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MALAYSIA'S LOCALIZATION POLICY AND ITS IMPACT ON BRITISH-OWNED ENTERPRISES

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INTRODUCTION

SINCE the early 1970s and the introduction of its New Economic Policy (NEP), the Malaysian government has brought about the localization of numerous foreign-owned enterprises. This paper looks at the process of localization that has taken place under the new policy, particularly as it has affected British-owned enterprises. It also looks at the capital restructuring (meaning the increased participation of Bumiputera capital) that has taken place and the role that localized British enterprises have played in promoting industrialization in Malaysia.

A large part of British enterprise in Malaysia traces its origin back to the colonial period and the colonial investment that went into the primary products sector. Since independence in 1957 when Malaysia began to promote industrialization, other British enterprise have appeared which have been advancing into new industries. This paper looks at changes in the older form of British enterprise through a study focusing on two companies, Sime Darby Berhad and the Malaysia Mining Corporation Berhad (MMC), firms which were first localized, then bought up by Bumiputera capital, and which have gone on to achieve spectacular growth.

I. THE SITUATION PRIOR TO THE NEW ECONOMIC POLICY

On May 13, 1969, Malaysia was shaken by the outbreak of ethnic rioting which continued for the next several days. In response the government declared a state of emergency and vested all authority in a National Operations Council headed by Tun Razak, then deputy prime minister. On July 1, Razak announced that henceforth Malaysia's economic policy and development strategy was to take a new direction under what he called a New Economic Policy. In October of that year Razak took office as the country's second prime minister, and work was begun to draw up the Second Malaysia Plan, which was to commence in 1971, within the framework of the NEP. Thereafter for the next twenty years, through the Fifth Malaysia Plan (1986–90), this policy was maintained as Malaysia's long-term development strategy.

The major difference between the NEP and economic planning under Malaysia's previous five-year plans was the emphasis that the former placed on correcting the economic disparities existing among the country's three ethnic groups; and to bring about this end, the government intended to intervene directly in the commercial and manufacturing sectors. Until the introduction of the NEP, the government had largely limited its role in economic development to the agricultural sector. Here it had carried on such work as improving public welfare facilities, expanding the use of irrigation and drainage equipment, and providing financial assistance and high-yielding varieties to help farmers. These efforts to assist the Malays were carried on through public enterprises like the Rural and Industrial Development Authority (RIDA, set up in 1952), the Federal Land Development Authority (FELDA, set up in 1956), and the Federal Agricultural Market Authority (FAMA, also set up in 1956).

Government effort to promote Malay participation in commerce and industry was limited to an indirect nurturing type of policy that worked to improve education, gave preferential license allocations to Malays, and was supported by Malaysian Industrial Development Finance Berhad (MIDF) set up in 1960. This approach meant a continuation of the colonial laissez-faire system where British and Chinese capital retained their control over the commercial and industrial sectors. It was premised on the principle of reconciliation among the three ethnic groups and was the approach taken by Malaysia's first prime minister, Tunku Abdul Rahman. However, this approach led finally to the ethnic violence that broke out on May 13, 1969. Following the May 13 incident, Razak realized that the government needed to intervene directly to promote the economic position of Malays and thereby to ensure Malay political predominance.

Even before the May 13 incident there had been calls from Malay community for direct government intervention. In response to these calls, two Bumiputra Economic Congresses (Konggeres Ekonomi Bumiputra), were held, the first in 1965, the second in 1968. Prominent Malay businessmen gathered at both congresses to reexamine official economic policy and to look at possible direct government intervention into the commercial and industrial sectors. At the first gathering in 1965 participants brought up the example of Meiji Japan to emphasize the indispensable role that government played as a strong, effective organizer. At the second congress the participants passed resolutions favoring direct government intervention in the commercial and industrial sectors to accumulate Malay capital, stressing the possibility of a worsening in the already unequal distribution of income and wealth during the early stage of the country's industrialization. Public enterprises became an important instrument for accumulating capital on behalf of the Malays. Such capital accumulation has remained the most important point of the NEP, and it is apparent that these public enterprises became the government's specific instruments for industrial development under the NEP.

II. PERNAS AND PNB

The two primary objectives of the New Economic Policy were the elimination of poverty irrespective of ethnic background, and the revamping of the social structure to remove economic disparities between ethnic groups as well as localities. The indigenization of stock ownership and management was seen as a substantial policy measure that would work towards a reordering of the social structure, and the objective by 1990 in equity capital holdings and in executive positions was to have the distribution among the different ethnic groups approaching 30 per cent Malay, 40 per cent non-Malay, and 30 per cent foreign. In reality, however, there existed no tangible plans or measures for introducing Malays into executive positions, and this objective remained one in name only.

Three approaches were used to carry out the government's objectives. The first was to have the government invest its own enormous capital into the establishment of public enterprises. These enterprises then undertook the accumulation of capital in place of individual Malays because of the insufficiency of Malay capital and managerial skills. Ultimately this capital investment was to be transferred over to private Malay individuals. However, because of the insufficient number of trained Malay management people and the politically inspired growth of public enterprises, the economic inefficiency of these enterprises became a problem, and during the latter half of the 1970s economic stagnation in Malaysia became increasingly apparent. To overcome this problem the government began considering the idea of privatizing public enterprises.

The second approach was to legislate the Industrial Co-ordination Act (ICA) in 1975 which legally mandated the participation of Bumiputera capital in the economy. The ICA replaced the use of administrative guidance which was followed during the first half of the 1970s to promote the participation of Bumiputera capital. The third approach was to have the Ministry of Trade and Industry's Bumiputera Participation Division temporarily reserve stocks acquired through the second approach and to transfer these to Bumiputera at an appropriate stage in the future. The government moved ahead with localization by having public enterprises buy out British capital investment in the primary products sector. In the manufacturing sector it relied on administrative guidance and the ICA to localize British investment. In the latter sector the government was far more interested in the ability of British enterprises to procure capital and British technology than in localization. In 1986 the government greatly deregulated the ICA to stimulate a greater inflow of foreign capital. To channel foreign investment into the production of export commodities (and most British manufacturers are export-oriented), the government suspended the obligatory participation of Bumiputera capital stipulated by the ICA [14].

Most of the equity capital that had come under Bumiputera ownership by the first half of the 1980s was British investment in the primary products sector which had been bought up by public enterprises. In other words, Bumiputera capital accumulation up until then had not taken place spontaneously; rather it was policy carried out "from the top." This policy was directed at the primary products sector where the public enterprises carried out their role of capital accumulation, while they simultaneously broke down the colonial economic structure. The two enterprises directly involved in this work were Perbadanan Nasional Berhad (PERNAS, the National Corporation) and Permodalan Nasional Berhad (PNB, the National Equity Corporation).

PERNAS was set up in November 1969 as a wholly government-owned company to carry out the resolutions passed at the second Bumiputra Economic Congress. Set up under the Companies Act of 1965, a quorum of stockholders was required;

these holders included the Ministry of Finance, Bank Negara Malaysia (the Central Bank of Malaysia), and the Bank Bumiputra Malaysia Berhad. PERNAS was put onto a solid footing during the presidency of Tengku Tan Sri Razaleigh Hamzah (1970–74), who had been the minister of finance from 1976 to 1984. Its principle objectives were: (1) to enter into undertakings which would bring high economic returns; (2) when entering into joint ventures, PERNAS was to be the majority stockholder with controlling interest over operations; (3) Bumiputeras were to be employed at all levels of its operations and undertakings.

In line with these three objectives PERNAS set up a total of eight subsidiary companies by 1974. The first was Malaysian National Insurance organized in April 1970. There followed during 1971 Pernas Construction Sdn. Bhd., Pernas Properties Sdn. Bhd., Pernas Trading Sdn. Bhd., Pernas Engineering Sdn. Bhd., and Pernas Securities Sdn. Bhd. In 1973 came Pernas Mining Sdn. Bhd., and in 1974 Pernas Edar Sdn. Bhd. As their names indicate, these companies were involved in insurance, construction, real estate, trade, engineering, securities, mining, and in the wholesale/retail sector where they were to carry out the government's Bumiputera policy using the government's huge capital resources to purchase stock and form joint ventures, as well as through political negotiations. By 1988 PERNAS had grown into an enormous enterprise with seventy subsidiaries and eight affiliated companies under its wings. During the first half of the 1970s PERNAS actively sought to set up joint ventures with Japanese, American, and European companies, but from the latter half of the 1970s, it began putting priority on acquiring stock in existing foreign firms operating in the primary products sector. The main target was British investment which had dominated mining and large-scale agriculture since colonial times.

The second important corporate player in government policy was PNB, set up in April 1978 to accumulate and manage capital on behalf of the Malays. In 1961, well before PNB, the government had organized the National Investment Company (NIC) which had worked to increase the ratio of Malay-owned capital in the manufacturing sector. Then in 1965 the Ministry of Trade and Industry made it obligatory for companies receiving preferential tax treatment as pioneer industries to have 10 per cent of their equity capital allotted to Malays. These allotted stocks were held by the ministry under the management of its Bumiputera Participation Division. However, neither the NIC nor the Bumiputera Participation Division could prevent Malay stock recipients from selling to Chinese in order to obtain the capital gains, and the system was not effective in promoting Malay capital accumulation.

To correct the situation, the government became more watchful when making transfers of accumulated equity capital by the government to see that no resales of stock to non-Malays took place, and it was careful to guard against stock transfers becoming concentrated in any particular Malay social stratum. To achieve these ends, the government introduced a new "unit trust scheme" for the Malays, and in April 1978, PNB along with Yayasan Pelaburan Bumiputera (YPB, the Bumiputera Investment Fund) were organized to carry out the new scheme. There followed in 1979 the establishment of Amanah Saham Nasional Berhad

(ASNB, the National Investment Trust Company) as a wholly owned subsidiary of PNB. YPB worked as PNB's investment planning and decision-making body, and Prime Minister Mahathir has been its head. Following YPB planning, and using YPB interest-free loans, PNB acquired at face value the stock of highly profitable companies from among the stock holdings aquired by the Ministry of Trade and Industry and from those held by public enterprise subsidiaries and affiliated companies. Then from April 1981 PNB began moving into the investment trust business, working through the ASNB and aiming its efforts specifically at Malays as individuals.

PNB has been able to borrow interest-free and non-collateral loans from the government. Apart from the stocks acquired from the government and public enterprises, PNB itself has used its borrowed government capital to make huge investments. These investments are concentrated in the plantation, financial, and industrial sectors.[1] The investment into plantations has been aimed primarily at buying up British enterprises; most of that going into the financial sector has been for buying up Chinese enterprises. Both of these sectors have maintained high rates of profitability, which means that these are the most effective sectors to invest in to raise the ratio of equity capital owned by the Malays; likewise it is in keeping with the investment strategy of the government's Bumiputera policy.[2]

III. THE LOCALIZATION OF BRITISH INVESTMENT

In 1970, prior to the implementing of the NEP, plantation agriculture and the mining and industrial sectors (which included manufacturing and construction) were made up of joint-stock and non-joint-stock companies.[3] Of the former, 70.8 per cent of fixed capital in plantation agriculture, and 57.8 per cent in the mining and industrial sectors was made up of foreign, mainly British, capital. By comparison, Malay capital in the same sectors came to less than 1 per cent [10, p. 12]. Between 1973 and 1982 the government undertook a thorough restructuring of capital investment in plantation agriculture and the tin mining industry, which British capital had long dominated. Using PERNAS and PNB, foreign investments were bought up and put under the control of public enterprises (see Table I regarding the agency group). This period of restructuring came in the wake of the first oil crisis which brought a slump in primary-products exports and constraints on outlays of financial capital. These effects slowed the overall expansion of equity-capital acquisition by public enterprises. However, the rate of Bumiputera capital ownership in the tin mining industry increased greatly, from less than 1 per cent in 1970, to 8.5 per cent in 1980, and finally reaching 34 per cent in 1982.[4] In the plantation agriculture sector also, Bumiputera capital ownership increased greatly. By 1982, 31 per cent of the total area cultivated by joint-stock company

1 See Table VIII in the article by Horii in this special issue.
2 For the ratio of equity capital owed by the Malays, see the article by Yasuda in this special issue.
3 FELDA encompasses the sector of non-joint-stock companies.
4 The figures for the 1980s are from [11, pp. 89, 100].

TABLE I

TEN LARGEST ESTATES AGENCIES IN THE EARLY 1980s

	Agency Group	Total Land Holdings (1,000 ha)	Major Stockholders (%)
1.	Guthrie Ropel Bhd.	75	Kumpulan Guthrie Bhd. (wholly owned subsidiary of PNB (60)
2.	Sime Darby Bhd.	72	PNB (60), MMC (18.1)
3.	Harrisons Malaysia Plantations Bhd.	72	PNB (58.5), Harrisons & Crosfield (30.3)
4.	Kuala Lumpur Kepong Bhd.	64	Batu Kawan Bhd. (Lee Loy Seng) (42); BSN (3), FELDA (3) [Bumiputera (20.22)]
5.	Highlands & Lowlands Bhd.	29	Kuala Lumpur Kepong Bhd. (26.2); ASNB (13.1), PNB (13.1), FELDA (7.0) [Bumiputera (35)]
6.	Boustead Holdings Bhd.	28	FELDA (25.0), LTAT (25.0) [Bumiputera (60)]
7.	Asiatic Development Bhd.	23	Genting Bhd. (51), LTAT (30)
8.	Dunlop Estates Bhd.	22	MPHB (60.9); BSN, etc. [Bumiputera 3.43]; Aseam Malaysia Nominees (30.3)
9.	United Plantations Bhd.	20	FIMA
10.	Barlow Plantations Bhd.	14	PNB (40), Perlis Plantation Bhd. (30)

Source: Fujio Hara, "Shin keizai seisakuka no kajin kigyō" [Chinese enterprises under the New Economic Policy] in *Gendai Marēshia no shakai, keizai henyō* [Socio-economic transformation in modern Malaysia], ed. K. Horii and Y. Hagiwara (Tokyo: Institute of Developing Economies, 1988), p. 183. Original sources are *Quartely Economic Bulletin* (Associate Chinese Chambers of Commerce and Industry of Malaysia), No. 28 (July 1982) and Kuala Lumpur Stock Exchange, *Annual Companies Handbook*, Vol. 10 (Kuala Lumpur, 1984).

Notes: 1. ASNB = Amanah Saham Nasional Bhd. BSN = Bank Simpanan Nasional Malaysia. FELDA = Federal Land Development Authority. FIMA = Food Industries of Malaysia. LTAT = Lembaga Tabung Angkatan Tentera (Armed Forces Provident Fund). MPHB = Multi-Purpose Holdings Bhd. PNB = Permodalan Nasional Bhd. (National Equity Corporation).

2. The Malayan Banking Bhd. provided 50.0 per cent financing to Aseambankers Malaysia Bhd. (established 1973), parent company of Aseam Malaysia Nominees Sdn. Bhd.

3. Figures in parentheses indicate percentage of financial contribution.

plantations had been bought up by Bumiputera capital; by 1984 it was 32 per cent. Thus the 30 per cent target for Bumiputera ownership set by the government was achieved in a comparatively short period of time in the primary products sector. This contrasts with the difficult progress that was taking place overall in the restructuring of capital ownership.

Tin mining in Malaysia was already taking place in the first half of the nineteenth century, carried on by overseas Chinese using open-pit mining methods. Around the middle of the century, with the exhaustion of the tin mines in Cornwall, British capital which utilized dredge-mining techniques began flowing into Malaya looking for new sources of tin. Initially, however, dredge-mining methods proved ill-suited for local mining conditions, and Chinese capital continued to dominate the industry. Then after the First World War as shallow tin deposits became exhausted, dredge mining came to the fore, and British capital rose to overwhelming predominance. Thereafter a prominent characteristic of Malaya's expanding tin mining industry was the coexistence of a few large-scale highly capitalized British companies alongside a large number of small, even tiny, labor-intensive Chinese companies.

Until bought up by PERNAS, Malaysia's tin mining sector was dominated by two British companies, London Tin (LT) and Charter Consolidated, Ltd. (CC). LT was organized in London in 1925; it grew into the world's largest tin mining group with operations in Malaysia, Thailand, Burma, Nigeria, and Bolivia. CC began mining tin in Malaysia in the 1960s. The company was part of the Anglo-American group, the mining group which dominates the mining industry in South Africa. CC is a multinational enterprise involved not only in the development of mineral resources, but also operates as a merchant banker financing mining ventures.

Malaysia's tin smelting sector was in the hands of two companies, the Straits Trading Company (ST) and Datuk Keramat Holdings (DKH). ST was established in Singapore in 1887 and operated a tin smelter in Penang. During the 1960s the company embarked on a diversification of its operations, moving into real estate, plantations, and other ventures. It had as its major stockholder the Oversea-Chinese Banking Corporation, Ltd. (OCBC)[5] [9, Chap. 7]. DKH was a subsidiary of the London-based Consolidated Tin Smelter Company.

In Malaysia's commercial crops sector, rubber and oil palm have been the most important. The country is the world's leading producer of these two commodities, and in peak production years it has supplied 60 per cent to 70 per cent of the total volume of world exports in both. Rubber and palm oil were developed as international agricultural commodities through the efforts of British trading companies called agency houses such as Sime Darby Holdings, Ltd. (SDHL), Guthrie Corporation, Harrisons & Crosfield, Ltd. (H & C), and Barlow Boustead, Ltd.

Following independence, the first development strategy of the alliance government that took power was concentrated on the agricultural sector. Within this strategy, the government's approach to the production of commercial crops was to used public enterprises like FELDA to build up a sector of small-scale Malay farmers alongside the already existing sector of large-scale production being carried on by British capital. The government was not aiming at the immediate nationalization of British investment; FELDA's production facilities and distribution network were still deficient, and the government wanted to rely on British investment while it gradually built up FELDA's operations to a self-reliant level. The government left the large-scale agricultural production sector as it was, but it

[5] OCBC had been formed in 1932 through the merger of three overseas Chinese banks.

began to restrict the sale of land to British companies which had always taken the lead in developing that sector. Directly confronted by the changing government strategy, British companies sought to protect their interests in commercial crop production by strengthening their control over the group. These British concerns turned themselves into holding companies, and their plantations which had maintained their own separate boards of directors and carried on independent operations were turned into subsidiaries and put under the direct control of the holding companies. By reorganizing and setting up a centralized control structure, the companies were trying to eliminate intervention by the government and other outsiders in their operations; at the same time the companies were trying to steer the surplus capital they gained as a result of improved efficiency [13] toward investments into high-yield sectors inside and outside of Malaysia. In other words these companies were both multinationalizing their business ventures and moving into manufacturing fields within Malaysia. H&C began to multinationalize its operations just prior to the Second World War; Guthries did likewise during the 1960s, and SDHL during the 1970s. Within Malaysia, these companies began advancing into manufacturing during the later half of the 1960s. This advance brought about an expansion of trade which in turn required the companies to upgrade their trade-connected operations in insurance, finance, and maritime shipping. As a result, these British concerns which had begun as traders during the first half of the nineteenth century now formed into conglomerates composed of companies spanning numerous sectors which included trade, large-scale agriculture, tin mining, manufacturing, real estate, insurance, finance, and maritime shipping. In the meantime, the SDHL group linked up with the OCBC group. In 1976, when it began to be localized by PERNAS, SDHL's net assets were worth 715 million ringgit. Ownership of its 190 million stocks was distributed among twenty-five thousand stockholders. The largest stockholder at the time was OCBC which owned 9 per cent of SDHL's stock. In that same year OCBC was a major stockholder in six foreign (mainly British) companies where it owned between 9 per cent and 48 per cent of the stocks. Along with SDHL another of these six companies was the already mentioned ST. OCBC maintained a controlling interest in these companies through the appointment of its own people to their boards of directors. Through OCBC's stock holdings and the concurrent posts held by its directors in SDHL, the SDHL group together with the OCBC group formed in the mid-1970s Malaysia's largest business group, the OCBC–Sime Darby group.

For the Malaysian government, these new groupings did not conform well with its efforts to develop the country's economic self-reliance. British and Chinese capital continued to dominate the production and distribution of the international commodities that were an important source of Malaysia's foreign exchange, and their plans to multinationalize operations opened up the possibility that these long-standing British companies would reinvest the profits they made in Malaysia into other countries. These were problems the government had to deal quickly.

The government began with the tin mining industry where PERNAS started buying up British investment. In 1973 PERNAS set up New Trade Winds (NTW) under its subsidiary, Pernas Securities Sdn. Bhd. The purpose of the new venture was to buy up the London Tin Corporation (LTC), the holding company for LT [8, pp. 199–200]. After acquiring LTC, NTW was renamed the Malaysia Mining Corporation Bhd. (MMC). MMC next succeeded in forming an affiliation with CC through an exchange of stock with that company. MMC thereby became the biggest tin mining company in the world with 71.35 per cent of its stock held by Pernas Securities Sdn. Bhd. and the remaining 28.65 per cent held by CC.

However, when this buy-up by PERNAS took place, there was an insufficient of Malays with management skills, and the government had no other recourse than to leave the pre-buyout staff in place to run the new enterprise.

In Malaysia's primary products sector, the managing agency system, which characterized the colonial period, remained well developed and firmly in place. Under this system, capital was raised on the British capital market and channeled into Malaysia, but the actual decision-making and operating of a tin mining company were undertaken by a British managing agency based on a contractual agreement with the company's board of directors. Anglo-Oriental was the agency for LT; CC's agent was Associated Mines. These managing agencies undertook the actual operation of the mining companies. PERNAS too, after setting up MMC, carried on with this same style of management. In partnership with CC, and with each company putting up 50 per cent of the paid-up capital, PERNAS set up a new company, Pernas Charter Management, to take charge of managing the new mining company. The new agency simply took over the staff of Associated Mines, CC's managing agency.

Tin mining is a nonrenewable resource sector. Up to the First World War, the volume of tin exports ranked with rubber in importance. Thereafter tin ore exports as a ratio of Malaysia's total exports steadily slid downward, until by 1985 they made up only 3.0 per cent of the country's total exports, and the work force employed by the industry had fallen to only 0.4 per cent of total industrial employment. It is truly "a dying industry" (Lim Keng Yik, 1985, then head of the Democratic Action Party), and today the government is making efforts to convert mining land to agricultural production [7, p. 315]. The coming of aluminum also lowered the demand for tin plate which resulted in a substantial decrease in the demand for tin. During the mid-1980s tin prices dropped, and a growing number of small-scale mine operators closed down [6, p. 305].

To cope with these difficulties, MMC carried out a series of measures which included setting up joint ventures in partnership with state government capital, enlarging production scale through mergers with its own subsidiaries, strengthening management by reorganizing affiliated companies into subsidiaries, and undertaking vertical integration with moves into the smelting and marketing sectors. These move began with the establishment of MMC Marketing in August 1979 through which MMC began handling the direct sales of tin. In June 1980, MMC (which by then was 71 per cent government-owned and 29 per cent British-owned) reached an agreement with the Selangor state government over the development of the Kuala Langat mine. The two sides set up Kuala Langat Mining Company, a joint venture funded 65 per cent by Kumpulan Perangsong Selangor Berhad, which was wholly owned by the Selangor state government, and 35 per cent by MMC [3,

p. 334]. In April 1981, MMC took over Malayan Tin Dredging, one of its own affiliates in which it held a 39.2 per cent share.

These moves made MMC the largest tin concern in the world with an annual tin smelting capacity of 17.7 thousand tons (around 20 per cent of Malaysia's total production), and owning thirty-eight of the fifty-five dredgers operating in the country. It also entered into diamond mining through an Australian subsidiary. Its major stockholders were PNB (56.6 per cent), CC (14.5 per cent), and DKH (3.8 per cent). In August 1981 MMC in partnership with ST organized the Malaysian Smelting Corporation (MSC); 58 per cent of the paid-up capital was put up by ST, 42 per cent by MMC. MMC then sold off its tin smelting and related businesses to MSC.

Sime Darby began trading and working as a plantation managing agent in Malacca in 1910. In 1958 the company was reorganized as a British registered holding company and renamed Sime Darby Holdings, Ltd. (SDHL) [12]. During the latter half of the 1960s, the company introduced a new two-pronged strategy which brought about spectacular business growth. The first and more important part of the new strategy was to strengthen and expand the company's ongoing plantation operations and keep them as the core of SDHL's business. To carry this part out, SDHL reorganized its affiliated rubber companies into subsidiaries to strengthen control over its group; it also began buying up stock in the subsidiaries of other British concerns such as Guthries and H&C. In making its plantation operations the strategic area of its business operations, SDHL was making Malaysia the center of its business activities. Even in the latter part of the 1970s, after the company had begun to multinationalize itself, three-quarters of its fixed assets still remained in Malaysia, and it earned over 80 per cent of its profits there. By comparison, sales achieved by Guthries' plantation operations in 1977 had dropped to 24.9 per cent of that company's total sales, and those for the whole Southeast Asian region had fallen to 30.6 per cent of total sales.

The second part of SDHL's new strategy was to diversify and multinationalize its operations. This was carried out through aggressive company buy-ups. SDHL had no base of its own in the manufacturing sector, thus diversification and expansion into this industry was not through internal company growth, but through buy-ups of existing enterprises. During the 1960s it had begun to move into Malaysia's manufacturing sector. With the coming of the 1970s, much later than other British trading companies in Malaysia, SDHL began to multinationalize its operations through buy-ups of companies in Hong Kong, Singapore, Britain, the United States, and Australia. In Hong Kong and Singapore it moved into such diverse fields as air conditioner maintenance, construction materials and automobile sales, as well as the food and beverage trade; in Britain and Australia it became involved in plastic and metal products manufacturing.

In 1975 PERNAS, through its Pernas Securities subsidiary, purchased 5.6 per cent of SDHL's stock. This rose to 8.7 per cent in 1976, then 19 per cent in 1977 [1, p. 1]. Negotiations took place several times between the Malaysian government and SDHL over localization of the company; however neither side was willing to make concessions, and negotiations broke down. At the time the government had just made huge capital outlays to buy up LT, and it would have been difficult financially for it to have also bought out SDHL. At this juncture the government proceeded to place a majority of Malaysians on SDHL's board of directors and thereby push through localization of the company. This took place in November 1976 when the government opposed the reelection of four of the British directors. At the time seven of the eleven directors were British. The government then waged a proxy battle for the placing of three Asians on the board. At the time, the distribution of SDHL's stockholders by nationality was 48 per cent Singaporean, 36 per cent Malaysian, 10 per cent British, and 6 per cent Hong Kong. With the start of the proxy battle, the Singaporean stockholders gave their proxies to SDHL; the British and Hong Kong stockholders, however, gave theirs to PERNAS, apparently because they wanted to avoid upsetting the Malaysian government. OCBC, which owned 9 per cent of SDHL's stock, likewise did not wish to upset the government and remained neutral in the battle, which pleased PERNAS. The outcome gave PERNAS nearly 30 per cent of the proxies, while SDHL picked up a little over 20 per cent. This victory allowed PERNAS to put its three people on SDHL's board of directors. These were: Chan Chin Cheng (a director of Bank Negara Malaysia), Taib bin Haji Andak (a director of Malayan Banking Berhad), and Tan Siew Sin (a former minister of finance). Until then the only Asian members on SDHL's board had been the three sent by OCBC. One of these included Tan Siew Sin who had also become PERNAS's representative. With the addition of the new people, five of SDHL's eleven directors were now Asians.

In November 1979, PERNAS placed three more of its people on the board: Tunk Yahaya (a nephew of former prime minister Rahman), Sixto Kalaw Roxas (president of Bancom Development Corporation, an investment company in Manila), and Wee Cho Yaw (president of United Overseas Banking in Singapore). This made eight of the people on the board Asians and gave PERNAS control of SDHL. Finally in December 1979, SDHL became Sime Darby Berhad, a Malaysian registered holding company, with Tan Siew Sin as president.

IV. THE SIME DARBY GROUP AND MMC IN THE 1980s

Malaysia began its industrialization policy the year after gaining independence when the government enacted the Pioneer Industries Ordinance. Following implementation of the NEP, enterprises tasked with industrialization were expected to contribute toward the objectives set forth in the NEP; for this reason Malaysia's industrialization has not always followed economic rationality. With the coming of the 1980s, several problems arose in the implementation of the two primary national objectives of the NEP. Industrialization began to evolve to a higher level while difficulties in the public enterprises implementing the NEP reached a critical juncture.

Looking at these developments more closely—following the rise of the export industries sector built up with foreign capital during the 1970s, the government in the 1980s began to foster the heavy industries sector. In 1980 it set up the

Heavy Industries Corporation of Malaysia. Using this new entity to promote heavy industrialization, the government itself entered into the heavy industries sector, concentrating its efforts on the automobile industry. At the same time, questions began to arise about the economic performance of the electrical and electronics industries, and the textiles industry which the government had promoted since the 1960s and which now formed the core of Malaysia's export industries. In response the government decided that more emphasis needed to be put on industrializing the processing of domestic resources, notably rubber, palm oil, and lumber, to make these another mainstay in the country's export industries. This decision was set forth in the *Mid-Term Review of the Fourth Malaysia Plan, 1981–1985* which was published in 1984.

Another problem that arose was the fall in the price of primary products due to the worldwide economic recession that set in at the start of the 1980s. This squeezed Malaysia's financial resources which depend greatly on the export of primary products. To improve its financial situation, the government increased efforts to mobilize private capital. One step was to strengthen the incentives for foreign capital investment. Another was a plan to privatize the public enterprises which the government drew up in 1983. This plan came in the wake of the economic stagnation that had beset these enterprises since the late 1970s. The problem stemmed from the lack of sufficient managerial experience at upper management levels and plagued in particular enterprises connected with the various State Economic Development Corporations (SEDC).[6] But a variety of problems have stood in the way of privatization. There has also arisen the dilemma that in deregulating to entice more private and foreign investment, the government's localization policy has come to a standstill in some sectors of the economy. Under these more trying conditions of the 1980s, the Sime Darby group and MMC carried on the government's industrialization program largely in the four areas discussed below. Their efforts further contributed to the localization of capital in the economy.

The first area of work was connected with heavy industrialization where the Sime Darby group and PERNAS formed a joint venture, PERNAS–Sime Darby group, and entered into automobile manufacturing. This venture has continued with the task of developing this industry. Among the British concerns in Malaysia, Sime Darby was quickly selected to set up the joint undertaking with the government as a management strategy. Unlike Guthries or H&C, Sime Darby made Malaysia the center of its business operations, and to succeed in growing in Malaysia, it has had to avoid strained relations with the government. Thus in 1972 SDHL went in together with PERNAS to set up a holding company, Pernas Sime Darby Holdings Sdn. Bhd. (PSDH), 51 per cent owned by PERNAS and 49 per cent by Sime Darby. PSDH moved into the automobile industry through

[6] In 1979, eleven of Negeri Sembilan's SEDC subsidiaries were insolvent or nearly so, including its largest, Negeri Sembilan Sugar Refining Bhd.; in Penang, only three of the seventeen companies were operating in the black; and of the fourteen in Johor, six companies had already gone bankrupt [2, p. 385].

buy-ups of existing foreign enterprises.[7] It began in 1981 with the purchase of Associated Motor Industries (Malaysia) Sdn. Bhd., an assembly plant belonging to Wearne Brothers, an Australian trading company. For the Sime Darby group, PSDH's entrance into the automobile industry brought a further diversification of the group's business operations. In 1988 the group carried out an internal reorganization. At that time PSDH sold its automobile subsidiary to the Sime Darby group's tractor division, Tractors Malaysia Holdings, Ltd.[8] During the 1980s, PSDH's market share was never large; nevertheless, Sime Darby's participation with PERNAS in establishing this joint venture must be seen as a noteworthy contribution to heavy industrialization in Malaysia.

The second area was fostering processing industries which utilized domestic primary products. This was brought about through advances into manufacturing industries related to this sector, the first such movers taking place in tire manufacturing. Three big tire manufacturers were operating in Malaysia by the first half cf the 1980s. These were Dunlop Malaysia Industries Bhd. (DMIB), a subsidiary of Dunlop Holdings (DH); Goodyear Malaysia Bhd.; and IT International Sdn. Bhd. In 1981 the Sime Darby group acquired a 54 per cent share in the Philippine subsidiary of the American tire maker, B. F. Goodrich [15, 1981 edition, p. 16]. Then in July 1985 it acquired a 51 per cent share of DH's Malaysian subsidiary, DMIB, and expanded its business in tire manufacturing as well as going into sports wear production [15, 1985 edition, p. 13].

Back in September 1981, DH had sold stocks from its plantation business subsidiary, Dunlop Estates Bhd., to Multi-Purpose Holdings Bhd. (MPHB), a holding company linked to the Malaysian Chinese Association (MCA). DH was said to have done this because of a possible buy-up by PNB, and it sold to MPHB to stop any further buy-up of its stock by Bumiputera capital [8, pp. 212–13] [4, p. 37]. Later, however, DH built up huge liabilities due to the economic slump, and to raise capital it sold DMIB to the Sime Darby group. In 1984 PERNAS–Sime Darby acquired a 30 per cent share of IT International Sdn. Bhd. Earlier they had also advanced into the biotechnology field when in 1982 they set up a joint venture with the California-based International Plant Research Institute based [15, 1982 edition, p. 10]. Along with the above, the Sime Darby group also set up the Man-power Development Center; this was organized in 1980 to begin the systematic training of plantation managers [15, 1981 edition, p. 9].

The third area of work was in the general trading company business. On January 24, 1980, Mahathir, then deputy prime minister, spoke about Malaysia's industrialization policy for the 1980s. At that time he set forth a plan to establish joint trading company undertakings, like Japanese general trading companies which had played such an important role in Japan's industrialization, to open up the markets of the world to Malaysia's products. The next year, in line with this plan, four companies, MMC, Petroliam Nasional Berhad (PETRONAS, the National Oil Corporation), FELDA, and Kuok Brothers Sdn. Bhd., an overseas Chinese

7 See the article by Torii in this special issue.

8 Sime Darby group was reorganized in 1978 around a multi-division structure, at that time it opened its tractor division which assembled and sold tractors in Malaysia [12].

business group, jointly set up the first general trading company, Nastra Sdn. Bhd., with authorized capital of 100 million ringgit. During 1982 four more general trading companies were established. One of these four, set up in December, was the Sime Darby Pernas Trading Corporation Sdn. Bhd., held 60 per cent by Sime Darby and 40 per cent by PERNAS. This company depended on Sime Darby's overseas sales network [4, p. 330] [5, p. 326].

The fourth area of work was in diversification and multinationalization. The Sime Darby group enlarged the scale of its business operations both through the setting up new ventures in automobile manufacturing and in the processing industries for primary products, and through advances into the insurance and real estate businesses via buy-ups of existing companies. In 1979 it acquired a 74 per cent share of the United Malayan Insurance Company Bhd. [16]. In October 1982, its Hong Kong division formed a joint venture with the American insurance company, Fireman's Fund Insurance, Ltd.; the new company's business was directed at the Southeast Asian region [15, 1983 edition, p. 14]. In January 1985 Sime Darby Bhd. acquired a 47.5 per cent share in United Estate Projects Bhd., a real estate development company [15, 1985 edition, p. 15]. By 1987 the Sime Darby group had grown into a huge, diversified concern whose affiliates and subsidiaries were active in trading, plantations, tire manufacturing, tractor production, insurance, real estate, and other businesses. It had also multinationalized itself with operations in Malaysia, Singapore, Hong Kong, the Philippines, Australia, North America, and Europe. It has now grown into Malaysia's largest conglomerate with annual sales of 2.528 billion ringgit [15, 1987 edition, p. 3].

CONCLUSION

Between the first half of the 1970s and the start of the 1980s, the Malaysian government carried out the localization of the principal colonial investments in the country's primary products sector. This localization process was carried out through public enterprises which bought up these investments. The public enterprises also served as the instruments through which the government carried out its policy of accumulating Bumiputera capital. There was no spontaneous capital accumulation within the Malay community; rather it took place "from the top" as government policy and was directed at the inherited colonial economic system which the public enterprises broke down in the process of buying up British capital investment and accumulating Bumiputera capital. Among the enterprises localized by the government, the Sime Darby Bhd. and the Malaysia Mining Corporation Bhd. were two of the most important. Both played major roles in the acquisition of British and Chinese enterprises in the primary products sector; they likewise were key players during the 1980s pushing forward the equity holdings by Bumiputera capital in this same sector. MMC carried out the mergers and acquisitions and vertical integration of the tin mining industry during the mid-1980s when small-sized Chinese mines were closing down due to the worldwide economic recession. These changes concentrated control of the tin industry in MMC's hands. But tin is a declining, nonrenewable primary product, and by the mid-1980s the industry was increasingly suffering from the competition of aluminum and declining tin prices. For these reasons the government turned its attention to the rubber plantations where it saw a growing future demand from tire and tube manufactures as well as from other diverse industries such as the manufacturers of protective rubber gloves for AIDS. More importance was given to rubber plantations and to the fostering of a rubber processing industry. The Sime Darby group played a major role in this effort in partnership with PERNAS through their joint venture, PERNAS–Sime Darby group. Sime Darby group brought to this venture its expertise and management skills.

Both the Sime Darby group and PERNAS–Sime Darby group were major players in the government's industrialization policy which was carried out largely through acquisitions of existing foreign-owned enterprises, and which at the same time contributed to buy-ups of equity by Bumiputera capital. Both became heavily involved in the rubber processing and automobile manufacturing industries. Textiles and the electrical and electronics industry, two of the export industries which had grown up during the 1970s, were increasingly experiencing difficulties, and the government turned its attention to automobiles and the processing of natural resources. It saw these two industries as the new mainstays for industrialization in the 1980s. Sime Darby group also diversified its business into leading-edge technology, and during the 1980s the group achieved a spectacular rate of growth. Today the Sime Darby group is one of the great conglomerates of the ASEAN area, and it has placed its future in the development of Malaysia and Southeast Asia.

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