for sharing some relevant VOC records.

1 INTRODUCTION

This study concerns the eighteenth century tax farming practices and impacts of the Dutch East India Company, or *Verenigde Oost-Indische Compagnie* (VOC) in Malacca (Melaka), a port town situated on the west coast of the Malay Peninsula. Malacca was one of many trading posts controlled by the VOC in its Asian trading region. The VOC was managed from the Dutch Republic with a state mandate to sail via the Cape of Good Hope to south, southeast and north Asia. The company's commercial purpose was to procure goods for resale in Europe.¹

From the early fifteenth century, Malacca was a thriving, geographically central *entrêpot* or 'warehouse', where goods were imported and re-exported to places within and beyond the Malacca Straits. It was a key trade destination where products from China and the Far East were exchanged.² In 1511, the Portuguese wrested the town from the Malays and built a fort at the estuary of the Malacca River to control trade and exact toll payments from vessels sailing the Straits. The Portuguese, in turn, were routed from Malacca by the Dutch VOC and its Johor Malay allies in 1641. This conquest entitled the Dutch to taxation rights, such as the collection of waterway tolls, and the opportunity to contract trade monopolies on key commodities, such as tin and pepper.³

Trade and tax were the two streams of VOC revenue. Regarding the tax, the company auctioned out tax farms in Malacca for a range of goods and services.⁴ Tax farming might be defined as a system of indirect taxation, whereby the institution or state allows, through either auction or tender, the acquisition by private interests of a periodic lease for a monopoly of taxation rights on goods or services.

The value of tax farming was an integral aspect of the VOC's profitability, and the known negative aspects of tax farming were vigorously debated by liberal, social and economic thinkers in the eighteenth century. That tax farming – with data so meticulously gathered, tabulated and reported by the Dutch VOC – should be subject to debate by Enlightenment philosophers, is a research area worthy of investigation.

The major question herein concerns the impact of eighteenth century VOC tax farming practices on Malacca's taxpayers, be they traders (inter-continental or local intra-island), townspeople of various ethnic origins, or local Malay farmers. In addition, a subsidiary question asks about the VOC's tax farming practices from the perspective of the tax maxims of Adam Smith (1723-1790) regarding good governance. Critical theory provides some explanations regarding the impact of tax farming on the taxpayers. Some minor aspects of

¹ Femme S Gaastra, *The Dutch East India Company: expansion and decline* (Walburg Pers, 2003).

² D G E Hall, *A History of South-East Asia* (Macmillan, 2nd. ed, 1966) 190-204.

³ S. Arasaratnam, 'Monopoly and Free Trade in the Dutch-Asian Commercial Policy: Debate and Controversy within the VOC' in *Maritime Trade Society and European Influence in Southern Asia* (Variorum, 1995a); S. Arasaratnam, 'Some notes on the Dutch in Malacca and the Indo-Malayan Trade 1641-1670' in *Chapter IV, Maritime Trade, Society, and European Influence in Southern Asia* (Variorum, 1995b); Barbara Andaya Watson and Leonard Y Andaya, *A History of Malaya* (Macmillan, 1982).

⁴ See, eg, the tax farm data for 1681 in Appendix A. See also Michael J. Bremner, 'Report of Governor Balthasar Bort on Malacca, 1678' (1927) 5 (Part 1) *Journal of the Malaysian Branch of the Royal Asiatic Society* 1.

institutional theory are used to explain the VOC's persistence with the practice of tax farming.

Empirical evidence was accessed from archives⁵ and from VOC material that was previously collated. The study considers the eighteenth century generally, but then focuses on the years 1770 to 1790, as VOC trading through the Straits of Malacca was negatively affected by events of the time, including the French revolutionary and Napoleonic wars, and British strategic reactions to the revolt by the American colonies.

The findings suggest that the impact of VOC tax farming in Malacca varied across groups of taxpayers, and that there were inequities between taxpayers, as well as demands for uncertain and inconvenient tax payment arrangements. The study contributes to an appreciation of the importance of the subsequent adoption of Adam Smith's tax maxims, which were eventually applied in British Malacca from the 1820s.⁶ It also contributes to the literature on the history of tax systems, as it furthers an understanding of the global phenomenon of tax farming, specifically in Southeast Asia.

The following section presents a discussion on the global patterns of revenue and tax farming to contextualise the progression of pre and early modern tax practices in Southeast Asia. The methodological approach is then outlined. The origins of VOC taxation rights are explained, and a description of the trading port of Malacca is provided, including details on its financial reporting, trading and administrative apparatus. The focus shifts next to Malacca's trade and tax systems for specific periods in the eighteenth century, and empirical data on large and small tax farms during these periods is presented. This completes the framework supporting the study's qualitative analysis of the impact of tax practices on the VOC's taxpayers. Lastly, conclusions are presented, and areas for future research are highlighted.

2 AN OVERVIEW OF REVENUE AND TAX FARMING

Copland and Godley use a comparative approach to address the past worldwide phenomenon of tax farming.⁷ They provide some useful insights into the early modern VOC tax farming system (from the Dutch colonial period to about 1790), such as the type of arrangement employed and the quality of its management. Early modern practices can be contrasted to those of pre-modern eras, where persons could collect taxes through hereditary right or sovereign favour. This latter system is labelled as 'revenue farming' in this study. In pre-modern Malacca, revenue farming was used by the Malay sultanates. The Portuguese conquerors of Malacca continued the existing revenue farming practice, and used it not only as an indirect means of raising income, but as a common option for accessing a wider source

⁵ Matheson Library, Monash University, Australia. Dutch East India Company (hereafter VOC) files 1610-1793 (Amsterdam copies on microfilm): 1266, 3443, 3495, 3544, 3599, 3812, 3907, 3940 & 3961.

National Archives, The Hague, The Netherlands. Dutch East India Company (hereafter VOC) files: 3418, 8633, 8638, 8640, 8642, 8641, 8643, 8644, 8645, 8646, 8647, 8649, 8651 & 8652.

⁶ See Diane Kraal, 'Of Taxes: An enquiry into Dutch to British Malacca 1824-1839' in *Studies in the History of Tax Law*, ed. John Tiley (Hart Publishing, 2013) 293.

⁷ Ian Copland and Michael R. Godley, 'Revenue Farming in Comparative Perspective: Reflections on Taxation, Social Structure and Development in the Early Modern Period' in *The Rise and Fall of Revenue Farming: Business Elites and the Emergence of the Modern State in Southeast Asia*, ed. J. Butcher and H. Dick (St. Martin's Press, 1993) 45.

of funds.⁸ One of the elements shared in common by VOC tax farming and pre-modern revenue farming was the use of an agent's physical *coercion* against taxpayers.

Copland and Godley consider tax and revenue farming in a range of eras, such as Pharonic Egypt and Greco-Roman times, the thirteenth century state monopoly in Mongol China,⁹ and the sixteenth century middle eastern Ottoman Empire and Safavid Persia.¹⁰ In Pharonic Egypt, for instance, Egyptians paid their taxes to collectors called scribes, on items such as cooking oil and livestock, while the Roman Empire levied customs duties called *portoria*.¹¹ The practice in fifteenth century Spain¹² was replicated in its colonies in Mexico and the Philippines. From the sixteenth century, revenue farming could be found in Mughal India and Tsarist Russia. Equivalent systems were not established in Europe until the seventeenth century. Such systems included England's 'Great Farm' for customs revenue, France's *Ferme Generale* (General Farm) that was inspired by the practice in the Ottoman Empire, and an extensive system established in the Netherlands. As for China, tax farming re-emerged in the Ch'ing period (1644-1911), where merchants actively bid for tax farm leases. Copland and Godley note that tax farming lingered in the Americas and Asia well after it was dispensed with in Europe. However, their discussion on British India does not clearly distinguish tax farming from land rent as a means of government fund raising.¹³ The Copland and Godley tax comparative does not extend to Southeast Asia, however the study by Kwee on revenue and tax farming on Java's northeast coast partly fills this gap.

Kwee finds that prior to the European colonisation of Java, income was raised in the form of a poll-tax. In 1743, the Dutch VOC assumed taxation privileges for Java's northeast coast after its subjugation of the Mataram, with whom a treaty was set. Thereafter, the poll-tax was collected by northeast coastal regents and paid to the VOC.¹⁴ Kwee notes that regents accumulated wealth and power from farming out revenue collection such as toll-gate duties. The VOC initially knew little about the local Javanese intricacies of tax farming, but was aware of the financial gains and decided to engage in the activity through its first tax farming auction in Batavia in 1743.¹⁵ Local disputes arose out of the VOC's system, with claims of tax farmers overcharging and intimidating taxpayers, the result of farmers over-bidding for their leases. To overcome these types of issues, the VOC initiated a closed tender system in the next year and set the tax rates to be charged. The VOC's directors in Europe became aware of the more oppressive tax practices suffered by Javanese taxpayers over toll-gate duties and inquired about mitigating measures – for the directors were concerned about the impact on the company's commercial trade. The VOC abolished toll-gate duties, but retained the closed tender system for other tax farms and created additional goods and

⁸ Markus Vink, 'Passes and Protection Rights: the Dutch East India Company as a Redistributive Enterprise in Malacca, 1641-1662' (1990) 7 *Moyen Orient & Ocean Indien [Middle East & Indian Ocean]* 76-77.

⁹ See also Morris Rossabi, 'The Muslims in the Early Yuan Dynasty' in *China Under Mongol Rule*, ed. John D Langlois (Princeton University Press, 1981) 278.

¹⁰ See also A K S Lambton, 'Reflections on the Role of Agriculture in Medieval Persia' in *Islamic Middle East, 700-1900: studies in economic and social history*, ed. A L Udovitch (The Darwin Press, 1981) 283, 292.

¹¹ See also Samuel Blankson, *A Brief History of Taxation* (Lulu Inc., 2007) 3, 17.

¹² See also Earl J. Hamilton, *Money, prices, and wages in Valencia, Aragon, and Navarre, 1351-1500* (Harvard University Press 1936) 91.

¹³ Copland and Godley, above n 7, 52-43.

¹⁴ Hui Kian Kwee, *The Political Economy of Java's Northeast Coast c. 1740-1800* (Brill, 2006) 76.

¹⁵ *Ibid.*, 78.

services farms. The VOC in Batavia preferred to tender out tax farms to foreigners as a way to arrest the rise of political opponents from the local population. Overseas Chinese, in particular, became dominant due to their extensive regional business knowledge.¹⁶

Reid writes of taxation in Southeast Asia by covering the pre-modern tribute or poll-tax revenue farms based on hereditary relationships.¹⁷ He argues that from the seventeenth century onwards, revenue farming in this region expanded beyond sovereign tributes as a result of contact with the Europeans. Tax farming at that time was well established in the Dutch Republic. Reid claims that by 1653 the VOC's tax farms were a major source of revenue, representing 27% of its income from Asia.¹⁸ A closer examination of taxation in Southeast Asia is found in Hussin's comparison of the trading ports of Malacca and Penang over the period 1780-1830.¹⁹ He provides an overview of tax farming based on archival records on income raised from leases on the various tax farms.²⁰

Diehl's research also covers tax farming in Southeast Asia, and concerns Dutch colonial Java from 1816 to 1925.²¹ He notes the need for the institutional entity to raise revenue from any locally available goods or services, and that this varied the practice from area to area. However, one common element (as Kwee also notes) was that the tax farmers were generally overseas Chinese. Diehl provides evidence of tax farmer harassment of the local population that, together with addiction promoted by opium farming and associated financial hardship, led VOC authorities to discontinue tax farming in Java by 1925.²²

Copland and Godley make conclusions about the characteristics of the institutional success of pre and early modern systems of tax farming: cost-efficiency, quality of contractual arrangements and obligation enforcement.²³ This paper takes these three characteristics and considers them from the opposite perspective of the tax farm system's effect on taxpayers. Kwee's general survey of tax farming in VOC Java's northeast also informs this study, as it is likely that VOC Malacca had to follow similar arrangements for customs duties tax farming, as discussed later at section 5. Diehl's findings on post-VOC tax farming practice in Java, and its parallels to Malacca, are taken into account. The paper draws on Hussin's primary VOC Malacca data on tax farms and extends his numerical analysis. To gain a fuller understanding of Malacca's tax farming, Reid's findings on the VOC Malacca are used to help interpret Hussin's data.²⁴

¹⁶ Ibid., 79- 83.

¹⁷ Anthony Reid, 'The Origins of Tax Farming in Southeast Asia' in *The Rise and Fall of Revenue Farming: Business Elites and the Emergence of the Modern State in Southeast Asia*, ed. J. Butcher and H. Dick (St. Martin's Press, 1993) 69.

¹⁸ Ibid.

¹⁹ Nordin Hussin, *Trade and Society in the Straits of Melaka Dutch Melaka and English Penang, 1780-1830* (NIAS Press, 2007).

²⁰ Hussin Nordin Hussin, *Melaka and Penang 1780-1830: A study of two port towns in the Straits of Melaka* (PhD thesis, Vrije Universiteit, 2002).

²¹ F W Diehl, 'Revenue Farming and Colonial Finances in the Netherlands East Indies, 1816-1925' in *The Rise and Fall of Revenue Farming: Business Elites and the Emergence of the Modern State in Southeast Asia*, ed. J. Butcher and H. Dick (St. Martin's Press, 1993) 196.

²² Ibid., 207.

²³ Above n 7.

²⁴ Above n 20.

3 METHODOLOGY

The research design first takes an objective, positivist approach to analyse and present a detailed picture of tax revenue under the Dutch VOC in Malacca. Clearly, if the sum of tax revenues raised is found to be substantial, then outcomes of some importance may result in posing the major research question about the impact of the eighteenth century Dutch VOC tax farming practices on Malacca's taxpayers. The study graphs and analyses the tax revenues of eighteenth century VOC Malacca.

The major question requires an investigation of the societal impacts of tax farming, and uses a subjective, non-positivist epistemological approach. Thus, the historical method is used together with critical theory. The power relationships between the taxpayers and the 'institution' of the Dutch VOC are interpreted to elicit answers about the impact of tax practices on the wider constituency. The qualitative aspects of the research design are also appropriate for the subsidiary question regarding how the VOC's Malacca tax farming practices compare to Smith's maxims of good tax governance.

3.1 Theoretical perspectives

Hopwood and Johnson urge business historians to evaluate practices on the economic, institutional and social paradigms in places where they operate.²⁵ Hopwood also highlights the need for researchers to investigate how internal systems shape the way in which organisations function.²⁶ Lee claims that taxation is an area of business practice where few studies have been carried out from these perspectives.²⁷ Lamb asserts that an improvement in the quality of tax research follows from a better appreciation of the interdisciplinary nature of tax research and its link to broader systems, such as accounting and economics.²⁸

This study adopts critical theory (or critical enquiry), a non-positivist paradigm that involves empowering human beings to transcend the restrictions placed on them by class, gender and race.²⁹ It is said to have the goals of a 'just society, freedom and equity', with key theoretical assumptions being dominative relationships and empowerment, or dealing with the suppression of individuals. The theory calls into question the socio-political structures in which individuals find themselves.³⁰ Critical theory assists in considering how tax farming might have been discriminatory on the basis of ally or enemy, by race, or by ethnicity.

²⁵ A G Hopwood and H T Johnson, 'Accounting History's Claim to Legitimacy' (1986) 21, no. 2 *International Journal of Accounting* 37.

²⁶ A G Hopwood, 'On Trying to Study Accounting in the Contexts in which It Operates' (1983) 8, no. 2/3 *Accounting, Organisations and Society* 387.

²⁷ See eg, G A Lee, 'The tithe rent charge: a pioneer in income indexation' (1996) 6, no. 3 *Accounting, Business & Financial History* 301; Ross Vosslamber, 'Taxation for New Zealand's future: The introduction of New Zealand's progressive income tax in 1891' (2012) 17 *Accounting History* 105.

²⁸ Margaret Lamb, 'Questions of Taxation Framed as Accounting Historical Research: A Suggested Approach' (2003) 30, no. 92 *Accounting Historians Journal* 176.

²⁹ John Creswell, *Research and Design* (Sage, 2nd ed, 2003); Margaret McKerchar, *Design and Conduct of Research in Tax, Law and Accounting* (Thomson Reuters Lawbook Co., 2010).

³⁰ Michael Crotty, *The Foundations of Social Research: Meaning and Perspective of Social Research* (Allen and Unwin, 1998) 159; Gary Rolfe, Melanie Jasper, and Dawn Freshwater, *Critical Reflection in Practice* (Palgrave Macmillan, 2011).

Institutional theory is a field of critical enquiry that can provide explanations about organisational linkages with the environment, social expectations and an organisation's internal practices and characteristics.³¹ Daunton applies a form of institutional theory in his survey of the 'tax history' of numerous European countries.³² This study uses institutional theory in a minor way to understand the eighteenth century colonial Dutch VOC as an institution, and the impact of its taxation practices on 'actors' located in Malacca.

3.2 Adam Smith: economic theory

The theoretical tax maxims of Adam Smith (1723-1790) are used to help evaluate the subsidiary question of whether the Malacca tax farming practices of the Dutch VOC embodied good tax governance. Smith is regarded as the founder of modern economics. His establishment of four broad maxims of taxation (equity, certainty, convenience and efficiency) are still relevant, and underpin much contemporary taxation legislation, tax reform and modern tax publications.³³

Smith described the tax maxims in his seminal work, *An Inquiry into the Nature and Causes of the Wealth of Nations*, first published in 1776. The four maxims are summarised below.

1. The first maxim stipulates that the tax burden should be **equitable**, with contributions proportionate to a taxpayer's level of income. This is also known as vertical equity. The result is the payment of a fair share of taxes. Today, this maxim is also generally acknowledged as embodying horizontal equity, whereby taxpayers with a similar level of income should pay a similar amount of tax.
2. The second maxim points out that taxpayers should be able to predict tax timing and amounts with reasonable **certainty**, as arbitrariness in liability or in the valuation of tax payments could encourage corruption.
3. The third maxim provides that the payment of taxes should be **convenient** to the taxpayer, in terms of both the capacity to pay and in the mode of payment.
4. The fourth maxim highlights the need for an **efficient** mechanism to collect the taxes. Penalties for non-payment of taxes should be reasonable so as not to encourage corruption (such as smuggling), and collectors should not be vexatious.³⁴

³¹ J F Dillard, J T Rigsby, and C Goodman, 'The making and remaking of organization context: Duality and the institutionalization process' (2004) 17, no. 4 *Accounting, Auditing & Accountability Journal* 508.

³² Michael Daunton, *Just Taxes: The Politics of Taxation in Britain, 1941-1979* (Cambridge University Press, 2002) 87.

³³ E.g., Australian Treasury, *Australia's Future Tax System: Architecture of Australia's Tax and Transfer System* (2008); Joseph E Stiglitz, *Economics of the Public Sector* (WW Norton, 3rd ed, 2000); C Sandford, M Goodwin, and P Hardwick, *Administrative and Compliance Costs of Taxation* (Fiscal Publications, 1989).

³⁴ Kathryn Sutherland, ed. *Adam Smith: An Inquiry into the Nature and Causes of the Wealth of Nations* (Oxford University Press, 2008) Book V, ii, 451-454.

It is noted that Adam Smith wrote in the field of political economy, 'a branch of science of a statesman or legislator', which contains two distinct objectives: to provide revenue, or enable people to generate enough revenue for subsistence, and to supply the state with enough revenue to provide for public services.³⁵ Smith outlined two systems of political economy: agriculture and commerce. The latter provided a choice between the mercantile monopolistic system or the free-market economy. He argued that free-market economies are more beneficial to society than mercantilism and its inherent (VOC-like) monopolies. For instance, Smith saw customs duties as restricting imports, raising prices and inducing corruption and noted, 'Taxes imposed with a view to prevent or to diminish importation, are evidently as destructive of the revenue of customs as of the freedom of trade'.³⁶ Smith viewed the mercantile system as placing the interests of the producer ahead of those of the consumer.³⁷

The period of VOC tax farming under this study's consideration coincides with the wide dissemination of Smith's ideas: after the 1776 first edition, there were later editions in 1778, 1784, 1786 and 1789. In fact, a Dutch translation of his work, published in 1796, was one of many European translations at the time.³⁸

3.3 Data

The data on eighteenth century tax farming can be found in the VOC Malacca port's annual reports and letters (*overgekomen brieven en papieren*) to its head office in Batavia. This study has accessed the raw empirical data previously collected by Lewis and Hussin, as well as some financial observations by Harrison in his seminal monograph, *Holding the Fort*.³⁹ Through independent sourcing of tax farming data from original and microfilm copies of VOC records, this study has verified the Lewis and Hussin VOC statistics for selected years from 1772 to 1792. British colonial records are used for reference to Dutch VOC practices.⁴⁰ Similarly, Braddell's raw Malacca population data and Reid and Fernando's raw Malacca shipping data are used for analysis.⁴¹

4 VOC TAXATION RIGHTS

This study considered Gaastra's detailed account of the history of the VOC, which was formed in 1602 in the Dutch Republic from a range of smaller trading companies.⁴² The States-General, or Dutch parliament, granted the VOC Charter, which was renewed

³⁵ Ibid., Book IV, 275.

³⁶ Ibid., Book IV, 301.

³⁷ Ibid., Book IV, viii, 376.

³⁸ Adam Smith, *An Inquiry into the Nature and Causes of the Wealth of Nations. Part 1* (Brave Wouter, 1796).

³⁹ Dianne Lewis, *Jan Compagnie in the Straits of Malacca 1641-1795* (Ohio University Press, 1995) 135-139. Hussin, *Melaka and Penang*, above n 20, 422-423; Brian Harrison, *Holding the Fort: Melaka under two flags 1795-1845* (Malaysian Branch of the Royal Asiatic Society Monograph no.14 ed, 1986).

⁴⁰ Original VOC journals and ledgers were inspected at the National Archives of The Netherlands, The Hague in 2011. Relevant Straits Settlements Records were inspected at the British Library, London in 2012. The Amsterdam microfilm copies of these records are held at the Matheson Library, Monash University, Australia.

⁴¹ Thomas Braddell, *Statistics of the British Possessions in the Straits of Malacca* (Pinang Gazette Printing Office, 1861); Anthony Reid and Radin M. Fernando, 'Shipping on Melaka and Singapore as an Index of Growth, 1760-1840' (1996) Vol. XIX Special Issue *South Asia* 59.

⁴² Gaastra, above n 1.

periodically. The Charter permitted the VOC to enter into treaties with foreign powers in the course of its trade.⁴³ The VOC's hegemony in Malacca ended in 1795 with Napoleon's invasion of the Netherlands, and the company was finally declared bankrupt in 1798.

Insights into Dutch sovereignty and taxation rights in the Dutch eastern colonies were found in an examination of the legacy of the Dutch jurist Hugo Grotius (1583-1645). The Grotius treatise *Mare Liberum* (Freedom of the Seas) rejected the seventeenth century Portuguese claims to the right of exclusive trade in the East, which they based on Catholic doctrine and canon law.⁴⁴

The directors of the Dutch VOC contracted Hugo Grotius to defend the legality of the VOC Charter, which they understood allowed them to conduct activities in the name of the States-General and 'meant there was no transfer of authority or sovereignty, but only a restricted mandate'.⁴⁵ It has been shown that Grotius was willing to adapt his *Mare Liberum* argument to the needs of VOC trading.⁴⁶

A treaty between the Johor Malays and the VOC (on behalf of the Dutch States-General) was concluded in 1606. Its underlying purpose was to join forces to oust the Portuguese – their common enemy – from Malacca. The treaty contained key tax clauses, including provisions giving the States-General the sole right to collect tolls from waterways and the recognition of another sovereign.⁴⁷ The treaty was established decades before the Johor Malays and the VOC finally subjugated Portuguese-held Malacca;⁴⁸ the VOC assumed the taxation rights of the Johor Malay sultanate and the Portuguese upon taking Malacca by conquest in 1641.⁴⁹

⁴³ Ibid., 23.

⁴⁴ C H Alexandrowicz, 'The Grotius-Freitas Controversy over the East Indies' in *An Introduction to the History of the Law of Nations in the East Indies* (Clarendon Press, 1967) 41; C. Wilson, 'Hugo Grotius and his World' in *The Royal Netherlands Academy of Arts and Sciences: the World of Hugo Grotius (1583-1645)* (Holland University Press, 1984); A Eyffinger, 'Hugo de Groot' in *Hugo Grotius: 1583-1983*, ed. Members of the Faculty of Law University of Limburg (Van Gorcum, 1984); M. J. Van Ittersum, *Profit and Principle: Hugo Grotius, Natural Rights Theories and the Rise of Dutch Power in the East Indies 1595-1615* (Brill, 2006); M. J. Van Ittersum, 'The Long Goodbye: Hugo Grotius' Justification of Dutch Expansion Overseas, 1615-1654' (2010) 36 *History of European Ideas* 386.

⁴⁵ Gaastra, above n 1, 23.

⁴⁶ Van Ittersum, 'The Long Goodbye', above n 44, 407.

⁴⁷ For the English translation of the 1606 VOC/Johor treaty, see: Borschberg P, 'The Johor-VOC Alliance and the Twelve Years' Truce: Factionalism, Intrigue and International Diplomacy 1606–13', unpublished paper, International Law and Justice Working papers, Appendix 3, <<http://www.iilj.org>>. See also Peter Borschberg, *The Singapore and Melaka Straits* (National University of Singapore, 2010).

⁴⁸ In relation to the treaty, Vink cites VOC 317, fol. 29, d.d. 9 Nov. 1645. See Vink, above n 8, 82.

⁴⁹ In the case of the VOC in Java, the 'assumption' policy is noted by Kwee, above n 14, 76. Hui Kian Kwee, *The Political Economy of Java's Northeast Coast c. 1740-1800* 76; Lewis mis-interpreted 'assumption rights' by conquest, taking it to mean a legal right to monopolise trade. Rather, conquest conferred on the victor the assumption of taxation rights, see Lewis, above n 39, 8, 17, 20. Dianne Lewis, *Jan Compagnie in the Straits of Malacca 1641-1795* 8, 17, 20. Vos also made a similar error in his reference to 'monopoly on navigation... to which the VOC made claim', see Reinout Vos, *Gentle Janus, Merchant Prince: the VOC and the tightrope of diplomacy in the Malay World, 1740-1800* (KITLV Press, 1993) 158.

5 MALACCA OVERVIEW

5.1 The VOC trading port of Malacca

Malacca was an entrepôt or 'warehouse' destination for all the known seafaring peoples: Chinese, Persians, Arabs, Indians, Siamese, Khymers, the Bugis of Sulawesi and others from the surrounding archipelago. Europeans, Burghers, Eurasians, Indians, Chinese and Malays comprised the town's population. The VOC's directors in the Dutch Republic saw the Malaccan port as having a key role: that of keeping the Malacca Straits open for the passage of company ships to and from the VOC's Batavia headquarters and its trading ports further north, in China and Japan. However, Malacca's decline as a trading port began from at least the 1780s with the rise of British trade dominance from bases in India. This was accompanied by the continually damaging and ruthless insurrections by varying Malay Sultanates, and incursions by the local firebrand Bugis, characteristically portrayed by the Europeans as relentless pirate-traders.

The VOC in Batavia began the process of financial data gathering by assembling reports from various trading stations, including Malacca. Bookkeepers would compile trading and taxation figures from all the trading posts and enter the data into the general journal (*generaal journaal*). Entries from the general journal were posted to the general ledger (*grootboek*) to derive the operating statements for each trading post and then construct the consolidated accounts. A typical VOC ledger account, showing 'tax leases' as a credit entry in the Profit and Loss Account, is presented in Figure 1.

Figure 1. VOC Malacca: 18th century general ledger accounts, sample⁵⁰

Profit and Loss A/c			
General expenses	xx	Trade income	xx
Pay	xx	General income (tax leases)	xx
Expenses for ships	xx		
Fortifications	xx		
Gifts	xx		
Bal c/f	xx		
	xx		xx
		Balance b/f	xx
Current A/c			
Inward Goods	xx	Returns	xx
Bal c/f	xx		
	xx		xx
		Balance b/f	xx

⁵⁰ Source: authors.

The names of the company-appointed Governors of Malacca for the period 1717-1795 are shown in Figure 2. The relatively short terms of the Governors reflect the practice of controlling abuse of power by limiting the length of appointments.⁵¹

Figure 2. Governors of VOC Malacca: 1717-1795; and post-VOC⁵²

Herman Van Suchtelen	1717-1727
Johan Gobius	1727-1730
Pieter De Chavonnes	1731-1735
Rogier De Laver	1736-1743
Willem Albinus	1743-1749
Pieter Van Heemskerk	1749-1753
Willem Decker	1754-1758
David Boelen	1758-1764
Thomas Schippers	1764-1772
Jan Crans	1772-1776
Pieter Gerardus de Bruijn	1776-1788
Abraham Couperus	1788-1795
Post-VOC	
Jan S. Timmerman-Thijssen	1818-1823

According to the company Charter, the primary role of the VOC's Governor was the promotion of company trade. The VOC collected tax farm monies, but there was no requirement for the application of tax receipts to social welfare or infrastructure,⁵³ even though a stable and ordered community was an important element of the VOC's trading success. Social services and infrastructure funds for community benefit were privately

⁵¹ Vink, above n 8, 85.

⁵² Source: Barbara Watson Andaya, 'Melaka under the Dutch, 1641-1795' in *Melaka: The Transformation of a Malay Capital, C. 1400-1980*, eds. Kernial Singh Sandhu and Paul Wheatly (Oxford University Press, 1983) 239.

⁵³ Gastra, above n 1, 23.

funded by Malacca's Orphan Chamber and the Burgher Fund, as described at items 5.2 and 5.3 respectively.

5.2 Orphan Chamber

The Orphan Chamber (*Weeskamer*) in Malacca had important fiduciary functions for its wards, for it supported them through a privately funded 'banking system'. Boxer wrote of the need to care for the abandoned progeny of transient maritime personnel, some of whom had inherited monies.⁵⁴ These monies were augmented by loans to members of the community at set interest rates.⁵⁵ One infamous post-VOC incident concerned the reckless theft of Orphan Chamber funds by Malacca's Dutch Governor J.S. Timmerman-Thijssen (in office between 1818 and 1823) without any thought as to overriding social need.⁵⁶

5.3 Burgher Fund

Malacca's 'Burgher Fund' is an example of a another private fund that used monies for public good.⁵⁷ The Burgher Fund (*burgerije cassa*) financed the construction and maintenance of basic infrastructure, such as the town's roads and bridges and the night-time security patrols (*burgerije wacht*). Each of the ethnic groups living in Malacca Town (Chinese, Malay, Indian, Burgher, etc.) had a community leader who was responsible for the group's contribution to the Burgher Fund. As noted previously, the Dutch VOC was not required to contribute its tax receipts to infrastructure:⁵⁸ its role was simply to account for the contributions.⁵⁹

5.4 Trade and tax in VOC Malacca: 1721-1790

This section presents VOC financial data that has been graphed to assist in the fundamental analysis of the value of VOC tax farming; the higher the value, the more likely that its impact on taxpayers would be significant.

Tin was the main mineral resource found on the Malay Peninsula. Access to tin was generally controlled by the Malay Sultans of the various peninsular states. The Dutch VOC purchased tin for export, either directly from these rulers or through intermediaries assigned to control the mining operations.⁶⁰ The VOC applied a margin to the cost of tin and other commodities for resale and the profits formed its *trade* stream of revenue. Tin, opium and tropical foodstuffs such as bird's nests, were the main VOC traded commodities that China accepted for its tea, silk, porcelain and other unique products.

⁵⁴ Charles R Boxer, *Jan Compagnie in war and peace 1602-1799: A short history of the Dutch East-India Company* (Heinemann Asia, 1979).

⁵⁵ Diane Kraal, 'From VOC to Merchant: The Story of Hendrik Kraal (1758-1826)' (2008) September issue *Journal of Malaysian Biographies* 66.

⁵⁶ Diane Kraal, 'The circumstances surrounding the untimely death of Jan S. Timmerman-Thijssen, Governor of Malacca 1818-1823' (2010) 83, Part 1 *Journal of the Malaysian Branch of the Royal Asiatic Society* 19.

⁵⁷ Hussin, *Trade and Society*, above n 19, 211.

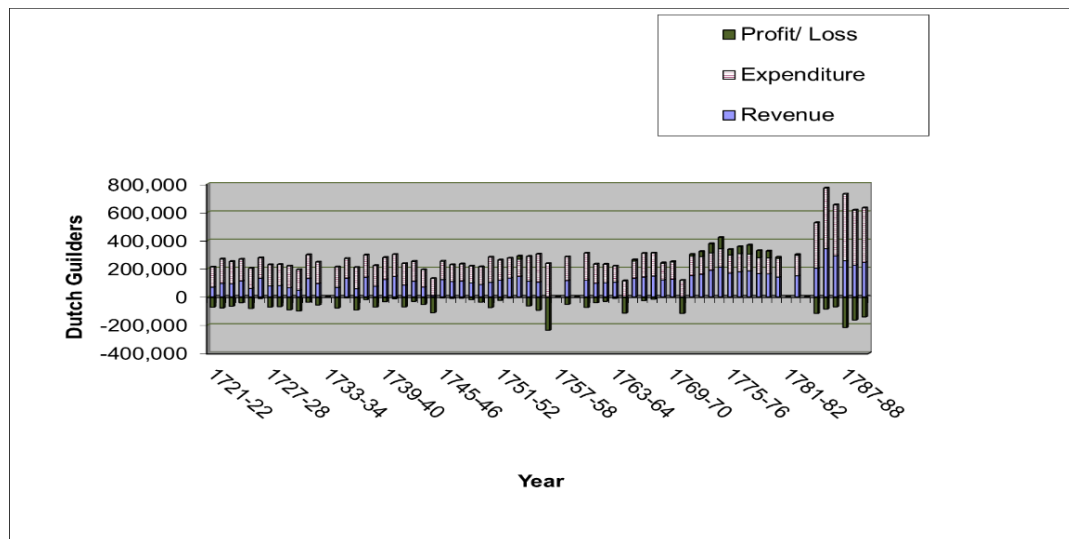
⁵⁸ *Ibid.*

⁵⁹ VOC 3418, Report for 1775.

⁶⁰ For eighteenth century commodity exports from Malacca, see Table 22 in Els M Jacobs, *Merchant in Asia: The trade of the Dutch East India Company during the eighteenth century* (CNWS Publications, 2006) 334.

Figure 3 highlights VOC Malacca revenue and expenditure over a 69-year period. It must be noted that tax income is included in the revenue figures. While a few years are missing from the data, the trend is of net losses averaging about 100,000 Dutch Guilders per annum for the years 1721 to 1769, under nine successive VOC Governors. Profits were achieved from 1769 to 1783, but these were followed by a spiral of losses to 1790.

Figure 3. VOC Malacca: 1721-1790, profit/loss, expenditure, revenue⁶¹



Arasaratnam wrote of the cross-subsidy from Batavia to cover Malacca's losses, as expenses such as administration, military pay, expenses for ships and fortifications needed to be covered. The subsidy was provided because the Straits of Malacca was an important waterway that needed to be kept open for VOC ships.⁶² The VOC's customs system was tied to the requirement for a pass to sail through the Straits. These measures protected and promoted the VOC's shipping interests by re-routing competitive trade to Malacca.⁶³ Thus, the customs system was strategically important, otherwise Batavia would have been burdened by providing even greater subsidies to Malacca.

From 1641, a VOC Malacca official called the *ontwanger* (collector) directly levied customs duties on all incoming and outgoing vessels by assessing duties on the market value of the shipped goods. However, given the number of entry points to Malacca that needed to be covered to prevent evasion of tax, the number of VOC personnel available for collection was too low and administrative costs were too high.⁶⁴ In a 1741 report by VOC Batavia Governor-General-designate, Baron Van Imhoff, the VOC was described as a company in decline, requiring drastic policy reforms. He recommended easing the restrictions on free trade with Asia and making up the difference from customs revenue. He found the VOC monopoly system 'ineffective, expensive and counter-productive'.⁶⁵ His report was

⁶¹ Source: Lewis, *Jan Compagnie*, above n 39, 135-39.

⁶² Arasaratnam, 'Monopoly and Free Trade', above n 3, 12-14.

⁶³ Vink, above n 8, 90.

⁶⁴ See Harrison, *Holding the Fort*, above n 39, 11.

⁶⁵ Arasaratnam, 'Monopoly and Free Trade', above n 3, 10-12.

discussed by the VOC's Directors in the Netherlands, but only small reforms were enacted.⁶⁶ These included the encouragement of the expansion of tax farming in Java and Malacca,⁶⁷ and implementation of the indirect method of tax collection by auctioning customs collection rights to private individuals.⁶⁸

From 1744, private tax farmers bid at auction for the *boom pacht* (customs farm) for the privilege of the monopoly rent.⁶⁹ One early mention of a Malacca customs tax farmer was of a person by the name of Intje Soereen. The record noted that Soereen did not have to keep the old style registers that included the captain's name, number of crew and specifications of ship and cargo: all that was needed was a list of the goods carried aboard.⁷⁰ In conjunction with the changeover to customs tax farms, Dutch officials at Malacca received between them a quarter of the profits from customs duties, in accordance with their rank.⁷¹

5.5 VOC accounts data: 1770-1790

The study now focuses on VOC Malacca revenue for a narrow 20-year period, from 1770 to 1790. The stable trend of revenue against even levels of expenditure from 1772 to 1780 is in contrast to the change from 1785 onwards, when erratic results started to become the norm, with regular losses incurred through to 1790.

Figure 4 depicts these financial contrasts, first for the period when Governors Schippers, Crans, and de Bruijn successively managed Malacca to 1788, and then for the era of the Governorship of Abraham Couperus (1788-1795). The VOC never recovered its trade position after the Fourth Anglo-Dutch War (1780-84); essentially, events that occurred in far-off Europe affected the security of trading through the Straits of Malacca.⁷²

⁶⁶ Gustaaf Van Imhoff, 'Considerations on the Present State of the Dutch East India Company' (first published 1853, 1930 ed.) Reel 66 *Bijdragen tot de taal-land en volkenkunde van Nederlandsch-Indie*.

⁶⁷ J P De Korte, *The Annual Accounting of the Dutch East India Company* (Martinus Nijhoff, 1984) 48.

⁶⁸ The first-time lease revenue for the indirect collection of customs duties can be seen in Hussin's data for 1744 of 15,500 rijksdollars, see Hussin, *Melaka and Penang*, above n 20, 422.

⁶⁹ See Vol. 5, page 176, 27 Dec. 1743 for Governor-General Van Imhoff's reference to the original edict on customs tax farms, Jacobus A Van der Chijs, ed. *Nederlands-Indisch Plakaatboek 1602-1811 (Collection of Edicts of the Netherlands East Indies)*, 17 vols. (Batavia and The Hague Landsdrukkerij, 1885-1900).

⁷⁰ National Archives of The Netherlands, The Hague. Tax farmer, Intje Soereen: VOC 8633, pp.82, 86 and 88, d.d. 23 Feb. 1746.

⁷¹ Lewis, *Jan Compagnie*, above n 39, 64. See also Lewis Dianne Lewis, 'The Growth of the Country Trade to the Straits of Malacca, 1760-1777' (1970) 43, no. 2 *Journal of the Malaysian Branch of the Royal Asiatic Society* 114. At footnote 79 Lewis cites Batavia's *Uitgaande Briefboeken*, Batavia to Malacca, 12 November 1745, p.714.

⁷² Lewis, 'The Growth of the Country Trade', above n 69, 123-124.

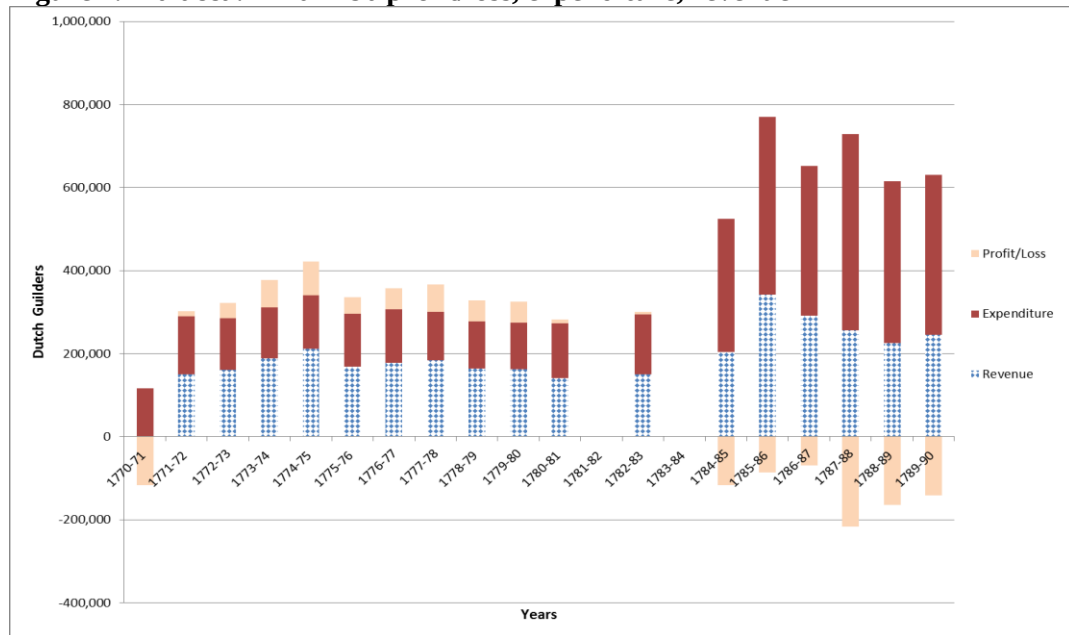
Figure 4. Malacca: 1770-1790 profit/loss, expenditure, revenue⁷³

Figure 5 provides an even closer look at revenue for VOC Malacca in the 15 years from 1775 to 1790. Revenue, trade and tax leases are denoted in rijks dollars, a medium of exchange introduced by the VOC into Asia from the Dutch Republic. Trade revenue averaged 56% of total revenue, which is consistent with other research findings.⁷⁴ Thus, on average, tax lease fees in the two categories of goods and services, and customs duties, contributed a vital 44% of revenue. Earlier VOC data corroborated the key contribution of taxes to overall revenue as follows: 1641-42: 17%, 1642-43: 14.6%, 1643-44: 12%, 1661-62: 28.8%,⁷⁵ and 1653: 27%.⁷⁶

⁷³ Source: Lewis, *Jan Compagnie*, above n 39, 135-39.

⁷⁴ Gastra calculated trade at 'about 60%' of total VOC revenue for Asia in the 18th century', see Gastra, above n 1, 127.

⁷⁵ Vink, above n 8, 84.

⁷⁶ Reid, above, n 17.

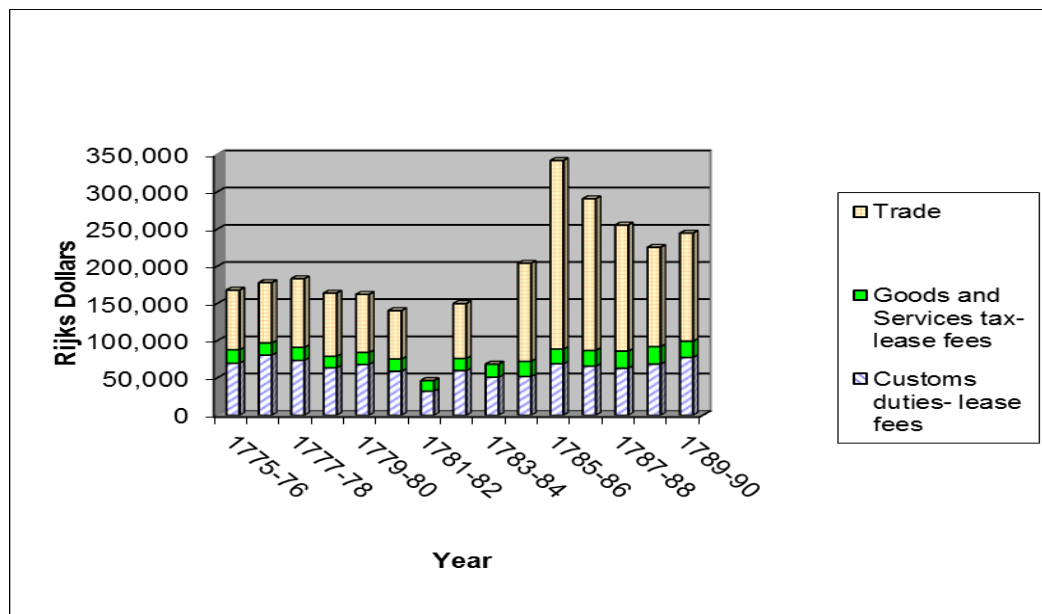
Figure 5. Malacca: 1775-1790, revenue by type⁷⁷

Figure 5 also shows that customs duties lease fees from 1775 to 1780 were proportional to changes in trade revenue. There are gaps in the trade data covering the Fourth Anglo-Dutch war years (1780-84). From 1785 to 1790, trade revenue rose sharply in comparison to earlier periods, most likely due to a huge rise in European demand for tea from China, as consumer demand increased dramatically in the late 1700s.⁷⁸ One would expect that the customs duties lease fees would also be proportionately higher, as the fees were driven by trade conditions, but the rising trade trend was not matched. In buoyant times, the VOC should have accepted only higher bids or tenders for the customs farms.

VOC officials had been allowed a percentage of customs duties since 1745. It is outside the scope of this study to look at tax fraud but, arguably, the customs lease revenue should have been higher. The proportionately lower customs duties suggest that VOC officials took more than their permitted allocation of duties, which put pressure on lessee bidding prices for customs farms, and on subsequent profits. The custom farms lessees, in turn, put pressure on taxpayers for higher taxes. Indeed, there were many accounts of bullying and oppressive tactics to extract taxes.⁷⁹

5.6 Tax farm revenue

As discussed, from 1744 the VOC Malacca administration annually auctioned the rights to collect customs duties and took private bids for the right to tax basic goods (such as rice or timber), to provide certain public services (such as weights and measures), or to tax certain

⁷⁷ Source: Lewis, *Jan Compagnie*, above n 39, 135-39 and Appendix A.

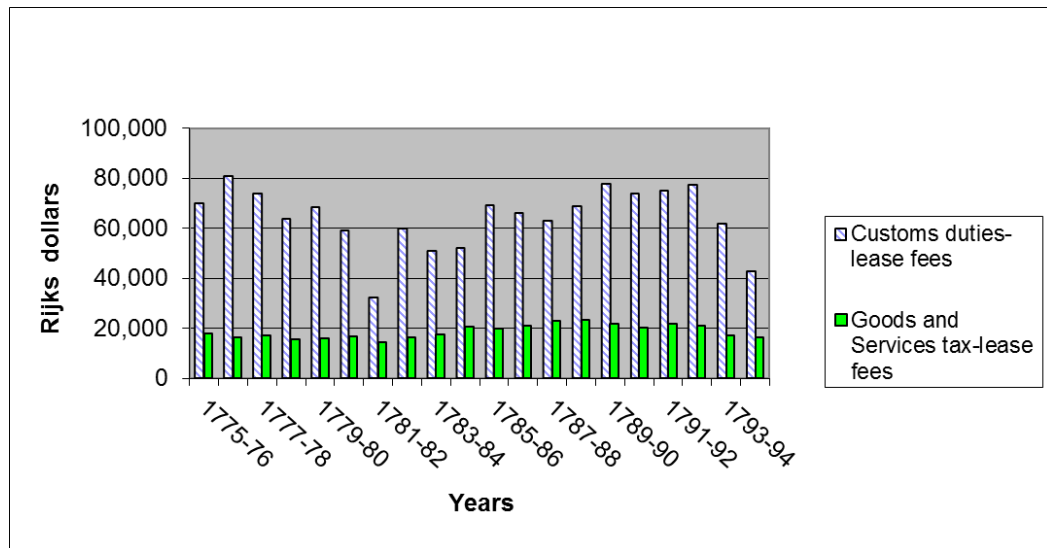
⁷⁸ See data on tea sales as follows, 1698/1700: 4,100 Guilders; 1738/1740: 24,920 Guilders; 1778/1780: 22,920 Guilders, per Kristof Glamann, *Dutch Asiatic Trade 1620-1740* (Martinus Nijhoff, 1981) 14. See also De Korte, above n 65, 65.

⁷⁹ See eg, Kraal, 'From VOC to Merchant', above n 54, 84.

lifestyles (such as the consumption of pork and spirits). The tax farmer paid some cash at the time of the auction or tender (that is, in advance of revenue earned) for the monopoly. The contractual agreement stipulated dates, the amount bid or tendered, and the monthly payments for the year.⁸⁰ The security was forfeited upon default. The farmer then had to recover the fee – and make a profit – by levying tax or dues on the taxpayer for the commodity or service bought or used. The tax farmer bore the risk of any tax farm income fluctuations, whilst the VOC received a stable income from the leases.

Figure 6 shows two categories of VOC Malacca tax farm lease fees. Most variable were the customs farm lease fees, which fell from about 1776 to 1784 as a result of the VOC's strict maintenance of its trade monopolies that negatively affected local trade. Customs lease fees then marginally rose from 1785 to 1793, as tin became an important trading commodity.⁸¹ Tin was used to purchase tea from China, but customs farm lease fees were not proportionate to the sharp rise in trade revenue (as seen in Figure 5).

Figure 6. Malacca: 1775-1795, tax farm lease fees⁸²



5.7 Small goods and services tax farms

Small goods and services tax farms in Malacca included the monopoly right to collect tax on taverns, shops, sea and river fish, timber, public weighbridges, opium, spirits, betel leaves, cock fighting and the slaughter of cows and pigs. At times, it included the right to collect a poll tax on the Chinese population.⁸³

⁸⁰ For instance, the Chinese Head Tax farm for the 1782/83 financial year was leased to Solong Shing, VOC 8664/4 107, 6 May 1782.

⁸¹ Jacobs, above n 59, 199-211.

⁸² Source: Appendix A.

⁸³ For police regulation of tax farms, see India Office Records, IOR, R/9/32/8, British Library.

Figure 7 provides information on the mix of Malacca's population, showing the dominant grouping of Europeans, burghers (*vrijburgers*) and Eurasian Christians (*inlands burger*). Although Chinese and Indians were the 'foreign' minority, these ethnic groups were often owners of Malaccan tax farms, a pattern that was evident in VOC Java.⁸⁴

Figure 7. Malacca Town, 1678-1817: ethnic mix⁸⁵

	1678	1750	1766	1817
European, Burgher, Eurasian Christians	2514	2339	1668	1667
Malay	893	3615	3135	13988
Indian	761	1520	1023	2966
Chinese	716	2161	1390	1006
Totals	4884	9635	7216	19627

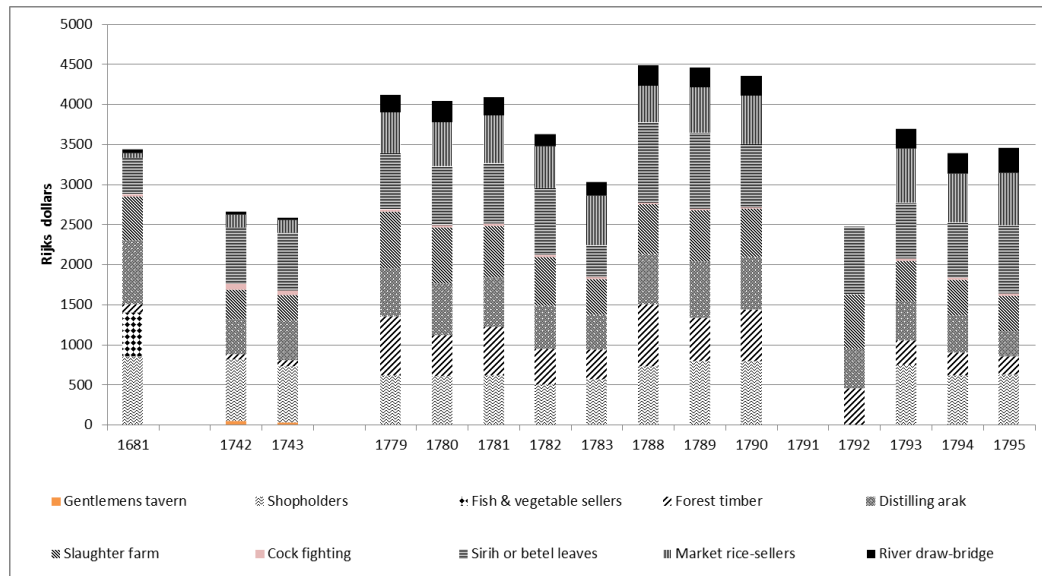
Figure 8 shows increases in VOC lease fees from small tax farms beginning early in the eighteenth century to about 1790. From 1744, a closed tender system for small tax farms was put in place and later endorsed. Hence, there was a gap in the data until 1778.⁸⁶ The VOC's directors later requested that some tax farms should go again to auction, rather than to closed tender,⁸⁷ and data appeared again from 1779 onwards. Apart from another closed tender policy in 1791, there was a stable trend in lease fees from 1793 to the end of the VOC's hegemony in Malacca in 1795.

⁸⁴ In 1755 Que Theko was licensee of a Chinese Gambling Farm, Malacca: VOC 8642/37 d.d. 9 Apr. 1756. In 1754, Mirantje Chittij, a southern Indian Hindu, was licensee of a Weights and Measures Farm, Malacca: VOC 8641/61, 25 Mar. 1754 and 327, 11 Jan. 1754.

⁸⁵ Source: Braddell, above n 41, Table 1.

⁸⁶ See customs tender example for Batavia, Vol. 5, p.589-92, 3-6 December 1748, Jacobus A Van der Chijs, ed. *Nederlands-Indisch Plakaatboek 1602-1811 (Collection of Edicts of the Netherlands East Indies)* Vol 5: 592, 596 December 1748.

⁸⁷ Ibid. vol. 8, p.943, 19 June 1775.

Figure 8. VOC Malacca: 1681-1795, small tax farms-lease fees⁸⁸

5.8 Customs and other large tax farms

Customs duties were levied on Malacca's imports and exports. Import duties were paid on items such as pepper and Indian cloth. Export duties were levied on tin, timber, fruit, vegetables, sugar cane and *sirih*.⁸⁹ Duties were paid to the customs farm lessee at tolls at the various entrances to Malacca, such as the harbour tax office at the Malacca River estuary.⁹⁰ The VOC's Accountant of Incoming and Outgoing Duties registered vessel traffic, and the Harbourmaster ensured that the lessee paid over the agreed percentage of customs duties to senior Dutch administrators. As mentioned previously, the cut from customs was an additional emolument to the basic VOC salary and allowances, but it had the effect of overcharging taxpayers.⁹¹

The lease fees from the customs farms were the most significant stream of revenue in Malacca, as depicted in Appendices A and B. In addition to customs duties, minor taxes such as poll taxes and anchorage and weigh-house dues were levied on the spot. From the earliest days of Dutch Malacca, the VOC set the customs rates of 10% for imports and 5%

⁸⁸ Source: Appendix A.

⁸⁹ Thomas J. Newbold, *Political and Statistical Account of the British Settlements in the Straits of Malacca*, vol. 1 (Oxford University Press, first published 1839, 1971 ed.) 63.

⁹⁰ Examples of lessees, Customs Farm, Malacca:

Years: 1751, 1753, 1755, 1757-1759, Moetoe Mara Chittij, a southern Indian Hindu: VOC 8638/374 d.d. 30 Jan. 1751; VOC 8640/318 en 324 d.d. 8 Sept. 1753; VOC 8641/215 d.d. 30 Aug. 1753; VOC 8642/41 d.d. 9 Apr. 1756; VOC 8643/19 d.d. 30 Apr. 1755; VOC 8645/99 d.d. 26 Aug. 1757; VOC 8646/1 40 no 18 d.d. 10 Mar. 1758; VOC 8647/61 d.d. 10 Mar. 1759.

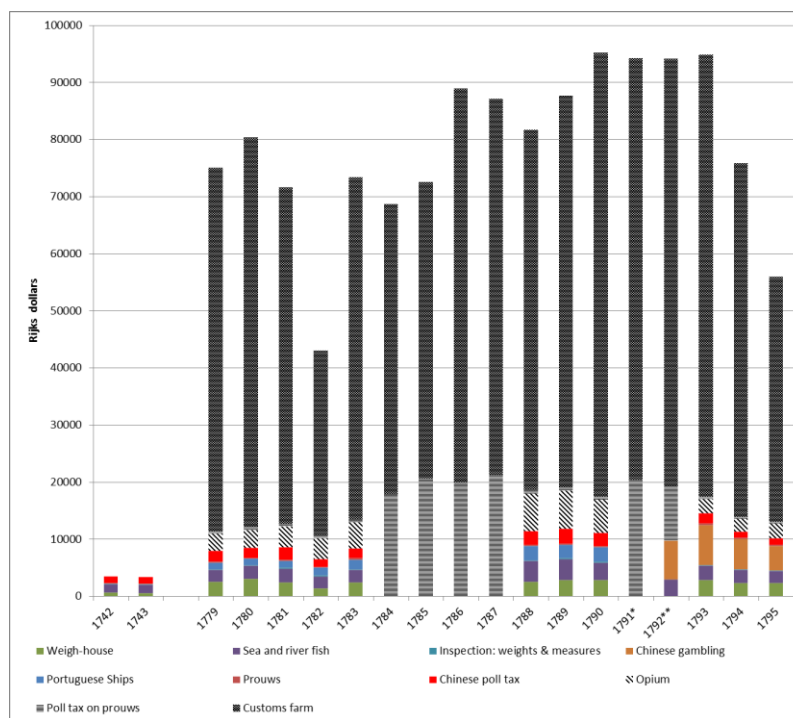
(b) Years: 1750, 1760-1762, Malek Fasulla, from Surat, VOC 8638/374 d.d. 30 Jan. 1751; VOC 8649/43 d.d. 23 Feb. 1760; VOC 8651/54 d.d. 4 Sept. 1761; VOC 8652/1, 177-178 d.d. 29 Mar. 1762.

⁹¹ See also VOC 3961, Governor Abraham Couperus' report 1792; See Harrison, *Holding the Fort*, above n 39, 12.

for exports, based on the *ad valorem*, or market value of goods. By 1643, certain items such as imported rice and pepper were exempt from duty.⁹² The 1668 customs rates table in Appendix C shows that there were additional exemptions of foodstuffs for local consumption, as Malacca's agricultural production was inadequate. Slaves were also duty-free to provide much-needed labour. Appendix C also shows that duty-free import rates privileged the VOC's Siamese and Johor allies. A doubling of the customs rates took place in 1676.⁹³ According to Lee, by the mid-eighteenth century the VOC had changed from a fixed to a progressive scale of customs rates, based on size and tonnage fees levied on vessels entering or leaving Malacca.⁹⁴ The customs lessees continued to collect the tax.

Figure 9 shows a disaggregation of figures for the larger tax farms, with customs farm lease fees yielding the highest revenue, followed by the poll tax on *prouws* (small vessels) and then opium. Small vessels (*banting*, *gonting*, *baluk* and *chialop*) sailed by non-Johor Malays, Acehnese and Chinese, additionally paid both a poll and prouw tax.⁹⁵ As the number of Chinese in Malacca increased, the gambling farm had become quite lucrative. As mentioned previously, closed tenders accounted for missing data from 1744 to 1778.

Figure 9. VOC Malacca: 1681-1795, large tax farm-lease fees⁹⁶



⁹² Vink, above n 8, 82.

⁹³ Jacobs, above n 59, 206.

⁹⁴ Kam Hing Lee, 'The Shipping Lists of Dutch Melaka: A source for the study of coastal trade and shipping in the Malay Peninsula during the 17th and 18th centuries' in *Kapal dan Harta Karam, Ships and Treasure*, ed. Mohd Yusoff Hashim et al. (Persatuan Muzium 1985) 59.

⁹⁵ Ibid., 61-64.

⁹⁶ Source: Appendix A.

6 ANALYSIS OF TAX

The preceding graphs of quantitative data have shown that tax farm lease fees were significant. The significance of the fees provides a foundation for considering the main research question regarding the impact of VOC tax farm practices on Malacca's taxpayers. From this study's general observations of the VOC's tax system, the VOC accounted for tax farm lease fees as income to the company (see Figure 1). By contrast, in today's free-market economies, only governments collect tax revenue. Adam Smith observed the mercantile system's shortcomings when he advocated his theory that the ideal political economy contains an objective to supply the state with enough revenue for public services.⁹⁷ The VOC Malacca's Orphan Chamber and Burgher Fund were examples of privately funded institutions that served social and infrastructure projects. As part of Smith's legacy, the maintenance of public infrastructure is an expenditure of a modern government-run tax system. The reckless theft of Orphan Chamber funds by post-VOC Dutch Governor J.S. Timmerman-Thijssen (1818-1823), without thought to overriding social need, was an example of what Smith's tax governance maxims tried to address.⁹⁸

Tax farm lease fees contributed around 44% of overall revenue (see Figure 5) and were an important source of funds to cover VOC Malacca's administrative and garrison costs. They also minimised the need for subsidies from Batavia.

6.1 Analysis of taxpayers subject to customs and large tax farms

Other researchers have used basic shipping numbers as an indicator of trade growth. This study followed the precedent and used shipping data as an indicator of customs tax paid per taxpayer grouping.⁹⁹ Reid and Fernando expanded on the relationship between the size and number of ships to trade volume:

The largest ships were European, with the British East Indiaman plying between India and Canton in the 400 to 800 ton range, and most of the other English, Danish and French vessels between 150 and 500 tons. But in numbers, the small locally-based Indonesian and Chinese vessels, probably averaging about twenty tons, were overwhelmingly dominant, and tended to become more so. Although the larger European ships may have presented as much tonnage as the Southeast Asian craft, they probably represented a smaller share of Melaka's commerce since they tended to use the Dutch base more as a provisioning rather than a loading point.¹⁰⁰

Figure 10 highlights the number of ship arrivals at the port of Malacca by nationality or ethnicity during the period 1761 to 1785.¹⁰¹ It shows that the number of arrivals increased almost three-fold in 25 years: from 188 in 1761 to 539 in 1785. Nationality or ethnicity of

⁹⁷ Sutherland, above n 34, Book IV, 275.

⁹⁸ Ibid.

⁹⁹ The leading (English language) publications that present VOC Malacca shipping data as trade volume indicators are: Reid and Fernando, 'Shipping on Melaka', above n 41; Lewis, 'The Growth of the Country Trade', above n 69; Lee, above n 87.

¹⁰⁰ Reid and Fernando, 'Shipping on Melaka', above n 41, 68.

¹⁰¹ Ibid., 23. Reid and Fernando drew upon the VOC Harbourmaster records.

the ship's captain was important for taxation purposes; this does not reflect modern day practice where taxation is generally based on source of profits with some tax concessions dependant on the vessel's country of registration.

Figure 10. VOC Malacca: 1761 to 1785, number of ship arrivals¹⁰²

	1761	1765	1770	1775	1780	1785
Nationality/Ethnicity	Number of Ships					
Malay	54	197	135	182	178	242
Chinese	55	98	134	62	106	170
Acehnese	5	1		2		14
Bugis	7	7	63	76	66	1
Javanese & Madurese	3	5	3	1	4	
Dutch	4		1	3		
Burgher	11	13	8	3	5	2
English	17	25	40	56	54	37
Danish		1		1	3	4
French		2	4	5	2	4
Other European				1	2	
Arab	8	4	11	8	14	12
Indian	2					1
Moor	5	18	20	11	13	13
Portuguese	13	20	20	19	31	36
Spanish			1		1	
Swedish	1					
Turkish	1					
Others	2	2	5	4	5	3
Total	188	393	445	434	484	539

From 1761 to 1775, the number of English captains bringing in ships rose moderately. In contrast, the number of ships brought in under Malay and Chinese captains grew four-fold, from 99 in 1761 to 412 in 1785. As a result of the Bugis-Dutch war in 1784, there was a

¹⁰² Source: Reid and Fernando, above n 41, 23.

virtual disappearance of Bugis vessels in the following year, while the number of Moor and Portuguese vessels from south Indian and Macao (Macau) ports was relatively steady.¹⁰³ Generally, from 1761 to 1785, the numbers of non-European ships (particularly Malay and Chinese) increased consistently. With the exception of the Johor Malays, the burden of customs duties fell heavily and inequitably on these two racial groups; there was no modification for vertical equity considerations (ability to pay), the key shortcoming of a regressive tax system. Although progressive rates were introduced later, it was too late for Malacca, which had already begun losing its shipping trade to the duty-free port of Penang.¹⁰⁴

A surge in ship arrivals should have been reflected in increased VOC customs lease revenue, but it was found that this income did not increase in line with the rise in trade volume (see Figure 5). While the number of visiting large, inter-continental Portuguese vessels (for example) rose progressively from 1761 to 1785, and trade revenue increased, VOC customs lease revenue did not match the trend. Although the system of tax farming may have been efficient for the VOC, Smith's maxims of convenience and certainty were not met, as taxpayers were frequently overcharged for customs and the monies paid were subsequently diverted for private gain. Unfavoured taxpayer groups could not transcend the monopolistic customs tax. The lack of horizontal tax equity, where taxpayers of similar circumstances should be treated equally, discouraged non-Dutch sources of trade (such as the Bugis), and promoted smuggling and tax evasion. These negative practices were identified by Adam Smith as preventing optimal wealth creation.

The seventeenth century customs rates (Appendix C) show that privileged treatment was given to some, including the VOC's Johor and Siamese allies. Further, the privileges for the Johor elite continued into the eighteenth century.¹⁰⁵ In addition, VOC Governor David Boelen (1758-1764) privately owned four large ships, but paid no tax.¹⁰⁶

The unfairness of the tax farm system can be explained by critical tax theory. The customs farm regime could arguably be described as 'institutionally endorsed discrimination' against certain taxpayers across a wide geographic area. For instance, Portuguese nationals trading between Macao, Goa and Lisbon were subject to an additional 'Portuguese ship' tax. The Chinese and non-Johor Malays paid more tax because of their shipping volume, but Dutch burghers (whether free-settlers or ex-VOC) who were permitted intra-island trading, paid no tax. Small non-Johor vessels (banting, gonting, baluk and chialop) sailed by Malays, Acehnese and Chinese, additionally paid both a poll and *prouw* tax.¹⁰⁷

From Malacca's subjugation by the VOC in 1641, *ad valorem* customs duties were levied on all incoming and outgoing vessels. By 1668, the customs rates changed, providing early

¹⁰³ Ibid., 68.

¹⁰⁴ Hussin, *Trade and Society*, above n 19.

¹⁰⁵ The Johor elite were provided passes, so no customs duties were paid. Johor allowed their allies to fly the 'Johor colours' for a customs exemption as well, see Jacobs, above n 59, 207.

¹⁰⁶ Governor David Boelen owned four large vessels that were duty-free on arrival and departure from Malacca. (1758-1764) NA 1.04.02, VOC 8652, fol. 235-36, Lijst der aangekomen en vertrokken scheepen en vaartuijgen sedert primo, Januarij 1761.

¹⁰⁷ Lee, above n 87, 61-64. Kam Hing Lee, 'The Shipping Lists of Dutch Melaka: A source for the study of coastal trade and shipping in the Malay Peninsula during the 17th and 18th centuries' 61-64.

evidence of the discriminatory rate differentials based on criteria such as ally, enemy, nationality and ethnicity. It is acknowledged that by the eighteenth century there was a change in the tax basis of customs rates based on the size and tonnage of ships, but the underlying lack of horizontal tax equity during the VOC era remained.¹⁰⁸ Groups not aligned with the VOC were suppressed in their bid for free-market trading by the dominance of Dutch mercantilism and its practice of forced docking at VOC ports.

The larger goods and services tax farms levied imposts on Malacca's taxpayers by ethnicity. The Chinese community, for example, was subject to both poll and gambling taxes. These shortcomings of the VOC tax farm system were typical of what Adam Smith tried to address through his maxims on tax governance. Importantly, to enjoy widespread support, a tax system has to be perceived as fair.

6.2 Analysis of taxpayers subject to small tax farms

Under the treaty with the Johor Malays, the Dutch VOC had the right to collect a 10% tithe from the produce of Malacca territory land.¹⁰⁹ However, the VOC granted away the tithe collection to an exclusive group of individuals or family groups known as 'proprietors'.¹¹⁰ In return for the grants, the VOC expected the proprietors to facilitate an increase in the level of cultivation for the benefit of the wider community, but this was only marginally met.¹¹¹

A proprietor's income was nominally based on one-tenth of the rice cultivated on his land. Quite often, proprietors never bothered to visit their holdings, preferring to use a local headman (*penghulu*) to extract the tithes from Malay tenant cultivators.¹¹² This arrangement meant that the proprietors received less than the one-tenth tithe and the *penghulu* was free to extract as much as he could from the cultivators. The Malay cultivators responded to this lack of vertical equity (that tax should be proportionate to income) by only planting for subsistence.¹¹³ Given that the tithes were exacted at tolls on the roads and rivers to Malacca's markets, only cultivators who sold their surplus were taxed.¹¹⁴ From the viewpoint of Adam

¹⁰⁸ Ibid., 59.

¹⁰⁹ Straits Settlements Records (henceforth SSR) G/34 series. SSR/G/34/168, 5 July 1827, ff 108-247. Minutes of British Governor Fullerton, on the history of Malacca's land tithe arrangements with the Dutch & other with land proprietors'. Microfilm copy of Straits Settlements Records, Matheson Library, Monash University, Australia.

¹¹⁰ SSR/G/34/168, 5 July 1827, ff. 108-247. See also Thomas J. Newbold, *Political and Statistical Account of the British Settlements in the Straits of Malacca* 162-163.

¹¹¹ SSR/G/34/168, f. 252, Lewis for Garling 30 April 1828: The British uncovered a Dutch regulation dated 1 November 1755 issued by the Dutch Governor, Willem Decker (1753-1758). It compelled peasant tenants to clear and cultivate waste land around Malacca. The regulation evidences VOC perceived sovereignty however, the order failed for lack of incentive to the cultivator.

¹¹² SSR/G/34/168, 5 July 1827, f. 94, Diary entries of British Resident S. Garling: Landed proprietors abandoned their own and tenants' best interests by not 'residing on their estates' Refers to the 'sloth' of landed proprietors. See also Diane Kraal, *The Far East Remembered: Animal trading and change* (2009) 46.

¹¹³ SSR/G/34/168, 5 July 1827, f.187, diary entries of British Resident, S. Garling: made observations on the effects of the tax collector methods on taxpayers, 'Landed proprietors appear to assume the right of the sovereign and as a result the *penghulus*, who are not accountable to the police, are leading the tenants into vassalage.'

¹¹⁴ See eg, SSR/G/34/169, Malacca Diary, f.28, 6 January 1829. Collection of the tithe was made on the principle of a road duty.

Smith's maxims, the tithe was an inconvenient and uncertain arrangement for the cultivator.¹¹⁵

Tax farming may have been an efficient arrangement for both the Dutch VOC and proprietors, but tithe sharing with *penghulu* and the regressiveness of a tithe levied irrespective of crop type (whether rice, pepper or fruit) resulted in land holdings around Malacca being poorly maintained, underdeveloped or just left as swamp and jungle. Little was returned to community members by way of socio-economic expenditure.¹¹⁶

The VOC's revenue from small tax farms (e.g., betel and arak) was not reinvested to improve local community facilities (as advocated by Smith), since this was the responsibility of the privately sponsored Burgher Fund.

The slaughter tax on pork appeared to be inequitable and discriminatory, as pigs were eaten exclusively by the Chinese and Christian communities. The tax on cock fighting, a popular Malay recreation, was also discriminatory and horizontally inequitable (see Figure 8).

These cases illustrate a lack of 'governance' in the tax farming system. According to Adam Smith, 'as much as taxpayers contribute, in respect of their abilities, towards the support of government, the latter too has a role in protecting the interests of individuals, failing which it may diminish or even destroy some of the funds which it would otherwise garner.'¹¹⁷

7 CONCLUSION

This study's analysis of Dutch VOC tax farm lease revenue for Malacca was narrowed down to between 1770 and 1790, and is thus limited. Nonetheless, the value of revenue was found to be significant enough to justify further investigation into the impact of tax farms on the various societal groupings of Malacca taxpayers.

By referencing the four taxation maxims of Adam Smith (equity, efficiency, certainty and convenience), inequities were found in relation to customs farming. These inequities included institutionally endorsed discrimination against non-allies, competitors, and certain national and minority ethnic groups of taxpayers. In particular, there was a lack of horizontal tax equity. Smith called for an efficient mechanism so that penalties for the non-payment of taxes should not be excessive to the point of encouraging smuggling. Undermining the customs tax farms was the sanctioned diversion of a percentage of customs revenue to VOC officials.

As for the smaller tax farms, observations were made about vertically inequitable, uncertain and inconvenient payment arrangements that faced the typical agricultural Malay taxpayer. The flat, regressive rate of the tithe on all types of land produce negatively affected the ability of the proprietor to improve infrastructure as necessary to increase yields.

¹¹⁵ See eg, Sutherland, above n 34. Book III, ii, 9. Kathryn Sutherland, ed. *Adam Smith: An Inquiry into the Nature and Causes of the Wealth of Nations* 9, Book III, ii.

¹¹⁶ See eg, SSR/G/34/168 Report from Lewis, Superintendent of Lands, on private landholders, particularly ff. 50, 55, 56, 30 January 1828.

¹¹⁷ Smith, above n 38, 653-725.

A VOC marine officer based in Malacca for three months, A.E. Van Braam Houckgeest, criticised the VOC's commercial policy in a 1790 report.¹¹⁸ His critique referred to the 'freedom of the seas' in an attack on the VOC's policy of forcing shipping away from Malacca to Batavia. Van Braam claimed that by removing the VOC's trade monopoly, overall revenue would increase through reinvestment, while tolls and other taxes were recommended to be maintained. The Dutch VOC continued with tax farming (despite its shortcomings) to 1795. This may be explained by the institutional theory term, 'normative isomorphism'; the bureaucratically cumbersome VOC used the tax farming system as an easy choice, being a predominant norm as similarly practiced in eighteenth century Netherlands, France, Tsarist Russia, Ch'ing China and Mughal India. As Copland and Godley pointed out, tax farming was cost efficient for an institution, and a good conduit for quick capital raising.¹¹⁹ Reid claimed that the VOC developed a unique tax farm system in Java, consisting of 'an economic partnership between the Chinese and the Dutch.'¹²⁰ The same might also be concluded for VOC Malacca, but with a wider range of minority ethnic groups. Despite the VOC's rejection of the reforms in the 1741 Van Imhoff and the 1790 Van Braam reports, European support for the concept of free-market trading eventually gathered momentum in the eighteenth century, partly because of the dissemination of Adam Smith's theories through his *Wealth of Nations*. Smith went beyond the thinking of his time with an economic philosophy that 'markets must belong to everyone.'¹²¹

This study has drawn on the qualitative approach of critical theory to further an understanding of the global history of tax and revenue farming by considering eighteenth century Malacca. Findings suggest that the impact of tax farming in Malacca varied across groups of taxpayers, but was felt more negatively by minority and local Malay groups. This demonstrates why Adam Smith's governance maxims still guide government policy today. The study has shown the importance of the subsequent adoption of Adam Smith's tax maxims, which were applied in British Malacca from the 1820s. It sheds light on the VOC's tax farming practices (which were adapted according to local conditions) in an eighteenth century Dutch colonial outpost. The study has provided increased understanding of the tax farming system's practices and problems prior to the modern system of mixed direct and indirect taxation. Finally, further insight has been gained into how the VOC Malacca's eighteenth century tax practices were adapted in accordance with local conditions. An interesting topic of future research would be a comparative study of tax farming practices at other eighteenth century VOC trading ports.

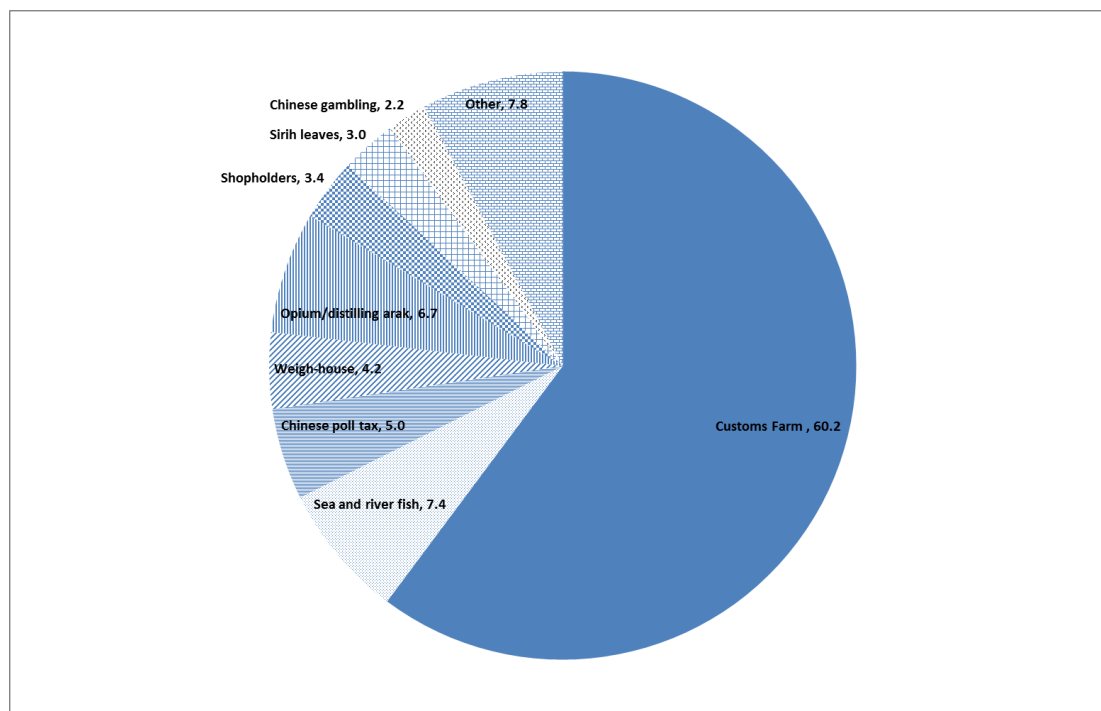
¹¹⁸ J De Hullu, 'A.E. Van Braam Houckgeest's *Memorie Over Malakka en den Tinhandel Aldaar (1790)*' (1920) 76 *Bijdragen tot de Taal-Land- en Volkenkunde van Nederlandsch-Indie*.

¹¹⁹ Copland and Godley, above n 7. Ian Copland and Michael R. Godley, 'Revenue Farming in Comparative Perspective: Reflections on Taxation, Social Structure and Development in the Early Modern Period'.

¹²⁰ Reid, above n 17, 79.

¹²¹ A Keller, 'Debating co-operation in Europe from Grotius to Adam Smith' in *International Co-operation: the extent and limits of Multilateralism*, ed. W W. Zartman and S Touvla (Cambridge University Press, 2010) 15-37.

APPENDIX A		VOC Malacca: 1681- 1796, Tax Farms (Rijks Dollars)																		
	1681	1742	1743	1779	1780	1781	1782	1783	1784	1785	1786	1787	1788	1789	1790	1791	1792	1793	1794	1795
Gentlemen's tavern		40	20	10	10	10	10	10 *	*	*	*		10	10	10 *	**		10	10	10
Shopholders	850	770	708	600	590	600	485	550 *	*	*	*		720	780	780 *	**		730	600	610
Fish and vegetable sellers	550																			
Timber cut from forest	100	70	75	740	510	610	450	370 *	*	*	*		770	545	645 *		455	305	285	230
Distilling arak	800	430	500	600	650	610	540	440 *	*	*	*		630	700	660 *		492	500	470	310
Slaughter tax	550	371	310	710	700	650	610	450 *	*	*	*		620	640	600 *		675	500	440	450
Cock fighting	30	80	60	25	25	25	25	25 *	*	*	*		25	25	25 *	**		25	25	25
Sirih or betel leaves	450	700	720	700	740	760	830	400 *	*	*	*		1000	940	780 *		845	700	700	850
Rice-sellers in the market	60	160	161	520	550	600	520	610 *	*	*	*		460	570	610 *	**		675	605	660
Draw-bridge over the river	50	40	30	210	270	225	160	170 *	*	*	*		250	250	250 *	**		250	255	310
Weigh-house	550	540	440	2400	2970	2320	1250	2300 *	*	*	*		2400	2765	2785 *	**		2780	2225	2225
Sea and river fish	1040	1500	1482	2100	2270	2440	2160	2200 *	*	*	*		3660	3605	3050 *		2835	2505	2300	2100
Inspection of weights and measures	100	140	120	180	170	155	150	150 *	*	*	*		130	200	155 *	**		130	140	60
Chinese gambling	600														*		6850	6970	5250	4295
Portuguese ships				1110	1060	1230	1420	1630 *	*	*	*		2500	2385	2505 *	**	-	-	-	-
Prouws		45	40	230	170	185	100	335 *	*	*	*		200	200	200 *	**		273	275	275
Chinese poll tax	400	1105	1168	1840	1780	2180	1320	1720 *	*	*	*		2390	2550	2340 *	**		1770	1075	1150
Opium				3010	3120	3660	3700	4600 *	*	*	*		6610	6745	5860 *	**		2550	2250	2550
Poll tax on prouws				470	470	420	445	420	17700	20530	19785	21140	610	505	490	20270	9463	350	280	330
Customs house++				63700	68350	59050	32400	60000	51000	52050	69150	66000	63250	68760	77780	74000	75000	77555	62050	42975
Total	6130	5991	5834	79155	84405	75730	46575	76380	68700	72580	88935	87140	86235	92175	99525	94270	96615	98578	79235	59415
Sources:																				
-Year 1681, Reid, above n 17, 75-76.																				
per VOC Generale Missiven, Vol 4 . 1675-1685, p.904																				
- Years 1742-1795, Hussin, above n 20, 422-423.																				
* All the farms were sold in sealed proposals.																				
** In 1792 the value of many farms were not known due to sealed tenders.																				
++ Hussin's data shows that Malacca customs duties tax farm was auctioned by the VOC from 1744. See for instance, customs farmer- Intje Soereen, VOC 8633/82, d.d. 23.2.1746.																				
Amsterdam chamber, microfilm records, Monash University, Australia: Matheson Library: 1772-73: VOC 3443; 1777: VOC 3495; 1778-79: VOC 3544; 1788: VOC 3812; 1780-81: VOC 3599; 1778-79: VOC 3907; 1789-90: VOC 3940; 1791-92: VOC 3961.																				

APPENDIX B.**VOC Malacca: 1681-1796 tax farm lease fees, average per cent share of revenue**

Tax Farm		Ave %tage			**Other - tax farm			Ave %tage
Customs Farm		60.2			Slaughter tax			2.1
Sea and river fish		7.4			Portuguese ships			1.2
Chinese poll tax		5.0			Rice-sellers in the market			1.1
Weigh-house		4.2			Timber cut from forest			0.8
Opium/ distilling arak		6.7			Fish and vegetable sellers			0.6
Shopholders		3.4			Inspection of weights and measures			0.6
Sirih or betel leaves		3.0			Prouw poll tax			0.4
Chinese gambling		2.2			River draw-bridge			0.4
**Other		7.8			Prouws			0.3
		100.0	Total		Cock fighting			0.2
					Gentlemen's tavern			0.1
								7.8
								Total

APPENDIX C.

Customs Rates Table, VOC Malacca, 1668			
		Rates as at 21 Sept. 1668	
Hours of Opening: Mon-Sat 07:00 to 11:00 & 14:00 to 17:00.			
Customs toll/duty (paid by Ships Captain)	Customer	Amt of toll/ import duty	Amt of toll/ export duty
Pepper, tin, resin	VOC /Johor nobles	Duty-free	
Tin	State of Johor	Duty-free	
Rice, buffalo	VOC /Johor Nobles	Duty-free	
Gold, silver, precious stones	VOC /Johor Nobles	Duty-free	
" "	non-VOC	10%	
Cloths, cattle, vegetables	non-VOC	10%	5%
VOC orchards	non-VOC	-	50%
Malacca private orchards	non-VOC	-	10%
Slaves	VOC /Johor Nobles	Duty-free	5 rks*
" "	non-VOC	10rks	10rks
(slave children, 50% disc.)			
Iron and lead	VOC /Johor Nobles	Duty-free	5%
" "	non-VOC	20%	5%
Coins	All	-	10%
Small wares: fowls, eggs, rattan etc.	VOC /Johor Nobles	Duty-free	-
" "	non-VOC	10%	5%
Moors /Portuguese: all goods	All	10%	10%
Non-Malaccans		Poll tax	5%
Inter-region trade	All	Levy/ Anchorage	-
Siamese ships	All	Duty-free	Duty-free
			*rks -rijks dollars

Sources: Amsterdam chamber, microfilm records, Monash University, Australia: Matheson Library, VOC 1266; and C.O. Blagden, 'Report of Governor Balthasar Bort on Malacca, 1678' (1927) 5(1) *Journal of the Malaysian Branch of the Royal Asiatic Society*, Translated by M.J. Bremner, 109-11.