'RENT-SEEKERS' OR REAL CAPITALISTS?: THE RIDDLE OF MALAYSIAN CAPITALISM

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I hereby declare that this thesis is my own work and has not been submitted for any other degree in the same or other form to any other University.

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CONTENTS

Tables

Figures

Appendices

Abstract

This study argues that the nexus of business, politics and the state which has been central to the capitalist upsurge in Southeast Asia (McVey, 1992:9) has also been central to the rise of Malay capitalism and the transformation of Chinese business in Malaysia. That nexus is intimate in Malaysia where the government through the New Economic Policy (NEP) has sought to create a Malay commercial and industrial community, in short Malay capitalists. In the process of creating Malay entrepreneurs the study shows how just as the boundaries between business, politics and the state became blurred in the Malaysian context there, as indeed elswhere in Southeast Asia, it is no longer easy in many cases to distinguish between "rent-seeking" and true "productive" capitalism, between pariahs and entrepreneurs or between patrons and clients. But from this amalgam what sort of capitalism and capitalists have emerged in Malaysia? To throw light on the character and strength of Malaysian capitalism answers are sought to two questions. First:

Has government manipulation created new sources of entrepreneurship or only fostered rentiers?

The study identifies the complex interaction between the state, party [UMNO] and business as the source of dynamism or defeat in the development of Malay capitalists. It argues that significant changes are taking place in those relationships, while at the same time more Malay groups are developing a greater independence of patronage - changes that suggest it is imperative we keep our view of the nature of Malay capitalism open to revision. But, just as the growth of Malay capitalism is more variegated than generally supposed, so this survey of Malaysian capitalism also seeks to illuminate the change and transformation occurring among Chinese business groups. So the second question addressed is:

Have Malaysia's political circumstances trapped Chinese businessmen in dependency relationships similar in kind if not degree to Riggs' pariah entrepreneurs?

After a survey of Chinese business groups the study finds that analyses in the 1980s which have described the relationship between the state and Chinese [as well as foreign] capital as discrete entities and in antipathetical terms, no longer seem appropriate to the more complex and complementary character of those categories in the 1990s. At a general level this survey also challenges a common view that Chinese capital is completely different to Malay capital. There are differences, but increasingly there are important points of similarity in the manner of their growth, their relations with the state and the UMNO leadership, and their credentials as capitalists.

Overall the study argues against drawing sharp contrasts between dependency and self-reliance, between state and capital, and between rent-seekers and true productive capitalists. For it is from that amalgam of categories and groups that this study shows a form of capitalism emerging in Malaysia which is nonetheless remarkably dynamic, vibrant and resilient despite its 'unorthodox' origins, and already well integrated into the increasingly complex product cycles and investment patterns of the rapidly growing Asian region.

Abbreviations

AMDB	Arab Malaysia Development Bank
AMMB	Arab Malaysia Merchant Bank
API	Associated Plastics Industries
BAFIA	Banking and Financial Institutions Act
CIC	Capital Issues Committee
CICU	Central Information Collection Unit
D & C	Development and Commercial Bank
DAP	Democratic Action Party
DEB	Dunlop Estates Bhd.
DMIB	Dunlop Malaysian Industries Bhd.
DTCs	Deposit-Taking Co-operatives
EPU	Economic Planning Unit
EPZ	Export Processing Zone
FELDA	Federal Land Development Authority
GIL	Genting International Limited
GUH	Grand United Holdings
IBAE	Industrial Boilers & Allied Equipment
ISS	Innovest Systems and Services Sdn Bhd
JPC	Juara Perkasa Corporation
KFC	Kentucky Fried Chicken
KLCE	Kuala Lumpur Commodity Exchange
KLSE	Kuala Lumpur Stock Exchange
KSM	Koperatif Serbaguna Malaysia
KUBB	Koperasi Usaha Bersatu Bhd
LTAT	Lembaga Tabung Angkatan Tentara
LUTH	Lembaga Urusan dan Tabung Haji
MARA	Majlis Amanah Rakyat
MARDI	Malaysian Agricultural Research and Development Institute
MCA	Malaysian Chinese Association
MIDF	Malaysian Industrial Development Finance
MISC	Malaysian International Shipping Corporation
MMC	Malaysia Mining Corporation
MPHB	Multi Purpose Holdings Bhd.
MTI	Ministry of Trade and Industry

MUI	Malayan United Industries
NEB	National Electricity Board
NEP	New Economic Policy
OCBC	Overseas-Chinese Banking Corporation
OPP	Outline Prospective Plan
PAS	Parti Islam Se Malaysia
PBB	Permodalan Bersatu Bhd
PDA	Petroleum Development Act
PNB	Permodalan Nasional Bhd
PWD	Public Works Department
RIDA	Rural & Industrial Development Authority
RRI	Rubber Research Institute
SKB	Shapadu Kontena Bhd
SNAP	Sarawak National Party
SPTI	South Pacific Textile Industries
STM	Syarikat Telekom Malaysia
STMB	Sistem Televisyen Malaysia Bhd
UDA	Urban Development Authority
UEP	United Estates Project Bhd
UMBC	United Malayan Banking Corporation
UMNO	United Malays National Organisation
UMW	United Motor Works
UPHB	Union Paper Holdings Bhd.
USNO	United Sabah National Organisation

Newspapers and magazines

AWSJ	Asian Wall Street Journal
BT	Business Times
FEER	Far East Economic Review
FT	Financial Times
MB	Malaysian Business
NST	New Straits Times
NSTP	New Straits Times Press
SCMP	South China Morning Post
ST(S)	Straits Times, Singapore

Currency

All currency values are in Malaysian dollars (ringgit). In June 1988, the approximate mid-date for much of the material in this thesis, the exchange rates were approximately US$1 = M$2.60; and Australian $1 = M$2.10.

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Chapter 1

INTRODUCTION

The nexus between the state and business is intimate in Malaysia where the government through its New Economic Policy (NEP) has sought to create a Malay commercial and industrial community, in short Malay capitalists[1]. The pursuit of that goal by the Malaysian Government raises questions that go to the heart of the debate about the character of capitalism in Southeast Asia.

This thesis argues that 'the nexus of business, politics and the state which has been central to the capitalist upsurge in Southeast Asia' (McVey, 1992:9) has also been central to the rise of Malay capitalism and the transformation of Chinese business in Malaysia. And just as the boundaries between business, politics and the state have become increasingly blurred in the process of creating Malay entrepreneurs, so the distinction between other important categories of analysis have also become less clear. In the Malaysian context, as indeed elsewhere in Southeast Asia, it is no longer easy in many cases to distinguish between "rent-seeking" and true "productive" capitalism, between pariahs and entrepreneurs or between patrons and clients. Yet from this amalgam the thesis will argue that a form of capitalism nevertheless appears to be emerging in Malaysia which is nonetheless remarkably dynamic, vibrant and resilient, despite its 'unorthodox' origins, and already well integrated into the increasingly complex product cycles and investment patterns of the rapidly growing Asian region.

Southeast Asian Capitalism : 'real' or not or what?

The towering skyscrapers of concrete and glass that now dominate the skylines of Jakarta, Singapore, Kuala Lumpur and Bangkok reflect the dramatic capitalist upsurge that has taken place in Southeast Asia as an increasingly significant share of the regions growth and wealth is derived from manufactures and services rather than commodities. Yet while the images of plantations and paddy fields give way to modern metropolises

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1 The New Economic Policy (NEP) was launched in association with the Second Malaysian Plan for 1971-75. The NEP contained two prongs, namely to eradicate poverty 'irrespective of race' and 'restructure Malaysian society to reduce and eventually eliminate the identification of race with economic function' (4MP:31).

and urban sprawl, some analysts have questioned whether the growth underpinning such change is real capitalism or a chimera, some Southeast Asian derivative of capitalism that ultimately will not be sustainable.

A number of arguments are put forward to support this point of view. Some assert that Southeast Asian growth remains overly dependent and vulnerable to external factors. With regard to trade it is argued that the trading environment and export markets that provided opportunities for the first wave of NIC's no longer exist and that the Southeast Asian economies are structurally locked into a dependency relationship with Japan.[2] Critics also point to widening income disparities between urban rich and rural poor, rising levels of debt, environmental degradation and other negative aspects of Southeast Asian growth.

A colourful journalistic account of Southeast Asian capitalism in these terms is provided by James Clad (1989) who argues that the region's remarkable economic growth and the emergence of its new corporate captains mask the reality that these economies are corrupt, speculative and fragile and unlikely to be resilient in the longer term. In short, "despite the glitter, Southeast Asia's prosperity rests on shaky foundations and depends on external forces beyond its control. The regions growth, in its essence, results primarily from outsiders' capital, outsiders' technology, outsiders' management and outsiders' markets" (Clad, 1989:ix). According to Clad the role of the state is largely a negative one. Rather, the nexus between business and politics has promoted insidious networks of cronies who scramble for profits through short-term speculative activity in trade, finance and property. Moreover, dominating those networks, and indeed much of the domestic side of economic activity in the region, is the commercial talent of the Chinese immigrant minority (Clad, 1989:1-25).

A more considered formulation of this view of Southeast Asian capitalism has been developed by Yoshihara (1988). Many scholars have found Yoshihara's analysis rather exaggerated, though there is certainly more than a grain of truth in it, so a summation of his argument and those advanced against it will serve as a useful starting point to consider the debate regarding the 'reality' of Southeast Asian and Malaysian capitalism.

According to Yoshihara (1988:3) 'unfortunately what has occurred in Southeast Asia is the emergence of ersatz capitalism.' (The word 'ersatz' literally means

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2 See Bello and Rosenfeld, 1990:8-11. For critiques of Bello and Rosenfeld see Halveri; Beresford; and Purcal, 1992: 546-551.

'substitute' but with an implication of 'not the real thing'.) Ersatz capitalism therefore is one which is inferior, imitative and artificial when compared to real capitalism. Capitalism in Southeast Asia is ersatz because it has been largely confined to the tertiary sector. Yoshihara concedes that the problem is not domination by foreign capital, 'since that has declined in importance and foreign ownership in the manufacturing sector has become less significant in the region,' but argues that Southeast Asian industrial capital cannot act as a vanguard of economic development 'because it does not have an export capability' (Yoshihara, 1988:3).

Yoshihara cites three main reasons why Southeast Asian capitalism possesses neither the dynamism nor independent technological base associated with capitalist industrialisation in Europe, North America and Japan. The first concerns the technological backwardness of Southeast Asian societies and their low levels of investment in science and technology by government and the private sector. A second reason concerns the low quality of government intervention in the economy which has led to the domination of Southeast Asian capitalism by non-indigenous Chinese, rent-seekers, and cronies and the development of a form of industrialisation built on expensive government subsidies, concessions and tariff barriers. Finally Yoshihara argues that Southeast Asian capitalism is erstaz because a strong domestic capitalist class has not emerged and the region remains dependent on foreign capital for the development of technologically sophisticated industry (Yoshihara, 1988:3-4 & 122-131).

Yoshihara's view of what constitutes 'true' capitalism in Southeast Asia or elsewhere for that matter is hard to sustain in the face of the consistently high growth rates of all the ASEAN countries (except the Philippines); moreover it echoes as Mackie (1989) has observed, some kind of latter day physiocratic fallacy.[3] Instead of the eighteenth century view of some French economists that agriculture was the only source of real wealth Yoshihara posits a contemporary version, whereby only industrial production for export plus rising productivity and technological independence constitutes 'real'

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3 See Mackie, 1989:104 Book review, "Ersatz Capitalism." The Physiocrats were a group of eighteenth-century French economists led by Quesnay who believed in the existence of a natural order and regarded the state's role as simply that of preserving property and upholding the natural order. They held that agriculture was the only source of wealth. The central point of their analysis was the search for the *produit net* which was not a surplus of social wealth in the abstract (exchange-value), but of concrete material wealth of useful goods. It was this technological approach which led the physiocrats to single out one particular branch of production (agriculture) as the one really productive one. See Roll, 1953:128-137.

capitalism. Not only is this perspective old fashioned, but as Robison and Hewison have separately pointed out, it suggests a view of capitalism that would qualify perhaps no more than a dozen countries as capitalist.[4] It may for instance no longer apply to the United States, or at least significant regions of it, where recent data shows that the net capital stock in services has outstripped manufacturing.[5] More immediately it would exclude Singapore which is primarily dependent upon foreign investment in industry and whose dynamic domestic economic element is confined to the services sector which, in Yoshihara's view, cannot constitute the driving force of capitalism. In Yoshihara's view, technological innovation is crucial to capitalist development but, as various critics have pointed out, there is no inherent reason why all industrial capitalist economies need to produce their own technologies. When the latest technology can be bought or borrowed or stolen from abroad and combined with effective systems of management to produce internationally competitive products, that surely is not only well-established capitalist practice but also a more profitable and efficient use of resources.[6]

Parallel with his view of capitalism, Yoshihara tends to dismiss the claims of rentiers, crony capitalists, speculators and the like to be recognised as true capitalists. But in fact his 'strange breeds of (Southeast Asian) capitalists' are by no means unique to the region and are found in many economies generally acknowledged to be capitalist. Moreover, their presence has not prevented capitalist development - although their activities may have been inimical to efficiency and brought about slower development than would otherwise have been the case. Thus, although development in some economies may be sluggish, introverted and even chaotic in contrast to the experience of those with flourishing manufacturing exports, there do not seem to be grounds for considering one type of economy as capitalist and the other as non-capitalist.

Finally, Yoshihara's conception of Southeast Asian capitalism as ersatz suffers from a static quality in that he believes that industrialisation in Southeast Asia is driven by foreign technology and therefore is having no impact on the domestic business class. Yoshihara seems to deny the possibility that business people 'nurtured within networks of patronage, or within the service or protected import substitution sector, are showing signs of moving beyond those origins' (Robison, 1989:122).

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4 See Book reviews, 'Ersatz Capitalism' by Robison, 1989:119-124 and by Hewison, 1991:540-543.

5 See Hewison, 'Ersatz Capitalism' 1991:542

6 See Book reviews 'Ersatz Capitalism' Mackie, 1989 and Robison, 1989.

In contrast to Yoshihara's approach, this thesis will adopt a broader conception of capitalism. Following McVey, capitalism will be understood 'as a system in which the means of production, are in private hands, are employed to create a profit, some of which is reinvested to increase profit-generating capacity. Thus the groups and individuals studied deal with agribusiness, banking and other services, construction, trade, mining, and other non-manufacturing activities, provided they are carried on in a capitalist manner and involve domestic capital' (McVey, 1992:8). Beginning with this broader definition, we are guided to the examination of the economies of the region not as deviants from, but as variants of, capitalism. Reflecting various cultural, social and historical experiences it is hardly surprising that the paths taken by the countries of Southeast Asia toward industrialisation differ from those of West Europe, North America and Japan.[7] In this thesis, the origins of a domestic capitalist class will be sought among the rentiers, cronies and clients whom Yoshihara dismisses as no more than ersatz capitalists.

Capitalism and the state in Southeast Asia

In the debate about the character of capitalism, or more accurately capitalisms, of Southeast Asia the role of the state looms large.[8] In considering the role of the state, it is necessary to distinguish between the state and the government. As Stepan has argued, 'the state must be considered as more than the government. It is the continuous administrative, legal, bureaucratic and coercive systems that attempt not only to structure relationships between civil society and public authority in a polity but also to structure many crucial relationships within civil society as well' (Stepan, 1978:xii).

Many analysts of East Asia's economic success have identified the presence of a strong state as an essential ingredient of successful industrialization. The strong state

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7 As critics of Yoshihara's approach have all pointed out in one way or another, Yoshihara is implicitly comparing the Southeast Asian experience of industrialization with Japan's as if there were no other growth trajectory and not surprisingly he finds them all wanting (See Mackie, 1989:105). As Robison notes, Yoshihara is essentially concerned to chart an ideal path of industrial development, not capitalism *per se*. Rather than focussing on capitalism as a type of activity, Yoshihara's analysis would have been on firmer ground had he defined capitalism more in terms of, 'the systems of social and economic relationships which are created by particular systems of production and not the degree to which an industrial economy can establish its own technology and sustain growth over a long period' (Robison, 1989:121).

8 Some of the principal work done so far to place Southeast Asia's capitalist development in a theoretical framework includes: Crouch 1985; Doner 1991(a) and Hewison, Robison, Rodan, eds., 1993. See also an earlier discussion in Higgot and Robison, eds., 1985 and McVey 1992. For more general theoretical discussions concerning the state see Skocpal 1985; Stepan 1978; Eisenstadt 1969; Mann 1989 and Weber 1968.

argument, reflecting the concern to 'bring the state back in' as a central concept of analysis,[9] was not of course confined to East Asia, but sprang from the need to explain the failure of democratic and populist regimes in the third world more generally. Rather than emphasizing liberal assumptions concerning participatory democracy, a new emphasis was given by modernisation theorists in the late sixties such as Black and Rostow on the need for strong developmental states.[10] That approach was best articulated by Samuel Huntington in his celebrated work, *Political Order in Changing Societies* who argued the need for a 'centralization of power in the bureaucratic polity (to) enhance ... the capability of the state to bring about modernizing reforms in society' (Huntingon, 1968:167).

The focus on the role of states in development gathered further momentum in the seventies because at that time 'the state was seen as the key to the conundrum posed by dependency theorists, whose argument that there was no way for third-world countries to industrialize save by revolutionary withdrawal from the capitalist system was being challenged in Latin America by the emergence of what became known as "developmental authoritarian" regimes' (McVey, 1992:12-13).[11] As a consequence, 'categories such as "dependent", "peripheral" and "comprador" were thrown into question which resulted in a less deterministic approach to political change and the position of the state, and a move away from the dependency cul-de-sac' (Hewison, Robison, Rodan, eds., 1993:19).

According to Deyo (1987(a):230) the key feature of the strong developmental state was its relative autonomy from social classes and specific private economic interests, a capacity that enabled it to pursue a coherent operational program for development. The state as the explanatory key to the East Asian 'economic miracle' gave rise to a number of illuminating case studies of the most prominent newly industrializing countries of the region - South Korea and Taiwan as well as Japan. While noting critical differences between these states, a common theme threading through such principal works as Evans (1987:211) Gold (1986) Haggard and Tun-jen Cheng (1987:106 & 111) and Johnson (1987:156-158), was the insulation or "imperviousness" of such states from political demands that would undermine economic growth and their dominant role in

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9 See Skocpal, 1985.

10 See Black, 1966:13-14 and Rostow, 1971:25-26.

11 For further discussion of the challenges posed to dependency theory by the Latin American and East Asian NIC's see Deyo's Introduction in Deyo ed., 1987(a) and in the same volume Evans, 1987. Another pertinent work is that of Collier, 1979.

development. As studies of East Asia's industrialization gathered momentum the work of scholars, including those noted earlier, also focussed more on the important and complex relationships between state actors and the business sector.[12] Increasingly the notion of the autonomous state as the decisive explanatory category of East Asia's dynamism gave way to a focus on the interaction between the state and business with each other and with foreign capital. It was the interaction of those elements rather than the state per se that provided 'the source of dynamism and coherence, or of defeat' (McVey, 1992:14).

In Southeast Asia, political economy studies have taken a somewhat different route from those of East Asia. In the Southeast Asian context the so called 'autonomous state' was hardly examined or applied to studies of capitalism in the region. Why was this so? Principally because Southeast Asian states, compared to their East Asian counterparts, appeared 'soft' in the 1960's and 70's, suggesting interpretations in terms of patrimonialism and the bureaucratic polity, which seemed likely to mire them in a bog of semi-modernization rather than fit them as candidates for dynamic economic growth.[13] What then are the main features associated with 'patrimonialism' and the 'beaucratic polity' that were considered so inimical to Southeast Asian dynamism?

The patrimonial model was first suggested by the German sociologist Max Weber (1947) as part of his analysis of traditional authority but was developed and applied to modern states by Roth (1968) and Eisenstadt (1973). As used by modern writers this model emphasizes the flow of political resources. The essence of the patrimonial model is the notion of a head of state preserving his position by dispensing rewards to members of the elite which itself is divided into rival cliques that compete for the patronage of the ruler. Other important features of the patrimonial model include its

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12 Some pertinent works in this genre include: Amsden, 1989; Evans, 1979 and 1985; Haggard, 1990; Mackie, 1988 and Wade, 1988.

Studies which draw attention to significant differences between the East and Southeast Asian experiences and warn against the applicability of the former to the latter include: Cumings, Haggard and Tun-jen Chang; and Evans; all in Deyo, ed., 1987.

13 In his analysis as to why some third-world countries failed to develop Gunnar Myrdal used the terms "hard states" and "soft states". He used the term "soft state" 'to comprise all the various types of social indiscipline which manifest themselves by: deficiencies in legislation and enforcement, a widespread disobedience by public officials on various levels to rules and directives handed down to them and the presence of widespread corruption. According to Mydral 'the laxity and arbitrariness of soft states are exploited for personal gain by people who have economic, social and political power, .. but even aside from those personal interests, there will in a soft state be a much wider spread, in all strata of a general inclination of people to resist public controls and their implementation' (Myrdal, 1970:211-212).

pyramid-like network of patron-client relationships and the notion that politics is characterised not by conflict over issues of policy but competition for material rewards.

Patrimonial features are also found in the concept of the bureaucratic polity which was developed by Fred Riggs (1964 & 1966) to describe Thailand in the 1950's and 1960's. The essence of his argument was that power in Thailand was located in the bureaucratic polity - the armed forces, police and civil administration - rather than in political parties or in society. The bureaucratic polity was primarily concerned to promote its own interests, being unconstrained by societal interests in the determination of policy. Members of the bureaucratic polity were certainly not motivated by any commitment that would free business from bureaucratic control. An inherent element of the bureaucratic polity was the presence of 'pariah entrepreneurs', a term Riggs used to describe businessmen in societies where business lacked political legitimacy. Pertinent in that regard was the position of the Chinese in Thailand who remained social and political outsiders, but as elsewhere in Southeast Asia, dominated the country's domestic business community. Rather than acting as a bourgeoisie in defence of class interests, as in the classic Western model of capitalist development, pariah entrepreneurs were forced to make mutually rewarding deals with individual bureaucrats with the purpose of influencing the political leadership through patron-client links.[14]

The characteristics associated with the bureaucratic polity and patrimonialism, however, encouraged a misleadingly static view of both the state and indigenous capitalists in Southeast Asia. Doner (1991(a):822) argues that 'vertical, patron-client links obscured the processes of capital accumulation, class formation and private influence over economic policies ... and the result was a general neglect of dynamic interactions within the private sector and between public and private interests.' Yet, in retrospect, as McVey (1992:22) observed, the bureaucratic polity had 'less the aspect of a developmental bog than a container for fundamental transformation, a chrysalis in whose apparently confused interior the change from one sort of economic order to another was taking place ... an increasing intimacy and equality between business and political leadership.'

Clearly important transformations were taking place between state and capital in much of the region. The literature and experience of East Asia again provides useful

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[14] See Riggs, 1964 :116, 163, 173, 188-193.

insights, though this is not to suggest that the paths of capitalism in Southeast and East Asia will mirror one another. Proponents of an ersatz view of Southeast Asian capitalism criticise the role of the state not because it has intervened, but because of the quality of its intervention. Implicit in such a criticism is a view of the state in Southeast Asia, as *ipso facto* unable to address the national interest in any long-term and systematic way because it is captive of its own officials and operates in their interests to produce a rent-seeking form of intervention. On the other hand, scholars of East Asia's transformation have shown how, as continued capitalist expansion required the development of an export manufacturing sector to complement existing import-substitution structures, relations between state and capital built largely on networks of patronage (characteristics of "soft" states), gave way to the development of an autonomous and more effective state apparatus (characteristics of "hard" states).[15]

In the eighties, movements in the international economy, the collapse of commodity prices (oil prices in particular) and changes in domestic class structures led Malaysia and Indonesia to introduce economic reforms that surprised most observers and demonstrated a strength and imperviousness on the part of those states hitherto thought unlikely. In Malaysia Finance Minister Daim Zainuddin's resolution in promoting far-reaching (and successful) structural adjustments in the mid-eighties showed a capacity to override the interests of the politically important Malay middle class and the growing Malay business community. Among Daim's measures were the implementation of savage cutbacks in public expenditure, the liberalization of equity guidelines in the Industrial Coordination Act (thereby reducing opportunities for Malays); the restriction of bank credit and refusal to bow to the special pleadings of prominent *Bumiputra*[16] businessmen for a moratorium on the repayment of loans. In Indonesia Robison has shown how the oil price collapse and 'Pakem' regulations of 1986 set in train a process of liberalization of trade and credit which constricted the options available to politically powerful rent-seekers (although they have not yet touched the most powerful families). Nevertheless the pace and determination by which such reforms were pressed surprised, says Robison (1992:77-78) 'even the most cynical observers.'

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15 See Cumings, 1987:69-79 and Johnson, 1987:230.

16 *Bumiputra*, is a Malay word which means literally 'son of the soil', indigenous. In Peninsular Malaysia it serves to distinguish the Malays from the Chinese and Indian communities of 'recent' immigrant origin and in the Borneo states of Sabah and Sarawak it is also applied to other indigenous groups such as the Ibans, Bidayuh, Kadazans and others. In this thesis the terms Bumiputra and Malay will be used interchangeably.

All this is not to suggest that states such as Malaysia and Indonesia were becoming hard states by any East Asian standard. Such regularization of the state apparatus continued to coexist with highly patrimonialist relations between the state and business. Nevertheless such reforms showed that important transformations were taking place in the state side of the state-business relationship in Southeast Asia.[17] Deregulation, that is exposure to market forces and competition, became more a feature of business in the region (although the rates varied considerably from country to country) in systems where markets had previously been subordinated to the patrimonial allocation of resources on personalistic or political grounds (although again there was considerable variation from state to state).

Just as static views of the state and its relationship with business have required revision, so have those regarding the character of capitalism in that relationship. A number of scholars pointed to important transformations taking place in Southeast Asian capitalism as business groups attained a greater independence from networks of patronage or the protected import-manufacturing sector and became more competitive on world markets.

In his analysis of recent developments of business groups in Thailand Suehiro draws attention to the process of adjustment and change occurring in Thai capitalism. Suehiro points out that since the 1973 revolution political patronage has become less significant for the growth of commercial banking while among the industrial groups, 'the rise of the Saha Union and the Siam Cement group (was) due mainly to their adoption of more rational methods; a well organised management, leadership by young innovative entrepreneurs, and the capability to import foreign technology and adapt to local conditions' (Suehiro, 1992:63). He adds that the development of such new capitalist groups, with their greater independence of patronage and ability to compete on the world market, appears to be gradually changing the mode of Thai capital accumulation, and this in 'turn makes it imperative that we keep our view of the nature of Thai capitalism open to revision' (Suehiro, 1992:62-63). In retrospect, he argues that 'the politically patronized, externally dependent, and commercially oriented capitalist groups which have dominated the economy thus far should be understood as a historical product of Thai capitalism at a certain stage of its development' (Suehiro, 1992:61)[18]

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[17] Factors contributing to reform and regularization of the state apparatus, and some of the implications of that for the relationship between the state and business are further explored by Hewison, Robison and Rodan, eds, 1993:28. See also Harris, 1988:237-249.

[18] Suehiro also argues that 'under historical circumstances where the existence of both strong domestic

Hewison's (1989) work on Thailand also challenges the view that capitalism is dependent in Southeast Asia and highlights the changing, and more equal, balance in state-business relations.[19] Central to Hewison's analysis of the development of Thai capitalism is the nexus between the state and capital, a dynamic relationship in which he shows considerable movement between the sphere of business and the state. Hewison notes that, 'on the one hand, state officials .. have been able to accumulate both the capital and expertise necessary for the establishment of their own business groups (examples are Prapass Charusathiarana and the Soi Rajkhru group) while on the other hand business people have become influential in political and economic policy (examples are Prasit Narongdej, Boonchu Rojanastien and Amnuay Viravan') (Hewison, 1989:211-212).

Similarly Robison's approach to relations between state and capital in Indonesia has reflected important transformations taking place in the relationship there, particularly the evolution of bureaucrats and business groups from rent-seeking activity 'to a more normal (and independent) path of accumulation through the generation of profits by capital investments' (Robison, 1985:316).[20] In his earlier work Robison's view of the Indonesian polity emphasized the 'neopatrimonial nature of the bureaucratic state' (1978:18). The major domestic capitalists in that polity, the 'bureaucratic capitalists, ' were little more than 'rentiers'. However in his later (1986) comprehensive study of

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political power and integration into the world capitalist system set limits on Thai capitalists, the most practical - and perhaps the only possible - way to achieve growth has been the "dependent" mode of accumulating capital funds', but points out that 'such characteristics are not unique to Thailand and can be observed more widely in the initial development of domestic or indigenous business classes in late-starting capitalist societies such as Japan, India, Korea and major Latin American countries. Insofar as domestic capitalist groups are conditioned by historical factors, changes in such environments as political power structure, international economic relations, and industrial progress will inevitably have a great effect on their mode of capital accumulation ... (which) in turn makes it imperative that we keep our view of the nature of Thai capitalism open to revision' (Suehiro, 1992:62-63). There has been a significant shift in Suehiro's earlier (1985) Phd study of Thai capitalism which saw it in dependent terms, and his more recent (1992) work which points to important changes in Thai business groups that indicate a more independent, dynamic and resilient form of capitalism.

19 Toward the end of his study Hewison sums up his position regarding Thai 'dependency' thus: 'Thailand does exhibit certain characteristics of dependency, but as Barone has argued for South Korea, immersion in a world capitalist system can bestow certain capitalist advantages which can enhance capitalist development. Elements of the international division of labour and inflows of foreign capital, for example, can be turned to a country's advantage. Thailand, like South Korea, has reaped some of those advantages' (Hewison, 1989: 213-214).

20 Though in line with key features associated with the Malaysian polity noted earlier in this introduction, Robison adds that, 'This is not to deny that the major business groups still enjoy politically secured and privileged access to state-controlled contracts and concessions' (Robison, 1985:316).

Indonesian business groups Robison's position shifted in line with his identification of an emerging domestic bourgeoise. In that regard his focus was particularly directed at the leading members of a domestic capitalist class who had developed their own capital bases and were coming to stand independently of the state.[21]

In a more recent work Robison (1992:81) notes, 'the weakening of the state's capacity to maintain networks of patronage and policies of industrial deepening facilitated by monopolies and protection has created opportunities for elements of the domestic class located in the downstream sector to secure more precisely their interests via political organization and action.' Drawing on Andrew MacIntyre's (1991) study of the political activities of industry associations, particularly those involved with the textile industry, to illustrate this process Robison (1992:83) concludes that, 'the prospect of increasing manufacturing competitiveness (in the textile industry) outweighed the political loyalties of patronage networks, and this reflected a *move from relations binding officials of the state to particular business groups towards more generalized and abstracted relationships between "state" and "capital"* (my emphasis). Shin (1989:427) reaches a similar conclusion, arguing that the increasing competitiveness of the new Indonesian capitalists 'was accelerated by the increasing importance of state policies and institutions, which have steadily replaced personal, exclusive, and informal patronages as the major means to create and consolidate the private sector.'

These studies of Southeast Asian capitalism caution us against static notions of the bureaucratic polity (and such key ingredients in it as the relationship between state and capital), or the use of such categories without recognising their indeterminacy, fluidity and dynamic character. They also caution us against drawing too sharp a contrast between dependency and self-reliance.[22] As Doner (1991(a):823-24) suggests, 'most less developed countries (LDC's) are best understood not as one or the other, but as somewhere on a continuum between the two'. He also warns against creating 'sharp dichotomies between rent-seekers or commercial capitalists on the one hand and industrialists on the other' and points out that 'throughout Asia strong industrial firms

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21 Robison concludes that, 'Nor can we say that the domestic capitalist class is simply a pariah class, dependent upon and limited by arbitrary political intervention in the commercial sphere by officials of the patrimonial state. It is true that the development of the major business groups was predicated upon state intervention, but the leading capitalist clients have now developed independent bases' (Robison, 1986:395).

22 Cumings (1987) for example notes that South Korea and Taiwan expanded their autonomy in the world at large while deepening their reliance on Japan.

have emerged from commercial capitalists, speculators and rent-seekers'.[23] In similar vein Robison (1990:36) points out that, 'a core of productive investment is emerging within the cocoon of "primitive accumulation" or "rent-taking".

Since the concept of rent-seeking is so central to the debate about the character of Southeast Asian capitalism and, for our purposes, that of Malaysian capitalism in particular, it is appropriate here to elucidate the way in which the concept is employed in this study. Economic rent is an analytical concept which may be said to refer to additional or extraordinary profits or surplus due to exclusive proprietary claims to particular economic (especially natural) resources not eliminated by competitive processes. Rents generally arise through state intervention in the economy, interventions which allegedly distort market processes and create opportunities for rents. It is argued that the existence of such rents encourages corrupt or unproductive profit-seeking behaviour (to capture such rents) and that rents in turn usually lead to monopoly situations. However as Jomo has pointed out rents exist in almost all situations since the conditions for perfect market competition rarely obtain.[24]

This broader notion of rents has led some to argue that the prospect of capturing rents is a very important motivation for investment by most capitalists. For example, Schumpeter (1946:102) argued that the true entrepreneurs were defined primarily by their ability to continuously make technological progress, thus capturing 'technological

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23 As Doner notes, pertinent also in that regard is research on the South Korean economy which has shown that a number of the large industrial firms known as *chaebol* emerged from those entrepreneurs known as "political capitalists, plutocrats or compradors". He illustrates the fact that origins do not determine ends by a comparison of Philippine businessman Ricardo Silverio and South Korean businessman Pyong-chol Yi. Both expanded from commercial origins to create major industrial groups with support from powerful political patrons. Silverio, however, became a notorious Marcos "crony" who was forced to flee the country when his mismanaged conglomerate fell apart in the early 1980's. Yi, on the other hand, founded Samsung, South Korea's largest *chaebol* based on steady expansion from production of consumer goods to basic industries' (Doner, 1991 (a):824).

Interestingly, Yoshihara who coined the term ersatz for capitalism in Southeast Asia himself admits that, 'in Meiji Japan, rent-seeking activities became so widespread that the term "*seisho*" was coined for conspicuous rent-seekers. The Mitsubishi and Mitsui zaibatsu were the largest and best known seisho of pre-war Japan.' To the argument that the Southeast Asian situation is a repetition of what happened in Japan and the West and will resolve itself automatically in the process of capitalist development, Yoshihara replies only that, 'rent-seeking is more pervasive in Southeast Asia' and he cannot conceive of circumstances imposing a 'rationality on ..(Southeast Asian) governments that would greatly reduce the scope for rent-seeking' (Yoshihara:1988:88).

24 I am especially grateful to Jomo K S., and Rick Doner for their comments on an earlier draft and suggestions that I expand my discussion concerning rents and rent-seekers. At various points material in this and the following paragraph is derived from material contained in 'Rents Rent Seeking and Rent Deployment in Malaysia' by Jomo K.S., and Gomez T. G., (Unpublished Manuscript).

rents' based on exclusive intellectual property rights in the process. Hence, R & D investment is a form of rent-seeking by this definition and the Microsoft mogul/entrepreneur Bill Gates would, by these criteria, be a rentier. However for the purposes of this study the concept of rent-seeking is deliberately used in a more limited way to refer to rents obtained through direct political influence. That is it focusses on the relationship of individuals who seek special business favours (such as licences, contracts, concessions and the privatization of state assets) from the power holders. This more limited use of the concept is nevertheless that which is more generally employed in the literature and used by scholars such as Yoshihara who are engaged in the debate about the character of Southeast Asian capitalism. But while this study employs the concept of rent-seeking in this more narrow/'popular' fashion it does not, at the same time, take the view that in contrasting rent-seekers from 'real capitalists' one can posit an ideal type of one or the other, since in reality the line between the two (whether in Asia or the West) is blurred, or that all rents or rent-seekers are ipso facto bad. Thus while state intervention can result in rent appropriating opportunities and corrupt and wasteful activities, state intervention can also support the emergence of desirable new industries, increase opportunities for learning new skills or promote disadvantaged socio-economic or ethnic groups. Moreover it does not follow that those successful in seeking rents may not be competent, or become competent, entrepreneurs and capable of generating economic growth.

This survey leads to the conclusion that it is an attachment to such direct contrasts between dependency and self reliance, and between rent-seeking and true 'productive capitalism, ' as well as to such discrete categories as state and capital which obscures for critics of Southeast Asian capitalism its distinctive and evolutionary character and leads them instead to dismissive notions of Southeast Asian capitalism as ersatz. These issues, which are of central importance to the debate concerning the 'reality' of Southeast Asian capitalism, will be born in mind in this thesis which focuses on the rise of Malay capitalism and the response of Chinese business in Malaysia.

Malaysian Capitalism : Real, Rentier or Pariah?

The debate concerning the character of capitalism in Southeast Asia has a particular resonance in Malaysia where socio-economic circumstances associated with a plural society gave rise to the NEP, through which a more intimate relationship was forged between the state and business. During the seventies and at least until the mid-eighties, the Malaysian polity became more intrusive in imposing political and social goals associated with the NEP on business generally, though of course those goals were

resented by foreign and Chinese business but generally welcomed by Malays.

Secondly compared to Thailand and Indonesia, where there was considerable continuity in the composition of the major business groups from the 1970's to the 1980's, the composition of many of Malaysia's big business groups underwent considerable change during that period. In Malaysia, that period, which covered the first two decades of the NEP, saw not only the emergence of many powerful Malay business groups, but also the rise of new Chinese business groups whose manner of growth and relationship with the state was very different to that of Chinese groups which had arisen before the NEP.

Finally, important shifts occurred both in the composition of the Malay elite and in the power of its main elements. The Malay political elite of the 1960's and early 1970's was closely identified with upper class civil servants and aristocrats, and since the backgrounds of both frequently merged such individuals were appropriately tagged as 'administocrats'.[25] It was members of this group that implemented the NEP to safeguard and promote the political and economic power of the Malay community. But in the 1970's and early 1980's the rapid expansion of Malaysia's economy, together with the socio-economic changes wrought by the NEP, spawned a growing number of Malay businessmen. By the early eighties this social group had become more numerous and constituted an increasingly important element of the Malay political elite as the old aristocratic and bureaucratic element was gradually displaced. In other words the locus of power shifted within the Malay elite from the 'administocrats' to a combination of politicians and businessmen (Leigh, 1992:119-120) a shift in power that was also accompanied by changes in the occupational background and outlook of the elite and was symbolized by the assumption of the Prime Ministership by Dr Mahathir in July 1981.[26] Some of the implications of that shift within the elite will be explored in greater depth later in the study, but at this point they serve to place in a wider context the debate about the development of capitalism in Malaysia to which we now turn.

Due in large part to Puthucheary's pioneering work, *Ownership and Control in the Malayan Economy*, written in the 1950's, there is a greater historical depth to studies of

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25 See Chandrasekaran Pillay (1974). The term 'administocrats' is used to refer to the Malay administrative stratum recruited initially from the ranks of the pre-colonial Malay 'aristocratic' class by the British colonial regime.

26 Whereas previous Malaysian Prime Ministers had been drawn from or were closely associated with the former Malay 'administocratic elite' Mahathir, a commoner and self-employed professional (a medical practitioner) had never been part of that elite and felt little empathy with it.

Malaysian political economy than elsewhere in the region.[27]

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[27] For the 1960's see Puthucheary, J. 1960, Ownership and Control in the Malayan Economy, Singapore, Eastern Universities Press; Silcock, T. H. & Fisk, E. K. 1963 The Political Economy of Independent Malaya, Canberra, ANU Press; Wheelwright, E.L. 1965 Industrialization in Malaysia, Melbourne, Melbourne University Press; Yip Yat Hoong, 1969, The Development of the Tin Mining Industry of Malaya, Kuala Lumpur, University of Malaya Press; Golay, Frank H. 1969 "Malaya", in Frank Golay et al Eds; Underdevelopment and Economic Nationalism in Southeast Asia, Ithaca, Cornell University Press. In the 1970's and 1980's there were studies by Popenoe, Oliver 1970 "Malay Entrepreneurs: An Analysis of the Social Backgrounds, Careers and Attitiudes of the Leading Malay Businessmen in Western Malaysia", P.hD. dissertation, London School of Economics; Hirschman, Charles 1971 "Ownership and Control in the Manufacturing Sector of West Malaysia" reprinted with discussion in Further Readings on Malaysian Economic Development, Ed David Lim, Kuala Lumpur, Oxford University Press, 1983; See also Hirschman 1989, "Development and Inequality in Malaysia: From Puthucheary to Mehmet" in Pacific Affairs, Vol. 62, No1; Lim, David 1973 Economic Growth and Development in West Malaysia, 1947-1970, Kuala Lumpur, University of Malaya Press; Lindenberg, Marc 1973 "Foreign and Domestic Investment in the Pioneer Industry" P.hD. dissertation, University of Southern California; Snodgrass, Donald 1980 Inequality and Economic Development in Malaysia, Kuala Lumpur, Oxford University Press; Gale, Bruce 1981 Politics and Public Enterprises in Malaysia, Kuala Lumpur, Eastern Universities Press; See also Gale 1985 Politics and Business: A Study of Multi-Purpose Holdings Bhd, Kuala Lumpur, Eastern Universities Press; Lim, Mah Hui 1981(a) Ownership and Control of the One Hundred Largest Corporations in Malaysia, Kuala Lumpur Oxgford University Press; See also Lim (b) and Canak, William 1981(b) "The Political Economy of State Policies in Malaysia", Journal of Contemporary Asia, 11 (2) and Lim, 1985 "Contradictions in the Development of Malay Capital: State Accumulation and Legitimation" Journal of Contemporary Asia, 15 (1); Fisk, E. K. & H. Osman Rani, Eds 1982 The Political Economy of Malaysia Kuala Lumpur, Oxford University Press; Sieh-Lee, Mei Ling 1982 Ownership and Control of Malaysian Manufacturing Corporations Kuala Lumpur, UMBC Publications; Sieh-Lee, Mei Ling 1992 "The Transformation of Malaysian Business Groups" in Mc Vey (ed) Southeast Asian Capitalists ; Tan, Tat Wai 1982 Income Determination and Distribution in West Malaysia, Kuala Lumpur, Oxford University Press; Toh, Kin Woon 1982 "The State in Economic Development" Phd. dissertation, University of Malaya; Hua, Wu Yin 1985 Class and Communalism in Malaysia, London, Zed Books; Crouch, Harold 1985 Economic Change Social Structure and the Political System in Southeast Asia, Singapore, ISEAS; Gill, Ranjit 1985 The Making of Malaysia Inc, Singapore, Pelanduk; Jomo Kwame Sundaram 1986 A Question of Class:Capital, The State and Uneven Development in Malaya, Singapore, Oxford Univesty Press; See also Jomo 1990 'Wither Malaysia's New Economic Policy' Pacific Affairs 63 (4); Milne, R.S. 1986 "Malaysia-Beyond the New Economic Policy", Asian Survey, Vol. 27, No. 12 December; Ho, Khai Leong 1988 "Indigenizing the State: The New Economic Policy and the Bumiputra State in Peninsular Malaysia" P.hD dissertation, Ohio State University; Mehmet, Ozay 1988 Development in Malaysia: Poverty, Wealth and Trusteeship Kuala Lumpur, Insan. Finally in the 1990's these works have been added to by Jesudason, James 1990 Ethnicity and the Economy: The State , Chinese Business and Multinationals in Malaysia, Singapore, Oxford University Press; Gomez, Terrance 1990 Politics in Business: UMNO's Corporate Investments, Kuala Lumpur, Forum; also Gomez 1991 Money Politics Kuala Lumpur, Forum; Bowie, Alisdair 1991 Crossing the Industrial Divide: State, Society and Politics of Economic Transformation in Malaysia, New York. Columbia University Press; Means, Gordon 1991 Malaysian Politics:The Second Generation, Singapore, Oxford University Press; Hara, Fujio 1991 'Malaysia's New Economic Policy and the Chinese Business Community' The Developing Economies, Vol 31 (4); Leigh, Michael 1992 'Politics, Bureaucracy, and Business in Malaysia: Realigning the Eternal Triangle' in Andrew MacIntyre & Kanishka Jayasuriya (eds) The Dynamics of Economic Policy Reform in South-east Asia and the South-west Pacific Singapore, Oxford University Press; Khoo, Kay Jin 1992 'The Grand Vision: Mahathir and Modernization' Joel Kahn & Francis Loh Kok Wah. (eds) Fragmented Vision, Sydney Allen &

In what follows we shall set down two key questions and then draw upon the responses of scholars, Malaysian and foreign alike, that go to the heart of the debate as to whether Malaysian capitalism is real, rentier or pariah. By such means we may better and more succinctly elucidate the parameters of that debate.

Has Government manipulation actually created new sources of entrepreneurship or has it only fostered rentiers?

On one side of this question stands, of course, the Malaysian Government which is not only committed as a matter of policy to the creation of a Malay commercial and industrial community (Malay capitalists), but believes that through state intervention such an objective can be achieved. Although this objective is most clearly and comprehensively set out in the NEP, its antecedents go back to the proclamation of Independence in 1957 when the policy of creating a Malay capitalist class through 'special rights' was given constitutional recognition. However during the first decade of Independence the state's relatively restrained role in the economy produced few changes and Malays remained poorly represented in most sectors of the modern economy. Later the government was to conclude that it was the relative economic deprivation of the Malays compared to the non-Malays that was the main cause of the May 13 race riots which erupted in Kuala Lumpur after the May 1969 general elections.[28]

In the aftermath of the May 1969 election and riots, the inclusion of more component parties in the ruling coalition resulted in its political base being broadened considerably, a change that greatly enhanced the dominant status of the UMNO within the coalition. Not only was there a change in the balance of political forces within the ruling coalition but, as Jomo (1986:256) notes, there was also a change in UMNO itself as 'the position of those who stood for a more active promotion of Malay capitalism was strengthened'. The most important consequence of that change was the formulation of the New Economic Policy (NEP), first launched in association with the Second Malaysia Plan for 1971-75. The NEP contained two prongs, namely to eradicate poverty 'irrespective of race', and to 'restructure Malaysian society to reduce and eventually eliminate the identification of race with economic function' (4MP:31). The

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Unwin; Mackie, Jamie 1992 'Changing Patterns of Chinese Big Business in Southeast Asia,' in McVey (ed); Heng, Pek Koon 1992 'The Chinese Business Elite of Malaysia' in McVey (ed); Crouch, Harold 'Malaysian Government : Authoritarian Repression and Democratic Responsiveness' Ithaca, Cornell University Press (forthcoming).

28 See Means, 1972: 55, 59. The literature on the causes and consequnces of the riots is quite extensive. Some principal works include: Gagliano 1970; Reid 1969; Slimming 1969; Von Vorys 1975; National Operations Council 1969; Tunku Abdul Rahman 1969; and Vasil 1972.

most important element of the second prong of the NEP was the objective of correcting the inter-ethnic imbalance in the ownership and control of wealth in the country. The government's proclaimed target was that by 1990 or two decades after the implementation of the NEP:

> ... 'at least 30 per cent of the total commercial and industrial activities in all categories and scales of operation should have participation by Malays and other indigenous people in terms of ownership and management. The objective is to create over a period of time, a viable and thriving Malay industrial and commercial community which will operate on a par and in effective partnership with non-Malays in the modern sector' (2MP:158).

Since the publication in 1971 of the Second Malaysia Plan the government's commitment to this strategy for the creation of a Malay capitalist community has been elaborated and reaffirmed by subsequent government pronouncements in the subsequent four- five year plans and the various mid-term reviews. While there was a general consensus concerning the second aim of the NEP, 'the restructuring of Malaysian society so as to eliminate the identification of race with economic function', considerable controversy and debate surrounded that element of restructuring which involved the creation of Malay capitalists. In varying degrees and from various standpoints scholars expressed scepticism as to whether government action could create new sources of entrepreneurship.

In his study *Politics and Public Enterprise in Malaysia*, based on data from the 1970's, Bruce Gale (1981:37) argued that the entwining of various complex political and bureaucratic processes resulting from the implementation of the NEP strengthened the patrimonial features of the Malaysian polity at that time. For Gale the implications of that development were that the performance of public enterprises would necessarily be affected by, and reflect, the patrimonial and patron-client characteristics of the Malaysian polity. Gale concluded that the vulnerability of public enterprises to patron-client influences led to a dependency on government by Malay businessmen and at the same time limited the capacity of some public enterprises (particularly those obliged to provide loans and other forms of assistance to Malay businessmen such as MARA and UDA) to create 'a genuine class of Bumiputra traders' (Gale, 1981:202-203).

K.S. Jomo, a professor of economics at the University of Malaya, has approached the question from a class perspective. He has argued that 'with the NEP the state no longer merely played a supportive role for private capital; it moved to centre stage to become a medium for capital accumulation serving the particular interests of the

governing class.' He adds that 'in this important sense then, it can be suggested that the statist bourgeoisie crystallized with the announcement and implementation of the NEP' (Jomo, 1986:266). Later in his analysis Jomo emphasizes that unlike the rest of the bourgeoisie, what he terms "statist capitalists" are not involved in capital accumulation solely based on their own private property but also use the state apparatus to accumulate. So 'statist capitalists' includes those social groups who control capital accumulation by virtue of their access to state power such as Malay politicians, bureaucrats and businessmen (Jomo, 1986:268). What are the implications for entrepreneurship emerging from such origins? According to Jomo the potential for statist capitalist development is constrained by its social base. The increased government intervention in the economy which has promoted statist capitalists has also promoted rentier activity and has led to an increased incidence of corruption and economic waste (Jomo, 1985:268-269).[29]

The increasing role of the bureaucracy and the state in Malaysian capitalism is also a feature of Lim Mah Hui's approach. Writing in the mid 1980's Lim (1985:52) argued that two features distinguished the new Malay bourgeoise which began to emerge in the late 1970's. The first was that most members were either politicians or aristocrats or had close connections with such people; and secondly, all made the dramatic leap into the corporate world through political connections and state patronage. At this point, however, Lim disagrees with Jomo's view 'that state participation in the economy and state assistance in the development of a Malay bourgeoisie has resulted in a new class faction called "the bureaucratic bourgeoisie." Rather Lim argues that 'there is no sign that state capitalism is on the rise or that it has spawned a new class or class faction with different interests ... the clearest evidence is the frequent interloping of bureaucrats into the private sector' (Lim M.H., 1985:54-55, 61).

In his study of Malaysia's business class Crouch is primarily concerned to ask whether the social structures associated with the development of that new business class, Chinese and Malay, are supportive of democratization. In the course of that study, Crouch answers the question, 'Malay Business: Entrepreneur of Rentier'? by arguing that while the NEP succeeded in bringing Malays into business it failed to stimulate the development of an independent Malay entrepreneurial class. Malay businessmen were essentially individual clients ... preoccupied with maintaining individual links with political patrons. While such characteristics of the nascent Malay bourgeoisie limited (at

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29 See also Jomo, 1990:492.

least in the short run) its capacity to act as a significant check on government power, Crouch nevertheless points to new complexities and tensions in the relationship between politics and business. He suggests for instance that the rise of entrepreneurs such as Daim Zainuddin owed more to a merging of state, party and private interests than merely 'political' links alone and that while Malay businessmen did not yet constitute a 'class' by the 1980's they nevertheless did have a significant impact on the political process. This was graphically illustrated during the recession of the mid-80's when many Malay businessmen faced bankruptcy as sources of patronage shrank. Crouch[30] concludes that 'it was the life-and-death struggle between threatened and failed businessmen that fuelled the UMNO split in the late 1980's.'

Both Mehmet and Gomez use the concept of trusteeship[31] in their analysis of the NEP's role in creating Malay capitalists. The highly negative view they have regarding the nature of Malaysian 'trusteeship' has led both to damn Malay capitalism as 'rentier' and skewed in favour of the elite few. The central argument of Mehmet's study is that members of Malaysia's ruling elite (consisting of political decision-makers and officials and public service staff), in assuming the role of trustees, have emerged as a cartel (Mehmet, 1988:i). His primary conclusion is that cartel-like domination of the NEP by interlocking networks of elites has had a marginal net impact on poverty eradication (up to 1983) while concentrating income and wealth among trustees and associates (Mehmet, 1988:ii). In short the trusteeship system is subject to manipulation by the rich and powerful seeking quasi-rents and other forms of unearned rewards (Mehmet, 1988:135).[32]

Gomez's (1990) study also utilizes the concept of trusteeship, though his focus is on UMNO's role as a vehicle for enlarging the Malay stake in the corporate economy. Gomez's main conclusion is that UMNO's involvement in business has not really

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30 See Crouch 'Malaysian Government: Authoritarian Repression and Democratic Responsiveness' (unpublished manuscript) Ch. 11.

31 The concept of 'trusteeship, ' its origins and advantages in the Malaysian context has been succinctly described by Mehmet. 'Originally a small group of top political/bureaucratic leaders, inspired by Tun Razak, simply assumed the role of political trustees (i.e. guardians) of the Malay community. To accomplish the objective of 30 per cent equity restructuring, this leadership conceived of the institution of *Bumiputra Trust Agencies,* as special-purpose public enterprises, acquiring equity on behalf of the *rakyat.* Compared to the alternatives of nationlisation or confiscation, equity restructuring by trusteeship offered a piecemeal yet pragmatic solution to the traditional Malay state of capitalist underdevelopment' (Mehmet, 1988:102).

32 For thoughtful critiques of Mehmet's approach see Hirschman (1989:72-81) and Snodgrass (1987:110-113).

contributed to the development of productive businesses under its control. Rather, the party has been primarily involved in capturing 'paper wealth' and transferring such wealth from one company to another (invariably in the interests of the politically well-connected few) to obtain quick profits (Gomez, 1990:178). In short the investments of UMNO in business have served the interests of a select group, entrenched patronage and money politics and contributed to other undesirable consequences such as corruption and sapping the confidence of "genuine" investors. Implicit in the web of detail provided by Gomez is that business people spawned from such a chrysalis as UMNO's vast corporate empire can never move beyond their patronage networks and rentier activity.

Finally, in his study of the *State, Chinese Business and Multinationals in Malaysia,* Jesudason also examines the relationship between the state and private Malay capitalists. After a short biographical account of four such capitalists he concludes that, 'very few of them started their own enterprises and it remains to be seen whether a self-confident Malay bourgeoisie, contributing productively to the nation will emerge. Thus far, its development has been rather parasitic. Strong links to political power and Malaysia's moderately high growth rates were the essential props for this new class' (Jesudason, 1990:108&105).

A striking feature of this survey is a 'consensus' of sorts amongst scholars that government manipulation cannot, or at least to date has not, created new sources of entrepreneurship. Instead state support has fostered rentier activity which is inimical to the development of an independent Malay entrepreneurial class. Yet the static nature and rather deterministic quality of such analysis stands in marked contrast to the conclusions drawn from our earlier survey of capitalism in Southeast Asia. There we concluded that the evolutionary character of Southeast Asian capitalism was obscured by an attachment to such direct contrasts between dependency and self reliance, between rent-seeking and true 'productive capitalism', and the assumption that *ipso facto*, entrepreneurs could not emerge from speculative or rentier origins. This thesis will argue that that argument is no less applicable to the evolution of Malay capitalism. As the body of this thesis will show, Malay capitalism is a complex amalgam of state, party and private capital but a core of productive investment and entrepreneurial activity is emerging from within the cocoon of state/UMNO supported patronage networks and rent-seeking activity.

The debate concerning the character of Malay capitalism is of course juxtaposed with that of Chinese capitalism and its relationship with the state and Malay business.

Contemporary views by Malaysianists in this regard can be thrown into sharp relief by responses to the following question posed by Mackie.

Have Malaysia's political circumstances trapped Chinese businessmen into dependency relationships similar in kind if not degree to Rigg's pariah entrepreneurs?[33]

Most studies that have attempted to assess the character of contemporary Chinese business in Malaysia after 1970 and its relationship with the state make the necessary analytical distinctions firstly between small to medium and big business, and secondly between individual responses and the so-called communal or group response to the NEP by Multi-Purpose Holdings (MPH) (an investment arm of the MCA). A number of these distinctions will be explored later but here we will confine ourselves to the debate concerning the perceived character of big business and its relationship with the state. While there appears to be some consensus regarding the character of the newly emergent Malay capitalism (as rentier rather than entrepreneur) this is less the case where Chinese capitalism is concerned. As McVey asked, should Chinese capitalists be seen as 'pariahs' rather than 'paragons'?[34]

Mackie's study of *Changing Patterns of Chinese Big Business in Southeast Asia* stresses how, in the Malaysian case, Chinese groups have demonstrated a greater capacity for change and adaptability than elsewhere in the region.[35] Besides indicating

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33 Mackie (1992 (a):173). The full context from which this question is drawn reads, 'Malaysia's political circumstances have forced Chinese businessmen into dependency relationships akin in kind if not degree to Rigg's "pariah entrepreneurship." Will this trap Malaysian capitalists into a subordination to bureaucrats and politicians which they have hitherto been spared?'

34 McVey has used the conepts of 'pariah' and 'paragon' to stress the changes that have taken place in the character of Chinese business since colonial times. In common with Riggs notion, Chinese businessmen in the past could be considered as pariah because they were politically dependent and could not rely on the state to protect their interests. A consequence of that was the transformation of Chinese-dominated sectors of the economy into closed shops which indigenous entrepreneurs could not penetrate. However the characteristics required for major business success in the present age run counter to many older Chinese entrepreneurial practices and values. Paragons therefore are those who have adapted to modern requirements for capital, political connections, and broad international operations by an opening-out in terms of their finance, business organization, and social style (McVey, 1992:20-21).

35 See Mackie (1992 (a):161-190). For a comprehensive and thought provoking study of the reasons and theories advanced for the 'dynamism' of Chinese entrepreneurship and suggestions further investigations might take see Mackie (1992 (b):41-64). Further valuable insights regarding Chinese business in Southeast Asia are also provided by other comparative studies by the same author, see most notably: Mackie (1988);(1990 (a) and (b)).

some of the unique features of Chinese business in Malaysia, [36] Mackie shows how, despite the particularly pressing socio-economic circumstances of the NEP, big Chinese firms have adjusted towards modern-style managerial techniques and structures.[37] In terms of ownership he notes how the development of the stockmarket in Malaysia and Singapore, relative to that elsewhere in the region, made it easier for large Chinese companies to advance beyond the single family firm toward more complex patterns of interlocking share ownership and control (Mackie, 1992(a):171). In addition he points to the leverage such elements of Chinese capital have on the political leadership as international Chinese investment becomes increasingly important in Southeast Asian economies, Malaysia's in particular (Mackie, 1992(a):174). While such factors make notions of 'dependency' and 'pariah' less applicable,[38] other points he has raised regarding the nature of Chinese business in Malaysia, and more generally in Southeast Asia, also suggest the need for caution regarding such terms. Pertinent in that regard is Mackie's concept of 'growth coalitions' to describe the variety and complexity of the political and economic factors and relationships that lie behind state power and the Southeast Asian capitalist upsurge (Mackie, 1992(a):162-163). In other words, he places Chinese capital within a more complex set of relationships and circumstances that increasingly belie easy categorization.[39] Also relevant is the evidence he detects of a gradual change within Chinese groups (Malaysian in particular), from personal

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[36] In particular Mackie points to the greater degree of continuity from old wealth to new among the leading Chinese firms in Malaysia-Singapore compared to Thailand and Indonesia, although he notes 'new men' have been coming to the fore and most of the old-established firms seem to be declining. In this respect he points out that we can posit a tendency toward convergence in the pattern of Chinese big business in all these countries (1992 (a):168). Mackie defines "old wealth" as that which was established before World War 11 and "new money" as that which has emerged in the last twenty or thirty years, leaving an intermediate group ie, those that emerged in the 1950's the most prominent of which in Malaysia include the Kuok and Hong Leong groups (Mackie, 1992 (a):167).

[37] For a succinct but comprehensive account of the important structural changes that have occurred in Malaysian Chinese business see (Mackie, 1992 (a):168-174).

[38] Mackie (1992 (a):177) argues 'that the term pariah entrepreneur has become generally inappropriate to describe Chinese businessmen in Thailand but it is not yet entirely so in Indonesia.' After taking into account Malaysia's political circumstances, Mackie essentially leaves the question open as to whether Chinese business in Malaysia will be trapped into dependency relationships akin in kind if not degree to Rigg's "pariah entrepreneurship"; however his analysis suggests that this is unlikely and in that regard Malaysia's Chinese are on a spectrum somewhere between their counterparts in Indonesia and Thailand.

[39] Mackie (1992 (b):57). Nathaniel Leff, who has written on entrepreneurship in other developing countries (Latin America), hints at the importance of the complex factors and relationships between business groups, governments and state policies (though mainly in terms of growth), but as Mackie points out, with some notable exceptions mentioned earlier, much work remains to be done systematically exploring the theoretical implications of these relationships in Southeast Asia.

relationships towards what he calls corporatization and reliance on more impersonal management practices and market mechanisms (Mackie, 1992(b):58).

In his examination of Chinese business Crouch juxtaposes the concepts of bourgeoisie and pariah in order to assess to what extent one important ingredient of Malaysia's bourgeoisie, Chinese business, is capable of countervailing the power of the government. Crouch argues that the size and variegated nature of Chinese capital means that the answer is necessarily mixed. Although the Chinese community dominated the domestic private sector, it could not precisely because it was Chinese, convert its economic strength into political power. Its leverage was further reduced during the 1970's and 1980's with the expansion of the state sector and the inflow of foreign investment. Nevertheless the sheer size of the Chinese bourgeoise meant that its interests could not be simply ignored by the government.[40]

After describing the variegated nature of the Chinese bourgeoise and how that in turn has determined a variety of responses in its relationship with government, Crouch focuses on big business 'whose representatives were strong enough to approach government directly' and asks whether such businessmen conformed to Rigg's concept of pariah entrepreneurs. In that regard he makes an important distinction between those who were already well established before the expansion of the state sector in the 1970's (and whose business success was not derived primarily from government patronage), and those who rose in the 1980's and whose fortunes were usually linked to a powerful Malay patron. Crouch argues that while those in the former category could not be dismissed as mere 'pariah entrepreneurs,' those in the latter category conformed more closely to the pariah image.[41]

The studies by Sieh (1992) and Jesudason (1990) both suggest that while Malaysia's political circumstances have not trapped businessmen in dependency relationships of the pariah type, they have nevertheless been responsible for distorting investment in ersatz-type ways and encouraging capital flight. Both argue, albeit from different

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40 See Crouch, 'Malaysian Government: Authoritarian Repression and Democratic Responsiveness' (forthcoming).

41 He qualifies this distinction somewhat by noting how one prominent representative of new wealth, Khoo Kay Peng developed from pariah-like origins to become a businessman who could stand on his own feet even after his patron's fall from power. Such a distinction highlights the superficiality of Yoshihara's analysis which does not distinguish between the very different modes of capital accumulation by Chinese business before the NEP (by such individuals as Robert Kuok and Lim Goh Tong) and after by those such as Tan Koon Swan and Khoo Kay Peng, all of whom Yoshihara simply lumps together as "rent-seekers" (Yoshihara, 1988:91).

perspectives, that under the NEP the manner, expansion and type of investment undertaken by such groups has changed in such a way that 'the bases of new business ventures in Malaysia have tended to be political and speculative rather than economically rational and productive' (Sieh, 1992:125). Jesudason and Sieh, however, have different views on the relationship between Chinese and Malay capital. Jesudason (1990:160) claims that 'the Malay state elite and Chinese business have viewed each other in zero-sum terms and have gone on divergent paths in their economic activities' but Sieh's (1992:110) study shows, although in a rather formalistic manner, how the joining of political-bureaucratic (Malay) and entrepreneurial (Chinese) interests has been greatly facilitated by the organizational characteristics of capitalism. This argument concerning the erosion of Chinese exclusivity as both economic interests and cultural forces bring together Chinese and indigenous elites in pursuit of common goals (profit) has been most forcefully put by Linda Lim. In her examination of the implications of the relationship between Chinese business, multinationals and the state, Lim (1983:246 &270) argues that 'capital loses not only its face, but also its colour. ... Pre-capitalist modes of production which may have an ethnic character give way to strictly capitalist forms of business organization and operation in which ethnicity becomes irrelevant.'

Heng Pek Koon's (1992) analysis of the relationship between the state and Chinese business, however, places inter-ethnic commercial co-operation in a more negative light. She is inclined to the view that sees Malaysia's political circumstances as likely to trap Chinese business in dependent relationships of the pariah sort. While noting that it is those Chinese groups which have formed alliances with powerful Malay patrons who have prospered the most, Heng argues that such dependency relationships, and the fortunes they build, are inherently fragile and vulnerable to changes within the Malay power structure. That situation Heng believes is the driving force behind the employment of the 'exit option' by Chinese businesses - that is the relocation of substantial portions of their capital overseas to avoid being totally trapped by Malaysia's political circumstances. Heng (1992:127-128) concludes that even the "success stories" she describes, that is those groups who have formed close and profitable alliances with powerful Malay patrons, may merely reflect a transitional phase, or (from the perspective of the Malay power structure) a temporary "alliance of convenience" which serves as a necessary half-way station enroute to complete Malay and foreign dominance of the major economic institutions of the country.

Clearly scholars differ in their assessments about the character of Chinese capitalism and the extent to which Malaysia's political circumstances have trapped

Chinese businessmen into dependency relationships similar to Riggs pariah entrepreneurs. In retrospect it would seem that some of the more pessimistic assessments made in the mid-eighties about the outlook for Chinese business in Malaysia were probably coloured by the particular circumstances of the time, when inter-ethnic tensions were rising as a result of a severe economic recession and a crisis in UMNO. Nevertheless we have seen how analyses of the relationship between the state and Chinese (as well as foreign) capital in Malaysia tended to view these categories in discrete and antipathetical terms. At the same time a strong theme persists in the literature that determinedly attempts to classify Chinese capitalists in either/or terms, that is as either pariahs or paragons, patrons or clients. By an examination of a cross-section of Chinese business groups this thesis will show that such attempts to classify or characterise Chinese capital are no longer adequate to describe the complexity and dynamism found in the responses of Chinese capitalists to the NEP and their relationships with the state and Malay business groups.

Change and Transformation

This thesis will be concerned with change and the transformation of Malaysian capitalists. It will focus on big business because it is that level rather than that of small and medium business, as McVey (1992:9) notes, that 'we find most clearly displayed the nexus between business, politics and the state.' Furthermore it is at that level that the government-sponsored NEP has had most impact in fuelling and defining the character of Malaysian capitalism over the last twenty years. This is not to deny the importance of changes that have also occurred in medium and small business during the same period. However as Shamsul's illuminating study of local politics shows, such changes would not have occurred, or taken the form they did, had it not been for the new political-economic linkages forged at the national level after 1970.[42]

In concert with a focus on big business much of the thesis will also examine changes occurring in Malaysian capitalism from the perspective of business groups, both Malay and Chinese, because they dominate much of the private and domestically owned advanced sector in Malaysia.[43] Before moving to an examination of changes in

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[42] See Shamsul (1986). While on the other side of the ethnic divide Tan and Jesudason have provided glimpses of some of the key characteristics and changes occurring at the levels of small and medium Chinese business, clearly the dynamics at those levels to date are less well known and understood than they are at the level of big business. See Tan (1982: Ch 8) & Jesudason (1989: Ch 5).

[43] For some valuable insights regarding the role and importance of Business Groups in LDC's see Doner 1991:833; Leff 1979:46-64 and Mackie 1992 (b):56.

major business groups during the last twenty years, it is useful to look briefly at two seminal works based on data in the 1970's. They are Lim Mah Hui (1981) *Ownership and Control of the One Hundred Corporations in Malaysia* and Tan Tat Wai's (1982) *Income Distribution and Determination in West Malaysia.* The most striking impression for a reader of these books in the 1990's relates to the extraordinary changes in the Malaysian business world during the past two decades.

Lim's study focusses on changes in ownership patterns in the mid-1970's. Principal characteristics of the corporate sector at that time highlighted by Lim were that: it was foreign dominated in terms of ownership; that it was dominated by a few large corporations (Lim's 100 largest corporations); that there was a high degree of concentration of both ownership and control within the largest corporations; and that through interlocking directors and share ownership 8 major cliques could be identified. Besides ownership, Lim provides a valuable socio-economic profile of directors in the corporate sector in the mid seventies. His principal findings included that, of the 579 directors of the 100 corporations studied, two-thirds were non-Malaysians. Of the 33 per cent who were Malaysian, twenty-one per cent were non-Malays and 12 per cent were Malays. Three occupational categories predominated among the directors - businessmen, professionals and politician-civil servants. Comparing the Malaysian directors, 6 per cent of the non-Malay directors had political or civil service backgrounds while 50 per cent of the Malay directors had such a background (Lim, 1981:69-70).

Lim (1981:66-67) also identified three types of directors. First, executive professional directors who were basically high ranking employees engaged to run the company. An overwhelming majority of executive-professional directors were foreigners and of the Malaysians more than two-thirds were Chinese and the rest were Malays. Secondly, there were owner-directors who, as their title implies, did not simply manage companies but owned them as well. According to Lim (1981:67) a majority of owner-directors were Malaysian and Singaporean Chinese. (In another study, Sieh found that Malays occupied 30 per cent of the ordinary Malaysian directorships but accounted for only 4.6 per cent of the capital owned by Malaysian directors.[44] Finally a third type of director identified by Lim were what he termed functional directors. Functional directors were mainly former civil servants who were hired for their

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[44] In her sample of 538 Malaysian ordinary directors Sieh-Lee found that the Chinese accounted for 50 per cent of the directorships but almost 95 per cent of the capital owned by Malaysian directors. See Sieh-Lee Mei Ling (1982).

experience and connections and who performed advisory and brokerage functions for companies. An overwhelming majority of functional directors were Malays (Lim, 1981:69).

Tan's research also confirmed the concentration of wealth and its control as well as the strong position of foreign ownership in the economy. At the same time he pointed to changes (circa the mid-1970's) 'as the government gained dominating control of the financial and tin mining sectors and appeared to be making important inroads into the plantation and property sectors' (Tan, 1982:328). In his examination of the origins, nature and outlook of Malaysian businessmen Tan noted that the role of the non-Malay (almost all Chinese) businessmen had expanded in almost every field, although they tended to occupy the medium to large enterprises and in only a few cases had they been able to penetrate the tight control of the large foreign-owned corporations (Tan, 1982:190). Some of the big Chinese businessmen had already established partnerships with Malays but such partnerships invariably involved close ties with the government or a leading Malay politician or bureaucrat as few Malay tycoons had yet emerged.

As for the Malays, Tan found that, although significant headway had been made regarding their ownership of the corporate sector since 1970, most of that had been made by the government on their behalf and was particularly apparent in the finance, mining and petroleum sectors though important inroads had also been made in the plantation, property development, manufacturing, trading and services sectors (Tan, 1982:191). Finally from the perspective of the mid-1970's Tan saw the prospects of more economic nationalism as likely to increase as the young Malay professionals-politicians-civil servants sought to establish an independent economic base in juxtaposition to the foreign and big local (Chinese) businessmen (Tan, 1982:306).

The studies by Lim and Tan elucidate well the principal characteristics of Malaysia's corporate sector in the mid-seventies. However some fifteen years later some of their major findings regarding structures and relationships in the corporate sector no longer apply or require considerable qualification, a fact that indicates the quite extraordinary degree of socio-economic change that has taken place in Malaysia between then and now. For instance, of Lim's 8 major business cliques (Overseas Chinese Banking Corporation-Sime Darby; London Tin-Charter Consolidated; Malayan Banking; Kuok Brothers; Pan Malaysia Cement; Harrisons and Crosfield; Lee Loy Seng and the Sung Chi Fang) only three - Malayan Banking, Kuok Brothers and Lee Loy

Seng - have retained their earlier character and prominence.[45] Besides significant shifts in ownership patterns there have also been important changes regarding the typology of Lim's directors, particularly Malay directors. With the emergence in the eighties of Malay business groups, the background of Malay directors and the nature of their partnerships with Chinese (as described by Tan), have also undergone fundamental change. The emergence of Malay business groups has also transformed the relationship between the Malay politico-bureaucratic elite and Chinese as well as foreign business. Another major change between the 1970's and the 1980's has been the extensive use of the stockmarket to raise capital by business groups, whether Malay or Chinese in the course of their development into conglomerates.

It is in regard to such change and transformation that this study takes its point of departure from earlier work. It will, however, be less concerned than the earlier studies with the formal structures of ownership and control, and the formal linkages between business, politics and the state than with providing a sense of the dynamics between them in the growth of business groups and the development of Malaysian capitalism.[46]

To this end the thesis will examine a cross-section of business groups, Malay and

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45 For developments in the Kuok Brothers and Lee Loy Seng groups since the 1970's see chapter 9. Malayan Banking, although still a major group, no longer has the earlier links ascribed to it by Lim. Since Lim's study the two components of the Overseas Chinese Banking Corporation (OCBC) and Sime Darby clique have gone their separate ways. According to Lim, at the end of 1976, OCBC had the largest block of shares in Sime however in the eighties OCBC was replaced by the Malaysian Government and trust agencies as the dominant shareholders in the company. As of end 1990 government corporations and trust agencies held 28 per cent of Sime's shares. See (Lim:1981:84) and KLSE Annual Companies Handbook, Vol XV11, 1991: 435. London Tin-Charter Consolidated Between 1976-77 state-owned Pernas through New Tradewinds became a major partner in Charter Consolidated. New Tradewinds later changed its name to Malaysian Mining Corporation (MMC). During the 1980's some of the principal companies previously under Charter Consolidated such as Aokam Tin and Ayer Hitam Tin Dredging that had passed to MMC were spun off to the UMNO-controlled Halimtan network of companies. See chapter 4. The Pan Malaysia Cement Clique In March 1980 this clique broke up when a key component, Pan Malaysia Cement (PMC), became a member of Khoo Kay Peng's MUI group. See chapter 8. The Harrisons and Crosfield Clique This foreign (British) dominated clique passed to Malaysian Government control in July 1982 when PNB the national equity corporation became the dominant shareholder. See KLSE, Annual Companies Handbook, Vol X11:1263. The Sung Chi Fang Clique Taiping Textiles, one of the key companies in the trio that made up this clique passed to the control of Malay entrepreneur, Azman Hashim in 1982. Taiping Textiles was later renamed Arab Malaysia Development Bhd. Ownership of the two remaining companies in the clique - Selangor Dredging and Malayan Flour remains largely unchanged. See chapter 6 and KLSE, Annual Companies Handbook, Vol XV: 651, 855, 307.

46 In a review of Lim Mah Hui's book Khoo Kay Jin (1983) persuasively argues how over emphasis on formal linkages can miss the dynamics both within business groups as well as in their relations with each other and the state. He notes how too economistic an approach can ignore informal links of great importance and which are often a more accurate guide as to the real locus of power.

Chinese, and the changes occurring in each from the 1970's to the 1990's. It will show that the nexus between politics and business has blurred the distinctions commonly made between 'real' capitalists or entrepreneurs on the one hand and such categories as rent-seekers, pariah entrepreneurs, client capitalists and speculators, on the other. It will argue that we need to consider Malaysian capitalists, both Malay and Chinese, as occupying positions along a spectrum rather than placing them in either/or categories. At the same time Malaysian capitalism itself has to be viewed as being in a continuing process of change and evolution.

PART 1

THE HISTORICAL CONTEXT: STATE AND CAPITAL TO 1990

Chapter 2

MALAYSIAN POLITICAL ECONOMY: AN OVERVIEW

Introduction

The character of Malay capitalism and the transformation of Chinese business in Malaysia in the 1990's arises from one of the most colourful and controversial histories of political economy in Southeast Asia. This chapter provides the historical, socio-economic and political context which has shaped the contemporary relationship between business, politics and the state in Malaysia.

The Political Setting

Malaysia is a plural society with a total population of 17.756 million in 1990. Of this total, 14.617 million resided in Peninsular Malaysia, 58.20 per cent being Malay, 31.35 per cent Chinese, 9.82 per cent Indian, and 0.63 per cent from other ethnic groups. Developments in the peninsular under British colonial rule resulted in the segregation of these various ethnic groups by geographical location, economic occupation and political role. Historically the political economy of Malaysia may be divided into five phases:

(a) the pre-colonial phase (before 1874);

(b) the phase of the colonial economy (1874-1957);

(c) the post colonial economy (1957-1969) when the government adopted a largely *laissez-faire* approach.

(d) the period of state intervention (1970-1985);

(e) the period of economic liberalization (since 1985).

Contemporary notions of nationalism or of the political state did not exist in pre-colonial Malaya.[1] The view of the Malay peasant did not extend much beyond his

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1 See Gullick 1958 and Jomo 1986:ch 1.

village community. At the same time conflicts within the ruling class and between rulers of different states also contributed to the fragmentation of authority on the peninsula which enabled the British to secure control with minimum resistance. The era of British rule in Malaya (1874-1957) and the political and socio-economic legacies of that rule have been well documented. For our purposes therefore it will suffice to highlight some of the principal features of that period and their implications for the relationship between politics, ethnicity and ownership of the economy in the post Independence 1957-1969 period.

British intervention had a number of important implications for Malaysia's future politics, society and economy. First the formal hierarchy of political power in Malay society with the Ruler at its apex was strengthened. In return for surrendering most of their real power and authority the Rulers were provided with generous monetary allowances, enjoyed the trappings of office and were freed from the uncertainties of challenges by rebellious subjects (Sidhu, 1980:188). As a result the prestige of the Sultans as symbols of the Malay community was gradually enhanced, a development which significantly strengthened conservative forces in the Malay community.[2]

Secondly, British intervention created a dual economy whereby large plantations and mines, essentially modern corporations based on venture capital, existed side by side with peasant smallholdings (Chan, 1986:10). The dominance of foreign investment coincided with another feature of the colonial economy - its dependence on two commodities, rubber and tin.[3] Foreign, principally British, interests dominated nearly every facet of the colonial economy, including plantations, mining, banking, manufacturing, shipping and public utilities. Puthucheary (1960:xiv and 85-86) showed that in the mid-fifties European-owned firms still controlled 65-75 per cent of the export trade, 60-70 per cent of the import trade and owned 83 per cent of the rubber estate land. Besides European investment, Chinese business capital was also significant, though much was concentrated in tin mining. It was estimated that 64 per cent of tin mines were owned by Chinese in 1920 compared to 36 per cent that were European-owned. However, with the introduction of the dredge mining technique Chinese

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2 See Snodgrass, 1980:29. For more detailed accounts of the colonial period and its implications for the powers and position of the Sultans see Emerson 1964; Parkinson 1960:324; Lim, T. G., 1977:7; Sadka 1968:379-80 and Tarling 1969.

3 In the 1930's Malayan rubber production accounted for more than 50 per cent of total world output and Malayan mines about one third of total world production Lim, C. Y., (1967: 60 and 94).

ownership declined and in 1954 European mines produced 62 per cent of total Malayan output compared to 38 per cent by Chinese-owned mines.[4]

A third legacy of the colonial era was the dramatic demographic change that took place in the Peninsular and the emergence of a plural society in the late nineteenth and early twentieth century. Foreign capital, with the compliance of the colonial government, organised and permitted a massive inflow of low-cost immigrant labour, first from China and later from India, to meet the high production schedules in the plantation and mining sectors. In 1911 Malays constituted 59 per cent of the population of what is now Peninsular Malaysia and non-Malays 40 per cent. By 1931 there was a 50:50 even balance between the indigenous Malay and the migrant populations, a situation that continued until about 1957 after which the non-Malay rate of natural increase declined and that of the Malays moved decisively ahead. See Appendix 2.1.

Colonial rule and changing demographic patterns also wrought important changes in the political and socio-economic structure of the society. At the top was the colonial government and British merchant capital. The Malay aristocracy and royalty formed an adjunct to that apex of British political and commercial power. In the middle were the Chinese compradors, the mercantile class and the emerging government bureaucrats, later dominated by Malays. Forming the base of society were the Malay peasantry and migrant wage labour.

An important feature of Malaya's emerging plural society was the extent to which the division between Malays and non-Malays also reflected differences of occupation and location. The colonial government's focus on facilitating conditions for the flourishing of a cash and export-oriented economy, in part through an open-door immigration policy, was largely responsible for imposing the ethnic division of labour. Ethnic and socio-economic cleavages were reinforced by the outlook and policies of colonial administrators. Notable in that regard was the rural orientation of Malay education which aimed 'to make the son of a fisherman or a peasant a more intelligent fisherman or peasant than his father had been, and a man whose education will enable him to understand how his own lot fits in with the scheme of life around him'.[5] Such a view limited Malay access to many important forms of employment in the modern sector - professional, administrative and clerical - that were largely a function of

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4 See Purcell, 1956 and Puthucheary, 1960.

5 This oft-quoted statement was made by George Maxwell, a colonial administrator in 1927. See Snodgrass, 1980:238.

education. For Malays, English-medium education was limited to the sons of the nobility who attended the elite Malay College at Kuala Kangsar where they were trained for positions in the Malayan Administrative Service (MAS) as civil servants under the British.[6] In the commercial sphere efforts by the colonial authorities to keep the Malays in rice production and the severe constraints placed on peasant rubber production further limited Malay economic opportunities.

Table 2.1:Malaya: Distribution of Ethnic Groups in Major Industries, 1947

Industries	*Total (Thousand)*	*Malays (%)*	*Chinese (%)*	*Indians (%)*
Agriculture	889.3	57	30	12
Peasant (incl. padi)	508.3	70	27	1
Padi	333.2	88	10	*
Plantation	381.0	39	33	27
Mining	39.4	14	71	13
Manufacturing, construction, utilities	124.8	19	70	6
Tertiary	407.2	27	48	23
Government	104.9	54	11	30
Total	1, 461.7	44	40	15

Note: *negligible
Source: Federation of Malaya, *Population Census*, Kuala Lumpur: Government Printer, 1957, vol. 14, p.31. As cited by Ho, 1988:95

The relationship between ethnicity and occupation is apparent from Table 2.1 which shows that in the colonial economy the majority of Malays (57 per cent) remained confined to the agricultural sector while the tin mining and manufacturing sectors were clearly the preserves of the Chinese (71 per cent and 70 per cent respectively). The relationship between race and economic activity was also emphasised by Puthucheary (1960:xvii) who observed that, 'very few Malays were engaged in trade and probably none in mining and manufacture'. Colonial policy aside, employment as estate labour was probably not attractive for Malays either on economic or cultural grounds. As Snodgrass (1980:30) observed, 'the plantations required disciplined low wage labour while the *kampung* economy, with its favourable land-man ratio, probably offered a comparable living standard within a more familiar and comfortable social framework'.

6 See Khasnor, 1984 and Stevenson, 1975.

The reasons as to why the Malays remained outside the sectors that boomed after British intervention are complex and beyond the scope of our present concerns. It will suffice here to indicate that besides the effects of colonial policy noted earlier, such an account would also need to address the role of cultural attitudes toward capital accumulation as well as the institutions Malay society lacked (*vis-a-vis* those of the Europeans and the Chinese) that could effectively mobilize and utilize capital.

The agricultural/commercial divide between Malays and Chinese continued to widen as large numbers of Chinese moved from employment as mining and agricultural labourers to commercial occupations.[7] Members of the same dialect group tended to follow the same occupation which suggested the importance of those ties in providing mutual help and finance for business. It was the closed nature of Chinese business, and its ubiquitous presence in the retail trades in particular, that seemed to make Chinese activity appear more threatening and exploitative to the Malays than that of the Europeans, even though it was the Europeans who dominated the colonial economy. Another factor contributing to the ethnic/occupational cleavage was the exclusion of Chinese from holding senior administrative posts in the Malay States while very few were permitted employment in the army or police (though few sought such occupations as by Chinese tradition they carried little status).

While colonial rule created a climate that was of course favourable to European commerce, it also provided an environment which allowed Chinese business to flourish. Indeed it was in the late nineteenth and early twentieth centuries that the foundations of a number of the Chinese business groups still operating in the 1990's were established, most from humble beginnings as traders in rice, rubber and tin.

The State, The Economy and The Malays 1957-1969

The political and socio-economic structures already apparent in the colonial period had implications both for the background of the elites which were to govern Malaya and the policies of the post-colonial state. The most striking feature of the 1957-69 period was that 'a governing group dominated the state without an economic base of its own, a situation that while not altogether unusual in new states, was necessarily fragile and untenable in the long run' (Jomo, 1986:247).

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7 See Snodgrass, 1980:38:Table 2.4.

When the Federation of Malaya gained its independence on 31 August 1957, the Alliance - a coalition of the United Malays National Organisation (UMNO), the Malayan Chinese Association (MCA), and the Malayan Indian Congress (MIC) - formed the government of the new nation. The dominant party in the Alliance was UNMO. UMNO's initial success as a mass-based Malay party was due to its ability to mobilize Malay opinion after World War 2 against the British-imposed Malayan Union scheme, the main proposals of which (a common citizenship and equal political rights for all locally born residents), removed even the semblance of Malay sovereignty.[8] The opposition movement culminated in the formation of UMNO led by English-educated Malays, many of them civil servants of aristocratic background, the so-called 'administocrats' who represented the moderate face of Malay nationalism. Alarmed at the strength of UMNO's opposition to plans for a Malayan Union, the British abandoned it and a new scheme - the Federation of Malaya Agreement - came into force in 1948. The Federation of Malaya Agreement was far more favourable to Malay interests and was a significant victory for UMNO; it upheld the sovereignty of the Rulers, entrenched the 'special position' of the Malays and was more restrictive of non-Malay citizenship. The rapid rise of UMNO and its success in forcing the abandonment of the Malayan Union, left it as the dominant Malay force and leading Malayan organization in government affairs (Mauzy, 1983:8).

Shortly after the Federation was promulgated, the security situation deteriorated seriously as a result of an insurgency mounted by the Malayan Communist Party (MCP), an organization whose membership was overwhelmingly Chinese. It was in that context that the Malayan Chinese Association (MCA) was formed in 1949 in a bid to encourage the development of an anti-communist alternative to the MCP (Heng, 1983:294). MCA leaders included some of the most successful Chinese capitalists of the time; they also tended to be English-speaking and strongly pro-British such as Tan Cheng Lock, his son Tan Siew Sin and H. S. Lee. As Jomo (1986:246) observed 'in marked contrast therefore to the class composition of the Malay community and the character of the UMNO leadership (the "administocrats") the MCA was primarily a party of businessmen from the outset.' It was also the MCA's identification with the interests of big Chinese businessmen, at least in the 1950's and 1960's, which limited its appeal among other classes in the Chinese community.

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8 Malay sovereignty was further eroded by another key proposal in the Malayan Union scheme, that is the surrender by the Malay rulers of all power and jurisdiction in their states to the British crown. For a comprehensive account of this period see Noordin, 1974.

The Malayan (later Malaysian) Indian Congress (MIC) was also formed in the later 1940's, and after an earlier 'radical' period, emerged in the mid-1950's as a moderate party led primarily by English-educated Indian professionals and businessmen who had virtually no links with the Indian laboring class or trade unions.[9] In 1952 UMNO and the MCA formed an electoral coalition to contest the Kuala Lumpur municipal elections. The success of that pact led to the formation of the Alliance Party, a coalition between UMNO, the MCA and the MIC, each claiming to represent the three major communities in Malaysia. The overwhelming victory scored by the Alliance in the first federal election in 1955, when it won fifty-one of the fifty-two contested seats, demonstrated a persistent feature of Malaysian politics: 'that an alliance of ethnic elites, each with its own communal organization, was more appealing to voters than non-communal organizations' (Jesudason, 1990:44).

The Alliance's electoral success proved the potency of its prescription for ethnic co-operation (albeit at an elite level) and paved the way for independence in 1957. Before independence a series of important compromises were negotiated between the moderate elites of the UMNO and the MCA that were later reflected in the constitution. Generally referred to as 'the bargain', its essence was that in return for liberalized citizenship regulations and a tacit understanding that Chinese economic interests would not be disadvantaged, the non-Malays agreed to Malay political paramountcy and the paramountcy of Malay symbols in the definition of the state. This would be achieved by UMNO controlling the highest offices of government, Islam as the state religion, Malay as the national language and the preservation of the Malay sultans within the framework of a constitutional democracy (Milne and Mauzy, 1980:38-90). Malay anxieties regarding their economic backwardness were reflected in Article 153 of the Constitution which contained provisions for the 'special position' of the Malays in terms of official preference in education, the bureaucracy and business.

The Political Economy of the Alliance

The policies of the Alliance government were constrained by its social base on the one hand and by the nature of the inter-elite co-operation that characterized its operation on the other. These constraints were particularly pertinent where attitudes to foreign ownership and the role of the state in expanding Malay ownership in the economy were concerned.

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9 See Mauzy, 1983:11 and Stenson, 1980.

Although after independence efforts were made to industrialize and diversify the economy, its basic character changed little from the pre-independence period. Rubber and tin, which accounted for 83 per cent of exports in 1950, continued to comprise 75 per cent of exports in 1969 (Ho,1990:104). Foreign capital and investment also retained its dominant role in the economy. In 1970 foreigners continued to control almost three quarters of the corporate capital in modern agriculture (the plantation sector) and mining (75.4 per cent and 72.5 per cent respectively). Foreigner's also continued to dominate the export trade (70 per cent).[10] A strong presence was also retained by foreign capital in the financial and manufacturing sectors. Only in two sectors, transport and construction did local ownership exceed that of foreign ownership.[11]

The consistently positive and tolerant attitude of the newly independent Malaysian government to a large foreign stake in the economy was due to a combination of factors. Jesudason points to Malaysia's heavy dependence on Britain for military defence in the 1960's (with a lingering communist insurgency and Indonesia's active 'Confrontation' of Malaysia) as well as perceptions of economic vulnerability as the government sought to diversify the economy and provide more employment opportunities for a rapidly growing population. In its concern to attract foreign investment the government apparently did not even broach the notion of whether changing the terms of participation in one sector would actually lead to declining investments in other sectors (Jesudason, 1990:53).

The benign attitude of the Alliance government to foreign dominance of the economy has also been accounted for in terms of Malay insecurity about Chinese economic power. In that regard some scholars have argued that as the Malays were not yet ready to manage large modern businesses, a large degree of foreign domination was preferable to, and more manageable than, heavier reliance on Chinese enterprise.[12] Other scholars have sought to explain tolerance of the large foreign stake in the economy in class terms arguing that the governing group, the Malay 'administocrats' (represented by UMNO) who partly derived their dominance in the post colonial order from compromises acceptable to the British on the one hand, and Chinese commercial

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10 See Hoffman, Lutz and Tan (1980:215) and Appendix 2.2. where foreign domination of the export trade is apparent from the figure for 'Wholesale Trade'.

11 Foreign, principally British, traders also suffered a relative decline in the import of manufactured goods as competitors from East Asia and the United States increasingly chose Malaysians as agents for their products (Junid Saham, 1980:121).

12 See Golay, 1969:387 and Snodgrass, 1980:210.

interests (represented by the MCA) on the other, had a stake in preserving the 'capitalist status quo' (Jomo, 1986:247).

Another significant feature of the 1957-70 period was that not only did income inequality increase for the population as a whole and especially among the Malays (Jomo, 1986:249), but ethnic disparities in inter-ethnic income distribution also remained largely unchanged.

Table 2.2: Mean Income and Shares in Income Growth, by Ethnic Group, 1957/8-1970 (Malays, Chinese, and Indians Only)

Ethnic group	*Mean income per household ($/month)*		*Income growth, 1957/8-70*		*Total personal income ($ million/year*			*Per cent share of increase*
	1957/8	*1970*	*In $/month*	*In per cent*	*In 1957/8*	*In 1970*	*Increase*	
Malays	139	177	39	28	1,008	1,954	946	41
Chinese	300	399	100	33	1,299	2,426	1,127	49
Indians	237	310	74	31	358	673	315	14
Total	203	262	59	29	2, 665	5,053	2, 388	100

Source: Snodgrass:1980:83.

The study by Snodgrass of household income as an indicator of income inequality showed that in 1957 the Malays had the lowest mean income $139, compared to Chinese $300 and Indians $237. By 1970 Malay households still had the lowest mean income ($177) while Chinese mean income ($399) was almost twice that of the Malays (Snodgrass, 1980:83). Yet despite these continuing disparities, the role of the state in expanding Malay ownership in the first decade of independence has been generally characterised as restrained or *laissez-faire* in its approach. Why was this the case? As suggested earlier it was in large part due to the social bases of the Alliance elites and their *modus operandi* in government.

The nature of inter-elite co-operation that characterized the operation of the Alliance was dependent on continuing respect by Alliance leaders for the terms of the Independence 'bargain' thrashed out between them. The quid pro quo of the bargain often represented by the formula: 'Malay political hegemony in return for unhindered Chinese (and Indian) economic activity' also established the political rules of the game. The bargain therefore constrained the UMNO leadership from even contemplating radical state action to expand Malay ownership as any such action that upset the economic status quo would undermine the very basis of Alliance co-operation and rule.

While the multi-ethnic compromises made between the Alliance elites shaped the *laissez-faire* policies of the government and posed structural constraints to Malay ethnic particularism, such outcomes were also sustained by the power and personality of the Prime Minister, Tunku Abdul Rahman and the nature and style of Alliance rule. An aristocrat from the royal house of Kedah, the Tunku had little empathy with the aspirations of urban Malays increasingly conscious of their ethnicity and position as an economic outgroup *vis-a-vis* the Chinese. Nevertheless criticism of his leadership from Malay nationalists was muted for much of the 1960's as the Tunku continued to enjoy the considerable prestige attached to his persona as the father of Independence (Bapak Merdeka). The Tunku's dominance both of UMNO and the Alliance, and his preference for a style of government which emphasized compromise, ambiguity and gradualism at the elite level, also facilitated a degree of MCA influence that was not matched by the number of seats it held in government compared to that held by UMNO.

The MCA's influence in the Alliance was also due to its widely recognized role as the party that provided most of the funds for the Alliance party's organization (Milne and Ratnam, 1965:196). In addition, the limited extent of MCA participation in the cabinet was largely compensated for by the fact that it held the key economic portfolios, that is the ministries of Finance and of Commerce and Industry. A fiscal conservative, MCA leader Tan Siew Sin's tenure as Finance Minister during the 1960's was characterized by a concern to limit domestic borrowing levels and contain the foreign debt, an approach that while maintaining the Malaysia's reputation for responsible economic management, also necessarily limited the amount of funds that could go to special Malay programs (Jesudason, 1990:54). In that regard Heng (1988:258) has observed that 'Tan Siew Sin probably understood better than any other non-Malay politician of the period, the full economic implications a wide-ranging implementation of Malay special rights could have upon Chinese business interests (and) appears to have successfully influenced the Tunku to pursue a low-key policy in regards to Malay special rights throughout the 1960's.'

While structural constraints (the bargain), and the *modus operandi* of Alliance rule were important factors shaping the benevolent attitude of the government to foreign and Chinese commercial interests, it is pertinent nevertheless to recall that most Alliance leaders, Malay and non-Malay, shared the Tunku's pro-British attitudes and were generally sympathetic towards those supporting the virtues of a free enterprise economy. As (Funston, 1980:13) has pointed out, this was no coincidence, but a reflection of the similar background of this group which was largely drawn from the privileged classes (aristocratic-bureaucratic for Malays, commercial and English-

educated for non-Malays). Finally, the *laissez-faire* policies of the Alliance leadership were also reinforced by the advice Malay political leaders received from the bureaucracy, the senior echelons of which were occupied by people who shared the same privileged background and outlook as themselves, that is the so-called 'administocrats'.

In summary therefore, a key feature of the pre-1969 period was a state that did not explicitly or aggressively promote Malay advances into the capitalist sector (Jomo, 1986:254). This is not to deny that the Malay leadership wished to see greater progress in Malay entrepreneurship and ownership of the economy but its approach to securing those goals was long term and *ad hoc*. We next examine the development of Malay and Chinese business during the 1960's, both as a backdrop to the breakdown of the *laissez-faire* framework of Alliance rule and to the development of those groups after 1970.

Capital and Ethnicity before 1969

From 1956 to 1970 there were three five-year economic development plans that broadly signalled the government's attempt to "Malayanise" the economy. However those plans did little to alter the pattern of ownership and control inherited at the time of independence and Malay ownership, particularly in the corporate sector of the economy, remained negligible. By the mid-1960's the number of urban Malays had begun to swell as a result of special economic and educational privileges (notably preference in public sector employment, the allocation of scholarships and licences for businesses). Frustrated in their attempts to make significant headway in the corporate sector, aspiring Malay businessmen began to lobby the government for assistance. In spite of the weakness of its organization, Malay business opinion was able to exercise substantial influence with government officials because many of them were, or had been, high UMNO officials or top civil servants (Popenoe, 1970:221).

The response by the government to this pressure marked 1965 as a turning point in the development of Malay capitalism. In that year the first Bumiputra Economic Congress was held. A second followed in 1968. The main thrust of the resolutions that emerged from both congresses was to urge a more active role by the state in support of Malay commerce. In response the government formed the first Malay commercial bank, Bank Bumiputra, in 1965 to provide Malay individuals and companies with easier

access to credit facilities (ST, 8:6:1965). Twelve months later the government set up Majlis Amanah Rakyat, or MARA (Council of Trust for the People) to replace RIDA.[13]

Despite these measures, and a special allocation of $124 million for the promotion of Malay economic development in the First Malaysia Plan (1966-70), which amounted after all to a mere 3.8 per cent of the Plan's expenditure (Jesudason, 1990:52), progress in the promotion of a Malay capitalist class remained slight.[14] The compromise or 'bargain' under the Alliance arrangement continued to restrain the state from making significant inroads against foreign and Chinese capital. As to the latter, Chinese business generally prospered in the 1960's. It benefitted from sustained growth in the economy (GNP growth averaged about 6 per cent for the decade), the loss of the foreigner's favoured position in some sectors, and increased government expenditure on infrastructure. Furthermore, the considerable influence wielded by the MCA in the Alliance government enabled Chinese businesses, big or small, to carry on their activities with a minimum of bureaucratic interference.

A number of Chinese businesses which emerged in the 1960's grew into large and diversified conglomerates.[15] Tan (1982:294) constructed a hypothetical scenario for the development of Chinese big business in the following manner: ' ... the initial activity was usually retailing evolving into wholesaling, importing or exporting. With larger surpluses accumulated and the development of broader experience and outlook, the traders could then move into resource-based activities related to their trading and/or manufacturing.' Tan's hypothesis, as Jesudason (1990:61) has pointed out, encapsulates Chinese business expansion from the colonial era to independence, but in the 1960's

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13 RIDA or the Rural Industrial Development Authority had been established in 1953 with responsibility for promoting Malay development in commerce and industry but due to poor management and lack of funding it had achieved little.

14 Lindenburg (1973:258 and 252-328) found that in a sample he took of Pioneer Firms in 1968 Malays held less than one per cent of the shares and that Malay directors comprised about 10 per cent of the total directors of such firms. Thirty-five per cent of the Malay directorship positions were held by individuals who held more than one directorship. Of the 52 positions for Malay directors in the sample, 19 were held by individuals who filled more than one position. Lindenburg also observed the small number of Malays who entered the private sector were either prominent politicians of bureaucrats. Such a background, combined with the holding of multiple directorships, suggests that even those small numbers of Malays who had entered the private sector played a largely symbolic or figurehead role and were generally not actively involved in the day to day affairs of companies.

15 The characteristics and growth of most of the big Chinese conglomerates to emerge in the 1960's are examined in some detail in chapters 9 and 10.

that outline became less clear, and in addition, diversifying into property became almost *de rigueur* for most of the leading representatives of big Chinese business.[16]

Besides property, banking was another sector where Chinese business made substantial gains during the 1960's. Before independence, the banking system was dominated by a few foreign banks, the largest being the Chartered Bank, the Hong Kong and Shanghai Banking Corporation and United Malayan Banking Corporation (Chin, 1984:196). After independence the Central Bank's support for the development of local banks led to the flourishing of domestic banking activities. The spread of Chinese investment in the banking sector has been well documented by Tan (1982:159) who noted that, 'most of the twelve new local banks established since 1957 were incorporated in the sixties by (Chinese) businessmen who made their money in the rubber and tin sectors and were then diversifying into the financial sector for security, fame (as a banker), and to facilitate future industrial and property development activities.'[17]

Increased government expenditure on infrastructure, including rural development programs aimed primarily at the Malay population, also provided Chinese contractors and other businesses with opportunities for growth and profit. Chinese even benefitted disproportionately from the government-sponsored Pioneer Industry Program where Lindenburg (1973:310-312) found that, 'while pioneer firms made a contribution to growth they also reflected and sometimes magnified racial, regional, and domestic-foreign imbalances in ownership, directorships and employment.' He also noted that several large Chinese groups exerted a great deal of control in pioneer firms. Prominent in that regard were the Kouk-family group which, in alliance with both government and Japanese interests, controlled major pioneer industries, and another group of Chinese businessmen centred around Chang Ming Thien's United Malayan Banking Corporation.

The spread of Chinese business, particularly the small and middle-level sized firms, seldom involved Malays. Although the larger Chinese firms did employ Malays as

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16 In the 1960's prominent Chinese tycoons who diversified into property included Robert Kuok, Lim Goh Tong, Teo Soo Cheng, Teh Hong Piow and Low Yat.

17 Some of the original founders of the major domestic banks included: Khoo Teck Puat and Loke Wan Tho, the heir of the tin miner Loke Yew (Malayan Banking), Chang Min Thien and Chew Choo Keng, the latter of the Kong Guan biscuit group (United Malayan Banking Corporation), Teh Hong Piow (Public Bank) and Sir Henry H.S.Lee, wealthy tin miner, co-founder of the MCA and former Minister of Finance (Development and Commercial Bank). For further details of founders and original shareholders of the major domestic banks see Tan (1982:196fn 62).

'Functional Directors' (Lim, M. H., 1981 (a) :69) to assist in their dealings with the government, such directors wielded little influence in the day-to-day affairs of such companies. In other words the relationship between Malay and Chinese directors in the larger Chinese firms conformed to the 'Ali-Baba' stereotype.[18] In short Malays were generally marginalized from the development of Chinese business in the sixties and viewed its advance as inimical to their own aspirations for economic advancement.

The marginalization felt by aspiring Malay capitalists was also shared by much of the rest of the Malay population for whom economic conditions had also deteriorated during the 1960's. As noted earlier, over the period 1957 to 1970, intra-group inequality rose for each group, but most for the Malays and least for the Chinese (Snodgrass, 1980:83). In 1957 the top 20 per cent of Malay households accounted for 42.5 per cent of total Malay household income but this had risen to 51.3 per cent by 1970. During the same period the percentage of household income received by the bottom 40 per cent of Malay households dropped from 19.6 per cent to 13.0 per cent (Jomo, 1986:249) and Appendix 2.3.

Growing inequality within the Malay community corresponded with the observation that Chinese movement into modern, well-paid activities was more rapid and broadly-based than that of the Malays (or Indians) (Snodgrass, 1980:83). By contrast the great majority of Malays remained in poorly paid occupations such as rice cultivation, rubber smallholding and fishing. Malay movement into high-income occupations was invariably associated with public sector employment rather than corporate sector employment.

Table 2:3: Employment by Sector and Race Peninsular Malaysia, 1957 and 1970

	Agricultural (per cent)				*Mining, manufacturing, construction, utilies and transport (per cent)*				*Services and public and public administration*			
Year	*Malays*	*Chinese*	*Others*	*Total*	*Malays*	*Chinese*	*Others*	*Total*	*Malays*	*Chinese*	*Others*	*Total*
1957	61	25	14	100	25	56	18	100	32	44	24	100
1970	68	21	11	100	31	59	10	100	38	48	14	100

Source: K. Young, K., W. Bussink W., and P. Hasan, 1980: 118.

18 'Ali' represents the Malays who, under the special privileges guaranteed by the Constitution, can easily obtain permits, licences and contracts that are reserved for them. However 'Ali' normally does not have the capital, so he often 'sells' the right of operating these businesses or benefits gained from government contracts to well-to-do Chinese - referred to as 'Baba' - either for an outright or monthly payment. See S. Husin Ali, 1975:35.

Employment by Sector and Race 1957 and 1970

The extent to which Malays were under-represented in most sectors of the modern economy whether as executives or urban workers is also apparent from Table 2.4. It was only in the lower categories of professional and technical jobs, again mainly in the public sector in occupations such as nursing and teaching that Malays were over-represented.

Table 2.4:
Employment by Occupation and Ethnic Group, 1970
(percentage of ethnic representation in occupation)

Sector	*Malay*	*Chinese*	*Indian*
Professional and technical	47.2	37.7	12.7
Administrative & managerial	22.4	65.7	7.5
Clerical workers	33.4	51.0	14.3
Sales	23.9	64.7	11.0
Production workers	31.3	59.9	8.6
Service workers	42.9	42.5	13.4
Agricultural workers	68.7	20.8	9.6
Total	51.4	37.0	10.7

Source: TMP, 1976: 82, Table 4-15.

The distribution of corporate wealth in Malaysia also highlighted the marginalization of the Malays from the modern sector of the economy and the fact that after more than a decade of independence a firm foundation for the development of Malay capitalism had yet to be established. In 1970 Malays and 'Malay interests' (the latter comprising government trust agencies and institutions which held shares 'on behalf' of Malays) owned only 2.4 per cent of all share capital of limited companies in Peninsular Malaysia, while 'other Malaysians' owned 34.3 per cent. Foreign ownership of corporate equity remained high and in 1970 amounted to 63.3 per cent (3MP:86).

The ethnic disparities in employment and ownership were particularly apparent to the growing number of urban Malays who through government support had obtained tertiary education and aspired to the high-level executive jobs, status and rewards conferred by the corporate sector. The frustration this group experienced in making inroads into the modern sector of the economy was soon directed primarily at the Chinese. Although the Chinese did not actually dominate the economy, the Chinese were most often the capitalists who dealt directly with urban (and rural) Malays in commerce and credit and so were perceived as representing the main barrier to Malay

economic advancement (Jomo, 1986:253). Malay frustration was not only directed against Chinese capitalists but also the UMNO-led Alliance government which, in Malay eyes, had failed to sufficiently mobilize the resources of the state to facilitate Malay entry to the private sector.

On the other side of the racial divide, a younger generation of Chinese became increasingly resentful at what they perceived was as an increasingly pro-Malay government, which through 'special privileges, ' was more concerned to promote the interests of Malays than those of other races. Besides economic grievances, a volatile mix of contentious language and cultural issues had also come to the fore,[19] and by 1969 the Alliance elites, Malay and Chinese, were being successfully outbid by more radical elements on their respective ethnic flanks.

Table 2.5: Parliamentary Election Results, Peninsular Malaysia, 1959-1969

	1959		*1964*		*1969*	
Parties	*Won*	*Contested*	*Won*	*Contested*	*Won*	*Contested*
Alliance	74	104	89	104	66	103
UMNO	52	70	59	68	51	67
MCA	19	31	27	33	13	33
MIC	3	3	3	3	2	3
Opposition						
PAS	13	58	9	52	12	59
DAP	-	-	1[1]	11[1]	13	23
Gerakan	-	-	-	-	8	14
Others	17		5		4	
Total	104	104			103[2]	

Source: Vasil, 1972: 85
Notes: [1]Contested by PAP.
[2]Election in one constituency postponed. As cited by Jesudason 1990:69.

[19] Pertinent in that regard were the compromises made by UMNO over the National Language Bill of 1967 (which angered many Malays because it permitted the continued use of English for official purposes), and an increasing propensity amongst Chinese to challenge Malay political supremacy and special rights.

Table 2.6: State Election Results, Peninsular Malaysia, 1959-1969

	Seats Won			*Votes Polled (Percentage of Total)*		
Parties	*1959*	*1964*	*1969*	*1959*	*1964*	*1969*
Alliance	206	241	162	55.5	57.6	47.9
UMNO	140	164	133	37.0	37.7	33.5
MCA	59	67	26	16.3	17.4	12.7
MIC	7	10	3	2.3	2.5	1.7
Opposition						
PAS	43	25	40	20.8	15.3	22.8
DAP	-	-	31	-	0.9	11.8
Gerakan	-	-	26	-	-	8.8
Others	33	16	18	23.7	26.2	8.7
Total	282	282	277	100.0	100.0	100.0

Source: Vasil, 1972: 73

In terms of votes the 1969 election results were not a major departure from previous voting patterns but, largely due to an electoral pact between the predominantly non-Malay opposition parties, the Alliance lost a large number of seats and, before the suspension of voting in East Malaysia, was in danger of losing its two-thirds majority in parliament.[20]

The major erosion of electoral support for the Alliance bode ill for a system which depended on the ability of leaders to resolve communal issues privately and through compromises while at the same time enjoying the support of their respective communities. The apparent inroads made by the non-Malay opposition parties shocked many Malays and prompted exuberant and provocative celebrations by Chinese in the capital, Kuala Lumpur. Counter demonstrations by Malays led to the 13 May racial riots in the city, the suspension of parliamentary rule and the setting up of a National Operations Council (NOC) under the leadership of Tun Abdul Razak, the Deputy Prime

[20] In the predominantly non-Malay urban areas, oppostion parties made considerable inroads, largely at the expense of MCA candidates. In 1969 the MCA was able to win only 13 of the 23 parliamentary seats which it contested while non-Malay candidates from the opposition parties won 24. In the predominantly Malay rural areas, electoral support for the Alliance also fell enabling the Malay opposition party PAS (Parti Islam Malaysia) to win back much of the support it had lost in the 1964 election. Wheras 67 per cent of Malays voted for the Alliance in 1964 only 54 per cent did so in 1969 (Ratnam and Milne, 1967:374-376).

Minister. In September 1970 Tun Razak, who had personally been identified with various government programs meant to uplift the Malays, replaced the Tunku as Prime Minister. For many Malays the Tunku's Prime Ministership had become synonymous with too many concessions to non-Malays which had contributed to continuing Malay backwardness. The so called 'Young Turks' in UMNO, most notably Dr Mahathir and Musa Hitam, who had been the most vocal critics of the Tunku's *laissez-faire* approach, and had earlier been dismissed by him, were soon rehabilitated by Tun Razak and brought back into the mainstream of government.[21]

From Alliance to Barisan Nasional

'1969 marked the end of a period in Malaysian politics dominated by certain ethnic arrangements and the beginning of another era reflecting the growing strength of new social groups and classes' (Chandra, 1984:356-57). Economic and social disparities between Malays and non-Malays were identified as the root cause of the 13 May riots. The strengthened position of those elements within UMNO that supported a more active role by the state in the promotion of Malay capitalism led to fundamental changes on both the political and economic fronts.

On the economic front the most important indicator of change was the formulation of the New Economic Policy (NEP). As indicated earlier, the NEP contained two prongs, notably the eradication of poverty 'irrespective of race', and the restructuring of Malaysian society to reduce and eventually eliminate the identification of race with economic function' (MTR2MP, 1973:1). A central concern of the plan, it will be recalled, was the restructuring of wealth ownership. In that regard a specific target of 30 per cent ownership and control of the corporate sector by Malays and Malay interests[22] was set for 1990 with other Malaysians taking up 40 per cent leaving 30 per cent remaining in foreign hands. Thus, the rise in the Malay share was to be achieved in the context of a rapidly growing economy and an expansion of the national share in the ownership of the modern sector through a relative decline in that of the foreign share. Since a Malay business class had yet to emerge, state enterprises were of necessity the vehicle through which assets would be acquired so that targets for Malay ownership might be met. State enterprises were thus to play a crucial role not only in holding

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21 Dr Mahathir was dismissed from the party on 10 July 1969 while Musa Hitam was fired from his government postion as an Assistant Minister on 28 July 1969. See Von Vorys 1975:377-380.

22 'Malay interests' include government trust agencies and state enterprises.

assets in trusteeship for the Malay community as a whole, but also in the government's efforts to produce Malay capitalists.

Candour about economic policies corresponded to similar candour in the political sphere. The ambiguities of Alliance rule were removed, especially uncertainties about Malay political hegemony (Mauzy, 1983:4). When parliament reconvened in 1971 amendments to the constitution proscribed most of the more sensitive ethnic political issues from public debate. Thereafter it became seditious to question Malay 'special rights' or the goals of the NEP which in effect became sacrosanct. While Malay hegemony was entrenched, the system also took a more authoritarian turn as the government moved to exercise stronger indirect control over the media[23] and later amended the Universities and Colleges Act to prevent students taking part in political activity.

Besides redefining the political agenda, Tun Razak strengthened his hold over UMNO. At the 1971 UMNO General Assembly Razak persuaded delegates to approve a proposal that the party's ruling body, the Supreme Council, be elected for three years instead of one (Gale, 1981:32). At the same time he also strengthened UMNO's dominance of the political system by broadening the base of the former Alliance structure by drawing more component parties into a wider coalition called the Barisan Nasional or National Front. The opposition parties had to weigh the advantages of joining the ruling party against remaining in opposition in which case their activities were significantly circumscribed. By joining the Barisan, former opposition parties acquired some influence and access to patronage, but the quid pro quo, acceptance of cabinet solidarity, meant the abandonment of their former position as independent critics of government policy. The co-option of UMNO's main Malay rival, Parti Islam Sa-Malaysia (PAS) into the Barisan strengthened UMNO's position in the Malay constituency, while the broadening of representation of Chinese parties through the co-option of the Gerakan, diluted the power of the MCA, the former Chinese pillar of the old Alliance structure.[24]

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[23] In 1972 control of the major English-language newspaper group, the Straits Times was bought by the new state trading company, Pernas. The chairman of Pernas was Tengku Razaleigh Hamzah who was appointed as one of UMNO's vice-presidents in 1974. The chairman of the main Malay-language newspaper group, Utusan Melayu, was Abdul Ghafar Baba who had been an UMNO vice-president since 1962 (Crouch, 1980:6-10).

[24] As Jomo (1986:255) has pointed out the bargaining position of the MCA in the Barisan had also been considerably weakened by its especially poor performance in the 1969 election and its decision to opt out of the government after the election. Furthermore, all the new coalition partners from the

As power became increasingly concentrated in the UMNO leadership on the one hand and UMNO strengthened its dominant position in the National Front on the other, the party also sought greater control of the economic agenda by consolidating its hold over the key economic and technocratic agencies of government. This was most apparent in UMNO's determination to wrest control of the Ministries of Trade and Industry and of Finance from the MCA. The Trade and Industry portfolio passed from traditional MCA control to UMNO in 1971 and, while Tun Tan Siew Sin remained Minister of Finance until 1974, decisions concerning expenditure shifted to the Economic Planning Unit (EPU) which was located in the Prime Minister's Department. The changing power balance between those economic agencies and UMNO's control of economic policy became more apparent still 'when the EPU was considerably strengthened while the Treasury in the Finance Ministry suffered a secular decline in influence' (Jesudason, 1990:78).

New policies and regulatory authorities were also instituted to enable the government to increase its control over the private sector with a view to achieving 30 per cent Malay ownership and control by 1990. A major new policy instrument in that regard was the Industrial Co-ordination Act (ICA) of 1975. The intention of the Act was to control the growth of the manufacturing sector to ensure advancement of Malay capitalist interests in that sector (Jomo, 1986:270). The ICA stipulated that all manufacturers must obtain a licence except those with capital of less than $100,000 and less than 25 full-time paid employees. An important feature of the Act were the wide powers given to the minister to grant or refuse a licence in the 'national interest'. Conditions contained in the Act left no doubt that the national interest required manufacturers to ensure that they fulfilled the NEP's requirement of 30 per cent Malay employment and ownership participation.[25]

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peninsula had been brought in primarily on the initiative of UMNO leaders, whereas the MCA effort to negotiate with the DAP was unsuccessful. UMNO's political dominance *vis-a-vis* the Chinese components of the Barisan was further enhanced by frequent in-fighting amongst the component parties, especially between the MCA and the Gerakan, over seat allocations prior to elections as well as cross-overs by party cadres from one party to another (Lee, 1980:186-93).

25 In the case of foreign enterprises, the Act required Malaysian equity amount to 70 per cent, except in the case of export-oriented industries. Other important conditions of the Act included an obligation by manufacturers to seek Malay distributors so that at least 30 per cent of distribution would be in Malay hands and to recruit and train Malay workers so that their work force up to managerial level reflected the composition of Malaysia's multi-racial society (Jesudason, 1989:137).

The ICA was vigorously opposed by both Chinese and foreign business who were loathe to transfer 30 per cent equity to Malays.[26] Small and medium Chinese businesses were particularly hard hit by the legislation as many such businesses were run as family firms and as such were less able to absorb or minimize the effects of the regulations than were larger Chinese companies or big business. Subsequently, although the Act was amended to exempt the smaller firms from its provisions and the discretionary powers of the minister were curtailed somewhat, the Act nevertheless retained its character as an instrument for promoting social restructuring, particularly where large and medium-sized Chinese enterprises were concerned.[27]

The restructuring goals of the NEP also brought about a growing concentration of power in a number of key regulatory authorities. Most prominent in that regard were the Foreign Investment Committee or FIC, the Capital Issues Committee or CIC and the Ministry of Trade and Industry.

The FIC was established in 1974 with the main objective of monitoring and controlling "foreign" take-overs of Malaysian companies or assets to ensure that they conformed with NEP objectives. However, included in the FIC's guidelines was a provision covering 'any proposed acquisitions of assets or interests exceeding in value $1 million whether by Malaysian or foreign interests, ' which in effect extended the FIC's influence over domestic investments as well. The $1 million ceiling was later increased to $5 million (Chooi, 1987:14). Membership of the FIC included high ranking officials from the Ministries of Finance, Trade and Industry, the EPU and the Registrar of Companies. With its high-powered bureaucratic membership, the FIC was one of the sharper instruments for enforcing the NEP's requirements, particularly in terms of

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26 See Jesudason 1989:135-42 and Ho 1990:229-239.

27 On 30 April 1977 the ICA was amended in several minor ways. Although the discretionary powers of the minister were reduced the objective of enforcing the NEP through bureaucratic controls remained intact. The amendments directed at the complaints of small business included the raising of the exemption limit to $250, 000 in shareholders' funds and exempting firms with less than $500, 000 in fixed assets from the equity provisions (Jesudason, 1989:141). In June 1979 a further amendment established an Industrial Advisory Council to advise the Minister on all matters pertaining to the Act but as bureaucratic representation remained dominant that amendment also failed to meet the main concerns of the Chinese business community (Jesudason, 1989:142). In the wake of the severe recession of the mid 1980's the Malaysian Government again amended the ICA. In 1986 the exemption limit from the Act was again raised so that only companies whose assets amounted to more than $1 million were required to restructure. Other concessions included: for export-oriented industries, no prior approval being required for plant expansion or diversification and government agreement to provide a "clearance letter" to companies which had difficulties in getting suitable Malay partners (Chan, 1986:47-48).

getting large public and non-public companies to restructure their equity. While firms which ignored the FIC risked bureaucratic obstruction, it also became apparent that the ease and speed with which applications were approved or rejected depended both on the merits of the project and/or the right people "connections" behind an application (Chooi, 1987:15).

The Capital Issues Committee (CIC) is also a powerful instrument in the regulation and restructuring of the corporate sector. All public companies have to comply with the CIC's requirement of 30 per cent equity for Malays if they want approval for changes in their equity structure or wish to apply for a public listing. In setting the price of shares issued to Malay interests (including government enterprises) by private Chinese and foreign companies, the CIC has usually set such prices below the market price (Jesudason, 1990:79). While the official justification was that stock market prices could easily be manipulated and did not really reflect the 'true' value of a company, CIC intervention in the market has often been blamed for encouraging the very practices it was meant to contain, that is company growth and windfall profits through swapping undervalued shares. As timing of approvals for listing a company can be crucial to profits, 'connections' with the CIC are also important.

Under the NEP both the Ministry of Trade and Industry (MTI) and the central bank, Bank Negara, have also become important regulators of corporate sector activity. If, after the FIC has given its approval for a take-over or restructuring of a company, and the issue or transfer of shares involves bumiputras, the business of the company is subject to licensing by the MTI. Bank Negara also becomes pertinent to corporate concerns if a company needs to import foreign funds or a foreign investor proposes to participate in a Malaysian project. In either case the company or investor would need the approval of the Controller of Foreign Exchange for the import and subsequent repatriation of funds (Chooi, 1987:15-16).

This survey has shown that the transition from Alliance to Barisan rule was accompanied by fundamental change on a number of fronts political, economic and bureaucratic. First the ambiguities of Alliance rule were removed. Malay political hegemony and the dominance of UMNO in the Barisan were firmly established. Candour on the political front was accompanied by candour regarding the social and economic goals of the NEP. In that regard the *laissez-faire* Alliance state was replaced by one that was more interventionist and avowedly pro-Malay in its orientation, particularly where increasing Malay ownership of the economy and the fostering of Malay capitalism were concerned. In concert with these developments, decision

making, particularly with regard to national economic management, became increasingly centralized and concentrated in a few key bureaucratic and technocratic state agencies. UMNO's firm control of those agencies meant that political dominance allowed it to dominate economic policy and its application in the corporate sector. We now turn to examine some of the implications of these changes for Malaysian political economy in the 1980's and 1990's.

The 1980's: New Alignments between Politics, the Bureaucracy and Business

At one level the assumption of power by Dr Mahathir as Prime Minister in July 1981 reflected significant shifts within the Malaysian polity and society; at another it also provided the catalyst for a shift which gave the Malaysian political system an increasingly patrimonialist cast for reasons that were not only structural but political and personal as well.

As indicated previously, by the early 1980's the growing number of Malay businessmen fostered by the NEP had become an increasingly important element in the Malay political elite, the composition of which gradually changed from politicians and administocrats to a combination of politicians and businessmen. The changing occupational background and disposition of UMNO leaders mirrored similar changes at the grassroots or branch level of the party as those who could be categorized as "middle class" (increasing numbers of whom were businessmen) steadily displaced the village headman and schoolteachers who had earlier formed the mainstay of the party's rural base. The growth of the Malay middle class was dramatic. Between 1970 and 1990 the proportion of the Malay workforce working in middle class occupations[28] more than doubled from 12.9 per cent to 27.0 per cent (Crouch, 1993:142).

UMNO's changing social base had important implications where the relationship between politics and business was concerned. Whereas in the 1960's it was often difficult to persuade UMNO members to hold posts in the party, after 1970 NEP-produced business opportunities inevitably increased the stakes in the struggle for power in UMNO (Crouch, 1992:32). Success in party elections and the chance to be member of a state assembly or a member of parliament also opened the way to

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28 As Crouch points out the categories used in the International Standard Classification of Occupations do not provide an exact measure of the 'middle class', nevertheless they do provide a useful, though rough indication of the growth of the middle class. The four occupational categories used to measure the 'middle class' are: 'professional and technical', 'administrative and managerial', which comprise the upper middle class and the 'clerical' and 'sales' categories which comprise the lower middle class. See Crouch, 1993:142 & 156.

commercial opportunities. As a result large sums of money were spent on elections at all levels in the party. In 1980 Datuk Musa Hitam as UMNO vice-president and Deputy Prime Minister complained that UMNO was becoming a "get-rich-quick" club and said, 'there were some members who bragged they had spent $50,000 during an election campaign to become a "wakil rakyat" (assemblymen). Once they become a "wakil rakyat, " they would set out to recover what they had already spent or even double it' (ST, 1:12:1980). The problem of 'money politics' was also emphasized by the party president and Prime Minister, Dr Mahathir, who revealed that he knew of a case where someone had spent $600,000 in his bid to become a divisional chairman in 1985 (NST, 20:5:1985).

During the 1970's the social change taking place in UMNO and the implications of that for the relationship between politics and business were masked, partly by the rapid expansion of the economy for most of the period, and partly by the administocratic background and more consensual political styles associated with the then Prime Ministers, Tun Razak and Tun Hussein Onn. The growing nexus between politics and business became both more apparent and firmly established however with the elevation of Dr Mahathir to the Prime Ministership.

The assumption of power by Dr Mahathir coincided with two important developments: the emergence of an increasingly influential core of bumiputra businessmen on the one hand, and the concentration of power in a few key regulatory agencies of the state on the other. The link to fuse these two elements was provided by the outlook and personality of Mahathir. Dr Mahathir was driven by an ambition to transform Malaysia into a modern industrialized society. The impetus for Malaysia's move to heavy industrialization in the early 1980's with the setting up of the Heavy Industry Corporation of Malaysia (HICOM) (whose most celebrated project was the national car) came from Dr Mahathir. The 'Look East Policy', 'Malaysia Incorporated' and 'Vision 2020' were all Mahathir inspired policies directed to the simultaneous achievement of an industrialized society of which the 'modern Malay' with the necessary entrepreneurial and technocratic skills was an integral part.

The engine to achieve this vision was business. Whereas Dr Mahathir's predecessor, Tun Hussein Onn, had kept businessmen at arms length, Dr Mahathir embraced them. His antipathy to the bureaucratic establishment and the conventional channels of policy implementation were both personal and political. By background and temperament Mahathir differed from Malaysia's former Prime Ministers, all of whom had been drawn from, or were closely associated with, the former Malay 'administocratic' elite.

Mahathir, the commoner and professional, had never been part of that elite and felt little empathy with it. He was instead excited by, and identified with, the values and ethos of business. His close circle of advisers were businessmen, particularly the new Malay entrepreneurs, one of the most prominent of whom, Daim Zainuddin, he appointed as Minister of Finance in July 1984. A number of these new Malay entrepreneurs had found elements of the bureaucracy conservative and obstructionist, particularly where their own rather freewheeling business activities were concerned. Such attitudes found a resonance in Mahathir's antipathy for bureaucrats who sought to regulate and intervene unnecessarily in business and whose enthusiasm for implementing his bold plans for Malaysia's industrialization were often suspect.

It was against this background that the shift in relationships between politics, the bureaucracy and business took place. As Leigh (1992:120) observed, 'bureaucrats' power in contemporary Malaysia is derived from their political masters, and is not characterized by the autonomy they were previously believed to have enjoyed. ... The argument that they played a central role was validly made for the 1970's but that contention (in the 1980's and 90's) is no longer viable.' As this shift of power in the Malay elite from politicians and administocrats, to a combination of politicians and businessmen occurred, so the political system also assumed a more patrimonialist caste. Persons who were politically loyal and committed to the leadership's world view were given authoritative positions, rather than those who were merely technically competent (Jesudason, 1990:78).

The imposition of political criteria in appointments extended from the foremost planning agency, the EPU, to the central bank (Bank Negara), as well as to the banking system more generally. During Tun Ismail's long tenure as Governor of Bank Negara (from 1962 to 1990), that institution enjoyed considerable independence and influence both in the formulation of economic policy and where senior appointments elsewhere in the banking system were concerned. However in the 1980's, the independence and influence of Bank Negara in economic policy was considerably diminished, while appointees to senior posts in the major banks were invariably regarded as close to the political leadership or were strongly identified with its views.

The erosion of Bank Negara's powers in the 1980's was highlighted when, following pressure from the Finance Minister, Daim Zainuddin, the Governor of the bank, Tan Sri Aziz Taha, was forced to quit his post. Aziz, who headed the bank from 1980 to 1985, won a reputation for his integrity in trying to resist political pressures in making decisions that would affect banking policies and security transactions. Aziz favoured

conservative monetary policies and sought tighter supervision and regulation of the banks and of Kuala Lumpur's rather freewheeling securities market. He was particularly concerned about the extent to which growth was being stimulated through share and property speculation rather than through investment in infrastructure and manufacturing (Interview, Aziz Taha, 22:1:1992). Such a view clashed with Daim's expansionary fiscal policies and desire for more bank credit for share acquisition.

Through his chairmanship of the Capital Issues Committee (CIC), Aziz also exercised wide authority over all transactions by companies listed on the Kuala Lumpur Stock Exchange (KLSE). By blocking or altering the terms of proposed acquisitions, takeovers or new share issues, CIC rulings put Aziz at odds with many prominent members of the newly emerging Malay business elite including Datuk Azman Hashim (Arab-Malaysia Merchant Bank chairman), Tan Sri Ibrahim Mohamad (Promet Bhd chairman) and Daim himself who complained about his decisions to Dr Mahathir (FEER, 21:3:1985). After Daim became Minister of Finance in July 1984, he and Aziz clashed over the central banks' policy of limiting lending for purchases of shares on the KLSE[29]. Ultimately Aziz's opposition to the policy was overruled after Daim obtained Prime Minister Mahathir's support on the matter (AWSJ, 4:3:1985). The waning of Bank Negara's influence and particularly the power of its Governor became most apparent in April 1985 when Daim stripped Aziz of his position as chairman of the CIC in a move which brought the powerful securities supervisory agency directly under Daim's authority. The chairmanship of the CIC passed to a senior bureaucrat located in Daim's ministry (Tan Sri Thong Yaw Hong, then secretary-general of the Treasury), a move which significantly increased Daim's power in business circles and at the same time signalled Aziz's departure as governor of the bank.

There were other examples elsewhere in the banking system where political loyalty rather than mere technical competence appeared to be the prime criterion for appointment. For instance Wan Azmi Wan Hamzah, who had been closely identified with Daim's business interests and those of UMNO in the early 1980's, was appointed

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[29] During the stockmarket boom of the early 1980's many Malaysian businessmen, and particularly the new Malay entrepreneurs who had little in the way of capital or assets, used large bank loans to buy shares. Those loans were secured by the value, generally inflated, of the shares purchased. Such shares were in turn 'swapped' to obtain control of publicly-listed companies by undervalueing the shares of the latter. Purchases by share swapping required proxies or the use of interlocking directorships and interlocking stock ownership. Aziz wished to contain lending for share or property purchases because the collateral (overvalued property or shares) increased bank debts and soaked up loan money in speculative investment rather than investment for capital works and infrastucture.

as president and chief executive of Malayan Banking in March 1985. Other examples included Zain Azahari and Mohamed Razali who were appointed chairman and managing director respectively of Malaysia's third largest bank, United Malayan Banking Corporation (UMBC) in 1985. Neither had any previous experience as bank executives but Zain was for a time trustee of Daim's substantial private investments (which had been placed in a "blind trust" after Daim became Finance Minister in July 1984). Razali had also been closely involved with most of Daim's family companies and was general manager of the government-owned Peremba, the property concern previously headed by Daim.

Political criteria were also apparent in the appointment of Tan Sri Basir Ismail to a number of powerful corporate and regulatory bodies. Basir, a close associate of the Prime Minister Dr Mahathir, [30] was appointed chairman of Bank Bumiputra in January 1985, not long after Petronas had bailed the bank out of a $2.5 billion loan scandal involving its Hong Kong subsidiary, Bank Bumiputra Malaysia Finance. (The government dragooned Petronas into buying 86.2 per cent of Bank Bumiputra's equity and injecting $300 million into the bank. The windfall from oil revenues meant Petronas was the only state enterprise that could afford to bail out the bank.) In February 1988 Basir was also appointed chairman of Petronas which was later (October 1989) again called upon to bail out Bank Bumiputra with a $982 million injection of funds after the bank suffered a further loss of $1.06 billion.[31] The loss stemmed in large part from UMNO's failure to repay loans to finance its headquarters building at the Putra World Trade Centre in Kuala Lumpur. Political criteria and the changing role of the 'regulators' was most apparent however in the appointment of Basir in August 1990 as chairman of the powerful Capital Issues Committee (CIC). Whereas Aziz Taha, the former CIC chairman was criticized for being 'too much a civil servant and not enough a business oriented person' (AWSJ, 4:3:1985) Basir, who had extensive interests in the corporate sector and was at the same time chairman of the CIC, epitomized the blurring between the regulators and the market.

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30 Journalists often cite Dr Mahathir's appointment of Basir to succeed him as chairman of Kumpulan Fima, a government-owned corporation as an indication of Mahathir's high regard for Basir. After Dr Mahathir was brought back into UMNO in 1972 one of his earliest appointments was as a director and later chairman of Kumpulan Fima, a position he held until he became Prime Minister in July 1981. Mahathir is also reputed to respect Basir's entrepreneurial skills because of the latters success in managing the Johore State Economic Development Corporation (JSEDC), one of the few profitable SEDC's in the 1980's. See The Star, 13:7:1981.

31 See FEER, 31:1:1991. In January 1991 Petronas sold Bank Bumiputra back to the government or more specifically to the Ministry of Finance's investment arm (AWSJ, 17:1:1991).

As Malaysia's political system assumed a more patrimonialist caste in the 1980's and decision-making became more concentrated in the executive, so the scope for abuse increased enormously. Several institutions under the central government made huge losses. In one case the Malaysian government was involved an abortive attempt to corner the world tin market and push up the price after the failure of the tin producing countries to negotiate a higher price under the International Tin Agreement. The failure of the scheme cost the government $660 million.[32]

The idea in the early 1980's of using Malaysia's position as the biggest tin producer to prop up prices through a secret tin buying operation on the London Metal Exchange (LME) appealed to Dr Mahathir who believed that Malaysia, like other commodity-exporting countries, always lost out in international trading in markets controlled by the rich north (Jomo, 1990:73). 'Inspiration' for the scheme seems to have originated with David Zaidner, a metals trader with a tainted financial past, who cultivated senior contacts in the government-owned Malaysia Mining Corporation (MMC), most notably MMC's then group chief executive, Abdul Rahim Aki. Rahim Aki, who was a personal appointee of then Finance Minister Tengku Razaleigh, became the 'driving force' behind a company called Maminco Sdn Bhd which was set up by the Malaysian government in June 1981 as a subsidiary of MMC.[33] Shortly thereafter a 'mystery buyer' began to make large purchases on the world tin market causing a rise in price which threatened to cause massive losses for brokers in futures on the London Metal Exchange. During this period Bank Bumiputra and Malayan Banking were 'persuaded' to extend huge loans to Maminco to finance purchases and interest payments which, at their peak, were estimated to reach US$571 million (Jomo, 1990:74). The scheme failed however because in February 1982 the London Metal Exchange countered the attempt to corner the market when it allowed traders to pay a fine instead of defaulting on their contracts, a move which combined with releases from the US tin stockpile led to the collapse of tin prices (AWSJ, 29:9:1986). The 'mystery buyer' was left with large stocks of expensively acquired tin and huge debts to Bank Bumiputra. After strong denials by the Malaysian government of any link to the 'mystery buyer, ' the Prime

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32 The figure of $660 million was given by the Minister of Primary Industries. He claimed however that the actual loss was only $209 million because of what he named, 'identifiable benefits' amounting to $451.5 million. Statement in parliament on 10 November 1986 (cited in NST, 10:12:1986).

33 Source: Interview with senior official of MMC, 8 January 1992. Rahim Aki had been a close friend of Razaleigh since their student days in Britain. The board of Maminco, when the company was started, consisted entirely of directors of MMC including Rahim Aki and MMC commercial manager, Noordin Ismail. Noordin Ismail, who was known to be on good terms with David Zaidner, was the general manager of Maminco (FEER, 7:8:1986).

Minister, Dr Mahathir finally admitted in September 1986 that the mystery buyer was, through Maminco, the Malaysian government but defended the scheme as 'in the national interest' and claimed that it only failed because of the 'massive cheating in the London Metal Exchange' (AWSJ, 22:9:1986).

In an attempt to cover up Maminco's losses the government secretly formed a company Makuwasa Securities Sdn Bhd in mid 1984. Makuwasa, a $2 company was given some of the privileges of bumiputra trust agencies, most importantly allotments of public share issues at preferential prices. In order to maintain the cover up, allotments of such shares which should have gone to the government-managed Employees Provident Fund (EPF) were instead channelled to Makuwasa.[34] Apparently the idea was that Makuwasa could then sell the shares at the market rate on the Kuala Lumpur Stock Exchange and make windfall profits to cover the tin losses. Eventually the government admitted Makuwasa had been formed in an attempt to recover the losses from the tin scheme (AWSJ, 22:9:1986). However it appeared that Makuwasa, rather than recovering money, lost more on its share transactions in the wake of the Pan El stock market collapse in late 1985 (Jomo, 1990:75).

The most sensational scandal was the loss suffered by Bank Bumiputra's Hong Kong subsidiary, Bumiputra Malaysia Finance (BMF). BMF lost about $2.5 billion in bad loans, mainly to the Carrian Group, a Hong Kong property company headed by a Malaysian Chinese called George Tan. The full details of the scandal have never been revealed and probably never will. The Government was initially very evasive about BMF but under pressure revealed that senior officials in Bank Bumiputra and its subsidiary in Hong Kong gave massive loans to Carrian in exchange for special consultancy fees, gifts, loans and other forms of graft. When the Hong Kong property market collapsed in 1983-84 Carrian was bankrupted and Bank Bumiputra was unable to recover even a fraction of the huge sums that had been lent.

While many details surrounding the BMF affair remain obscure, findings by a Committee of Inquiry indicated that there was more to the links between BMF officials,

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[34] For a period covered by the Makuwasa deals (June 1984 to March 1985) Tan Sri Thong Yaw Hong, a then senior official in the Finance Ministry who was believed to have headed Makuwasa, was also head of the CIC and for a time chairman of the EPF as well (FEER, 24:7:1986). It will be recalled that the chairmanship of the CIC had been shifted earlier from the rather 'independently minded' Aziz Taha to a senior official in Daim's Finance Ministry, notably the ministry's former secretary-general Thong Yaw Hong. According to Tan Sri Zain Azraai, also a chairman of the EPF for part of the relevant period, the share allotments to Makuwasa were secured 'through the favourable influence enjoyed be the CIC' (FEER, 24:7:1986).

George Tan, and top UMNO leaders including Dr Mahathir, Tengku Razaleigh and Musa Hitam, than was previously thought. Perhaps significantly, the government refused to appoint a Royal Commission but, only after considerable clamouring by various interest groups, conceded to a Committee of Inquiry.[35] It did emerge however that although the Prime Minister Dr Mahathir had been briefed by the then Governor of Bank Negara, Aziz Taha in November 1982 and again in April 1983 about the magnitude of the losses, it was not until October 1983 that the BMF officials were asked to resign. Stranger still, on 29 October BMF continued to make further loans totalling US$70 million to the Carrian Group (Lim K. S., BMF:1986:6).

Tengku Razaleigh and Musa Hitam were implicated in other ways. Tengku Razaleigh had close ties with Lorrain Osman (the chairman of BMF) and Hashim Shamsuddin (a member of the BMF board and an executive director of Bank Bumiputra). Hashim was also then treasurer of the UMNO headquarters building committee, of which Tengku Razaleigh was chairman. Razaleigh was alleged to have been involved in a deal to purchase a property (Gammon House) in Hong Kong which was subsequently to be sold to the Malaysian Government. If the deal had materialized it would have given George Tan a quick US$50 million profit (Insan, 1986:11).[36] The BMF Report also found that approval had been given by BMF for a US$ 5 million loan to Asiavest Ltd and a HK$5 million to Sherridon Holdings Ltd, companies in which Tengku Razaleigh had a significant interest (BMF, Final Report Vol1, 1986, 435-445). Datuk Musa Hitam was implicated in the BMF scandal through the proposed acquisition of a shipping line, Grand Marine Holdings[37] and financing for a commercial development project in Johore.[38] Where the former was concerned, apparently the plan

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35 Unlike a Royal Commission of Inquiry, a Committee of Inquiry could not obtain evidence under force of law and its members were personally liable for possible defamation writs.

36 Tengku Razaleigh also received US$15, 000 for the purchase of travellers cheques from either 'Knife and Dagger Ltd', a company owned by George Tan or "Silver Present Ltd' an investment company owned by Datuk Hashim. Interestingly in September 1981 Datuk Hashim's company, 'Silver Present' received HK$10 million from Carrian and HK$ 3 million from the wife of one Chung Chin Man, who was the head of a company called Eda Investments Ltd. Apparently shortly afterwards BMF lent a subsidiary of Eda some US$38 million (MB, 16:10:1984).

37 See MB, 1:4:1986.

38 An August 1982 letter from George Tan to Musa, discussed a secret Johore Baru City Development - supposedly a joint venture between UMNO and the Johore State Government - which was to provide 10 acres in the Johore Baru town centre for a commercial development project. George Tan, through one of the Carrian companies, put up a deposit of $1.5 million in the form of an interest-free loan for six years to AAY Holdings, a company owned by two UMNO members. Tan also promised to 'donate 20 per cent of the net profit to UMNO to be utilised as a new UMNO headquarters construction fund' (Insan, 1986:13).

was to purchase Grand Marine Holdings for HK$800 million and resell it to the Malaysian Government for HK$1,000 million.[39] During the subsequent trial of Hashim Shamsuddin in Hong Kong in 1987 his lawyer claimed that the BMF officials were only carrying out instructions from Dr Mahathir and Musa Hitam (AWSJ, 15:1:1987). Further fuel on the links between the UMNO leadership and BMF were added by Lorrain Osman just before the 1990 election when he claimed that, 'It was Tengku Razaleigh more than anyone who was responsible for what happened in Hong Kong to BMF and Carrian' (NST, 17:10:1990). Whatever the truth of those accusations and counter accusations, it was nevertheless most apparent that when deep rifts occurred within the UMNO leadership, first between Dr Mahathir and Musa, and later between Mahathir and Razaleigh, none of the key personalities felt disposed to capitalise on the BMF affair in their political struggles.

The extraordinary spate of scandals which appeared to characterize Malaysian public and corporate life in the 1980's[40] illuminated some highly patrimonialist aspects of the relationship between the state and business. Yet, at the same time, the reforms that were instituted in the mid 1980's showed the relationship between the state and business to be a more complex matter, and demonstrated a strength and imperviousness on the part of the state hitherto thought unlikely. What prompted the reforms and how was the state able to implement measures that threatened the interests of its most important constituency, the Malay middle class and the growing and politically significant Malay business community? Moreover, what do those reforms show us about the relationship between the state and business?

It is generally agreed that the transition in Malaysia from policies of state intervention and an emphasis on ownership restructuring to policies emphasizing economic liberalization, deregulation, profit, growth and public sector restraint, were prompted by the severe economic recession of 1985-86. During those years there was an across-the-board decline in commodity prices and a weaker demand for the country's manufactured products. In 1986 alone, the prices of Malaysia's major export commodities, oil tin, and palm oil, all fell by 50 per cent or more (Khor, 1987:3). Other

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39 The BMF Report stated that ' Tan claimed to have been requested to purchase Grand Marine Holdings by BMF's former alternate director, Rais Saniman, who was claimed to have been acting on behalf of the then Deputy Prime Minister, Datuk Musa Hitam' (MB.1:4:1986).

40 Besides BMF, Maminco and Makuwasa other scandals included those linked to the Malaysian Overseas Investment Corporation (MOIC), a plethora of mini-scandals linked to the Deposit Taking Co-operatives (DTC's), and of course Tan Koon Swan and the Pan Electric or 'Pan El' affair. See chapter 8.

factors which exacerbated the situation were the high value of the ringgit which resulted partly from strong inflows of official capital generated by external borrowing, and falling profitability of the tradeable sector (6MP:6). External debt increased from $11 billion in 1980 to $51 billion (equivalent to 77 per cent of GNP) in 1986. To service this enormous debt $7.4 billion was paid out in 1986, equivalent to 11 per cent of GNP (Khor, 1987:3). During the recession, there was a virtual collapse of private investment, both domestic and foreign and, as a result, GDP registered a negative growth of 1.1 per cent in 1985 and improved only slightly to 1.2 per cent in 1986 (6MP:6).

The severity of the recession (for Malaysia) provided a catalyst for radical policy reform in the hope of quick recovery which was critical if the economic advances already made by the Malays were to be sustained and built upon. But while an atmosphere of crises precipitated policies of economic reform and liberalization, some observers have pointed out that they did after all reflect a consistency of view where Mahathir was concerned. Khoo for instance has observed that Mahathir's antipathy to the "subsidy mentality" associated with much of the NEP, and his praise for the 'virtues of accumulation via enterprise, not get-rich-quick schemes through sales of assets and tribute', stretch from his writings in the *Malay Dilemma* (1970) to *The Challenge* (1976) and the Mid Term Review of the Fourth Malaysia Plan released in March 1984 (Khoo, 1992:57-58).

Important measures of economic reform and liberalization instituted by Mahathir and Daim included new investment incentives (through the Promotion of Investments Act, 1986); lower interest rates and bureaucratic restructuring with a view to making the bureaucracy more efficient and responsive to business and investment. While such reforms were of benefit to the business community generally others, most notably the speeding up of the privatization of government enterprises and public works, provided opportunities for the emerging Malay business class in particular. At the same time however a number of key reforms championed by Mahathir and Daim had a severe impact on Malay business and particularly on those elements of it that remained heavily dependent on state support. For instance the Prime Minister's announcement in the mid 80's that there would be less emphasis on the redistributional goals of the NEP, as a consequence of which the equity guidelines of the Industrial Coordination Act (ICA) were liberalized, significantly reduced business opportunities for Malays. So did the savage cutbacks in public expenditure particularly development expenditure, which reduced the numbers of contracts available to Bumiputras, while many sections of

Malay business (still only in the formative stages of their establishment) were particularly hard hit by the severe restrictions on bank credit.[41]

The parlous economic situation of many Malay businesses was highlighted by resolutions passed by a Bumiputra National Economic Symposium which in April 1986 called on the government to establish a trust fund to prevent the forfeiture of property used by Bumiputra businessmen as collateral for loans, and (in order to make loans for Bumiputras easier), 'even changing the rules of the game if necessary'[42]. Prominent Bumiputra businessmen, also urged Daim to place a moratorium on loans which were due to be repaid by them and for the CIC and the FIC to 'relax' approvals for corporate deals.[43]

Yet despite the pleas from Bumiputra businessmen, a general election in 1986, the split in UMNO (and looming challenge to Dr Mahathir's leadership at the UMNO general assembly elections in 1987), neither Mahathir or Daim were swayed from their commitment to economic reform. Why in those circumstances was the political leadership able to resist pressures to significantly alter or amend its course of radical policy change? There were two main reasons, one related to the strength of the political leadership itself and the other to the composition and character of the evolving Malay business class.

As this chapter has shown significant shifts occurred within the Malaysian polity in the 1970's and 1980's as the locus of power passed from politicians and administocrats to a combination of politicians and businessmen, ancillary to which were the bureaucrats and regulators. The trend towards a growing concentration of powers in the executive accelerated after Dr Mahathir became Prime Minister. In that regard as Jomo (1993:12) observed, 'the concentration of powers and discretion in the hands of the political executive - at the expense of the bureaucracy, the legislature, the judiciary and the constitutional monarchs - enhanced the significance of this (state) autonomy in operational terms, enabling the executive to make bold initiatives without seeking prior

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41 For a discussion of the economic reforms instituted by Mahathir and Daim in the mid 1980's see Jomo, 1993:22.

42 The resolutions were discussed and agreed at the end of a two-day Bumiputra and National Economic Symposium organised by the Federal Territory branch of the Malay Chamber of Commerce and Industry in April 1986. See NST, 14:4:1986 and MB, 1:5:1986.

43 The memo to Daim containing these requests was dated 23 January 1986. It was signed by ten prominent (Bumiputra and Chinese) businessmen. See The Star, 5:2:1986 and MB, 1:5:1986.

endorsement or support even within the state, let alone society at large'[44]. In the late 1980's Mahathir's executive powers were further enhanced after he overcame opposition to his leadership from within UMNO by a combination of political skill, ruthlessness and the judicious employment of patronage.

While Mahathir's commitment, and the strength of his executive powers were important in his capacity to overcome resistance to his reforms, so was the fragmented character of Malay business. Most Malay businessmen owed their creation to the state or at least received some state backing in the initial stages of their business careers. Malay business people therefore did not yet constitute a class determined to further its common interests, but rather consisted of a number of individuals and groups whose independence and autonomy from the state varied. At one end of the spectrum were rent-seekers, whose existence and prosperity remained closely tied to their sources of state or party patronage; further along were 'transitional capitalists' (less dependent): and further along the spectrum still, entrepreneurs who were moving beyond the networks of state support which had spawned them.

The group most affected by economic liberalization were the 'rentiers, ' that is those Malays whose survival in business was heavily dependent on access to patronage. Such people were concentrated within UMNO primarily at the branch level and within the various Malay chambers of commerce. However the political influence of these mainly small to middle-level businessmen was contained, partly by their 'dependence' on the one hand, and partly by the capacity of the leadership (through the dispensation of patronage), to 'divide and rule' on the other. At the other end of the spectrum the more dynamic entrepreneurs (and mostly 'bigger' Malay businessmen), saw opportunities for further growth and profit through economic liberalization and de-regulation and so were generally supportive of the reforms.

Finally, what were the reactions of Chinese business to these various measures of economic liberalization and what were the implications for the relationship between the state and Chinese business? As noted previously, the huge expansion of the state sector in the 1970's and early 1980's and the inflow of foreign capital had made the government less dependent on Chinese investment (though Chinese enterprises

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[44] While Jomo's general point regarding the increasing concentration of power in the executive and the enhanced significance of state autonomy is valid, that power and autonomy should not be overstated. It did not, for instance, prevent a challenge to Mahathir's dominance of UMNO in the 1987 party elections, a challenge he survived by only a narrow margin.

continued to constitute a substantial part of the economy). Chinese business had protested strongly against the increasing strictures and bureaucratic controls that were placed in its way in the 1970's, and against the ICA in particular, but such protests had little effect. Thus while the precipitating factors for economic liberalization were the recession and a concern to attract foreign investment, Chinese business was nevertheless a direct beneficiary of the reforms and welcomed the shift towards greater government flexibility and de-regulation where business was concerned. Moreover as this thesis will later show, economic liberalization which was generally welcomed by big business, whether Malay or Chinese (and for much the same sorts of reasons), also facilitated a more intimate and integrative relationship between the state and the Malay and Chinese business elites.

In the course of this survey of the new alignments which have occurred between politics, the bureaucracy and business in the 1980's a number of themes have emerged, some complementary some apparently contradictory. First, as the state became more activist in the context of the NEP, so former boundaries between politics and business blurred as the government sought to enlarge Malay ownership and promote a new Malay capitalist class. In concert with that development power shifted in the Malaysian polity from politicians and administocrats to a combination of politicians and businessmen subordinate to which were the bureaucrats. These changes - structural, political and personal - also provided the catalyst which gave Malaysia's political system an increasingly patrimonialist cast in the 1980's. Yet while Malaysia's political system exhibited some highly patrimonialist features, the state also displayed a considerable degree of autonomy (viz the economic reforms of the mid 1980's) as 'no group or class had yet developed sufficient political or economic coherence to subordinate the state to their interests' (Jomo, 1993:12). The shifts we have observed in the relationship between the state, politics and business and at some points the porousness of such categories will be continuing themes as we now turn to an examination of how those elements have combined in the rise of Malay capitalism.

Chapter 3

THE STATE AND THE EXPANSION OF MALAY OWNERSHIP

The assertion of Malay dominance in the political sphere and over the key instruments of economic policy was a necessary precursor to the crucial role played by the state in transforming the ethnic pattern of economic ownership that existed in 1970 and the creation of what the Second Malaysia Plan called "a new Bumiputra Commercial and Industrial Community" (BCIC), in short Malay capitalists.[1] The focus of the next four chapters will be on the relationship or intensity of the fusion between the three main vehicles through which greater Malay ownership of the economy was pursued - the government, the party and the private sector - since it was the merging of those categories that has determined the character of Malay capital and provided the impetus for its growth. Although in the context of the NEP the spheres of 'government', 'party' and 'private' activity have become inextricably intertwined, our use of these terms as seemingly discrete categories will nevertheless serve a useful heuristic purpose in illuminating the relationship between them in the development of Malay capitalism.

First however this chapter necessarily sets the scene, that is it gives an account of the state's role, particularly in the first decade of the NEP in extending Malay ownership over the commanding heights of the economy. It begins by providing an overview of the structural changes that have taken place in the Malaysian economy since the 1970's and some of the factors, domestic and foreign, that supported the massive expansion of the state sector, particularly from 1970 to 1985. The chapter then turns to a study of the most important state enterprises and trust agencies set up under the NEP. In doing so particular attention is paid to their role in the restructuring of ownership in the corporate sector as a whole, as well as in major individual sectors notably mining, agriculture, manufacturing and banking and finance.

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1 The NEP was introduced in the Second Malaysia Plan.

Growth of the State Sector

The strong financial position of the state throughout much of the 1970's and early 1980's facilitated a large shift in ownership from foreign, to national (essentially Malay), interests. During those two decades the character of the Malaysian economy also underwent important changes. In the 1970's Malaysia's economy grew at a rapid rate of 7.5 per cent per annum. After 1980 however the growth of the economy slowed to 5.9 per cent per annum, a trend due in large part to the prolonged recession of the world economy after the second oil shock in 1979 (OPP2:36). The factors contributing to the severe recession of the mid-1980's (when GDP registered a negative growth of 1.1 per cent in 1985), and the policy reforms it precipitated, have been discussed in the previous chapter. Suffice to note here therefore that partly as a result of those policy reforms, but also an improved external economic environment - and of particular importance in that regard were the large inflows of investment to Malaysia from East Asia with the appreciation of the yen - Malaysia's economy recovered from 1986 onwards with GDP growing at 6.7 per cent per annum from 1986 to 1990 (6MP:6).

The generally high economic growth of the seventies and eighties was accompanied by substantial structural change in the economy as the contribution of the manufacturing, construction, banking and finance sectors rose, and that of the agricultural sector fell (5MP:11). The rapid expansion of the manufacturing sector was apparent from its growth of 10.3 per cent per annum which resulted in its share in GDP rising from 13.9 per cent in 1970 to 27 per cent in 1990.[2] By contrast there was a reduction in the agricultural sectors' share of GDP from 29 per cent in 1970 to 18.7 per cent in 1990 (OPP2:40). Thus Malaysia's growth was increasingly being led by expansion in the manufacturing and mining sectors. In the latter case, the production of oil and the discovery of gas reserves contributed significantly to export earnings from the second half of the seventies. By 1980 crude petroleum exports had taken over the historical position of rubber as the chief foreign exchange earner and, in that same year, 16 per cent of government revenue came from petroleum, a figure which rose to 25 per cent by 1985 (Ministry of Finance, 1985:95).

A decade of high economic growth, to which the oil windfall made a significant contribution, swelled government revenues and enabled the government to deploy

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2 The manufacturing sector grew at a higher rate 11.3 per cent per annum during the seventies as against 9.4 per cent per annum in the eighties. However, during the second half of the eighties the sector grew on the average at a higher rate by 13.7 per cent (OPP2:42).

enormous resources in pursuing its objective of increasing Malay participation in the modern sector of the economy. The magnitude of public sector growth is apparent from the increase of public sector expenditure which leapt from $4,242.2 million in the First Malaysia Plan (1966-70) to $80,331 million in the Fourth Malaysia Plan (1981-85).[3] During approximately the same period (1970-1983), the number of government employees, who were mainly Malay (about 70 per cent), also increased dramatically from 403,900 to 837, 100 making the government the single largest employer in the country (Chan, 1986:31). A significant component of public sector development expenditure were the allocations to Commerce and Industry, much of which represented funds for public enterprises. In the framework of the NEP public enterprises played a central role in the restructuring of ownership and the creation of a Malay middle class. Allocations to Commerce and Industry grew from just $141.3 million or 3.3 per cent in the First Malaysia Plan (1966-70) to $20,211 million or 27.3 per cent of total public sector development expenditure in the Fourth Malaysia Plan (1981-85).[4]

Under the NEP state-owned enterprises and trust agencies were charged with the responsibility of mobilizing resources and accumulating capital on behalf of the Malay community as it was apparent that little change in ownership could be achieved by the actions of private Malay capitalists alone. (In terms of corporate ownership of the economy, holdings by Malay individuals in 1970 amounted to only 1.6 per cent (3MP:86), simply far too small a base from which to effect a significant change in ownership.) Thus of the NEP's target of 30 per cent of share capital which was to be in Bumiputra hands by 1990, 22.6 per cent was to be accumulated by trust agencies with the ultimate intention of transferring such capital to bumiputra individuals by the expiry of the NEP. As to the *raison detre* of the process Mehmet (1988:102) observed that "Compared to the alternatives of nationalisation or confiscation, equity restructuring by trusteeship offered a piecemeal yet pragmatic solution to the traditional Malay state of capitalist underdevelopment." In addition to their role of mobilizing and accumulating capital for the Malay community, public enterprises such as Perbadanan Nasional (Pernas -National Corporation), and Permodalan Nasional Bhd (PNB - National Equity Corporation), were also important vehicles for gaining control of strategic sectors of the economy on behalf of Bumiputras. Other important functions of state enterprises and trust agencies - such as Majlis Amanah Rakyat (MARA - Council of Trust for the Indigenous People), the Urban Development Authority (UDA) and the State Development

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3 See 2MP:71 and 5MP:227.

4 See 2MP:69 and 5MP:226.

Corporations (SEDCs) - were the fostering of Malay entrepreneurship through manpower development, and the facilitation of joint ventures between Chinese and foreign businessmen with Bumiputras. In some cases the same corporation played a number of roles, for example Pernas and the SEDCs, while expanding Malay ownership also provide training and experience for potential Bumiputra entrepreneurs.

The large allocations of funds made by the government to state enterprises indicates both the extent to which the state sector grew (particularly from 1970 to 1985), as well as the importance of state enterprises in the achievement of NEP objectives. For instance before the NEP, MARA's allocation in the First Malaysia Plan (1966-70) amounted to $50.9 million, but this leapt to $495.30 million in the Fourth Malaysia Plan (1981-85). Over the same period the allocation to Pernas grew from $10.0 million to $200.00 million. The SEDCs which received $192.93 million in the Second Malaysia Plan (1971-75) were allocated $1, 131.49 million in the Fourth Malaysia Plan (1981-85), while over the same period allocations to UDA grew from $175 to $568.79 million. These sums however were tiny compared to the funds allocated to PNB, which from 1976 to 1980 received $500 million, and from 1981 to 1985 another $2, 923 million.[5] After describing the principal activities of the more important state enterprises we shall examine the key role some have played in the restructuring of ownership in the economy.

State-owned Enterprises

Majlis Amanah Rakyat (MARA - Council of Trust for the Indigenous People), and Bank Bumiputra were established before the NEP. As noted previously it was pressure from the First Bumiputra Economic Congress in 1965 which led to the establishment of both these enterprises. MARA was founded in 1966. Its major purpose was to provide loans and advice to assist the development of small Bumiputra entrepreneurs and petty traders. MARA also established a financial corporation, Kompleks Kewangan, which invested Bumiputra capital in the securities market and, by means of a loan scheme, encouraged Malays to purchase shares in companies. MARA also established a number of technical and vocational training institutes. Bank Bumiputra on the other hand was established to provide financial support to assist Malays improve their position in commerce and industry through easier access to credit facilities and soft loans. As we saw earlier, however, it was the dominance of social rather than economic criteria where the banks lending policies were concerned that contributed to the huge losses and scandals that plagued the bank in the 1980's.

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5 See 2MP:69; 3MP:240 and 4MP:241.

In the 1970's, Perbadanan Nasional (Pernas), was the most important agency in the government's efforts to intensify Malay participation in commerce and industry. Pernas was established in November 1969. It is a state agency registered as a corporation and is under the jurisdiction of the Ministry of Public Enterprises (Chan, 1986:58). Pernas' first chairman, Tengku Razaleigh Hamzah (1970-74), was formerly the chairman of Bank Bumiputra, and a protege of Prime Minister Tun Abdul Razak. The pivotal role assigned to Pernas in the first decade of the NEP was apparent from its size and the breadth of its activities. Starting in insurance and construction it quickly expanded into engineering, mining, trading, real estate and securities, and by the late 1970's had grown into a large conglomerate of 67 subsidiary, joint venture or associated companies, involving investment of $393 million and total assets of $1.17 billion (Gale, 1981:92). The patronage of the state was, of course, central to Pernas' capacity to transform itself into a conglomerate and its ability to control strategic sectors of the Malaysian economy.

Pernas employed a number of strategies in the course of its growth and efforts to indigenize key economic sectors. First it set up new businesses and subsidiaries of its own such as Malaysia National Insurance (MNI), which obtained monopolistic control of the insurance business from government organizations. In other instances Pernas obtained control of the management of other corporations by buying a strategic portion of their equity. It was by such means Pernas obtained control of the United Malayan Banking Corportion (UMBC). On other occasions, Pernas participated in corporate takeovers of companies, the most notable examples of which included London Tin and Sime Darby. Government patronage also gave Pernas trading monopolies. Pernas was authorized, for example, to oversee all trade links with China. Finally Pernas also established joint ventures with multinationals, especially those with high technology and an international market network such as Pernas Plessey Electronics, Pernas-NEC Multiplex, and Pernas-Sime Darby[6]. In 1981 Pernas, at the request of the government, transferred eleven of its most profitable companies, together worth approximately $1 billion, to PNB. PNB then became the prime vehicle in the government's efforts to increase Malay ownership in the corporate sector of the economy.

The impetus for the establishment of Permodalan Nasional Bhd (PNB) the National Equity Corporation, sprang from the need to expedite Malay corporate ownership of the economy which was falling behind the targets set. By 1975 Malay (individual and state) corporate ownership had risen to only 7.8 per cent, instead of the targetted 9 per cent for

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6 For a comprehensive account of the growth and development of Pernas, see Gale, 1981(a):Ch 4.

that year under the NEP, so that unless the rate of Malay ownership was accelerated the government was likely to fall well short of the 16 per cent target set for 1980. Established in March 1978, PNB was incorporated as a wholly-owned subsidiary of the Yayasan Pelaburan Bumiputra (YPB) or Bumputra Trust Foundation. During the 1980's PNB became Malaysia's leading trust agency and made a substantial contribution towards increasing Bumiputra ownership and participation in the corporate sector. PNB's main function was to select and acquire a sound portfolio of shares in companies with good growth potential. The close association between the political leadership and the management of PNB reflects its key role in state capital accumulation. Tun Ismail Ali, a former governor of the central bank, Bank Negara, has been the chairman of PNB since its inception. As Chairman of PNB, Ismail is directly responsible to the Chairman of the Board of Trustees of the Yayasan Pelaburan Bumiputa (YTB), who is the Prime Minister, Dr Mahathir. Dr Mahathir is also Tun Ismail's brother-in-law.

In 1981 PNB established the Amanah Saham Nasional (ASN) or National Unit Trust Scheme. ASN's mandate was to buy at cost PNB's assets and sell them to Malay individuals. It was a unique plan that simultaneously kept state managers in control of the companies, redistributed profits to the wider Malay community, and kept shares in Malay hands as an individual could buy and sell only through ASN. Individuals could purchase a maximum of 50,000 M$1 units in ASN while the minimum investment was $10 (FEER, 23:1:1981). The attraction of the scheme was enhanced by a guaranteed minimum of a 10 per cent return on investments. By December 1990, ASN had attracted a total of 2.5 million or about 45 per cent of eligible Bumiputras. Net investment of ASN unit-holders rose from $299.1 million in December 1981 to $8, 511.4 million in December 1990 (PNB Annual Report, 1990:62). The distribution of the investors, however, indicated that the pattern of ownership was skewed. While, on average, about 8 per cent of the investors held more than 10,000 units in ASN, the majority of subscribers held, on average, only about 500 units. This reflected the low level of savings among the majority of Malays (6MP:104). and led some critics to claim, correctly, that ASN benefitted the poor Malays only marginally.[7]

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[7] From January 1991 ASN was obliged by its trust deed of 1981 to trade at market prices with the prospect to unit-holders of greater gains but also the risk of losses. Popular demand from Bumiputra investors indicated that many, particularly rural investors, were reluctant to venture into a more complex and risky scheme. As a result, an entirely new scheme, the Amanah Saham Bumiputra (ASB), was set up alongside ASN in January 1990 which had a fixed transaction price. This was to enable Bumiputra unit-holders to continue investing in a scheme with similar features to that of ASN before the latter commenced operations based on market price in January 1991. See MB (January, 1-15:1990) and PNB Annual Report, 1990:62.

By the 1990's PNB had become Malaysia's largest conglomerate with assets of nearly $10 billion (MB, January 1-15:1990). Profitable companies built up by Pernas and other government agencies in the 1970's were transferred to PNB, a move often deeply resented by their creators. With the savings mobilised under the ASN scheme, and generous allocations of state funds, PNB also purchased substantial stakes in many of Malaysia's most profitable companies. By September 1991, PNB had interests in 142 companies (PNB, Investment Portfolio, mimeo). In addition, PNB benefitted from the pressure applied on companies by the FIC and the CIC to restructure equity by making shares available to 'Malaysian interests' or more specifically the Ministry of Trade and Industry. Generally such shares were later allocated to PNB. By 1988 it was estimated that PNB controlled 25 per cent of the finance sector, 36 per cent of plantations, 23 per cent of the industrial sector, 11 per cent of property, and 5 per cent of mining (Asiaweek, 20:5:1988).

Other important enterprises set up in the 1970's to encourage bumiputra participation in commerce and industry, or which went into business on behalf of bumiputras included, as mentioned earlier, the Urban Development Authority (UDA), and various State Economic Development Corporations (SEDCs). The Urban Development Authority (UDA) was established in 1971. It was the second major public enterprise set up by the then Prime Minister, Tun Razak, to assist Malay participation in business. UDA's primary purpose was to help Malay traders expand their businesses in the small manufacturing, retailing and service sectors of the economy by providing business premises in the Chinese-dominated urban commercial centres. UDA also provided loans to Bumiputra businessmen and entered joint ventures with them. Many of UDA's loans to Bumiputra businessmen however were not repaid, and many of its joint ventures incurred losses, factors which, combined with various administrative malpractices, cost the Authority millions of dollars (Gale, 1981:141).

A description of UDA's role in the encouragement of Malay participation in business would be incomplete without including mention of its subsidiary, Peremba. Peremba was set up in May 1979 with the aim of better supervising UDA's investments in more than 30 joint-venture companies involved in property development (Gale, 1981:169). The initiative to set up Peremba came from Daim Zainuddin, who became its first chairman, and who later served as Minister of Finance (1984-1991). In the early 1980's Peremba, under Daim, became an important 'corporate nursery' for the training of a core of young Bumiputra managers, a number of whom later emerged as some of the most prominent Bumiputra businessmen in the private sector.

In order to expand Malay participation in commerce and industry at the state level in the early 1970's Malaysia's 13 state governments set up State Economic Development Corporations (SEDCs). Access to generous funds from the central government, and easy availability of credit, led to a proliferation of SEDC subsidiaries and of their activities. SEDCs were involved in agriculture, construction, mining, manufacturing, property development and the expansion of cottage industries. By 1981 SEDCs had fostered a total of 321 subsidiaries with a total investment of $564 million (NST, 20:11:1982). However, with few exceptions, the growth of SEDCs was seldom matched by profit or performance.[8] In 1981 the Ministry of Public Enterprises revealed that of 260 SEDC-linked companies on which it had been able to obtain information, ninety-four were making losses and twenty-one had yet to operate (Jesudason, 1990:99).

The poor performance of SEDCs was due to a combination of factors. First and foremost there was confusion at both state and federal level as to whether profit was the main objective of SEDCs, or whether their primary role was a social one, that is to act as caretakers to develop and support Bumiputra participation in trade and industry. Secondly, many SEDCs suffered from poor management as the pool of trained or experienced Malay managers from which they could draw in the 1970's was very limited. Finally, until the early 1980's, the Chief Ministers of each state were also the chairman of their state's SEDC. As a result, the proliferation of SEDCs and their subsidiaries became an important source of patronage for state UMNO leaders. As one former SEDC officer revealed 'new projects provided employment as well as directorships and contracts - and many of the latter were awarded to family-related companies of state politicians and bureaucrats' (NST, 3:9:1981). So while some SEDC subsidiaries made huge losses, [9] state authorities were reluctant to close them down because their importance as sources of patronage often overrode considerations of economic viability.

In 1981 the then Deputy Prime Minister, Datuk Musa Hitam, ordered an urgent reassessment of the role of SEDCs with the exhortation that 'SEDCs must make money'

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8 The Johore SEDC was one of the few well- managed SEDCs and the most profitable. The mainstay of the group's activities was, and remains, the downstream processing of resource-based industries in the state such as the manufacture of rubber products, palm oil, furniture and the canning of tropical fruits. In 1985 the JSEDC made profits of $33 million; in 1986 $55 million and in 1987, $71 million. See The Star, 10:6:1989 (P Y Chin, 'Growing from strength to strength').

9 For instance, five plantation projects managed by subsidiaries of the Trengganu SEDC had obtained loans totalling $98.3 million from the federal government but had made no profit (NST, 2:11:1981). The Pahang SEDC, with total investments of $170 million made losses of $3 million in 1984, while in the same year the Kedah SEDC which had borrowed about $150 million from the federal government had accumulated losses of $10.8 million (MB, 1:8:1985).

(ST(S), 7:9:1981). But confusion over their role quickly re-emerged when the Minister of Public Enterprises, Rafidah Aziz, claimed that profit was not the main motive of SEDCs 'which also had to act as catalysts to speed up the process of developing Bumiputra businessmen' (ST(S), 25:9:1981). However, as the recession of the mid-1980's deepened, and government debt grew, pressure from the federal authorities led to the suspension of some SEDC subsidiaries, the shelving of others, and a restructuring of SEDC operations to concentrate on profits.[10] The federal government's determination to curtail and control the activities of SEDCs was further apparent from its close monitoring of their performance through the Central Information Collection Unit (CICU), [11]which was set up in 1985, and with the government's directive that many of the SEDCs more profitable companies be transferred to PNB.

Finally, besides the public enterprises and trust agencies noted above, the mobilization of some large Malay institutional savings funds have also been important vehicles by which the restructuring of ownership in the corporate sector has taken place. Two of the most prominent Malay institutional savings funds used to increase bumiputra equity in the corporate sector include the Lembaga Urusan dan Tabung Haji (LUTH) the Pilgrims' Management and Fund Board, and the Lembaga Tabung Angkatan Tentara (LTAT), the Armed Forces Fund Board.

LTAT was established in 1972 to provide superannuation benefits for servicemen. During the 1970's LTAT took advantage of the equity restructuring opportunities under the NEP to channel its large funds into profitable investments and emerged as an important corporate group in its own right. In early 1983 LTAT already ranked as the 11th largest stockholder of the 145 largest public companies listed on the Kuala Lumpur Stock Exchange (Mehmet, 1988:137). By 1991 LTAT had about 100,000 members, whose contributions amounted to $14 million a month, and its investment portfolio was valued at $4 billion (MB, September 16-30:1991). In September 1990 LTAT became the controlling shareholder of the large and diversified Boustead Plantation group, whose turnover from 1985 to 1990 averaged $340 million a year (MB, January 16-31:1992). Besides Boustead Holdings Bhd, LTAT also controlled another quoted subsidiary, Affin

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[10] See NST, 3:9:1981 ('Buck up or close down!); NST, 3:11:1988 (SEDC firms close to cut further losses); NST, 15:8:1987 (Operations of 12 Government agencies suspended) and BT, 10:6:1988 (SEDCs restructure to focus on profit motive).

[11] In April 1985, the Finance Ministry entrusted PNB to establish, manage and operate the CICU on behalf of the government. CICU has developed the most comprehensive data base on public companies and public enterprises in the country. See MB, 16:5:1987 ('Keeping tabs on public firms').

Holdings Bhd. By September 1991 LTAT's portfolio also included 15 non-quoted subsidiaries and 43 associated companies[12], four of which were publicly-listed.[13] LTAT's subsidiaries were involved in a wide range of activities including plantations, trading, manufacturing, telecommunications, transport and financial services.

The Lembaga Urusan dan Tabung Haji (LUTH), the Pilgrims' Management and Fund Board, has also emerged as an important institutional saver for equity restructuring. The Tabung Haji, as it is popularly known, encourages Malay savings in deposit accounts by Moslems intending to go on pilgrimage to Mecca, as well as providing travel and other tourist services. At the same time Tabung Haji, like the LTAT, has directed savings so generated into a rapidly growing and diversified investment portfolio. Through opportunities provided by the NEP's restructuring requirements, and its close links to government and the financial establishment, Tabung Haji has been able to enter a number of profitable equity restructuring arrangements, the most notable being that with the Swiss company, Nestle's (Mehmet, 1988:139). By November 1990 Tabung Haji had 1, 739, 067 depositors with total accumulated savings of $3.8 billion, six subsidiary companies, nineteen associated companies and equity interests in over 50 companies, more than 30 of which were listed on the Kuala Lumpur Stock Exchange (LUTH, 1990:14 mimeo). Tabung Haji's diversified investment portfolio covered the manufacturing, plantation, pharmaceutical, food, construction and telecommunications industries and so, it too, has become another important agency in expanding Malay ownership through the mobilization and investment of its depositors savings in the corporate sector of the economy.

The Expansion of Malay Ownership : The Corporate Sector

Before we turn to the key role played by public enterprises in extending Malay ownership of the major corporate sectors of the economy it is pertinent to note the overall changes that have occurred in corporate ownership since 1970. As we saw earlier, in 1970 it was officially estimated that 63.3 per cent of share capital in limited companies in Peninsular Malaysia was held by foreigners, 34.3 per cent by 'other Malaysians, ' and only 2.4 per cent by Malays and 'Malay interests'. The 2.4 per cent Malay share was composed of holdings of individuals, which amounted to 1.6 per cent, and 'Malay interests', that is

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12 Associated companies include those where the investment amounts to 30 per cent plus.

13 The publicly-listed companies were: Asiatic Development Bhd, Goh Ban Huat Bhd, Amalgamated Steel Mills Bhd and Perwira Habib Bank (M) Bhd (MB, 16:9:1991).

government trust agencies and institutions which held shares on behalf of Malays which amounted to only 0.8 per cent (3MP:86).

The NEP called for the attainment of the 30:40:30 target in ownership of corporate equity by 1990, that is 30 per cent equity in Malay hands, 40 per cent for other Malaysians, principally Chinese, and 30 per cent for foreigners. The architects of the NEP hoped to meet those targets in the context of a rapidly expanding economy thereby increasing the relative Malay share of the modern sector without causing an absolute decline in Non-Malay participation. At the same time, the NEP envisaged an expansion of the national share in ownership of the modern sector of the economy through a relative decline of the foreign share. In fact the foreign share fell from 61.7 per cent in 1970 to 25.1 per cent in 1990 (OPP2:103). However, although the foreign share declined in relative terms, foreign equity in the Malaysian economy continued to expand in absolute terms, that is from $3, 377.1 million in 1970 to $27, 525.5 million in 1990, an increase of almost nine-fold (OPP:103). Nevertheless during the 1970's and early 1980's majority stakes by foreign interests in nearly all sectors of the economy reverted to Malaysian control.

Juxtaposed to the relative decline in the foreign share of ownership was the substantial change in the distribution of corporate equity among Malaysia's ethnic groups. The Malay share of corporate equity grew from 2.4 per cent in 1970 to 20.3 per cent in 1990. In other words, Malay holdings increased from a negligible $125.6 million in 1970, to $22.3 billion in 1990, an increase of about 180-fold (3MP:86 & OPP2:103). Of the 20.3 per cent corporate equity held by Malays in 1990, 14 per cent was held by Bumiputra individuals and enterprises and 6.3 per cent by trust agencies such as PNB, Pernas and the SEDCs. According to official estimates, the amount held by Malays as direct investors represented about 8.2 per cent of total Malay equity (OPP:102-4).

Under the non-Malay category, ownership of the corporate sector grew from 34.3 per cent, or $1.8 billion in 1970, to 45.9 per cent or $50.3 billion in 1990, an almost 50-fold increase (3MP:86 and OPP:103). Of the 45.9 per cent of the corporate sector categorized as owned by non-Malays, 44.9 per cent was Chinese and 1.0 per cent was Indian. Considerable controversy surrounds the official estimates, however, and in particular the actual Bumiputra share of the corporate sector.

Apart from conflicting official estimates of ownership,[14] a number of analysts have claimed that the Malay share has been grossly under-estimated. In that regard it is argued that categorizing the proportion of ownership held by nominee and locally controlled companies as belonging wholly to non-Malays underestimates the Malay share. In 1985 the proportion of share capital (at par value) of limited companies held by nominees and locally controlled companies amounted to 16.7 per cent (5MP:107). The distortions which result from such categorization are apparent when one considers such huge conglomerates as the Fleet Group and Hatibudi Nominees in the 1980's and Renong in the 1990's where ownership through a single nominee company or a few individual 'nominees' masked Malay interests in a plethora of companies, many of which were the largest counters on the Kuala Lumpur Stock Exchange. In the OPP2 shares held by nominee companies were classified separately and accounted for 8.4 per cent ownership of share capital in 1990 (OPP2:103). So assuming, as most Malaysian economists do, that a significant proportion of nominee companies represent Malay equity, it would appear that, at the very least, Bumiputra are much closer to reaching the 30 per cent equity ownership target than is conceded by the official statistics.[15]

An alternative estimate of Malay ownership was given by the Gerakan party which estimated that the weighted average of Malay ownership was already 30 per cent in 1983.

Table 3.1: Estimated Malay Ownership of Share Capital in the Corporate Sector by Industry, 1983

Industry	Malay Ownership (in %)
Modern agriculture	45
Mining	50
Finance and banking	70 - 80
Manufacturing	18
Construction and others	10 - 15
Weighted Average	30

Source: Parti Gerakan Rakyat Malaysia, *NEP Selepas 1990*, Table 2: 187.

[14] For instance, as Lim Lin Lean points out, the Mid-Term Review of the 4MP:101 showed the Malay share of the corporate sector to be 18.7 per cent in 1983 while the Fifth Plan figure was only 17.8 per cent in 1985. How, therefore, could there have been a decline when the 5MP:106 states that "ownership by Bumiputra individuals grew at a fast rate of 32 per cent per annum" (Lim Lin Lean, The Erosion of the Chinese Economic Position paper presented at the MCA seminar, "The Chinese Community Towards and Beyond 1990 in Multi-Racial Malaysia," Sunday, 28 June 1987.

[15] See estimates by Fong, 1989:5-7; Chan, 1986:75-82 and Lim Lin Lean, 1987:28-30.

These estimates were rejected by the government and it is difficult to confirm them since their derivation was not explained. Nevertheless another indicator of the distribution of equity in the corporate sector is the distribution of capitalized equity of all the Malaysian-based companies on the Kuala Lumpur Stock Exchange (KLSE). An analysis by Fong[16] of the 237 Malaysian companies listed on the KLSE as at 30 September 1988 is instructive in that regard. Based on the market value as at 1 March 1989, the companies had a total capitalization of about $65.2 billion. Based on nominal value, that is number of shares issued, Bumiputras owned 29.4 per cent of the shares issued compared to 41.9 per cent for other Malaysians and 28.7 per cent for foreigners. However, based on market capitalization, Bumiputra interests owned 34.5 per cent of the total market value of companies listed, compared to 33.3 per cent for other Malaysians and 32.2 per cent for foreigners (Fong, 1989:6-10). Although argument over the exact Malay stake in the corporate sector is likely to continue it is nevertheless apparent, even from official statistics, that it has grown tremendously.

Having discussed the distribution of share capital at the national level, we shall now examine the extent of restructuring at the sectoral level and, in particular, the role played by public enterprises in that process. In order to achieve the restructuring goals of the NEP, and in particular the expansion of Malay ownership, the government had to reduce the foreign share in the economy while at the same time adhering to its promise that, "no particular group (including Chinese business), would experience any loss or feel any sense of deprivation" (2MP:1). Besides balancing domestic needs and sensitivities, the government was also concerned to encourage foreign investment. Foreign investment provided the stimulus for an expanding economy, the context in which it was envisaged that the restructuring of ownership would take place. Foreign investment was also crucial for the technology it provided for the government's industrialization program to increase employment and manufactured exports. Given the importance of such investment, the Government, in extending its ownership over the established export industries, was particularly concerned to avoid any accusation of 'nationalisation' that might scare such investment away. Consequently, it moved indirectly, and employed a number of approaches including the normal business practice of quietly purchasing shares on the stockmarket followed by a sudden takeover bid - the corporate joint venture option; and

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16 See Fong Chan Onn, 'Malaysian Corporate Economy Restructuring : Progress Since 1970' paper presented at a seminar "The Future of the New Economic Policy" hosted by the Social Science Association of Malaysia, 24-26 July, 1989.

in other cases the use of regulatory measures to pressure foreign companies to "voluntarily" reorganise their equity structures.

It was with these considerations in mind that the government set out in the 1970's to acquire control of the 'commanding heights' of the economy which had hitherto been controlled by foreign interests. The government's main targets were the resource-based industries - petroleum, plantations and tin mining, as well as banking and finance. It was also concerned to ensure that in the process of industrialization the Malaysian, and particularly Bumiputra presence, was expanded in the manufacturing sector.

The Mining Sector: Petroleum

The formation of PETRONAS, Malaysia's National Oil Corporation in 1974 was one of the first important initiatives taken by the Malaysian government to gain control of the major resource-based industries. Petronas was headed by Tengku Razaleigh, who had already attained national prominence as chairman of Bank Bumiputra and Pernas, the two foremost agencies concerned with the expansion of Malay ownership in the 1970's. Initially, the government's efforts to indigenize the development of Malaysia's oil and gas reserves were rather clumsy, and aroused considerable concern among foreign investors about possible nationalisation of the petroleum industry.

In 1974 Razaleigh introduced the Petroleum Development Act (PDA), which gave Petronas the exclusive right to explore and exploit Malaysia's petroleum reserves. Previously, foreign oil companies worked under a concession system with state governments which allowed them complete freedom in the management of oil resources, their only obligation to the federal government being the payment of taxes and royalties. The PDA required all oil companies to enter production-sharing contracts based on the example of Pertamina, the Indonesian state oil company. Through the introduction of the PDA the Malaysian government served notice on the foreign oil companies that their future status was to be merely that of contractors (Gale, 1981(b):1133). The most controversial provision of the PDA however was one which required the oil companies to provide Petronas with one per cent of their equity in the form of "management shares" that would carry rights equal to 500 ordinary shares. By this means Petronas gained strategic control of the oil industry at minimum cost. The response was dramatic. Several companies, including Exxon, suspended activities in Malaysia. After protracted negotiations the government withdrew the controversial management-share concept in 1976 and also the licensing of downstream activities. Such compromises showed the limits to indigenization, particularly in the oil industry where the government required the capital and technology of MNCs (Chan, 1986:45). Nevertheless, by the late seventies

Petronas had its own exploration subsidiary (Petronas Carigali), had begun refining, and was also challenging foreign companies in the local retail market.[17]

The Mining Sector: Tin

Besides the oil industry, the government also moved to extend national ownership of the tin industry. In the early 1970's there was still substantial foreign control and domination of the tin industry, particularly of the listed tin companies. Overall, the publicly-listed tin mining companies accounted for 58.6 per cent of the 1973 output, but 85.5 per cent of this (or 50.2 per cent of total output) was produced by companies owned and controlled by foreign interests (Tan, 1982:155). Before 1972, the two largest tin mining groups in Malaysia, London Tin Ltd and Charter Consolidated Ltd, were British-owned concerns. London Tin had control over eleven listed tin mining companies, and a number of private ones, while Charter Consolidated controlled a further four listed mining companies. London Tin was not only the largest tin company in Malaysia, but the largest tin group in the world, so it was a particularly attractive target for Malaysianization.

The Malaysian government used Pernas Securities, a wholly-owned subsidiary of the state trading corporation, Pernas, in its bid to gain control of London Tin. In 1975 Pernas, through normal share market purchases, gained a 20 per cent stake in London Tin. Haw Par Brothers International, a multinational company based in Singapore, had also obtained a 30 per cent stake in London Tin. Pernas' intention was to merge with Haw Par, which would have given it 51 per cent control of London Tin and majority ownership of the company. The move was thwarted, however, by the Singapore government's investigation into the malpractices of Haw Par's directors and the decision by the London City Takeover Panel which required Haw Par and Pernas to buy all remaining London Tin shares (Lim, 1981:102) The latter was an expensive proposition that required Pernas to invest $258.5 million in the deal, an investment it was not prepared to make (FEER, 4:7:75).

In the wake of the collapse of the Haw Par deal, Pernas Securities reached a new agreement in 1976 with the second biggest tin group in Malaysia, Charter Consolidated, to establish a joint venture company, New Trade Winds Sdn Bhd, which succeeded in securing the balance of shares of London Tin not owned by Pernas or Haw Par (Gale, 1981:123). The following year Charter Consolidated transferred its control of mining interests to New Trade Winds in exchange for a 28.65 per cent stake in the company of

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[17] For a good overview of the development of Petronas in the 1970's see Gale, 1981 (b).

which Pernas became the major shareholder (Chan, 1986:63). In 1977 New Trade Winds changed its name to Malaysia Mining Corporation (MMC). In 1981 Malayan Tin Dredging (MTD) and Malaysia Mining Corporation merged to create an even larger conglomerate of tin mining and tin related companies. (Prior to the merger MTD had also acquired five other Perak-based tin companies.) In 1981 Malaysia Mining Corporation was transferred from Pernas to PNB.

Malay equity in the tin mining industry was also expanded by the action of state governments that used their powers over land matters to make the renewal of mining leases conditional on companies' restructuring their equity to give Malaysian interests a majority of shares. The successful application of such pressure led to the restructuring of Rahman Hydraulic Tin Bhd in 1982, which gave the Perak State Development Corporation 20 per cent equity, and Gopeng Bhd in 1984, in which the same state authority obtained 50.03 per cent equity (KLSE, 1986:1155&1205). At the same time state governments set up their own companies which established joint ventures with either or both the MMC and foreign companies.

In the light of these developments, the Fifth Malaysia Plan asserted that Bumiputras had succeeded in achieving significant control of the tin mining industry. More specifically, it concluded that "Bumiputra interests through PNB had, by 1981, a majority control in Malaysian Mining Corporation (MMC). MMC also had interests and control in eleven other quoted tin mining companies which were listed on the Kuala Lumpur Stock Exchange" (5MP:110). From 1986 to 1989 MMC divested its entire interest in a number of mining companies including Aokam Tin, Ayer Hitam Tin Dredging, Kamunting Tin Dredging and Sungei Besi Mines. The significance of that divestment - and the interlocking ownership and directorship ties through which considerable assets were transferred from the state sector to either UMNO, or UMNO-related interests in the private sector - will be discussed in the next chapter.

Modern Agriculture: The Plantation Sector

The Bumiputra stake in the plantation sector was expanded by similar means to those which were employed by Pernas and PNB in the mining sector. In 1973, of the holdings under modern agriculture (that is estates, including government sponsored land development schemes such as Felda) planted with rubber and oil palm, 42.3 per cent were controlled by foreigners with the Malays, Chinese and Indians owning 21 per cent, 26.3 per cent and 2.6 per cent respectively (3MP:183). In the plantation sector the dominance of foreigners was particularly apparent. In 1974 the three largest plantation groups (Sime Darby, Guthrie, and Harrisons and Crossfield) owned or controlled 29.1

per cent of the total hectarage - including 25.6 per cent of rubber land and 32.0 per cent of oil palm land. Foreign interests had strategic control in all these companies. Among the top five largest plantation groups, only one (Lee Loy Seng group) was Malaysian owned (Tan, 1982:141-146). As a result the government, through Pernas and PNB, launched an aggressive strategy in the 1970's to acquire or wrest control of plantation companies from foreigners and increase the Bumiputra stake in the plantation sector.

The first target was Sime Darby, which was then the second largest foreign-owned company in Malaysia. Since the early 1970's Pernas had been building up its holdings in Sime Darby but the capital value of the company, about $650 million, made it an expensive proposition (Chan, 1986:65). Unable to afford a direct takeover, Pernas sought to replace four out of the eight British expatriate directors with its own appointees through a series of board-room manoeuvres with private Malaysian shareholders. This objective was achieved at the 1976 annual general shareholders meeting where Pernas mobilised sufficient votes to give effective control of the company to Malaysian interests, of which Pernas was the most important. Tun Tan Siew Sin, Malaysia's former Finance Minister, became the new chairman of Sime Darby. After Tun Tan's death in 1987, Tun Ismail Ali chairman of PNB, which by then was the largest shareholder of Sime Darby, became chairman of the company.

The next plantation group to be targetted for takeover was Guthrie. In 1980 PNB purchased 25 per cent of Guthrie shares from Sime Darby, after the latter just failed in a takeover attempt of the company. Apparently Guthrie offended Malaysian/PNB sensitivities by taking major corporate initiatives regarding the sale of assets and the diversification of its activities without consulting its shareholder, PNB (FEER, 18:9:1981). This set the background for PNB to stage a dramatic 'dawn raid' on Guthrie shares in London. Early one morning in September 1981, PNB managed to acquire sufficient Guthrie shares on the London Stock Exchange for a general takeover. The takeover cost PNB a massive $928.3 million (Jesudason, 1990:91). The fate of Guthrie persuaded other plantation companies to restructure and sell off the majority of their assets to state corporations, especially PNB.

In 1982 PNB reached agreement with the third largest plantation company in Malaysia, Harrisons and Crosfield, to take majority control of its plantation subsidiary, Harrisons Malaysian Estates. Earlier, a number of other major plantation companies had also restructured to facilitate the acquisition of a majority of their shares by government and private Malaysian interests. In 1973 the Kuala Lumpur Kepong company became Malaysian-controlled and, in concert with Pernas, Sime Darby and other private

Malaysian interests, gained control of another large plantation company, Highlands and Lowlands. Three years later Boustead Barlow, the fifth largest plantation group, also restructured which resulted in the Lembaga Tabung Angkatan Tentera (LTAT - Armed Forces Fund Board) and Felda owning and controlling a major stake in the company.[18] Finally, in 1981 Multi-Purpose Holdings, the then investment arm of the Malaysian Chinese Association, gained control of Dunlop's plantations in Malaysia.

By 1988, four of the five major plantation groups - Sime Darby, Kumpulan Guthrie, Harrisons Malaysia and Boustead Holdings - had been brought under Bumiputra control.[19] Those four groups alone accounted for about 29.9 per cent of the plantation land in Malaysia (Fong, 1989:13). Overall, the government claimed that by 1987 the Bumiputra holding in the top 20 largest public companies in the plantation sector, held through PNB and other trust agencies, was 37 per cent (MTR/5MP:71).

The Banking and Financial Sector

As Fong (1989:20) has observed 'the banking system represents a strategic sector in the Malaysian economy because it controls the flow of funds and so can determine, to a large extent, the growth of the other sectors of the economy'. Increasing the Bumiputra stake in the banking and financial sector was therefore given a high priority. Before Independence, the banking system was dominated by a few foreign banks, primarily engaged in the mobilisation of savings to finance plantation agriculture, mining and international trade. Prominent examples included the Chartered Bank Ltd., the Hongkong and Shanghai Banking Corporation Ltd., and the Oversea-Chinese Banking Corporation Ltd (OCBC) (Tan, 1982:159). In 1959, two years after independence, the five largest banks were all foreign incorporated and accounted for 71.8 per cent of total bank resources (Bank Negara, Annual Report, 1979:144).

As we saw earlier, most of the twelve new banks established since 1957 were incorporated in the sixties by Chinese businessmen. In 1959 there were eight local banks

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18 See KLSE, Annual Companies Handbook Vol X11, 1986:53.

19 Kuala Lumpur Kepong (KLK), the only one of the five major groups under Chinese control does, nevertheless, have significant Bumiputra representation and equity. As of June 1991 Bumiputra equity in KLK was 22.45 per cent. Besides ASN, Felda was a significant shareholder in the Lee Loy Seng group and was represented on the boards of KLK and Batu Kawan by RM Alias, the chairman of Felda. Before his appointment as Minister of Finance in 1976, Tengku Razaleigh was also a director of KLK. He was replaced by his brother, Tengku Robert, who was also a director of other companies in the Lee Loy Seng group, notably Glenealy and Batu Kawan. See KLSE, Annual Companies Handbook Vol XV11 Bk1 1991:767&871 and Cheong, 1991:71-75.

with twelve branches. In 1970 the numbers had increased to sixteen and 177 respectively, and all of them, with the exception of the state-controlled Bank Bumiputra, were substantially controlled by local Chinese (Bank Negara, Annual Report, 1979:142). Throughout the sixties the Central Bank showed a liberal attitude toward local bank formation and expansion. Underlying this consideration was the urgent need to mobilise savings to finance the country's five-year development plans which had already been set in motion (Chin, 1984:197).

After 1971 the NEP signalled the government's desire for greater control and ownership of the commercial banks in order to influence lending patterns, particularly in ensuring compliance with the targets set by Bank Negara for lending to the Malay community. The 1973 Banking Act imposed a freeze on the setting up of new branches by foreign-owned banks. It also required all banks operating in the country but which were owned by foreign governments (such as branch offices of foreign banks that had been nationalized by their home governments), to be restructured to comply with the equity requirements of the NEP. As a result, a number of foreign banks upon nationalization by their home governments were "localized" with substantial, if not majority, Bumiputra equity. Banks which were restructured in this way included the Bank of India which after restructuring became the United Asian Bank in 1973, the Bank of Pakistan which became the Perwira Habib Bank in 1976, and the Bank of France which was restructured into the Malaysian-French Bank in 1982.[20]

State expansion in the banking sector had been facilitated earlier when financial and management problems were encountered by Malayan Banking in 1966 and a run on deposits led to government intervention and eventual majority control of the bank. A similar fate befell the United Malayan Banking Corportion (UMBC) a decade later, when financial problems also led to government intervention because the directors were suspected of fraud (FEER, 10:9:1976). Subsequent restructuring led Pernas to acquire a strategic stake in the bank. In May 1985, the then Finance Minister, Daim Zainuddin, acquired outright control of UMBC in highly controversial circumstances, only to sell it back to Pernas a year later for a considerable profit.[21]

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[20] The data in this paragraph is taken from Fong, 1989:23.

[21] For details of the extraordinary circumstances surrounding the acquisition and sale of UMBC by Daim see chapter 5. In July 1992 it was reported that negotiations were in an advanced stage between Pernas and Bumiputra interests in the private sector for UMBC, then Malaysia's fifth largest bank. The potential buyers of Pernas' 85 per cent stake in the bank were Datuk Keramat Holdings and Bakti Kilat Sdn Bhd (MB, 1:6:1992). See also AWSJ, 2:7:1992.

Table 3.2: Commercial Banks (Locally Incorporated)
Top Ten in terms of assets as at 31 December, 1990

Name of Institutions	Assets+ Size	Ranking
Malayan Banking Berhad*	39,879,367	1
Bank Bumiputra Malaysia Berhad****	34,985,563	2
United Malayan Banking Corp. Berhad***	14,134,349	3
Public Bank Berhad	11,532,442	4
Development And Commercial Bank Berhad	9,269,254	5
United Asian Bank Berhad	5,570,603	6
Perwira Habib Bank Malaysia Berhad	5,423,050	7
Kwong Yik Bank Berhad*	3,787,504	8
Bank of Commerce Berhad**	3,301,114	9
Southern Bank Berhad	2,837,832	10

** Position as at 30 June 1990 *** Position as at 31 August, 1990
*** Position as at 31 January 1991 **** Position as at 31 March 1991

Source: Arab-Malaysia Merchant Bank, The Kuala Lumpur Bankers Directory, 1991/92

Thus from 1970 to 1990 there was a considerable shift from Chinese to Malay ownership in the banking and financial sector. Of the top ten banks in 1990 (in terms of assets), six were Chinese-owned in 1970.[22] In 1990, of the top ten banks only one, 4th ranked Public Bank, was Chinese-owned. (The only other major Chinese-owned bank was 11th-ranked MUI Bank.) The top three banks in 1990, Malayan Banking Bhd, Bank Bumiputra Bhd and United Malayan Banking Corporation Bhd (UMBC) were all controlled by state-owned institutions and as Table 3.2 shows (except for 4th-ranked Public Bank), there was a considerable gap in the assets held by those institutions and the remainder of Malaysia's top ten banks.

The Manufacturing Sector

In order to achieve the NEP's objective of creating a Bumiputra commercial and industrial community the government gave a high priority to the rapid expansion of the manufacturing sector and to Bumiputra participation in it. The two major obstacles that

22 The six Chinese-owned banks in 1970 included: UMBC (Chang Ming Thien), Public Bank (Teh Hong Piow), Development and Commercial Bank (H.S.Lee), Kwong Yik (founded by Wong Ah Fook) Bank of Commerce, formerly Bian Chiang Bank (Wee Hood Teck) and Southern Bank (Loh Boon Siew). See Tan, 1982:196 fn60.

had to be overcome if a Bumiputra presence in the manufacturing sector was to be expanded however were access to capital and the acquisition of entrepreneurial skills.

Earlier we saw how massive increases in public expenditure, particularly in the Third and Fourth Malaysia Plans, enabled Pernas, UDA, MARA and the SEDCs to either expand their training programs for Bumiputras or the credit facilities available to them. At the same time, many such public enterprises also enlarged the Bumiputra presence in the manufacturing sector by directly participating in manufacturing activities themselves. Puthucheary[23] showed that even by 1977 public enterprises had invested a total of $443.3 million in 291 companies, with controlling stakes in all but 84 of those companies.

Many of those same enterprises and agencies, though most notably MARA, Petronas, the National Productivity Centre (NPC), the Public Works Department (PWD), and of course the Ministry of Education also awarded scholarships and instituted a wide range of training programs for potential Bumiputra entrepreneurs particularly in management, technology and commerce. Table 3.3 shows the number of participants that underwent various entrepreneurial training programs in 1981 and 1985. It can be assumed that the participants were overwhelmingly Bumiputras.

Table 3.3: Malaysia : Participants in Entrepreneurial Training, 1981 and 1986

	1981		1985	
	Bumiputra	Non-Bumiputra	Bumiputra	Non-Bumiputra
National Productivity Centre (NPC)	4, 940	15	2,901	11
Public Works Department (PWD)	222	-	398	-
Development Bank of Malaysia (BPMB)	134	-	343	-
Bank Bumiputra Malaysia Bhd (BBMB)	-	-	1,109	-
Council of Trust for the Indigenous People (MARA)	14, 614	-	15,000	-
National Corporation *Pernas Edar*	1, 447	-	1,000	-

Source: Fifth Malaysia Plan, 1986-1990, Table 3-12: 116. Cited in Ho, 1990: 182.

[23] Puthucheary, M. 1977 'Public Enterprise and the Creation of a Bumiputra Entrepreneurial Community', paper presented at the Fourth Malaysian Economic Convention, Kuala Lumpur.

The massive allocations made to public enterprises for restructuring activities from the 1970's to the mid 1980's[24] increased the Bumiputra share of employment in the manufacturing and industrial sectors. Bumiputra employment in the manufacturing sector rose from about 84, 400 or 28.9 per cent of total employment in 1970 to 605,700, or 49.1 per cent in 1990. Bumiputra representation also rose dramatically in the professional and technical categories that is from 47.2 per cent in 1970 to 61.8 per cent by 1990, a considerable achievement notwithstanding the large contribution made by teachers and nurses to that category. The Bumiputra share of employment at the administrative and managerial levels also increased, from 22.4 per cent in 1970 to 31.3 per cent in 1990 (2OPP:47).

Another major obstacle to the expansion of Bumiputra participation in the manufacturing and industrial sector was access to credit. At one level this problem was addressed by the government's increased control over lending policy following the rapid expansion of state control of the banking and financial sector after 1970. Access to credit by Bumiputras was also facilitated by their designation as a "priority group" which meant that a minimum of 20 per cent of new loans had to be allocated to Bumiputra individuals and Bumputra-controlled companies. In addition credit was expanded to Bumiputras through such institutions as the Development Bank of Malaysia (BPMB), lending schemes by MARA and UDA and the Malaysian Industrial Development Finance (MIDF), the latter being the most important industrial development financing institution in Malaysia. By these various means Bumiputra increased their share of loans and advances enormously from $149.3 million or 5 per cent in 1971, to $4, 780 million or 20.6 per cent in 1980, and again to $31, 475 million or 28.9 per cent of the total loans outstanding by the end of 1990 (4MP:65 & 6MP:254).

The growth of Bumiputra equity in the manufacturing sector was also impressive, though Bumiputra institutions rather than individuals hold by far the greater proportion of that equity. In 1972 Bumiputra held only 6.9 per cent of total equity in the manufacturing sector (3MP:183). By 1988 research by Fong (1989:19) suggests that Bumiputras held between 25-30 per cent of the formal manufacturing equity that could be accounted for, either by calculations based on the number of industrial companies in production, or

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[24] According to Fong (1989:17) total allocation to public enterprises over 1981-85 for restructuring activities amounted to $20.2 billion. In absolute terms, total public investment amounted to $57.5 billion over 1981-85, compared to $20.1 billion over 1976-80; and $7.2 billion over 1971-75. By 1986, despite drastic cut-backs in government allocations to the public enterprises, their investment still accounted for 16.1 per cent of GNP.

industrial capitalisation on the KLSE. Fong concluded that since any new listing on the Exchange would have to allocate at least 30 per cent of its equity to Bumiputra interests, in all likelihood Bumiputras achieved the 30 per cent target of corporate manufacturing equity by 1990

Summary

In Malaysia the state has played a crucial role in transforming the ethnic pattern of ownership that existed in 1970. The oil windfall, together with high rates of growth throughout much of the 1970's and early 1980's, facilitated the massive expansion of the state sector, particularly from 1970 to 1985. During that period public enterprises and trust agencies were charged with the task of mobilizing resources and accumulating capital on behalf of the Malay community as it was apparent that little change in ownership could be achieved by the actions of private Bumiputra capitalists alone. Notwithstanding the argument over estimates regarding the changes that have occurred in corporate ownership since 1970, it is nevertheless apparent that the Malay stake in the corporate sector has grown enormously in the last two decades.

In the restructuring of ownership, public enterprises and trust agencies also played important roles in extending Malay ownership over the commanding heights of the economy. The government, through Petronas, had by the late 1970's Malaysianized control over the development of Malaysia's oil and gas reserves and by the 1980's Bumiputras, through MMC, had achieved significant control of the tin industry. A similar change took place in modern agriculture where, by 1987, the Bumiputra holding in the top twenty companies in the plantation sector, held through PNB and other trust agencies, had reached 37 per cent. A significant shift in ownership also took place in the strategic banking and financial sector. By 1990 of the top 10 banks (in terms of assets) only one was Chinese, compared to six only two decades earlier. In manufacturing, Bumiputra employment rose from 28.9 per cent in 1970 to 49.1 per cent in 1990, while Bumiputra equity in that sector was also believed to have reached the 30 per cent equity target by 1990.

Clearly the state achieved a large measure of success in the extension of Malay ownership in the corporate sector. But under the NEP another important function of state enterprises was the fostering of Malay entrepreneurship. So to what extent has the expansion of Malay ownership been matched by its intended corollory, the creation of a Malay commercial and industrial community, that is Malay capitalists. It is to that more controversial question that we now turn.

PART II

MALAY CAPITALISTS: STATE, PARTY, POLITICAL AND PRIVATE

Chapter 4

THE NEW MALAY STATE: CATALYST FOR CAPITALISM - OR CRONYISM?

In the development of Southeast Asian capitalism McVey (1992:27-30) has characterised the changing role of the state as moving from incubus to incubator. Does this capture contemporary Malaysian realities? In Malaysia many bureaucrats and state managers who were at the common frontier of the state and business in the government's efforts to expand Malay ownership have themselves become businessmen. But how did the relationship between the state and business facilitate the transition of some bureaucrats and state managers to the corporate sector and what sort of capitalists has state support produced? Or, in McVey's terminology, has the state been incubus[1] or incubator in the development of Malaysian capitalism?

To answer these questions we shall divide bureaucrats and state managers who, to varying degrees have made the transition to the private sector, into five categories - Figurehead Capitalists, Executive-Professional and Executive-Trustee Directors, Functional Capitalists, Bureaucrats-turned-Businessmen and finally, a group who have moved into business via the government's privatization program, State Managers-turned-Owners. These categories are necessarily somewhat arbitrary, some individuals have characteristics which may fit one or another group at the same time, while others may shift from one category to another. Nevertheless, as elsewhere in this study, the employment of such categories serve a useful heuristic purpose in our analysis of the development of Malay capitalism. We shall now consider how individuals in these various categories have made the transition to business and what role the state has played in that transition, that is, has it been a catalyst for capitalism or cronyism?

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1 Incubus: 'an evil spirit, a person or thing that oppresses like a nightmare (Oxford Modern English Dictionary).

Figurehead Capitalists

Figurehead Capitalists include former state officials, mainly senior bureaucrats and military officers, as well as some members of royalty, who, because of their stature in Malay society are invited to join the boards of companies - particularly those which are foreign or Chinese owned - in the expectation that their public standing and presence as directors will secure tenders, licences, contracts or other concessions from the state. Figurehead capitalists generally have little control over or interest in the companies of which they are directors, hence our terminology 'figurehead'. Figurehead capitalists can, and often do, serve on boards of companies that are in competition with one another, or companies that are totally unrelated to one another where their core economic activity is concerned. Because demand exceeded supply, particularly in the first decade of the NEP, different companies came to share many of the same public figures as directors-cum-figurehead capitalists.

During the 1970's the most obvious example of a figurehead capitalist was Tan Sri Hj Mohd. Noah bin Omar, a former Speaker of the Dewan Rakyat (Parliament) and father-in-law to two Prime Ministers, the late Tun Razak and the late Tun Hussein Onn. In 1977 Tan Sri Noah, then aged 80, held directorships in at least 18 companies.[2] Other examples of figurehead capitalists in the 1970's who held directorships in a large array of companies included Tunku Tan Sri Mohamed bin Tunku Besar Burhanuddin,[3] Tan Sri Taib Andak[4] and Tan Sri Abdul Aziz Mohamed Zain[5]. All were archetypal examples of

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2 Company directorships held by Tan Sri Mohd Noah in the 1970's included: Esso Malaya Bhd; United Malayan Banking Corp Bhd; Selangor Dredging Bhd; Malayan Flour Mills Bhd; Taiping Textiles Bhd; Malaysia Weaving Enterprise Bhd; Supreme Corporation; Malaysia Rice Industries Bhd; Matsushita Electric Co. (M'sia) Bhd; Johore Sugar Plantations and Industries Bhd; Genting Highlands Bhd; Kien Huat Bhd; Malayan Sugar Refining Bhd; Klang and Port Swettenham Omnibus Co.Bhd; Federal Cables, Wires and Metal Mfg Bhd; Hock Hua Bank Bhd and Malex Asbestos Cement Bhd. See Lim, M.H., (1981:56-57) and Tan, T.W., (1982:282).

3 The companies of which Tunku Tan Sri Mohamed was a director included: Ajinomoto (Malaysia) Bhd; Carlsberg Brewery Msia; Chemical Company of Malaysia; India-Malaysia Textiles Bhd (Chairman); Malaysia Mosaics Bhd (Deputy Chairman); PEGI Malaysia Bhd (Chairman); Timuran Holdings Bhd; United Engineers (M'sia) Bhd; Malaysian Amercian Assurance Company Bhd and Supreme Corporation (Tan TW 1982:283).

4 Those companies included: Associated Plastics Industries Bhd (Chairman); Hume Industries (Far East Ltd); Sime Darby Holdings Ltd; Synthetic Resins (M'sia) Bhd (Chairman); Tractors Malaysia Bhd (Chairman); Toshiba (M'sia) Bhd (Chairman); Malayan Banking Bhd (Chairman); SEA Development Corporation Bhd;Benta Plantations;Taiping Consolidated Bhd (Tan TW 1982:284).

5 Tan Sri Abdul Aziz was chairman of director of Bedford (m) Bhd; Hume Industries (M) Bhd; Kota Tanah Sdn Bhd; Kamunting Industries Bhd and Kao (Mal) Sdn Bhd as well as many other unlisted companies. See New Malaysian Who's Who, 1989/1990:12.

the Malay administocratic elite of the 1960's. Thus Tunku Tan Sri Mohamed, a member of the Negri Sembilan Royal family, was also a former Chief Secretary to the Government; Tan Sri Taib Andak was a former chairman of Felda and Malayan Banking; and Tan Sri Abdul Aziz Zain was a former Federal Court Judge. The number and range of companies of which these individuals were either chairman or directors clearly precluded them from playing anything but a figurehead role.

Figurehead capitalists remained a feature of Malay capitalism in the 1980's and 1990's but, as the numbers of former bureaucrats and service personnel increased on the one hand, and a new generation of educated Malay professionals (particularly economists and accountants) began to emerge on the other, so the opportunities/directorships for this group shrank. Nevertheless prominent examples of figurehead capitalists[6] in the decade from the mid-80's to the mid-90's included such individuals as: Tan Sri Hamzah Sendut, former Vice-Chancellor of the Universiti Sains (Chairman Tasek Cement Bhd and director of Carlsberg Brewery M'sia Bhd, Chemical Company of Malaysia Bhd, Datuk Keramat Holdings Bhd, The East Asiatic Company (M'sia) Bhd, Fima Metal Box Bhd and Oriental Holdings Bhd). Dato Mohd Tahir, former General Manager of the Selangor State Development Corporation (Director of SPK-Sentosa Corporation Bhd, Arab-Malaysia Development Bhd, Arab-Malaysia Merchant Bank Bhd, Matsushita Electric Company M'sia Bhd and IGB Corporation Bhd). Dato Hj Mohd Shamsuddin, former Secretary-General of the Ministry of Rural Development (chairman, Federal Flour Mills Bhd and director of Hume Industries (M'sia) Bhd, Malaysian Oxygen Bhd and Malaysian Pacific Industries Bhd); and Tan Sri Ibrahim Ali, former Secretary General of the Ministry of Home Affairs (Director, Dragon and Phoenix Bhd and Mount Pleasure Holdings Bhd).

Many retired military officers have also become chairman or directors of companies, but they too, play a largely figurehead role in corporate affairs. Some prominent examples of such directors since the mid 1980's include: General Ibrahim Ismail (Chairman, Petaling Tin Bhd, Rahman Hydraulic Tin Bhd and director of Cold Storage (M'sia) Bhd, Guinness Anchor Bhd); Maj-General Mahmood bin Sulaiman (Director, Chemical Company of Malaysia Bhd, Keck Seng (M'sia) Bhd and Kuala Lumpur Kepong Bhd) and General Mohd Ghazali Seth (Chairman, Nestle (M'sia) Bhd, and Director Chemical Company of Malaysia Bhd and Magnum Corporation Bhd). Some

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6 Information regarding the directorships held by these individuals was drawn from KLSE, Annual Companies Handbook Vol XV and New Malaysian Who's Who 1989/1990.

former high-ranking members of the armed forces are also invited to be directors of companies because of the equity held in those companies by LTAT, the Armed Forces Fund Board. So Lt General Abdul Jamil is a director of Lim Goh Tong's Asiatic Development Bhd (LTAT is the second largest shareholder); General Tunku Osman is a director of Yeo Hiap Seng (M'sia) Bhd (LTAT is again the second largest shareholder); and General Mohd. Ghazali is a director of Bank of Commerce and Guthrie Ropel Bhd, companies in which LTAT is also a major shareholder.

Figure-head capitalists, drawn mainly from the former administocratic elite, were particularly prominent in the early years of the NEP when their social standing in Malay society had some value to companies which sought their services to facilitate relations with government and state authorities. But besides their representational activity, for which they receive generous fees and emoluments, figurehead capitalists play little or no role in the management of companies so that even the epithet 'capitalist' has little meaning except in a rather minimal and formalistic sense. Moreover, the representational role played by figurehead capitalists, particularly in the early stages of the NEP, became less relevant as Malay ownership of the economy increased and a new generation of Malay professionals emerged with corporate skills and connections more pertinent to the needs of companies in the eighties and nineties.

Executive-Professional Directors and Executive-Trustee Directors

Executive directors may be defined as the high-ranking employees of a corporation who do not own any substantial shares in the corporation. In the mid-1970's, Lim, M.H., (1986:67) found that of the Malaysian executive-directors considerably more than two-thirds were Chinese and the small remainder were Malays. Since the mid-1970's there has been a rapid increase in the number of Malay executive directors to oversee and manage the huge investments made by trust agencies to extend Malay ownership over the commanding heights of the economy. Two types of Malay executive directors can be identified - particularly in the huge plantation and mining conglomerates of which the state, through PNB, is a major shareholder - executive-professional directors and executive-trustee directors.

Executive-professional directors are basically professionals engaged to run the company. They are generally appointed or invited to sit on the board of only one major corporation or the boards of companies whose activities are confined to a particular economic sector - such as plantations, mining or banking - in which they have expertise as agronomists, mining engineers or bankers. While executive-professional directors play important roles in the formulation of certain decisions and the management of companies,

their power in approving major company policies may, in some instances be quite limited compared to that of executive-trustee directors. Some prominent examples of executive-professional directors during the eighties and early nineties included:

Tunku Ahmad bin Tunku Yahya an accountant and former director of the central bank, Bank Negara and member of the Capital Issues Committee (CIC), Tunku Ahmad was Chief Executive Officer (CEO) of Sime Darby and chairman or director of Sime subsidiary companies Consolidated Plantations Bhd, Tractors Malaysia Bhd and DMIB Bhd;[7]

Abdul Khalid bin Ibrahim the General Manager/Chief Executive of PNB who was also a director of Harrisons Malaysian Plantations Bhd and Kumpulan Guthrie in which PNB/ASN are major shareholders; and

Dr Ani bin Arope who was an agronomist and director of the Malaysian Agricultural Research and Development Institute (MARDI), and the Rubber Research Institute (RRI) in the late sixties and early seventies. Later, in 1987, he was appointed a director of the plantations group Kumpulan Guthrie (of which PNB was the major shareholder), as well as chairman and executive director of subsidiary companies, Highlands and Lowlands Bhd and Guhrie Ropel.

Executive-trustee directors may form a minority or majority on the same company boards with executive-professional directors but unlike the latter, whose roles are of a managerial and technocratic type, the roles performed by executive-trustee directors are more representational and political in nature. Invariably the top executive-trustee directors are closely associated with the political leadership and are appointed or invited to sit on the boards of a number of companies whose activities may span a variety of economic sectors, though in varying degrees all often share a common owner, the state through PNB or other trust agencies. Thus Tan Sri Nasruddin and Mohd Desa Pachi as directors of PNB are also directors of Malaysia Mining Corporation (MMC) of which PNB is a major shareholder, while Ibrahim Menudin, the Chief Executive of MMC, is also a director of a plethora of tin companies that are either subsidiaries of MMC or in which MMC has a substantial shareholding.

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7 Although a member of the Kedah royal family, Tunku Ahmad's royal background is not the key to his appointments. He gained an honours degree in economics from the University of Bristol in the late 1950's early 1960's and since has had a long association with the Sime Darby and Dunlop groups in Malaysia.

While executive-professional directors are often associated with the same company or corporate group for a considerable period of time, the appointment and tenure of executive/trustee directors on the other hand are subject to shifting allegiances within the political elite, a factor well illustrated by the changes that took place in the management of MMC during the 1980's.[8] Sometimes however the contrasts drawn between professional and trustee directors in terms of their day-to-day management of companies are less clear because trustee directors of state-owned but publicly-listed companies, such as MMC, are also responsible to shareholders for the efficient management and profitability of such companies. Prominent examples of executive/trustee directors in the eighties and the multiple directorships they held are shown in Table 4.1.

As indicated earlier, the appointment of executive/trustee directors to company boards generally reflects their membership of peak trustee agencies on the one hand and a close association with the political leadership on the other. It is as a result of those characteristics that executive/trustee directors are closely involved in the allocation or shifting of often huge assets between state-owned companies, or moving such assets to UMNO-linked companies or to Bumiputra business groups in the private sector. The allocation in October 1991 of a large $800 million gas distribution project by PETRONAS to MMC and a private Bumiputra group, Shapadu (rather than the UMNO-linked United Engineers), was an example of the considerable influence wielded by trustee-directors who, through interlocking directorships[9] and in concert with the political

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8 Shortly after the incorporation of MMC in 1977 the then Finance Minister, Tengku Razaleigh, appointed Abdul Rahim Aki, a close friend since their student days as executive chairman of MMC. As Razaleigh's political fortunes declined in the early eighties, Abdul Rahim Aki, who was also the driving force behind the Maminco scandal, was replaced by Mohd Desa Pachi who was appointed chairman in 1982. Desa Pachi was a director of Fleet Holdings, UMNO's first major investment holding company, and was also a close friend and one-time business associate of Daim Zainuddin who became Minister of Finance in 1984. However the early 1980's were a disastrous period for MMC with the collapse in tin prices and as the corporations involvement in the Maminco scandal became public. Thus in January 1985 Desa Pachi was in turn replaced as chairman of MMC by Tan Sri Nasruddin bin Mohamed who, as a former Secretary General of the Ministry of Trade and Industry, had worked closely with the Prime Minister, Dr Mahathir when the latter was the Minister of Trade and Industry from 1978 to 1981. Real power however apparently lay with Ibrahim Menudin who was appointed at about the same time as Nasruddin but to the post of Group Chief Executive. Ibrahim Menudin had come to the notice of the political leadership as a tough and effective state manager in Sabah under Harris Salleh. Source: Interview, Senior Manager of MMC 8 January 1992.

9 An example of interlocking directorships that may have been pertinent in facilitating the allocation of the $800 million gas distribution project from PETRONAS to MMC were those concurrently held at the time by Tan Sri Basir Ismail who was a director of PNB, the principal shareholder of MMC and also the chairman of PETRONAS.

Table 4.1: Executive/Trustee Directors
Interlocking and Multiple Directorships

Name	Statutory authorities and government agencies	Privatized/ corporatized government authorities	Public companies (State a substantial shareholder)	Public companies (significant foreign or Chinese equity)	UMNO companies	Companies public and private related in the 1980s to former Finance Minister Daim Zainuddin	Private Companies
Tun Ismail bin Mohd. Ali	Bank Negara, CIC, FIC, MIDF, PNB+ ASN		Sime Darby Bhd+ Tractors Bhd+ Consolidated Plantations Bhd+				
Tan Sri Basir bin Ismail	Johore SEDC Bank Bumiputra PNB+ Petronas CIC, Southeast Asia Bank Ltd. Bank Negara	Kumpulan Fima, Malaysian Airports Corporation	United Plantations Bhd+			Roxy Electric Industries [renamed Technology Resources Cold Storage (M'sia) Bhd+] Cycle and Carriage Ltd Cycle and Carriage Bintang+	Yung Pui Co. Ltd Kegiatan Makmur Sdn Bhd+ Fima Metal Box+ AFC Holdings (Msia) Sdn Bhd BCF Holdings Sdn Bhd
Tan Sri Nasruddin bin Mohamed	Ministry Trade CIC, FIC, HICOM, PNB+		MMC+ Sime Darby Bhd+ Island and Peninsula Bhd+ Lam Soon Hunt Development Bhd+ Austral Enterprises Bhd+	Sungei Way Bhd Amalgamated Steel Mill Bhd Hong Leong Industries Bhd Federal Flour Mills Bhd Matsushita Electric Company Msia Bhd Mount Pleasure Holdings Bhd+			
Mohd. Desa bin Pachi	PNB+, ASN, Peremba		MMC+		Fleet Group Fleet Holdings Fleet Realty Fleet Management Fleet Nominees Fleet Development Fleet Construction Fleet Trading and Manufacturing Pitisan, CIMB, Bank of Commerce Bhd NSTP, Sistem Televisyen (M) Bhd, First Malaysia, Property Trust Time Engineering Bhd	Dara Sylt. Maluri Dam United Estates Project Bhd Sime Darby	Warisan Desa Sdn Bhd Ibraco Uda Sdn Bhd Uda Seapark Sdn Bhd
Ibrahim Menudin			MMC+ Berjuntai Tin Dredging Bhd+ Kramat Tin Dredging Bhd+ Tronoh Mines M'sia Bhd+				
Zain Azahari bin Zainal			MMC Harrisons Malaysian Plantations Bhd.			United Malayan Banking Corporation	Maruichi Malaysia Steel Tube Bhd.*
Dato' Ahmad Sarji bin Abdul Hamid	Ministry Trade and EPU, MARA, MIDA, PETRONAS PNB, CIC, FIC						

+ Interlocking Directorships

Source: KLSE Annual Companies Handbook, Vol. XIV 1988 and Vol. XVII, Books 1 and 2, 1991

leadership, determine the distribution of enormous state resources.[10] Another example was the separation in the mid-1980's of a number of publicly-listed tin companies from state-owned MMC and their transfer, via a web of common directors and minority shareholdings, to an UMNO-controlled company called Halimtan.[11]

There has been a rapid increase in the number of Malay executive directors since the mid-1970's to oversee and manage the huge investments made by trust agencies to extend Malay ownership over the commanding heights of the economy. By the late 1980's Malay executive directors, whether of the professional or trustee type, and the corporate knowledge and experience they had acquired, represented an important new element in the strengthening and development of a Bumiputra Commercial and Industrial Community.

Functional Directors

Functional directors are former state managers and senior bureaucrats who have played an important role in the expansion of Malay ownership of the economy.[12] They are termed functional directors because their transition to the private sector is the result of the advisory and brokerage functions they can provide to companies. In the private sector they may or may not be owner-directors. As the NEP gathered momentum, and various forms of state licensing and regulation became more pervasive, companies eagerly sought the services of such individuals.

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10 A British company, British Gas, had apparently hoped to participate in the $800 million gas distribution project through its partnership with United Engineers. United Engineers was part of Renong, the main holding company for the ruling party, UMNO. However the political leadership decided to award the gas project to MMC in order to assist that corporation's efforts to diversify its activities and so expand Bumiputra ownership through other avenues besides UMNO-controlled United Engineers. (United Engineers had already won lucrative government contracts, most notably the North-South Highway project.) Included in the MMC consortium was a private Bumiputra company, Shapadu Corporation, whose growth was also promoted by the award of the project to MMC. Sources: Interview Senior Manager of MMC 8 January 1992 and FEER, 17:10:1991.

11 A detailed account is given in chapter 5 of how through common directorships and interlocking ownership the transfer of tin companies from MMC to UMNO-controlled Halimtan was effected.

12 Lim M.H., (1981:69) also used the term functional directors in his work. Writing in the mid-1970's, when few state managers had yet emerged or made significant contact with the corporate world, Lim's definition of functional directors was more akin to what we have described as figurehead capitalists. Lim's functional directors were therefore former civil servants (and some politicians) who generally performed a more symbolic role, that is fulfilling the need for Bumiputra representation on company boards. In short while they might offer companies some advantage through their state or political connections, Lim's functional directors did not have the combination of state and business connections/experience we have ascribed to the term.

Many functional directors have been, or remain, centrally and powerfully located in key regulatory agencies or state corporations. In those roles state managers were brought into close contact with the business world where they established personal relationships with corporate heads and gained experience and expertise in various sectors of business. By the late eighties some functional directors such as Tan Sri Radin Soernano, Mohamed Ramli Kushairi[13] and Raja Badrol Ahmad[14] were mainly identified with private sector interests, while others such as Tan Sri Nasruddin and Tan Sri Dr Rashdan bin Baba, [15] simultaneously held positions in private companies as well as state-owned companies, or as managers of corporatised state bodies. The ways in which state officials become functional directors and the roles they perform in the private sector can be illustrated by the examples of Nasruddin and Radin Soenarno.

As Secretary General of the Ministry of Trade and Industry (MTI), Nasruddin worked closely with the present Prime Minister, Dr Mahathir, when the latter was Minister of Trade and Industry from 1978 to 1981. As Secretary General of MTI, Nasruddin was also a member of such key regulatory agencies as the CIC, the FIC, the Petroleum Advisory Council and the Council for Malaysian Invisibles Trade. After his

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13 After obtaining an economics degree in the United Kingdom, Dato Mohamed Ramli Kushairi worked with Bank Negara in the 1960's and later joined the Tariff Advisory Board under the Ministry of Trade and Industry. In the early 1970's he was managing director of the state-owned FIMA group of companies and was Executive Secretary of the Federation of Malaysian Manufacturers. Ramli Kushairi's background in economic policy arms of government and his-first hand experience of business through FIMA, made him a much sought after director in the private sector. In the 1980's and early 1990's Ramli Kushiari was Chairman of South Malaysia Industries Bhd, Deputy Executive Chairman of Kesang Corporation Bhd, and director of South Pacific Textile Industries Bhd, DMIB Bhd, MCB Holdings Bhd and Gadek (M'sia) Bhd. See KLSE, Vol X11:1986; Vol XV:1989 & Vol XV11 Bks 1 and 11, 1991 and also New Malaysian Who's Who, 1989/1990:719.

14 Raja Badrol is an economist who worked in various positions in the civil service until the early 1970's when he was appointed Executive Director of state-owned Pernas Securities Sdn Bhd. After he left Pernas in 1972 he was appointed Executive Director of Malayan Banking Bhd, a position he held until 1988. Through Pernas Securities and Malayan Banking, Raja Badrol acquired experience and contacts in corporate and financial circles which meant he was able to move easily from the public to the private sector. During the 1980's he was a director of Island and Peninsular Development Bhd, Malaysian Industrial Finance Bhd and Malaysian Nation Re-insurnance Bhd. In the early 1990's he was also appointed as a director of Loy Hean Heong's MBf Finance group. See KLSE, Vols X11, XV and XV11.

15 Tan Sri Dr Rashdan bin Baba first trained as an agronomist and has a Phd from Leeds University. In 1969 he was appointed Vice-Chancellor of Universiti Kebangsaan and from 1972-82 was Vice-Chancellor of Universiti Pertanian. Shortly after the takeover of the Guthrie Corporation by PNB in 1980 he was appointed chairman of the company. Later he left Guthries to become Executive Chairman of Telekom Malaysia Bhd which was corporatized in 1987 and became Syarikat Telekom Malaysia Bhd. While chairman of Guthrie Ropel and as head of Syarikat Telekom, Rashdan was also chairman of Wing Tiek Holdings Bhd and a director of Malaysian General Investment Corporation Bhd and The Temerloh Rubber Estates Bhd. See KLSE, Vols X11:1986 & XV11:1991.

retirement in 1984 Nasruddin was chosen to head the Heavy Industries Corporation of Malaysia (HICOM), the main instrument to implement Prime Minister Mahathir's heavy industrialisation program. He was also appointed a director of PNB, the government's principal trust agency charged with increasing Bumiputra ownership in the corporate sector.

From 1984 to 1991, Nasruddin provided one of the principal interlocks in management between PNB and its investments in the mining, plantation and property sectors. He was chairman of MMC in which PNB had a 51 per cent stake (KLSE, 1991:748); a director of Sime Darby in which ASN and MMC were the two principal shareholders; a director of the property and plantation group, Island and Peninsular Bhd, of which PNB was the ultimate holding company; chairman of Austral Enterprises Bhd, of which Island and Peninsular was the largest shareholder; and a director of Lam Soon Huat Bhd in which PNB was also a major shareholder.[16]

As an important link between some of the state's principal investments in the corporate sector, Nasruddin was highly sought as a director by foreign, Chinese and Malay companies. In the property sector, Nasruddin was a director of Amalgamated Properties and Industries Bhd and Uniphoenix Corporation Bhd (Tan Sri Ibrahim Mohamed)[17] and Mount Pleasure Holdings (Low Yow Chuan). In the industrial sector he was chairman of Malaysia ACIA Bhd, [18] Matsushita Electric Company (M'sia) Bhd and Sungei Way Holdings Bhd (Cheah Fook Ling); and a director of Amalgamated Steel Mills Bhd (Willam Cheng), Federal Flour Mills Bhd (Robert Kuok), and Hong Leong Industries Bhd (Quek Leng Chan).[19]

As the boundary between the state and business became increasingly blurred, the value to private enterprise of individuals such as Nasruddin, whose extensive corporate ties embraced both, increased. At the same time however, the number and variety of

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16 ASN and MMC were substantial shareholders of Sime Darby holding 17.6 per cent and 10.1 per cent of shares respectively (KLSE, Bk1.1991:435). PNB held a 57 per cent stake in Island and Peninsular (KLSE, Bk11.1991:307).

17 Names in brackets indicate the entrepreneur with which the group/company is associated.

18 Malaysia ACIA Bhd is a joint venture between Malaysians and Aica Kogyo Company Ltd of Japan (KLSE, Bk 1. 1991:127).

19 Malaysia ACIA Bhd (KLSE, Bk1. 1991:127; Matsushita (M'sia) Bhd (KLSE, Bk 11. 1991:146; Sungei Way Holdings Bhd (KLSE, Bk1. 1991:459); Amalgamated Steel Mills Bhd (KLSE, Bk1. 1991:11); Federal Flour Mills Bhd (KLSE, Bk11.1991:42); Hong Leong Industries Bhd (KLSE, Bk1. 1991:133).

directorships held by Nasruddin, suggest he was less active on those various company boards than our next example, Radin Soenarno, who was primarily identified with the fortunes of one corporate group, Mun Loong Bhd.

Radin Soenarno's civil service career culminated with his appointment in 1984 as head of the Economic Planning Unit (EPU), in the Prime Ministers Department. In that position he was influential in selecting and prioritizing all major government projects. During his period as Director General the EPU approved the controversial Penang bridge project, and gave firm backing for the manufacture of the national car, a HICOM project strongly supported by the Prime Minister, Dr Mahathir (The Star, 6:5:1987). After retirement from the EPU in April 1987, Radin Soernarno's state/political links facilitated an easy transition to the private sector.

Less than two months after leaving the EPU, Tan Sri Radin was appointed chairman of United Engineers (M'sia) Bhd (The Star, 1:7:1987). United Engineers was then the main publicly-listed company of UMNO-controlled Hatibudi Nominees which was awarded the controversial $3.4 billion contract for the privatisation of the North-South highway project. At about the same time, Radin Soenarno was also appointed chairman of United Asian Bank (UAB), which in early 1991 was taken over by the UMNO-controlled Bank of Commerce Bhd (NST, 15:3:1991).

Tan Sri Radin's close association with such a peak government agency as the EPU on the one hand, and as chairman of United Engineers and Bank of Commerce, with UMNO's corporate investments in the private sector on the other, meant he was well placed to provide the advisory and brokerage tasks of a functional director. In the late 1980's he was invited to be chairman of the textile and retail group, Mun Loong Bhd. Significantly, shortly after his appointment Mun Loong gained approval from the FIC for the takeover of the well established Hankyu Jaya retail chain. The takeover transformed Mun Loong from a small company to a major retail chain and Tan Sri Radin's contribution to that transformation was reflected in his position as an owner-director of the company.[20]

The NEP has fostered the growth of a corps of state managers some of whom, as functional directors, have utilized the experience and contacts they have made with the corporate world to make (in varying degrees), a transition to the private sector. The

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[20] Radin Soenarno was the second largest shareholder in Mun Loong Bhd with a 15 per cent stake in the company. See KLSE, Bk11.1991:152.

relationship between functional directors and business is however fundamentally different from that of figure-head capitalists whose appointment to company boards was largely symbolic and related to their social standing in Malay society. Functional directors by contrast are appointed for a combination of their corporate knowledge, contacts and experience in the state sector and the crucial linkages they offer between the state and business. As a result functional directors carry more weight than figure-head capitalists in the relationships/directorships they enter with foreign or Chinese companies and in that regard represent a significant advance in the development of Malay capitalism.

Bureaucrats-turned-Businessmen

As noted earlier, in the 1960's and early 1970's educated Malays gravitated to employment in the public sector for reasons that were a combination of history, culture and economics. Inevitably, therefore, most of what may be termed the 'first wave' or generation of Malay businessmen to emerge after the NEP had commenced their working lives as bureaucrats in the 1950's and 1960's. While many of those individuals still retain state links of various sorts, they are now primarily identified with the private sector, and so it is from that perspective that we shall examine their relationship with the state in a later chapter. In contrast, the "Bureaucrats-turned-Businessmen" discussed here are those whose business success has been closely tied to their bureaucratic backgrounds. To complete our account of the variety of ways state sponsorship has produced Malay capitalists we will consider the examples of two bureaucrats-turned-businessmen, Shahrani Haji Abdullah of Shapadu Holdings Sdn Bhd and Ahmad Mustapha bin Mohd Hassan chairman of South Pacific Textile Industries Bhd.

Shahrani Haji Abdullah was born in 1947. During the sixties he was a government servant in the Ministry of Works at Port Klang. He later left the government service and in 1970 set up a company called Shahrani Hj Abdullah and Co, which was a general trading company that dealt mainly in scrap metal. He also set up another company to operate a private jetty to handle timber at Port Klang from which he diversified into various container haulage operations (Yoshihara, 1988:171). In 1978 Shahrani established Shapadu Holdings Sdn Bhd which became the parent company for his various business activities. The contacts Shahrani established whilst an employee of the Department of Works at Port Klang, and the experience he had acquired in container haulage meant he was well placed, particularly after the introduction of the NEP, to make a successful bid when the Port Klang container terminal was privatized in 1984 (BT, 21:3:1984). At about the same time the Shapadu group was also awarded a $20 million contract to build and maintain the Port Klang by-pass road, again Shahrani's contacts

with his former employer were apparently invaluable in securing that particularly lucrative contract (BT, 2:3:1984).

State support was obviously critical in the early stages of Shapadu's operations. However as the company gained greater experience and a reputation for efficiency, the group expanded and diversified its container operations and maritime activities. An important initiative undertaken by the company was a major 'cargo consolidation' project to direct goods for the ASEAN region from East Asia and elsewhere through Port Klang. By the late 1980's a Shapadu subsidiary, Shapadu Kontena Bhd (SKB), was the container haulier with the second largest fleet in the country (BT, July 16-31:1992). It had also established itself as a viable, profitable Bumiputra enterprise[21] no longer largely dependent on government patronage. In the highly competitive container and haulage business, SKB claimed to control 26 per cent of the business at Port Klang 23 per cent at Johor Bahru and 14 per cent of the business that passed through the port of Penang (MB, July 16-31 1992). In January 1992 Shapadu Kontena Bhd was listed on the Kuala Lumpur Stock Exchange and, because it was the only listed company in the high growth haulage industry, it was a most attractive investment and so was able to easily raise funds to finance further expansion.[22] As the largest individual shareholder in SKB, Shahrani was an owner-director of the company and a multi-millionaire (MB, July 16-31 1992).

Initially state backing was crucial to Shapadu's growth, but the management and diversification of the company, and its emergence by the early nineties as a largely independent and self-sustaining Bumiputra industrial group, was due to the efforts its founder, Haji Sharani. Importantly, Haji Sharani demonstrated that it was possible for those whose origins were of a 'rentier' or 'client' type to capitalise on state support and develop as entrepreneurs.

Ahmad Mustapha bin Md Hassan, chairman since 1985 of South Pacific Textile Industries Bhd (SPTI) made a transition to business while still employed as a civil

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21 While not spectacular, SKB has made good and steady profits. For F/Y 1993 SKB was expected to record a pre-tax profit of between $17 and $18 million, up from $12 million in 1992 and $10 million the previous year (MB, July 16-31:1992).

22 Interestingly, in 1992 there was also a management rift in Shapadu, the causes of which were similar to those experienced by many Chinese family-owned groups in the process of expansion. The management rift arose from differences between the founding-owner of Shapadu, Hj Shahrani and professional managers on how the Shapadu group would be transformed from a family-oriented enterprise into a modern corporate group. One of the central issues arising from such a transformation, and which appeared to be at the centre of the dispute, was the vexed issue of control. See MB, July 16-31:1992.

servant. Ahmad Mustapha was born in 1936 and, after completing his studies at the University of Malaya, worked as a civil servant in the land office in Kedah. He served in a variety of positions in the civil and diplomatic service before he became press secretary to Prime Minister, Tun Razak from 1974-75. A nephew of the Prime Minister, Dr Mahathir, Ahmad Mustapha also served as his press secretary when the latter was Deputy Prime Minister from 1976 to 1981. In October 1981, Ahmad Mustapha was appointed General Manager of Bernama, the national news agency, a position he held until December 1987.[23]

During the early 1980's, Ahmad Mustapha established links with the rapidly burgeoning business empire of Chinese entrepreneur, Vincent Tan. In April 1984 Nautilus Corporation Bhd, a company jointly owned by Vincent Tan's family company, United Prime Corporation and Datuk Azman Hashim, then executive director of Arab Malaysia Bank, acquired a controlling interest in Berjaya Corporation (The Star, 27:4:1985). Berjaya was to be the flagship of the huge conglomerate built by Tan during the 1980's. Shortly after the acquisition of Berjaya in 1984, Azman sold his 50 per cent stake in Nautilus to Serdang Enterprise Sdn Bhd, a Bumiputra company whose principal shareholders were later revealed as Ahmad Mustapha and Mohamed Shah.[24] (See Chapter 9 The Links of Berjaya Corp). In the course of its rapid expansion, Berjaya acquired a 23 per cent stake in South Pacific Textile Industries Bgd (SPTI) in April 1985 and Ahmad Mustapha was appointed chairman of the company. Since the mid-1980's he was also appointed director or chairman of almost thirty companies, though many were small and related to the SPTI/Berjaya group. At the same time the degree of ownership and control exercised by Vincent Tan and his Berjaya group over SPTI increased. In 1991 Berjaya held a 61 per cent stake in SPTI (KLSE, 1991:447).

So what sort of capitalist is Ahmad Mustapha? The evidence would suggest that he cannot be dismissed as performing a purely 'Ali-Baba' role in the Vincent Tan group of companies. He was after all one of the key Bumiputras who provided Berjaya in its infancy with a critical combination of state/political connections on the one hand, and, through Serdang Enterprises, Bumiputra equity on the other.[25] Furthermore, as

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[23] Sources: BT, 28:1:1987 and New Malaysian Who's Who 1989/1990, Part 11, Kuala Lumpur, Kasuyu Publishing Sdn Bhd.

[24] Mohamed Shah is a son of a former Attorney General, Tan Sri Abdul Kadir.

[25] According to a reliable source, Ahmad Mustapha was also a director/shareholder of the lucrative lottery company, Sports Toto before it was privatized in May 1985. He was alleged to have accumulated considerable funds, either through the sale of Sports Toto shares and/or by the guarantee

chairman of SPTI he has apparently played an active role in the company's corporate affairs. Ahmad Mustapha therefore appears to be a transitional figure. He is not a figurehead capitalist, but clearly he has not emerged as an entrepreneur in his own right in the fashion of Shahrani of Shapadu.

The examples of Haji Shahrani and Ahmad Mustapha show there are various ways by which former bureaucrats become businessmen. Some, like Shahrani, who have worked in technical departments or authorities such as the Ministry of Works or Telecommunications, use the expertise and contacts gained in those areas of government to make a transition to business and the private sector. Others, like Ahmad Mustapha, use their government/political contacts to establish links with Chinese and Bumiputra groups in the corporate sector where they provide services similar to those provided by functional directors. These examples also suggest that there is a considerable range as to the sort of capitalists that emerge from a background as bureaucrats. Some bureaucrats-turned-businessmen remain little more than rent-seekers, others have eventually emerged as entrepreneurs in their own right, and some seem to be at some transitional stage between the two.[26]

State Managers-turned-Owners

Privatization of government enterprises has provided another avenue by which state managers and bureaucrats have been able to make the transition from the state to the private sector. Malaysia's privatization program has been closely identified with the views of the Prime Minister, Dr Mahathir, who introduced the policy in 1983.[27]

Initially privatization was justified primarily on economic grounds. That is since the public sector was generally considered inefficient in providing various services such as railways, ports and power supplies so, it was argued, the transfer of those services to the private sector, where competition was a spur to productivity, would bring about greater efficiency. Another justification for privatization was that since the expenditure incurred

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of a huge loan by Sports Toto just before the company was privatized. The privatization of Sports Toto was awarded to Vincent Tan's company B&B Enterprises. Interview, 14:10:1987.

26 In chapter 7 the relationship between the state and individual business groups will be explored in more detail in order to illuminate the implications of that relationship for the emergence of Malay capitalists whether as rent-seekers, transitional groups or entrepreneurs.

27 Mahathir's long held views in support of the concept of privatization are apparent in *The Malay Dilemma* where he wrote: "it is generally recognised that the Government is incapable of energising the maximum economy required in business. Thus, the *de facto* nationalisation of the railway services, port services and power supplies etc., which constitutes limitations of free enterprise, are not favoured even by the Government" (Mahathir, 1970:52).

by the government in providing those services was high, their privatization would ease the financial burden of the government.

Most analysts however have been sceptical as to the depth of Malaysia's privatization program. Echoing a common theme in that regard, Bowie (1991:140) has argued that thus far privatization in Malaysia has simply entailed the piecemeal and ad hoc selling of portions of the public sector to stem losses and reduce the public debt. More importantly, he notes that in most cases, despite forfeiting ownership stakes of 50 per cent or more, the state has preserved its control over the "privatized" concerns, often by sale of equity to quasi-state entities such as Petronas or the central bank. Examples of such 'privatization', or more accurately 'corporatization' include Malaysian Airlines, the Malaysian International Shipping Corporation (MISC) and Syarikat Telekom Malaysia (STM).

Whatever the economic arguments for privatization, the *raison d'etre* for the program in Malaysia has been primarily political. In the words of Datuk Napsiah Omar, the Minister of Pubic Enterprises, "privatization is part of the NEP to create new Bumiputra entrepreneurs" (BT, 24:9:1990). As indicated earlier, during the 1970's state institutions were the main vehicles by which Malay ownership and participation in the economy was increased. The government's success in that regard had, by the early 1980's, spawned a growing pool of Bumiputra entrepreneurs who, with the support of the political leadership, were making increasing demands upon the government for business opportunities. So political factors provided an important impetus as to the timing of the government's 'embrace' of privatization in the 1980's - as previously the only beneficiaries of such a policy would have been Chinese. Later, we shall see how privatization also offered UMNO a means by which the party could quickly and massively extend its corporate empire, but now we shall focus on how privatization by management buy-out (MBO), has been another way by which state managers have become businessmen. An MBO scheme involves a group of senior management buying up a majority share in a company with its own or external funds and subsequently extending ownership to employees.

Jomo (1993:7-8) has argued that in Malaysia the desire by state managers to run their firms could well arise from the perceived opportunities for rent capture by the politically well-connected desiring to transform themselves into members of the bourgeoisie, albeit

of a rentier, rather than entrepreneurial type.[28] Gomez (1991:27) is harsher still and dismisses those involved in management buy-outs as little more than UMNO proxies, who safeguard the companies in question for the political leadership. We shall consider these arguments in our examination of two of the three biggest MBO's[29] that have taken place in Malaysia in the early 1990's, notably those of Kumpulan FIMA Bhd and Peremba Bhd.

The Management Buy-out (MBO) of Kumpulan Fima.

The privatization of Kumpulan Fima and Peremba was announced by Datuk Napsiah Omar, the Minister of Public Enterprises, on 17 September 1990. Kumpulan Fima, originally a food processing company, was incorporated in February 1972 and was substantially owned by the Ministry of Finance Incorporated. Dr Mahathir, it will be recalled, was appointed a director of Kumpulan Fima shortly after it was set up and later became chairman, a post he retained until his appointment as Prime Minister in July 1981. He was succeeded as chairman of Kumpulan Fima by Tan Sri Basir Ismail who, with Datuk Mohamed Nor Ismail, the managing director of the company, and Mohd Fauzy Abdullah, later comprised the management buy-out team. Kumpulan Fima included two publicly-listed subsidiaries, Fima Metal Box and United Plantations (BT, 18:9:1990). Twelve months before the management buy-out, Fima Metal Box under another government privatization scheme acquired an assured source of income, the Security Printing Branch of the National Printing Department, which was responsible for the printing of all government security documents (The Star, 2:12:1989).

At one level the buy-out of Fima appeared to be a reward for a politically well-connected person, Basir, and for services he rendered to UMNO. Pertinent in that regard was the role he is commonly believed to have played in the mid-1980's when he assisted the Mahathir leadership ('Team A') successfully fend off a challenge by Tengku

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28 Jomo argues that the ruling petty bourgeoisie tends to use the state and public enterprise to promote its own (class) interests, including personal wealth accumulation, thus qualifying as a statist - rather than - state bourgeoisie. So, since the state is also committed to create conditions suitable for indigenous private capital accumulation, its subsequent disengagement from direct intervention, with the diminution of the public enterprise sector, may be desired for the further development of the politically dominant indigenous petty bourgeoisie, rather than be perceived as inimical to its interests (Jomo, 1993:7-8 & 16).

29 The third MBO and the largest, was the sale by Renong Bhd in January 1993 of its controlling stakes in media companies New Straits Times Press Bhd (NSTP) and Sistem Televisyen Malaysia Bhd (TV3) to a private company, Realmild Sdn Bhd, controlled by four NSTP executives for $800 million. More detail concerning the NSTP/TV3 MBO can be found in the study of the Hong Leong Group (chapter 9). See also AWSJ, 6:1:1993.

Razaleigh and his supporters (Team 'B'). During that period Basir, as chairman of Bank Bumiputra, was apparently active in calling in many of the loans of Team B supporters, an action (particularly in the context of the then recession) that threatened many of Dr Mahathir's opponents with bankruptcy.

At another level the buy-out of Fima also showed the capacity of those wielding considerable influence in the state sector to combine public and private interests to project themselves into the corporate sector. Previously we saw how Basir occupied a number of key positions in the state sector during the eighties. He was a director of PNB, and chairman of Bank Bumiputra, Petronas, South-East Asia Bank Ltd (Malaysia's first fully-owned bank overseas), the corporatised Malaysian Airports Corporation, the Malaysian Association of Banks and most important of all the Capital Issues Committee (CIC)[30]. The extraordinary breadth of his influence was symbolized by his chairmanship of the CIC (which approves all share issues), while he himself was an active corporate player.[31] In order to place the MBO of Fima in context it is first necessary to give some account of Basir's private sector activities before the buy-out.

In September 1989, Basir and several other businessmen[32] acquired a controlling stake in a Hong Kong-based company, Yung Pui Co Ltd (The Star, 13:7:1991). Yung Pui then acquired a stake in a publicly-listed company, Cycle and Carriage Ltd and its 49 per cent owned Malaysian subsidiary, Cycle and Carriage Bintang. In November 1989, Cycle and Carriage Ltd bought a controlling 42 per cent stake in publicly-listed Cold Storage (M'sia) Bhd. Basir became chairman of all three companies and was believed to hold a substantial stake in each.[33] At about the same time Basir and Mohd Noor set up a company called Kegiatan Makmur Sdn Bhd. Six months later, in June 1990, Basir through Kegiatan Makmur, joined another prominent Bumiputra entrepreneur, Tajuddin Ramli, who had acquired a controlling stake in publicly-listed Roxy Electric Industries. (Roxy was renamed Technology Resources Industries Bhd and Dr Mahathir's son,

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30 See The Star, 13:7:1991.

31 Shortly after his appointment as chairman of the CIC in August 1990, Capitalcorp Securities Sdn Bhd, a subdiary of Basir's private company, Kegiatan Makmur, was granted a stockbroking licence after the government said no more such licences would be issued. Later it was claimed that Capitalcorp's licence replaced the earlier approved one of a defunct broker. Basir does not sit on the board of Capitalcorp. See NST, 19:3:1991 & MB, December 1-15:1992.

32 Basir's partners in Yung Pui were prominent Bumiputra entrepreneur and chairman of General Lumber, Wan Azmi Wan Hamzah and Thomas Chua CEO of Cycle and Carriage Ltd (The Star, 13:7:1991).

33 See The Star, 13:7:1991 and MB, October 1-15:1990.

Mokhzani, became a director.)[34] These seemingly disparate events formed the backdrop to the management buy-out of Kumpulan Fima in December 1990.

Basir and his partners in Kegiatan Makmur Sdn Bhd purchased Kumpulan Fima for $190 million after assuming the company's liabilities which amounted to $138 million (FEER, 3:1:1991). Kumpulan Fima had two highly profitable subsidiaries, Fima Metal Box and United Plantations. After the buy-out Kumpulan Fima sold its stake in United Plantations for $125 million (MB, 1-15:12:1992). The collateral for the $200 million loan raised by Kegiatan Makmur for the MBO was 2.8 million shares in Roxy Electric Industries and all shares of Kumpulan Fima. The $200 million loan facility was organised by Bumiputra Merchant Bankers Bhd, a subsidiary of the Bank Bumiputra group, of which Basir had been chairman until April 1990 (MB, December 1-15:1992).

Critics of the buy-out, most notably Opposition Leader, Lim Kit Siang, alleged it was further proof that privatization of state assets was just a smokescreen for "piratisation" by a club of politically well connected businessmen. Lim argued that the value of the Fima group was closer to $500 million, but Finance Minister Anwar Ibrahim refuted Lim's claims and provided figures which seemed to justify the sale as a fair reflection of the group's worth (BT, 23:7:1991). Lim also alleged that Basir, as chairman of Petronas, had colluded with tycoon Ananda Krishnan (also a one-time Petronas director), in a tit-for-tat deal which allowed Basir to raise the $190 million he needed to take over Fima. Lim claimed that in return Petronas was 'steered' into buying a 51 per cent stake in Krishnan's Sri Kuda development project. Anwar denied the allegation and said that, 'Petronas' participation was purely for commercial purposes and was not to repay any favours' (BT, 23:7:1991). While Lim's allegations were apparently untrue they did nevertheless highlight an extraordinary proximity of state and private interests in the Fima MBO.

Others, notably Gomez (1991:27), have argued that in the case of the Kumpulan Fima MBO Basir was a proxy for UMNO leaders and that his role was 'to keep a fond eye over (certain) companies'. There appears to be more than a grain of truth in such a claim. Certainly such companies as Cold Storage, Roxy and Fima itself were in the past associated with, or indirectly controlled by Daim and other powerful UMNO figures and in that regard Basir appears to provide a continuing link in that chain in the 1990's.

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[34] See KLSE, Annual Companies Handbook Vol XV11, Bk 1:485.

So what sort of capitalist is Basir? He is clearly a corporate player in his own right, albeit one whose considerable influence in the state sector has facilitated his transition to business. Yet he plays a multiplicity of roles - as a trusted state/party representative at PNB, Bank Bumiputra and Petronas (though his role in those institutions is by no means that of just a figurehead capitalist); on other occasions through his own company, Kegiatan Makmur Sdn Bhd, he is a private businessmen, but on others, as in the case of Kumpulan Fima, he apparently performs some proxy function. All roles appear to intermingle and it is difficult to sort one from the other but if his credentials as a capitalist are to be judged on the case of the Fima MBO, Basir and his team have yet to demonstrate a capacity to move beyond their origins of dependence on state patronage.

The Management Buy-out of Peremba Bhd

The members of the management team that bought out Peremba Bhd in September 1990 included the company's chairman, Mohd Razali Abdul Rahman, chief executive Abu Bakar Noor and the managing director of Landmarks Holdings, Hassan Abas. Peremba was the controlling shareholder of Landmarks which was a publicly-listed company. The Peremba management team, like that involved with the buy-out of Fima, had close ties with the political leadership.

Peremba Bhd was set up in May 1979 at the initiative of Daim Zainuddin who was chairman of the company until his appointment as Minister of Finance in July 1984. Under Daim, Peremba became an important corporate training ground for a group of young Malay professionals. This group, mostly accountants, were also active in Daim's own companies and in the development of UMNO's business interests in the 1980's.[35] These personal and political connections were also reflected in the backgrounds of the Peremba management team. Mohd Razali, for instance, was a director of a number of Daim's companies[36] and in the mid-eighties was a director of Hatibudi, then a major UMNO holding company, before again returning to Peremba as chairman in July 1988. Hassan Abas had also been involved in a Daim-related company, Sri Alu Sdn Bhd with Daim's brother, Abdul Wahab Zainuddin (AWSJ, 31:5:1988).

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35 Later some such as Wan Azmi Wan Hamzah, Tajuddin Ramli and Samsuddin Abu Hassan also became important corporate players in their own right.

36 Daim's companies, of which Mohd Razali was a director included Syarikat Maluri Sdn Bhd, Pradaz Sdn Bhd, Daza Sdn Bhd, Taman Bukit Maluri Sdn Bhd and Baktimu Sdn Bhd (Gomez, 1990:44).

Peremba became one of Malaysia's largest property companies in the early 1980s. As a wholly-owned subsidiary of UDA, Peremba, with Daim at the helm, got the best of UDA's property developments and shareholdings such as Landmarks Bhd, Saujana Resort (M) Bhd and UBN Holdings Sdn Bhd. Landmarks, a property company, owned the former Regent Hotel and the Sungei Wang shopping plaza in downtown Kuala Lumpur. It had formerly belonged to Chinese entrepreneur, Chong Kok Lim, who was forced to relinquish control of the company in the wake of the 1985-86 property crash when control passed to Peremba (MB, May16-31:1992). Saujana Resort's assets comprised a golf course and hotel, Hyatt Saujana, while UBN Holdings included the Shangri-Lah hotel and office/apartments. Peremba had undertaken these major development projects just before the slump in the property market in 1986 and had borrowed heavily to finance them. After the property slump Peremba was left with massive debts[37] but by the end of the decade the company's fortunes had revived. Peremba's ownership of valuable real estate in central Kuala Lumpur, and the property boom of the late 1980's, meant that purchase of the company had, by the early 1990's, become an attractive proposition for its managers (MB, October 1-15:1990).

The management troika that bought out Peremba, paid $250 million for the company. Datuk Napsiah Omar, the Minister of Public Enterprises, claimed that the buy-out was 'not a handout' and that in fact 'Peremba was valued at $175 million, but the management was paying a higher price to settle Peremba's debt to its parent company.[38] Nevertheless, as with the Fima MBO, there were strong allegations that this was yet another case of 'piratisation' of state assets by a group of politically well-connected businessmen.[39]

The management team financed the acquisition by pledging all of Peremba's shares to creditors, mainly government-owned banks (MB, May 16-31:1992). Another feature of the purchase was the sharp share shuffling that preceded the buy-out. In May 1990, about six months before the MBO, Peremba's publicly-listed property company, Landmarks Bhd, agreed to purchase some of Peremba's most lucrative real estate assets, notably Saujana Resorts Bhd and UBN Holdings. The purchase was accomplished

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37 At one point in the mid-eighties Peremba had debts of $550 million (MB, October 1-15:1990). For a comprehensive account of Peremba's history, and particularly its debt problems in the mid 1980's see FEER, 3:9:1987 (Nick Seaward, 'Product of Daim's Domain' and 'Homecoming after a rough journey').

38 Datuk Napsiah Omer did not reveal however what was Peremba's debt to its parent company (BT, 24:9:1990).

39 See FEER, 15:11:1990 (Doug Tsuruoka, 'Landmark for minorities) and FEER, 3:1:1991 (Letters, 'Pirates or privates?').

through the issue of Landmarks shares to Peremba. In essence assets were shifted between related companies, and assets which had relatively fixed values were replaced with assets (Landmarks shares), whose values could be more easily manipulated (FEER, 15:11:1990 & 3:1:1991). In the event there was an unexplained downward revision of Landmarks share price, which not only gave Peremba an increased shareholding in Landmarks but, more importantly for the new owners, made the management buy-out cheaper.[40]

After the buy-out, further asset shuffling to reduce debt, and a fortuitous upturn in the property market, appeared to augur well for the group's success. For a time other developments contributed to a positive outlook for the group which included talks with the Kuok group about the possible listing of UMN Holdings, a joint venture with the Kedah SEDC, and rumours that Landmarks might obtain lucrative privatization contracts - such as an independent power producer (IPP) licence. But significant privatization contracts did not materialize. In addition, increased competition in the hotel industry and a flattening of property prices and growth also limited the immediate prospects of the group. It was against that backdrop that control of Landmarks, the 'jewel' in the Peremba group, passed to another rising Bumiputra entrepreneur, Samsuddin Abu Hassan[41] in October 1993 (MB, 16:10:1993). Samsuddin promptly stripped Landmarks of its property assets selling some back to Peremba, and the stake he had acquired in Shangri-Lah Holdings back to the Kuok group.

What are we to make of all this asset shuffling and has the MBO of Peremba created new Bumiputra entrepreneurs? By a rather circuitous route it appears that the same assets have ended up in the hands of the original owners, presumably with profits to all the principals along the way. The chairman of Peremba, Mohd. Razali has declared, "Ours was a genuine MBO, we actually manage" (MB, May16-31:1992). In that regard it has to

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40 In May 1990 Landmarks Bhd purchased Peremba's controlling 50 per cent stake in UBN Holdings for $262.5 million by the issue of 125 million new Landmarks shares priced at $2.10 per share. The new Landmarks shares were acquired by Peremba whose stake in the company rose from about 40 per cent to 60 per cent. However six months later, in November 1990, Landmarks disclosed that it was revising the terms of the issue to 175 million shares priced at $1.50 each because Landmarks shares on the KLSE had tumbled to $1.93 per share from $2.92 per share. So the downward revision in Landmarks' share price gave Peremba an increased shareholding in Landmarks and made the management buy-out cheaper. The curious fall in Landmarks share price was blamed on the crisis in Kuwait at the time (FEER, 15:11:1990 & 3:1:1991).

41 Samsuddin Abu Hassan is another of that small, but important group of Bumiputra entrepreneurs to emerge from Peremba when it was headed by Daim. For background regarding the corporate rise of Samsuddin Abu Hassan see (Gomez, 1994:114-116).

be conceded that Razali and his team are clever accountants and deft wheeler dealers but they have yet to capitalize on their skilled paper entrepreneurialism to build a more diversified and resilient corporate group.

Conclusion

The pattern of ethnic ownership of the economy before 1970 meant that it fell to the bureaucracy and state enterprises to play the role of corporate nursery or 'incubator' in the development of the first generation of Malay capitalists. This chapter has shown that there was a variety of avenues by which bureaucrats and state managers effected a transition to the corporate sector and how, in some cases, the manner of the transition had implications for the sort of capitalists that emerged.

We have seen that figurehead capitalists remain a feature of Malaysian business in the nineties but the largely symbolic functions they perform are becoming less relevant with the rapid expansion of Malay ownership on the one hand and social change in Malay society on the other. The expansion of Malay ownership has also been accompanied by a rapid increase in the number of Malay executive-directors, both of the professional and trustee type, though, as we noted that distinction is often blurred, particularly where the day-to-day management of state-owned but publicly-listed companies is concerned. Nevertheless the emergence of an expanding core of Malay executives was identified as a necessary and important factor in the development and growing dynamism of Malay capitalism.

As the boundary between the state and business became increasingly blurred in the context of the NEP, so some state managers and bureaucrats were able to make a transition to the private sector as functional directors. Functional directors may wield considerable clout particularly in foreign and Chinese companies for the advisory and brokerage roles they can perform. However, as the examples of Nasruddin and Radin Soenarno showed, functional directors can cover a spectrum from those who play a fairly passive and representational role to those who actively utilize their corporate knowledge and state links to emerge as owner-directors of companies.

Like functional directors, bureaucrats who become businessmen also cover a spectrum in terms of their credentials as capitalists. Some bureaucrats-turned-businessmen are in essence only figurehead capitalists, some others have emerged as entrepreneurs, and others are at some stage between the two. Generally speaking, the successful entrepreneurs have combined technical and professional skills as architects, engineers or bankers with state support - that is 'connections', contracts or finance - to

become businessmen. But significantly a number of those individuals demonstrated that it was possible to capitalise on state support but also move beyond rentier origins to become entrepreneurs.

Finally what sort of capitalists has privatization by management buy-out (MBO) produced? In the cases of Kumpulan Fima and Peremba Bhd, the evidence suggests that, rather than create Bumiputra entrepreneurs, this form of privatization has been used a source of patronage for politically well-connected businessmen or granted as a reward for their past services. Stated baldly, a number of aspects surrounding the purchase of Kumpulan Fima and Peremba smack of cronyism, and although it may be premature to judge those MBOs on the basis of only 3-4 years performance, neither has yet shown much sign of moving beyond the networks of state patronage that sponsored them. (Peremba, in particular, appears to have been a case of paper entrepreneurism dependent on a buoyant property market and continued state support as the recipient of further privatization contracts.) In short the scepticism expressed by Jomo and Gomez regarding the motivation and results of privatization by MBO as a means of promoting Bumiputra capitalism, at least to date, seems well founded.

So has the new Malay state been a catalyst for capitalism or cronyism? This chapter has shown the state's role to be a complex one in that regard. It has produced capitalists, cronies and many groups somewhere between the two. But that is only part of the story. In the eighties the rise of 'party capital' assumed a growing significance in the corporate sector, and so it is to UMNO's role in the development of Malay capitalism that we now turn.

Chapter 5

THE PARTY: UMNO'S ROLE IN THE DEVELOPMENT OF MALAY CAPITALISM

Few political parties in Asia have become so closely involved in business as the United Malays National Organisation (UMNO), the dominant party in Malaysia's ruling National Front coalition government.[1] From the mid-seventies to the mid-eighties UMNO changed from a passive to an active corporate investor whose interests spanned the entire economy. Officially UMNO owns no shares in any company however in reality it exercises proprietorship through trusted individuals who own shares and hold directorships in well over 100 companies. In 1990 the total value of shares owned by UMNO nominees was conservatively estimated to be about $4 billion (FEER, 5:7:1990).

The growth of UMNO's corporate investments in the eighties meant that the party itself played an increasingly important role in the restructuring of ownership in the economy and in contributing to the creation of a Bumiputra business and commercial class, roles that in the seventies had been largely played by the government and the state sector. As indicated earlier, the reasons for the change were structural, political and personal. In the wake of the recession of the mid 1980's economic pressures for a check on public sector expansion coincided with changing attitudes in UMNO as to the role of the state sector in the expansion of Malay ownership in the economy. When Dr Mahathir

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1 While other political parties in Malaysia, notably the Malaysian Chinese Association(MCA) and the Malaysian Indian Congress (MIC) have attempted to follow UMNO's example in mobilising their political resources to build corporate empires, those attempts have largely foundered or been heavily circumscribed by UMNO's dominance of economic policy and of the key institutions regulating the corporate sector.

Elsewhere in Southeast Asia other political parties have been involved in business. For example in Indonesia, at least three political parties - Partai Nasionalis Indonesia (PNI), Partai Socialis Indonesia (PSI) and Majlis Syuro Muslimin Indonesia (Masyumi) - established business enterprises in the 1950's, however the dominance of the military in the New Order and subsequent restrictions on political parties ended their involvment in business (See Robison, 1986:48-50,72). Yoshihara Kunio (1988:76) notes that, although there are presently government and military enterprises in other Southeast Asian countries, it is only in Malaysia that political parties own or control business groups.

became Prime Minister in July 1982 his closest advisors included a group of mainly Malay businessmen who had emerged under the auspices of the NEP in the late seventies and early eighties. Members of this small but influential Malay business elite were also exerting pressure on the political leadership for greater business opportunites through curtailing the expansion of the state sector, and effecting a more rapid transfer of assets under the NEP from the state to the private sector.

The growing influence of the Malay business elite within the new political leadership was epitomised by the appointment of Daim Zainuddin as Minister of Finance in July 1984. Daim brought to government a view that no longer saw the spheres of government, party or private interests as distinct entities. For Daim national, political and private interests might be pursued simultaneously or in tandem, a situation he described as a 'commonness' rather than a 'conflict' of interests.[2] His approach was to have profound implications for UMNO's role in the corporate sector in the eighties and its relationship with the emerging Bumiputra business groups.

This chapter begins with a survey of the extraordinary growth of UMNO's corporate investments in order to show how by the early nineties the vast conglomerate created by the party, and the corporate investments associated with it, spanned most sections of the economy. In the second part of the chapter the focus shifts to the relationship between the government and the party, and how that relationship has facilitated the growth of UMNO's business groups. At various points in that analysis we shall note how the symbiotic relationship between the government and the party also promoted certain private Bumiputra business groups as well.

THE GROWTH OF UMNO's BUSINESS GROUPS

The major business groups linked to UMNO in the 1970's and 1980's included Fleet Holdings Sdn Bhd., Hatibudi Sdn Bhd., Halimtan Sdn Bhd., and Koperasi Usaha Bersatu Bhd (KUBB). Within this group of companies Halimtan Sdn Bhd had some distinguishing features which set it apart from the rest. Halimtan's association with UMNO was less direct and the lines of what appeared to be government, party and private interests were more blurred. Consequently, the Halimatan network of companies

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2 NST, 21:7:1984 (Hardev Kaur, 'Daim: Person behind the name').

will be examined separately, later in the chapter. Since April 1990 these groups, except for KUBB, were subsumed under the common corporate umbrella of Renong Bhd

Fleet Holdings Sdn Bhd

According to Daim Zainuddin, Fleet Holdings was created to reduce UMNO's financial dependence on non-Malay supporters, such as Chinese businessmen, and to break the foreign hold over Malaysia's media (FEER, 5:7:1990). Fleet's origins can be traced to the breakup of the dominant Straits Times media group which, until 1973, controlled its Malaysian operations from its Singapore corporate offices. In 1972, the youth wing of the governing party, UMNO Youth, had protested strongly about foreign control over the Malaysian publishing media and passed a resolution requesting then Prime Minister, Tun Razak, to obtain control of the publishing company, The Straits Times Press. Tengku Razaleigh, who was head of Pernas and UMNO treasurer at the time, was then asked by Tun Razak to buy over a stategic bloc of shares held by the company (Gill, 1986:139). Shortly thereafter the Straits Times Press shares for the Kuala Lumpur operations were sold to Razaleigh, and the company was renamed as The New Straits Times Press Bhd (NSTB). The shares purchased by Razaleigh were directed to a new company, Fleet Holdings which later, in 1976, formed a wholly-owned subsidiary, Fleet Group Sdn Bhd, to act as the main operating arm of the company.[3]

The Growth of the Fleet Group

The development of Fleet was closely associated with Tengku Razaleigh and Daim Zainuddin, successively treasurers of UMNO and the principal trustees appointed by the party leadership to supervise Fleet Holdings. In his account of the Fleet Group, Gomez makes a useful distinction between the 'Razaleigh era' (1977-82), and the 'Daim era' (1982-84), in terms of the management styles and growth strategies associated with each.[4] He points out that during the Razaleigh era, the trustees of Fleet were content to

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3 Gill, 1986:139-40 and Gomez, 1990: 52-3.

4 Daim resigned from his position as Director of Fleet Holdings when he was appointed Minister of Finance and Treasurer of UMNO on 14 July 1984. However as party treasurer, Daim continued to exert considerable influence over the management of Fleet Holdings through his nominees, Datuk Mohd. Desa Pachi and Abdullah Mohd. Yusof, who were appointed by Daim as directors of Fleet Holdings and the Fleet Group. (Desa Pachi and Abdullah Yusof were also appointed as directors of the Fleet Group's main publicly-listed companies, The New Straits Times Press (NSTP) and Sistem Televisyen Malaysia Bhd (STMB) or TV3. In addition, Desa Pachi was appointed Chairman of the Bank of Commerce while Abdullah Yusof was appointed Chairman of Faber Merlin.) In reality therefore the 'Daim era' extended throughout the eighties and the early nineties since Desa Pachi and Abdullah Yusof remained directors of Fleet Holdings and Daim remained treasurer of UMNO. Moreover, prior to their appointments as directors of Fleet Holdings, both Desa Pachi and Abdullah

allow the company to be sustained from the dividends it received from investments, whereas during the Daim era, the shift to a conglomerate style of growth was clearly evident[5]. An examination of the Fleet Group will serve to highlight this contrast, while at the same time indicating the extent to which Fleet grew to become a conglomerate in its own right in the 1980's.

The steady growth of the Fleet Group under Tengku Razaleigh was largely the result of earnings being reinvested in the New Straits Times Press (NSTP) and its related operations. Besides the New Straits Times Press and its subsidiaries, the other major investments made by the Fleet Group during Tengku Razaleigh's term were in the Bank of Commerce (formerly the Chinese-owned Bian Chiang Bank) and in the insurance industry through American Malaysian Insurance (MB, 16:12:1986) and (BT, 1:7:1986). By the end of Razaleigh's stewardship, the Fleet Group had substantial holdings in 23 Malaysian corporations and was making a profit.[6]

The appointment of Daim Zainuddin, as a director of Fleet Holdings and the Fleet Group in July 1982, was widely believed to reflect the personal preference of the Prime Minister and party president, Dr Mahathir (BT, 4:7:1983) who was keen to remove Razaleigh following Daim's appointment. Daim's appointment was also attributed to Dr Mahathir's concern to see an improvement in the Fleet Group's profits because except for the New Straits Times Press (NSTP), the performance of its other subsidiaries was rather poor.[7]

Under Daim, Fleet's portfolio of investments grew rapidly to include: Faber Merlin M'sia Bhd, the publicly-listed hotel and property group; Sistem Televisyen Malaysia Bhd (STMB), the publicly-listed private television network, popularly known as TV3; and

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Yusof were longtime business associates of Daim Zainuddin. In the 1960's, Desa Pachi had joined Daim in what was to prove an unsuccessful business venture to produce table salt. Later Desa Pachi and Abdullah Yusof became directors of Peremba, the commercial real estate arm of the Urban Development Authority (UDA), of which Daim was the head from 1979 to 1984. In addition Desa Pachi was on the board of Daim's family companies, Syarikat Maluri and Daan, as well as being a director of several publicly-listed companies in which Daim had a significant stake, notably Sime Darby and United Estates Projects (Gomez, 1990:43).

5 See Gomez, 1990:62

6 See Gomez, 1990:57

7 The AWSJ 9:8:1982 also attributed Daim's appointment to Razaleigh's waning influence in the party and government in the wake of his unsuccessful challenge to Datuk Musa Hitam for the post of Deputy President of UMNO in 1982 - a post which in the government sphere equates to the position of Deputy Prime Minister.

publicly-listed food retailer, Cold Storage M'sia Bhd.[8] Controlling stakes were also acquired in American Malaysian Insurance (AMI), and a merchant bank, Commerce International Merchant Bank (CIMB), through the Bank of Commerce (NST, 10:9:1986).[9] By the mid-eighties, the number of companies in the Fleet Group had almost doubled and the company had become a vast conglomerate encompassing property, hotels, print and electronic media, construction, telecommunications, retailing, plantations, banking and insurance and managment services.[10]

The Fleet Group: Growth and Debt

Under Daim the style of management and strategies associated with the rapid growth of Fleet were in marked contrast to those associated with Razaleigh's earlier stewardship of the company. Where Razaleigh had pursued growth through the acquisition of companies in related fields of business to that of the New Straits Times Press (NSTP), chiefly publishing and information activities, under Daim Fleet acquired companies whose business activities had no relation to the media industry. But a common thread in a number of the diverse acquisitions made was a connection with some of Daim's family companies, or with his responsibilities as head (from 1979 to 1984) of Peremba, the commercial real estate arm of the Urban Development Authority.[11].In addition, the manner by which Fleet acquired companies, through the extensive use of the sharemarket with rights issues and share swaps, as well as the heavy involvment of the Fleet Group in property development, also reflected Daim's own preferences and style of business.

Often the assets purchased by Fleet were either overvalued, or the shares offered were undervalued, allowing some individuals associated with UMNO to make large profits (FEER, 5:7:1990). With the onset of the 1985-86 recession and the collapse in property prices, however, the Fleet Group was left holding a large amount of overvalued

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8 See NST 18:10:1983 and 30:3:1984; AWSJ, 21:9:1983.

9 In addition, Fleet, which already held an 86.3 per cent stake in Bank of Commerce, acquired the remaining 13.7 per cent from Morgan Guaranty Trust Corporation in June 1986 (BT, 1:7:1986) and (MB, 16:12:1986). Later the same year an abortive bid was also made for Peremba, the commercial property arm of the Urban Development Authority (The Star, 16:9:1987) and (FEER, 3:9:1987). In the course of its expansion, Fleet also sought to diversify into electronics and telecommunications through joint ventures with Dutch (Philips) and Norwegian companies (BT, 13:2:1984).

10 For the corporate structure of the Fleet Group see Gomez, 1990:103.

11 How Daim's own corporate interests have been served through enmeshing them with those of the party are examined later in this chapter under 'Interlocking Directorships:Government, Party and Private' and in chapter 6 'Daim and the Fleet Group'.

property and shares and, as a result, the company made heavy losses.[12] In 1985 Fleet's debt amounted to $222 million and by 1987, Desa Pachi, the chairman of Fleet, conceded that the Group's debt had grown to $343.5 million (FEER, 5:7:1990 and BT, 23:5:1987). The losses incurred by the Fleet Group necessitated the sale of some of its best assets to the New Straits Times Press (NSTP), in which Fleet was the major shareholder. In other words the New Straits Times Press, which was a profitable arm of the Fleet Group, was used as a 'cash cow' to purchase its holding company's major subsidiaries.[13]

The Fleet Group's growing debt and 'concern' that the New Straits Times Press would experience the same fate as Fleet Holdings later became the subject of bitter dispute between the Razaleigh and Mahathir factions of UMNO after the party split in 1987.[14] More importantly, however, Fleet Holdings' inability to provide the financial resources required by UMNO meant that the party leadership had to look elsewhere to pursue its corporate ambitions.

Hatibudi Sdn. Bhd.

In 1987 a little known engineering company, United Engineers Malaysia (UEM), won a 30 year government concession to build, manage and collect billions of dollars in tolls

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12 In that regard, the timing of Fleet's investments in Peremba, the property and construction arm of the Urban Development Authority (UDA), and the Faber Merlin hotel group was particularly disastrous. Fleet's brief involvment with Peremba (1986-87) resulted in a loss by August 1986 of $18.6 million (FEER, 3:9:1987). See also Gomez, 1990:93-95. Faber Merlin recorded losses of $42.6 million in 1986 and $71.8 million in 1987 (FEER, 21:1:1988).

13 See Gomez 1990:65 and The Star 7:2:1987. Assets sold to the NST included: the 20 per cent stake in Bank of Commerce in March 1986 for $23 million; Fleet's entire holding in American Malaysian Insurance in March 1986 for $19.5 million; a 10 per cent stake in Sistem Televisyen Malaysia (STM) in May, 1986 for $10 million; 16.65 million NST shares, or 24.2 per cent, to foreign institutional investors for about $116 million; and a further 20 per cent in STM to publicly listed Malayan Cables in February, 1987, for some $27.5 million (FEER, 3:9:1987). See also NST, 10:9:1986 and The Star, 7:2:1987.

14 Marina Yusoff, a prominent member of the Razaleigh faction, in a letter dated 14 April 1987 to UMNO president, Dr Mahathir, claimed that when Tengku Razaleigh handed over control of Fleet Holdings Sdn Bhd to Daim in 1983, Fleet's assets totalled $500 million with a debt liability of only $56 million, but that by 1987 Fleet Holdings had debts totalling $448 million and was unable to pay interest of $3 million a month on its loans. In an article in the New Straits Times of 23 April 1987 Fleet Chairman, Datuk Desa Pachi, disputed Marina's figures, but conceded that losses had been made, claiming them to total $343.5 as of March 1987. Desa further claimed that the net worth of Fleet at market value was $232 million as at end-March 1987 which compared favourably with the net worth at market value of $202.6 million in 1983 when Daim took over control of the Fleet Group from Razaleigh. Considerable contention surrounds the figures, however, which were also qualified by the Fleet Group's own auditors. See FEER, 3:9:1987.

and other fees along the 900-kilometer North-South Highway from Thailand to Singapore. Controversy over the project grew when it was learned that UEM had been a loss-making engineering firm with little experience in road building and a record in the courts for alleged negligence.[15] In July 1987 the then Minister for Public Works, S Samy Vellu, revealed - apparently inadvertently - to Parliament that UEM's controlling shareholder, Hatibudi Sdn Bhd, was an UMNO-controlled company. He further stated that UMNO President, Mahathir Mohamed, Deputy President, Ghafar Baba, Secretary-General Sanusi Junid, and UMNO Treasurer, Daim Zainuddin were trustees of Hatibudi by virtue of their posts in the party (AWSJ, 18:1:1988).

The Growth of Hatibudi

Hatibudi was formed on 16 May, 1984 with $2 in paid-up capital. Its original registered office was the same address as that used by several of Daim Zainuddin's family companies and of Peremba Bhd., the property concern then owned by the state and headed by Daim. In June 1984, Halim Saad and Mohamed Razali Abdul Rahman were appointed directors of Hatibudi. At the same time Hatibudi's paid-up capital was increased to $1 million with the directors each holding 499,999 one dollar shares in the company. Both Halim Saad and Mohamed Razali Abdul Rahman worked with Daim at Peremba and since the late 1970's the careers of both men paralleled closely Daim's intricate corporate manoeuvres. Acknowledgement by the Minister for Works, Samy Vellu, of Hatibudi's links with UMNO was confirmed by Halim who said he held his shares in the company 'in trust for the beneficial owner, UMNO.' [16]

The first public indication of Hatibudi's links with UMNO occurred when the company arranged an $18 million loan to buy a 30 per cent stake in Seri Pacific Corporation which owned the Seri Pacific Hotel in Kuala Lumpur. The hotel formed part of the UMNO-owned World Trade Centre Complex in which the party has its headquarters (AWSJ, 18:1:1988). Among the directors of Seri Pacific Corporation were Daim Zainuddin and Mohd. Razali. In September 1984 Hatibudi purchased a further 30 per cent of the shares in Seri Pacific Corporation thereby giving UMNO a 60 per cent stake in the hotel, which colloquially became known as 'UMNO's hotel.'

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15 See The Star, 14:5:1983 ('Northam Court Case, UEM to settle out of court'?).

16 Stated in Halim Saad's affadavit, dated 3 September 1987, filed during the case bought by the DAP against the award of the contract to UEM. See AWSJ, 18:1:1988.

Later, in March 1985, Hatibudi acquired a substantial stake in United Engineers Malaysia Sdn Bhd (UEM). It was the most important aquisition made by the company. UEM was a publicly-listed foreign manufacturer of machinery for the rubber and tin industries. From 1981 to 1985 United Engineers suffered five years of successive losses. In May, 1983, trading in the company's shares on the Kuala Lumpur Stock Exchange was voluntarily suspended and by 1985 UEM had debts of $29.1 million.[17] Only a fresh injection of funds or the prospect of getting a huge income-generating contract could save the UEM group from insolvency. UEM's majority shareholder was the Singapore-based, Overseas Chinese Banking Corporation (OCBC).[18] In late 1984 or early 1985 a mutually beneficial arrangement was worked out between OCBC and Hatibudi whereby Hatibudi gained control of UEM and OCBC recovered much of the debt UEM had incurred with it. Two factors facilitated the arrangement; Daim's then ownership of the United Malayan Banking Corporation (UMBC), which provided guarantees for the loans taken, and assurances received by OCBC that UEM would soon be receiving lucrative government contracts.[19]

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17 For a summary of UEM's balance sheet from 1981 to 1985 see The Star, 2:8:1987 (Tan Siok Choo, 'UEM's Road into the Black').

18 UEM was controlled by UEL (Singapore) and its subsidiary, United Engineers (Singapore) Pty Ltd which together held a 44 per cent stake in the company as of 31 December 1985. UEL's major shareholder was the Great Eastern Life Assurance Co. Limited, which in turn was substantially owned by the Overseas Chinese Banking Corporation (OCBC). See AWSJ, 18:1:1988 and Gomez, 1990:111.

19 According to the AWSJ (18:1:1988), Mohd. Razali, one of the directors of Hatibudi, initiated discussions to buy a substantial stake in United Engineers with officials of OCBC in January/February 1985. OCBC, though keen to reduce its stake in UEM and the cost it imposed, was nevertheless determined to find a way of reviving the company as well as ensuring its relisting. Mohd. Razali's proposal of a link between UEM and Hatibudi achieved both goals. In essence the arrangement involved settlement of the debt of $75 million UEM owed its Singapore shareholders by converting the loans into ordinary and special shares that were later sold to Hatibudi. The transaction gave Hatibudi a controlling 33.3 per cent interest in UEM. The *quid pro quo*, which made the scheme attractive was, 'that it was made clear that the government and statutory-board contracts would be coming into the company (UEM) through Hatibudi' (AWSJ, 18:1:1988). In July 1986, when tender results for the North-South highway project were pending, Hatibudi strengthened its interest in UEM by subscribing to an additional 25 million $1 units of convertible unsecured loan stock, which if it elected to covert to ordinary shares by 1991 would increase its stake in UEM to 50 per cent. The AWSJ (18:1:1988) reported that, 'Hatibudi bought the loan stock with a $25 million loan arrangement in July 1986 from the Great Eastern Life Assurance Company (controlled by OCBC and the largest shareholder in Singapore's United Engineers Ltd). United Malayan Banking Corporation (UMBC), at the time controlled by then Finance Minister, Daim's family companies, then guaranteed Hatibudi's loan from Great Eastern using the loan stock as security'. For accounts of the restructuring of UEM see AWSJ, (18:1:1988), Gomez (1990, 112-115), MB (1:6:1985) and BT (10:4:1985).

Shortly after Hatibudi gained control of UEM, the *raison d'etre* for the exercise became apparent. Under the Mahathir government's privatisation policy UEM was awarded the $3.4 billion contract for the the North-South Highway Project, thereby securing a strong source of recurrent earnings for the party which the financially beleagued Fleet Group could no longer provide.[20] Access to such a source of recurrent earnings had become critical for the UMNO leadership faced with the heavy debts incurred by the party, most notably for the $360 million Putra World Trade Centre which included the party's 41-story headquarters building. When challenged about the probity of using the privatisation of the North-South highway (and associated government contracts) to pay UMNO's own debts, Dr Mahathir himself defended the contract arrangements between Hatibudi and UEM, responding somewhat disingenuously that, 'Who (else) is going to pay for the $360 million UMNO complex'?[21]

After obtaining the contract for the North-South highway project, UEM formed a subsidiary company, Projek Lebuhraya Utara Selatan (PLUS), to manage the project. By mid-1989, UEM had a 50 per cent stake in PLUS, the balance being held by a Bumiputra investment group, Cantuman Bahagia Sdn Bhd. However, just as the party leadership had secured a lucrative source of funds and patronage via the Hatibudi-UEM link, political developments in UMNO put that prized cash-generating asset temporarily out of reach.

Hatibudi and the 1987 UMNO Split

At the 1987 UMNO General Assembly, Tengku Razaleigh challenged Dr Mahathir for the party presidency. It was a close fought contest. Dr Mahathir won a narrow 43-vote victory from the 1,479 voting UMNO delegates but the challenge split the party into two camps - Dr Mahathir's supporters, identified as as 'Team A' and Tengku Razaleigh's supporters who were identified as 'Team B'. Amidst complaints of irregularities in counting and the disclosure that there had been members from unregistered branches who

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[20] Though the Letter of Intent was issued by the Works Ministry to UEM for the project on 29 December 1986 the contract was not signed until March 1988. The reason for the delay was a legal suit filed in August 1987 by the Opposition Leader, Lim Kit Siang, claiming that the proposed award was unlawful and tainted by a conflict of interest involving senior government officials who were also UMNO leaders. However on 15 January 1988 Malaysia's Supreme Court dismissed the challenge thereby clearing the way for the government to give the contract to UEM. See AWSJ, 18:1:1988. Meanwhile Lim Kit Siang was detained under the Internal Security Act (ISA).

[21] The Star, 29:8:1987. The UMNO Youth leader and Minister for Youth and Sports, Najib Tun Razak also defended the contract on the grounds that the party needed the money to repay the loans ($360 million) attached to its headquarters building in Kuala Lumpur. See The Sunday Star (30:8:1987) and FEER (10:3:1988).

had affected the divisional selection of the 1, 479 candidates to the assembly, eleven disgruntled Team B supporters petitioned the High Court in July 1987 to declare the election results null and void. On 4 February 1988 the High Court declared that 'UMNO was an unlawful society, ' a judgement which took all sections of the party by surprise. An immediate consequence of the decision was that the party's assets were turned over to the government Official Assignee for safekeeping or eventual liquidation until UMNO exhausted efforts to sort out its legal problems.

Responding to these developments Dr Mahathir, and his 'Team A' supporters, registered on 13 February 1989 a party called UMNO Baru (New UMNO), which supplanted the 'outlawed UMNO' as the backbone of the ruling National Front Coalition Government. Although Dr Mahathir steadily consolidated his position in the government and the party (UMNO Baru), recovery of the old party's considerable assets nevertheless assumed a greater urgency with the approaching general election, due by August 1991. The problem was that after UMNO was declared 'illegal', the party's 'trustee companies, 'such as Hatibudi Sdn Bhd had to relinquish their holdings (which in Hatibudi's case included its stake in UEM), to the Official Assignee's office. Fortunately however the Official Assignee's office happened to be under the jurisdiction of the Ministry of Home Affairs headed by none other than the Prime Minister, Dr Mahathir himself.

In June 1988 the official assignee sold UMNO's interests in UEM but it was not revealed to whom the shares were sold. However the following month, on 25 July, a relatively small publicly-listed engineering company called Time Engineering Bhd (TEB) announced that it had acquired $37.5 million convertible unsecured loan stock (CULS), in UEM from a company called Hatibudi Nominees (AWSJ, 26:7:1989). Besides the similarity of the company's name (Hatibudi) to that of the former trustee of the party's holdings in UEM, its major shareholders, Halim Saad and Anuar Othman, were also directors of the older Hatibudi and of UEM. Hatibudi Nominees, the controlling shareholder of UEM, then through a rather convoluted share-swapping arrangement was offered 52 per cent ownership of Time Engineering (AWSJ, 14:2:1990). In return, Time Engineering was awarded a $400 million contract by UEM, to supply equipment for the North-South highway project.[22] The Hatibudi Nominees/UEM/Time Engineering transaction thus effected a shift of UMNO's interest in UEM from one holding company, Hatibudi Sdn Bhd, to another holding company, Hatibudi Nominees, both, as it turned

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[22] For a detailed account of the Hatibudi Nominees/UEM/Time Engineering deal see AWSJ 26:7:1989 and 14:2:1990; FEER 7:9:1989 and Gomez 1990:132-4.

out, controlled by the same people. The objective of that (successful) transaction was to ensure that UMNO's most lucrative asset, UEM, was returned (via the Official Assignee's office) to the control of Mahathir's faction. It also, with the addition of Time Engineering, expanded the number of companies under UMNO's control.

Shortly after Mahathir's faction regained control of its main investment vehicle, UEM, it set about further expanding its business interests. In April 1989 publicly-listed Hume Industries was drawn into the orbit of UMNO's business empire when it was announced that Hume had secured a $500 million contract to supply concrete products for the North-South highway. (Hume Industries was controlled by the Singapore-based Quek family through its holding company, Hong Leong Malaysia Bhd.) The quid pro quo for the lucrative contract was apparently the divestment by Hume of a significant (26 per cent) stake to an UMNO-controlled company, called Jaguh Mutiara Sdn Bhd.[23] Having gained a stake in Hume, UMNO, through UEM, then made a successful take-over bid in August 1989 for Cement Industries of Malaysia Bhd (CIMA).[24] UEM's next acquisition took place in November 1989 when it announced a reverse take-over of Kinta Kellas Investments PLC, a property and leasing company. Capping this spate of acquisitions was the purchase by Hatibudi Nominees in January 1990 of a controlling 32 per cent stake in MCB Holdings Bhd, a publicly-listed property and manufacturing company.[25]

By early 1990 the Mahathir faction had, through 'proxies' working on its behalf, principally Halim Saad and Anuar Othman, regained control of most of UMNO's assets. Furthermore, largely through UEM, those proxies had also built UMNO's latest investment arm, Hatibudi (Nominees), into another large business conglomerate that was ultimately beholden to the UMNO leadership.[26] Within a few months almost all of UMNO's considerable assets, including Hatibudi, were reorganised and subsumed within a new super UMNO conglomerate, Renong Bhd. Before outlining those

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23 According to the AWSJ (10:8:1989) Jaguh Mutiara Sdn Bhd was a newly created company directed by two businessmen long associated with Daim Zainuddin in managing UMNO-controlled companies. It acquired the 26 per cent stake in Hume when the company's two largest shareholders did not take up their entitlement in a rights issue in October 1989.

24 For details of the purchase of CIMA by UEM see AWSJ, 14:2:1990. CIMA, a publicly-listed company, was acquired from the Perlis state government through a share-swapping arrangement.

25 AMCB was presumed to be Hatibudi Nominees' vehicle to oversee its and United Engineers' property operations (AWSJ, 14:2:1990).

26 For the corporate structure of Hatibudi Nominees see Gomez, 1990:135.

developments it is necessary however to briefly describe one other major business group associated with UMNO, Koperasi Usaha Bersatu Bhd (KUB).

Koperasi Usaha Bersatu Bhd (KUB)

In contrast to the Fleet Group and Hatibudi, Koperasi Usaha Berasatu Bhd or KUB has, since its formation, been openly acknowledged as one of UMNO's business ventures. It was launched by the then party president and Prime Minister, Datuk Hussein Onn, on 11 May 1977. Officially registered under the Cooperatives Society Ordinance, KUB is the cooperative arm of UMNO. It was established to utilise the considerable financial potential of the party's large Malay membership and 'to further the active participation of Bumiputras in the fields of commerce and industry' (Cheong, 1990:19). KUB was also partly a response to the early success of the Multi-Purpose Cooperative Society (KSM) set up by the Malaysian Chinese Association (MCA).

To coordinate its investments KUB formed an investment and holding company, Permodalan Bersatu Bhd (PBB), which was incorporated on 29 November 1979 as a wholly-owned subsidiary of KUB. PBB's first directors were Tan Sri Kamarul Ariffin, then chairman of Bank Bumiputra, and Dr Agoes Salim, then chairman of Bank Pertanian. Under the stewardship of Kamarul Ariffin and Agoes Salim, PBB acquired a number of companies, the most important of which was Idris Hydraulic Tin PLC in November 1981.[27] Although purchased in early 1982 at, it was alleged, an exorbitant price, [28] Idris remained a shell company until September 1983 when it was reactivated following a reconstruction scheme[29] and used to spearhead KUB's move into the corporate sector.

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[27] Other important companies acquired by PBB in 1981 and 1982 included: Syarikat Perumahan KUB Sdn Bhd (property development); Kumpulan Ladang Bersatu Sdn Bhd (a joint venture with Malayan Mining Corporation to undertake mining exploration); Advanced Electronic (M) Sdn Bhd (distributer of electronic appliances); Masa Merdeka Sdn Bhd and Mengawati Sdn Bhd (property development); Telasco Insurance Sdn Bhd; and Kewangan Usuaha Bersatu Bhd (KUBB), one of the biggest finance companies in Malaysia (FEER, 2:8:1984). See also Gomez (1990:143-4).

[28] Members of the Youth Wing of the party (UMNO Youth), alleged that PBB bought Idris for $18 million when the market price for the shares was only $12 million (MB, 16:6:1988).

[29] Under the reconstruction scheme, London-based Idris Hydraulic Tin PLC was placed under voluntary liquidation, and a new company, Idris Hydraulic (M) Bhd, was incorporated in Malaysia on 30 November 1983. Idris Hydraulic (M) then acquired the whole undertaking and assets of Idris Hydraulic Tin PLC. In return the company issued and transferred to the shareholders of Idris PLC 1.28 million shares of 50 (Malaysian) cents each on the basis of one share in the company for each Idris PLC share held (KLSE Annual Companies Handbook, Vol XV, 1990:679).

The reactivation of Idris coincided with a change in PBB's management when in August 1983 the Prime Minister, Dr Mahathir, changed the trustees and appointed Datuk Ibrahim Mohamed and Datuk Azman Hashim to the board (Gomez, 1990:147-164). Ibrahim Mohamed, then chairman of Promet Bhd, and Azman Hashim as chairman of Arab Malaysia Merchant Bank, were amongst the vanguard of the new Malay business elite to emerge in the 1980's. Both men had, through extensive use of such stock market mechanisms as rights issues and share swaps, built large business fortunes. After taking over PBB, Ibrahim and Azman applied to Idris those same strategies for rapid corporate growth which they had applied to their own businesses and Idris made a string of acquisitions, most of which were purchased through the issue of Idris shares.[30] The purchase of assets in this manner, some of which were clearly overpriced, such as Talasco Insurance for example, enabled PBB (and presumably therefore UMNO) to make huge capital gains.[31]

Under the leadership of Ibrahim and Azman, Idris also sought to further expand its activities in the finance and property sectors. The significance of Idris' involvement in the property sector was that it coincided with Ibrahim Mohamed's leadership of KUB and involved private companies in which he had an interest.[32] That association proved fateful for both when, in the wake of the 1985-1986 recession, property prices slumped and both Idris Hydraulic and Ibrahim's own company, Promet Bhd, suffered large losses. (Idris incurred pre-tax losses of $9.01 million in 1985 and $17.66 million in 1986 while Promet suffered a massive $92.73 pre-tax loss in 1985 alone.)[33] In 1987 Ibrahim resigned from Idris and a new board of directors was appointed.

Leading members of the new team of directors appointed to the board of Idris Hydraulic Bhd included the chairman, Datuk Harun Idris, managing director, Puan

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30 Four wholly-owned subsidiaries of PBB were acquired by Idris. They were Kewangan Usaha Bersatu Bhd (KUBB), one of Malaysia's largest finance companies; Advanced Electronic (M'sia) Sdn Bhd, a distributor of electronic home appliances; Masa Merdeka Sdn Bhd and Mengawarti Sdn Bhd (both of which are property companies (Gomez:1990:147). Idris also acquired an insurance company, Talasco Insurance Sdn Bhd. All five companies were purchased through the issue of Idris Hydraulic shares.

31 According to Gomez (1990:148) 'PBB paid $15.42 million cash for 6.855 million shares of Talasco Insurance, which meant each Talasco share cost PBB $2.25. However Idris Hydraulic purchased each Talasco share from PBB at $3.72, thereby giving PBB a massive capital gain from the sale.' See also (FEER, 2:8:1984).

32 Gomez (1990:157). The ways in which Ibrahim enmeshed his responsibilities as overseer of UMNO's corporate interests in Idris with those of his private companies for personal gain are examined in chapter 7.

33 See KLSE, Annual Companies Handbook, Vol XV 1990:681 and 471.

Marina Yusof, Datuk Rais Yatim and Datuk Zainal Abidin Zin. All were prominent supporters of Tengku Razaleigh, who had narrowly lost in his bid to wrest the leadership of UMNO from the Prime Minister and party president, Dr Mahathir, in 1987. So the rivalries which had split UMNO asunder were also reflected in the boardroom at Idris. It was against this background of bitter party rivalries that the mismanagement of Idris and the financial losses which had long beset the cooperative became public as the Mahathir faction sought to discredit its political opponents on the Idris board. (A far cry from the hopes expressed earlier by party leaders, including Dr Mahathir himself, that the cooperatives operations would be free of politics and run on commercial lines.)

In the revelations that followed it soon became apparent that irrespective of which faction had controlled KUB in the past, all were guilty of mismanagement and the use of the cooperative to dispense political patronage. For instance, in the early eighties Idris had no fewer than 17 directors on its board, most of whom were politicians (MB, 16:8:1988). Some senior executives were also paid colossal salaries. For example, the chief executive of Talasco Insurance, a wholly-owned subsidiary of Idris, received almost a million dollars in salary and expenses in 1985 (MB, 16:6:1988). Moreover the credentials of Datuk Harun to be chairman of KUB, and a financial company such as Idris, were at best questionable. Harun, the Mentri Besar (Chief Minister), of Selangor from 1964 to 1976, had been sentenced and jailed for corruption and criminal breach of trust in the Bank Rakyat case, the biggest financial scandal of the 1970's.

By the end of 1986 KUB was technically insolvent.[34] The co-operative's financial problems were further compounded by its being embroiled in party conflict. While opponents of party president, Dr Mahathir, dominated the board of KUB and its main vehicle, Idris, there was little prospect of obtaining much needed funds. Idris languished until January 1991, when Tanjung Layang, a company identified with the Mahathir leadership and his UMNO Baru (or new UMNO), 'recaptured' a controlling stake in the company. Subsequently, most of the personalities on the Idris board associated with Tengku Razaleigh and his 'Semangat 46, ' notably Datuk Harun, Datuk Rais Yatim and Datuk Zainal Abidin Zin resigned on 10 January 1991.[35] The newly appointed deputy

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[34] The 1986 KUB Annual Report revealed that accumulated losses rose from $3.3 million in 1985 to $3.8 million in 1986 while that of the group reached $114 million from $65.5 million in 1985. The registrar of co-operatives declared that the group's losses at the end of 1986 'made it capital deficient by $77 million' and therefore 'technically insolvent' (MB, 16:6:1988).

[35] The only pro Razaleigh, or 'Semangat 46' survivor was Marina Yusof. However she announced her withdrawal from politics and, though her position as Idris' managing director was based on a three

chairman of Idris, Ishak Ismail (commonly believed to be a close associate of Finance Minister, Anwar Ibrahim), left no doubt about the links between UMNO (Baru) and Idris, when he said that, 'Idris was formerly controlled by UMNO members and it was good to have it back.'[36]

Renong Bhd

By the end of the eighties UMNO presided over a vast sprawling corporate empire. Each of the main elements within that empire, the Fleet Group, Hatibudi and KUB had become large conglomerates in their own right. While government patronage guaranteed the prosperity of some companies within those groups, such as United Engineers, many others, notably those in the Fleet Group were burdened with heavy debt. At the same time the extent of UMNO's involvement in the corporate sector had attracted considerable public criticism. With the approach of national elections and UMNO's need for funds, the resolution of these problems assumed a greater urgency. It was against such a background that a massive restructuring of UMNO's corporate assets was undertaken.

Restructuring UMNO's Corporate Assets: The Renong Takeover

On 30 April 1990, a relatively unknown publicly-listed property company called Renong Bhd, [37] announced that it had entered into arrangements to purchase the entire equity of Fleet Group Sdn. Bhd. and Hatibudi Nominees Sdn. Bhd. as well as a 2 per cent stake in UEM, for $1.23 billion, in one of the largest takeovers in Malaysia's corporate history (FEER, 17:5:1990). The restructuring of Renong was essentially a reverse takeover through share-swapping. Renong bought the entire equity of the Fleet Group from its holding company, Fleet Holdings, for $794.92 million and the entire equity of Hatibudi Nominees from Halim Saad (90 per cent), Anuar Othman (5 per cent) and Zulkafli Hussein (5 per cent) for $244.90 million.

The reverse takeover gave Renong effective control of eight publicly-listed companies as well as unlisted subsidiaries. Following the takeover, Fleet sold 439.7 million new

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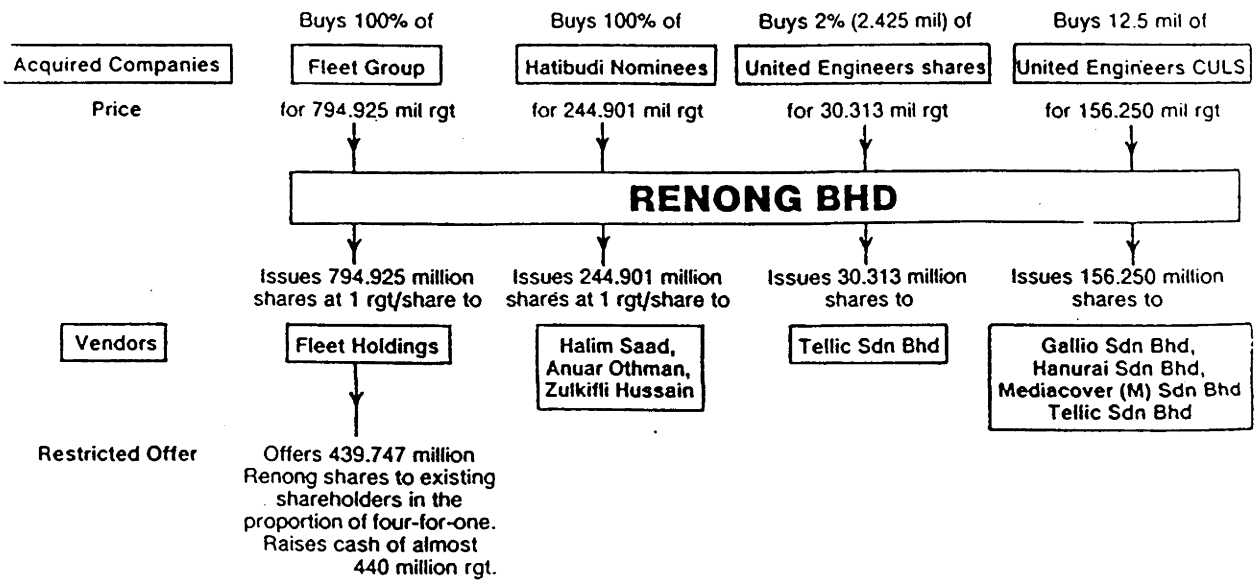
year contract which was not due to expire until February 1992, was not expected to complete her term (MB, 1:4:1991). She has since rejoined UMNO.

36 (MB, 1:4:1991). Reasons given for the presumed close association between the Finance Minister, Anwar Ibrahim, and the new board at Idris were largely circumstantial. Both owners of Tanjung Layang, Ishak Ismail and Datuk Abdul Aziz Mohamed, were Penang businessmen and supporters of UMNO. Ishak was formerly secretary to the party's Permatang Pauh division which is headed by the Finance Minister (MB, 1:4:1991).

37 For background on Renong see Gomez, 1994:117.

Renong shares at a dollar each to the company's shareholders which generated about $440 million in cash for the party (FEER, 17:5:1990). The restructuring brought under one corporate roof some of the most important publicly-listed companies in Malaysia including-UEM, Hume Industries, Time Engineering, Cement Industries of Malaysia (CIMA), Kinta Kellas, The New Straits Times Press (NSTP), Bank of Commerce and Sistem Televisyen Malaysia Bhd or TV 3. At the conclusion of the restructuring exercise the three major shareholders in Renong were, Fleet Holdings (28.5 per cent), Halim Saad (17.7 per cent) and Pacific Fleet Sdn Bhd (6 per cent). The total holdings of those three shareholders, all of whom were related to UMNO interests, amounted to 52.2 per cent, enough to control Renong and through it all key companies in the group (MB, 16:5:1990).

Figure 5.1: The Takeover of Renong



Source: MB, 16:5:1991

After the initial consolidation of UMNO's assets under Renong in April 1990 a further restructuring took place in February 1991. Through that restructuring Renong increased its stakes in UEM and TV3, the two companies which were expected to contribute most to Renong's profits.[38]

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38 Renong, which had a 20 per cent stake and a 9 per cent indirect stake in UEM increased its direct shareholdings to nearly 33 per cent by acquiring the 30.5 per cent stake of Time Engineering in the company for $675 million or $4.50 per share. Renong also acquired a 43 per cent stake in TV 3 for $152 million from New Straits Times (NST), a subsidiary of Fleet Group (FEER, 14:2:1991).

Figure 5:2

Renongs Bhd's Corporate Structure: Before the Deals
Reasons for the Renong Takeover

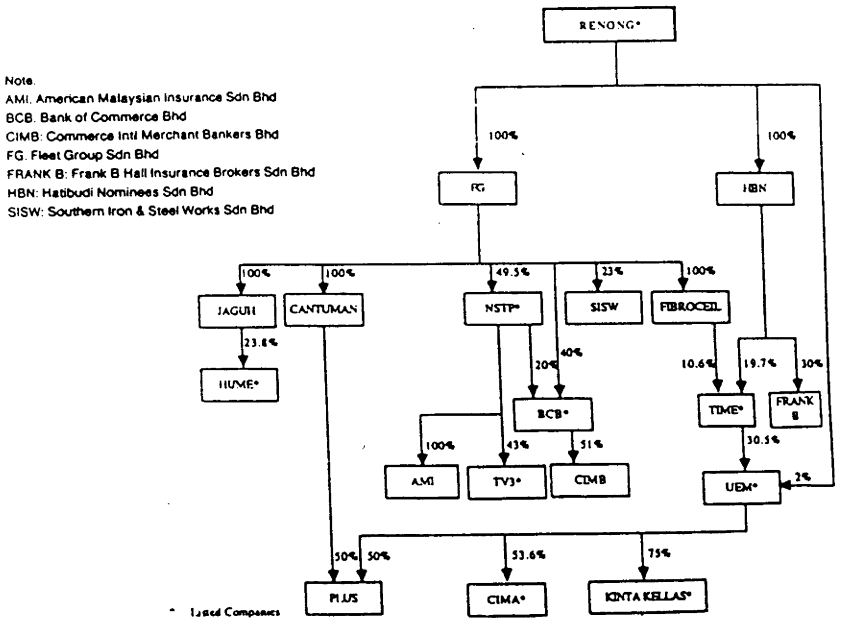
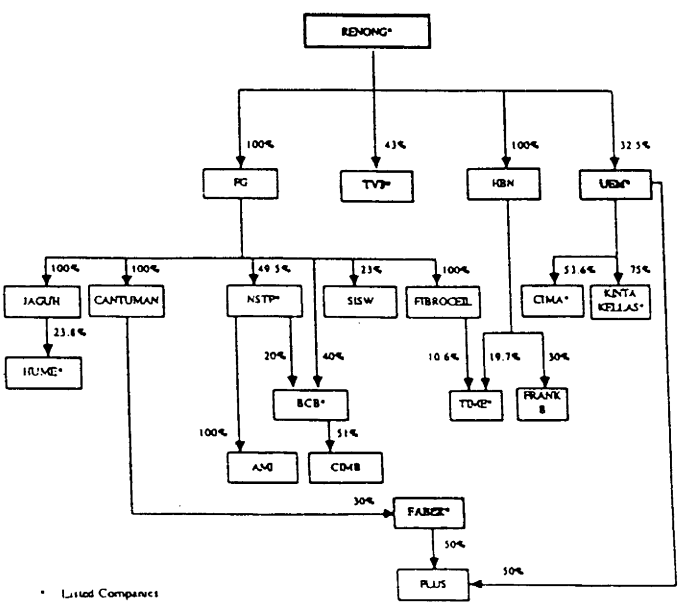


Figure 5.3:

Renong Bhd's Corporate Structure: After the Deals



Source: MB, 16: 2:1991.

In addition the Faber Group, a hotel company which had been left out of the initial deal because of heavy debts, was also brought under Renong's control.[39] Faber also acquired a 50 per cent interest in Projek Lebuhraya Utara-Selatan (PLUS) for $1 billion.[40] Basically, according to *Malaysian Business* (16:2:1991), the purpose of the subsequent restructuring of Renong was to maximise benefits from the more profitable components within the group, such as United Engineers and TV3. At the same time, the revitalistion and acquisition of the Faber Group indicated future plans by UMNO to make the company the cornerstone of a lucrative property group within Renong.

As indicated earlier, the restructuring of UMNO's corporate investments assumed greater urgency with the approach of expected national elections and the consequent need to bolster the party's coffers.[41] More specifically, however, the reverse takeover of UMNO's corporate investments by Renong appears to have been directed at resolving the financial problems of the party's main corporate flagship, Fleet Holdings.[42]

As of October 1989, Fleet Groups total debt amounted to $310.4 million, worse than previous disclosures had suggested (AWSJ, 23:8:1990). But the financial plight of the Fleet Group was only part of UMNO's financial problems. The party owed $450-$500 million in bank loans and interest payments for the Putra World Trade Centre[43] and

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39 The Faber Group had debts estimated to be between $220-$300 million at the time of the Renong takeover in April 1990 (FEER, 14:2:1991). In June 1990, Halim Saad was appointed as Faber's chief executive officer. The appointment of Halim, one of the principal overseers of UMNO's corporate assets, underlined the party's determination to resolve Faber's financial problems. On 6 September 1990 Fleet Holdings, Faber's largest shareholder, initiated a capital reconstruction plan for the company which included Fleet Holdings injecting $222 into Faber, a step which largely settled Faber's debt. For details of other measures taken to reduce Faber's debt see: FEER (14:9:1990) and (20:9:1990) and also Gomez (1991:17-22).

40 Renong's sale of PLUS to Faber was generally seen as part of UMNO's plans to strengthen the Faber Group or property wing of its assets. PLUS' access to steady income through its management of the North-South highway project, provided the Faber Group with a firm financial base (MB, 16:2:1991). A possible quid pro quo for PLUS appeared to be that its acquisition by Faber also enabled the contractor to gain an indirect listing. PLUS could not list directly on the Kuala Lumpur Stock Exchange because it lacked the requisite five-year track record (FEER, 14:2:1991).

41 Dr K S Jomo, an economist at the University of Malaya, conservatively estimated that the ruling coalition headed by UMNO would spend an average of $2 million per parliamentary constituency or $360 million. Other estimates put the coalitions campaign expenditure as high as $1.5 billion (FEER, 5:7:1990).

42 A Fleet Group director confirmed that at least 75 per cent of the $440 million raised by the Renong takeover would be used for that purpose (Gomez, 1991:18).

43 According to a Reuter report, arreas in repayments for the party's 40-story headquarters building at the Putra World Trade Centre had reached $600 million from accumulated interest over the period 1989 to

apparently an additional $100 or more in loans issued to various sections of the party. UMNO's total debt therefore appeared to be closer to $1 billion or about twice the previous estimates of approximately $500 million (AWSJ, 23:8:1990) and (FEER, 17:5:1990). The $440 million raised in the course of the Renong takeover was sufficient to cover the Fleet Group's own debt, but fell far short of erasing UMNO's total debt. Nevertheless, action to restructure UMNO's corporate holdings had become imperative as the party was increasingly pressed to pay at least a significant portion of its debt, though most notably that arising from overseas loans obtained by the Fleet Group.[44]

In addition to financial considerations, the centralisation of most of UMNO's assets in one corporate entity also presented political and managerial advantages for the party. Criticism of UMNO's growing involvement in the corporate sector and, in particular allegations that some, notably Finance Minister and party treasurer, Daim Zainuddin, had personally gained in the process, were expected to resurface in the forthcoming 1990 general election. In the wake of the 1987 UMNO split, Marina Yusof and other Semangat 46 leaders had also blamed Daim for the massive debts accumulated by Fleet Holdings.

So, besides resolving the debt associated with Fleet, the consolidation of UMNO's corporate assets under Renong also provided a pretext for party officials, Daim in particular, to claim that the party was 'out of business.'[45] In that regard Daim argued that since the party's assets had been taken over by the official assignee - after UMNO was declared illegal in February 1988 - he was no longer responsible for UMNO's business operations. He further contended that, with the restructuring of UMNO's assets in Renong, the party's former links with various business groups had been severed, and it therefore no longer played a role in Malaysia's corporate sector.[46]

1994. Reuter, Kuala Lumpur, 16:8:1994 ('Malaysia: Mahathir's party could have more debts than assets').

44 According to the AWSJ (23:8:1990), a loan of $50 million Swiss francs (approximately $92 million Malaysian dollars) issued by an overseas branch of Bank Bumiputra in 1985 was to be fully repaid by July 1990. Most of Fleet Group's debt of $310.4 million was owed to state-controlled Bank Bumiputra Malaysia Bhd and Malayan Banking Bhd.

45 MB, 1:8:1990 (Malaysian Business, 'Interview with Daim Zainuddin').

46 Daim claimed that, 'since all UMNO's assets were vested with the Official Assignee, the new UMNO has nothing now'.. hence .. 'the assets question (should) be addressed to the Official Assignee, not to me. As far as I'm concerned a burden has been lifted from me.' ... In addition, Daim maintained that the Renong deal effectively 'put us {UMNO} out of business.' See MB, 1:8:1990 (Malaysian Business, 'Interview with Daim Zainuddin').

Legal technicalities aside, Daim's argument was hardly convincing as the senior executives that soon emerged in Renong, most notably Halim Saad and Anuar Othman, were the same executives who had played key roles in the growth of UMNO's corporate investments in the eighties and were directors of most of the companies that had come under the party's control.[47] The role played by Halim Saad as one of UMNO's principal 'proxies' in the corporate sector is discussed in the next chapter, suffice to note here however that with the consolidation of UMNO's assets under Renong, Halim emerged as the principal owner of the company. Such a concentration of assets and ownership not only facilitated more effective control of the party's investments, but also enabled some of its high profile proxies to shed ties with a number of UMNO-controlled companies and so deflect criticism that they were holding too many top positions in the party's corporate empire. As a consequence, in January 1991 Halim Saad shed his concurrent posts as chief executive officer of four major UMNO-controlled companies: the New Straits Times Press (NSTP), United Engineers Malaysia (UEM), Projek Lebuhraya Utara-Selatan (PLUS), and the Faber Group (NST, 17:1:1991).

The Renong takeover also achieved another important goal for the UMNO leadership - it removed most of the party's assets from the hands of the Official Assignee. The role played by government officials in that exercise was never explained but Dr Mahathir's archrival, Tengku Razaleigh, in raising questions about the manner in which Fleet's assets were transferred from the Official Assignee's office established that Renong's financial advisers had bypassed the Official Assignee and talked directly with representatives of Fleet Holdings.[48] In a number of other important respects apparently

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47 Shortly after the takeover of Renong, Halim Saad replaced Dr Chan Chin Cheung as chairman of the company and Anuar Othman was also appointed a director (AWSJ, 28:5:1990). Halim Saad, it will be recalled was a director of both Hatibudi Nominees and Halimtan, and chairman of the Fleet Group and Pitisan Sdn Bhd. Anuar Othman was managing director of United Engineers, a director of both Hatibudi Nominees and the Fleet Group, and also a director of UMNO-linked Sungei Besi Mines (M'sia) Bhd. Halim Saad's 'ownership' of Renong and its implications for his role as UMNO's principal proxy are discussed in chapter 6.

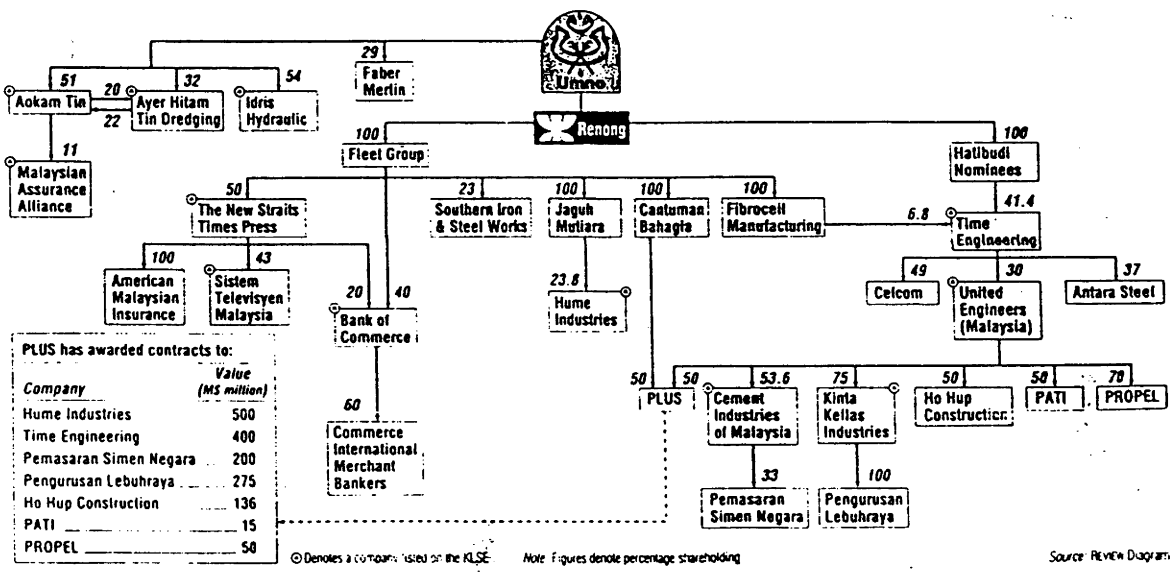
48 See FEER, 17:5:1990 and AWSJ, 23:8:1990. Lawyers close to UMNO claimed the transfer of Fleet Holdings to Renong, and the bypassing of the Official Assignee's Office was effected legally. However, a court order to effect the transfer was not attained nor was the transfer advertised by publication in the parliamentary gazette or in two newspapers as required by the Societies Act. Furthermore, neither was the Stock Exchange informed of the transfer even though there was a significant ownership change in public companies controlled by Fleet (FEER, 5:7:1990). UMNO officials, including the party treasurer, Daim Zainuddin, argued that the Official Assignee's Office was not acting as a receiver and thus did not need to file a public notification of transfer. This 'problem' was evidently overcome by separating the majority of Fleet's debts (held by the Fleet Group), from the actual ownership vehicle (Fleet Holdings) that was held by the Official Assignee. (FEER, 5:7:1990).

little regard was paid to required procedures and regulations, indicating again the extent to which the party was able to use the levers of government to promote and protect its corporate interests.[49]

Summary

During the 1980's the growth of UMNO's corporate investments meant that the party itself became a major vehicle through which a restructuring of ownership in the economy was effected. In that regard we saw how the appointment of Daim Zainuddin as director of Fleet Holdings in July 1982 marked a significant shift in the management of the party's assets from Razaleigh's 'incremental' approach to Daim's extensive use of the stockmarket to quickly build a huge conglomerate. But Daim's approach was to mire the Fleet Group in debt and prompted the party leadership to look to Hatibudi, the controlling shareholder of UEM, to be the new vehicle for the party's corporate ambitions.

Figure 5:4: The Many Faces of UNMNO's Business Empire



Source: FEER 5:7:1990

The 1987 UMNO split put that valuable asset temporarily out of reach until the various nominee companies, bound by loose alliances of crossholdings and directorships (to mask UMNO's involvement in business), were consolidated under one company, Renong Bhd. By the early 1990's Renong had emerged as one of the top three companies

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49 As noted earlier, the same procedures and regulations were bypassed when Hatibudi, which controlled UEM, was transferred out of the Official Assignee's Office in June 1989 to a 'new' company controlled by the same shareholders, Hatibudi Nominees.

on the Kuala Lumpur Stock Exchange and, with a market capitalisation of $6-7 billion, it ranked as one of Southeast Asia's largest conglomerates (FEER, 17:5:1990) and was a testament to the economic clout commanded by UMNO in Malaysia's corporate economy.

GOVERNMENT - PARTY RELATIONS AND THE GROWTH OF UMNO's BUSINESS GROUPS

In the context of the NEP the relationship between the government and business became increasingly blurred as the Malay ownership and create Malay capitalists. The blurring of the relationship, or what Daim described as a 'commoness rather than a conflict of interests' (NST, 27:7:1984), facilitated the extraordinary growth of UMNO's corporate investments. But the symbiotic relationship between the government and the party also had a third dimension, that is a capacity to promote the growth of some Bumiputra business groups as well. So now the focus of this chapter moves to an examination of the various ways assets and business opportunities have been shifted from the state to the party and UMNO-related interests in the private sector.

Government 'assistance' to the expansion of UMNO companies

At the most basic level, the close relationship between government and party has facilitated easy access to credit and finance for UMNO. Obvious examples in that regard were the loans UMNO obtained from government-owned banks in the early eighties to finance construction of the party's headquarters building, notably a $200 million loan from Bank Bumiputra and $50 million from Malayan Banking (AWSJ, 9:10:1989). (As we saw earlier, most of the Fleet Group's debt of $310 million was owed to those two banks, the total outstanding loans having reached $600 million by 1994 due to accumulated interest[50].)

In addition to ready finance from government-owned banks, UMNO has also been able to expand its business interests through preferential access to special Bumiputra share issues made by companies in order to restructure their equity in accordance with NEP guidelines. The way in which Fleet Group gained control of the hotel and property group, Faber Merlin, illustrates how the party benefitted from preferential access to

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[50] See AWSJ, 23:8:1990 and Reuters Report, 16:8:1994 ('Malaysia, Mahathir's party could have more debts than assets').

special Bumiputra share issues and, at the same time, the dual roles often played by senior UMNO figures in terms of their government and party responsibilities.

The Faber Merlin Group was formerly owned by Chinese interests, primarily the late Chang Ming Thien, also the founder of the United Malayan Banking Corporation (UMBC). After Chang's death in 1982, Faber became an attractive proposition for takeover by a Bumiputra group - given its profitability at the time, its diverse interests, and lack of Malay equity. When, in May 1983, Faber Merlin made a special Bumiputra share issue which would bring Malay equity to 15 per cent, the Ministry of Trade and Industry directed that the entire issue be given to the Fleet Group (BT, 1:11:1983). A few months later, in October 1983, Fleet increased its stake in Faber Merlin to 23.6 per cent and became the largest single shareholder in the group (NST, 18:10:1983). Concerning Fleet's takeover of Faber Merlin, Fleet Group chairman Mohd. Desa Pachi later admitted that, 'the Fleet strategy to control Faber Merlin was by obtaining the special share issue which was known to be going to be issued by Faber Merlin.' (NST, 23:4:1987). However as Gomez has pointed out, 'since it was the Ministry of Trade and Industry which instructed Faber Merlin to allocate all its special Bumiputra issue to Fleet Group, this would suggest that there had been "close rapport" between the officials of Fleet and the Ministry which was then headed by Tengku Ahmad Rithaudeen, an UMNO vice-president'[51] (Gomez, 1990:80).

A more important aspect of the government-party relationship which has facilitated UMNO's business activities was the influence wielded by the party leadership over appointments to key institutions and agencies charged with the implementation of the restructuring goals of the NEP in the corporate sector. Confidence that such departments and agencies as the Ministry of Trade and Industry (MTI), Bank Negara, the Capital Issues Committee (CIC), the Foreign Investment Committee (FIC) would facilitate UMNO's corporate ambitions, gave the party a decided advantage against other competitors, particularly in the stockmarket. So whenever UMNO-linked public companies such as New Straits Times Press, United Engineers or Aokam, sought to acquire assets through share swaps, the high premiums generally attached to the shares of those companies were in large part predicated on market confidence that such deals would

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51 Another noteworthy aspect to the acquisition of Faber Merlin by Fleet was the dual role played by Daim, as private entrepreneur with a personal stake in Faber Merlin and overseer of the party's interests as director of Fleet Holdings. Daim's capacity to profit from mixing his private and party interests in this manner was feature of the allegations made by Marina Yusof at the height of the UMNO split in 1987 and are examined in chapter 5 ('Daim and the Fleet Group').

be supported by the various regulatory agencies concerned. This factor, together with the blurring of government/party interests, also seems to have enabled UMNO to ignore the spirit, if not the letter, of government procedures and regulations when they posed obstacles to the promotion or protection of its corporate interests.

We have seen how, contrary to required procedures, UMNO apparently had little difficulty circumventing the government's Official Assignee in its bid to regain control of such valuable party assets as United Engineers and Fleet Holdings. Similarly, Fleet was apparently able to ignore requirements of the central bank, Bank Negara, as to the size of its shareholding in a financial institution. Under amendments to the Banking Act, which came into effect in January 1986, corporate shareholders were limited to a maximum 20 per cent stake in a financial institution. Yet in July 1986 the Fleet Group obtained 100 per cent control of the Bank of Commerce, formerly a Chinese family bank incorporated under the name Bian Chiang Bank in Kuching, Sarawak (BT, 1:7:1986). When questioned in Parliament as to why Bank Negara permitted Fleet to buy the entire 100 per cent shareholding in Bank of Commerce, then Deputy Finance Minister, Datuk Sabbaruddin Chik, replied that any acquisition of equity by corporations before amendments to the Banking Act came into force were exempt from the limitations (NST, 29:10:1986). Although the Fleet Group was a major shareholder before the limitations took effect, the group was still required by the Act to reduce its stake in Bank of Commerce to 51 per cent within two years. It failed to do so, indicating some partiality in the government's enforcement of regulations concerning ownership in the banking system, at least where UMNO's interests are concerned[52].

The Government's Privatisation Program: UMNO as a Beneficiary

Various forms of privatisation have been employed in Malaysia to transfer assets or business opportunities from the government sector to UMNO. The most obvious was the privatisation of public works and attendant construction projects and the granting of those services or contracts to UMNO-related companies. The controversial $3.4 billion North-South highway contract awarded to Hatibudi-controlled United Engineers was the most notable example of such 'privatisation'. The manner by which that contract was awarded,

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52 By October 1989, almost three years after the amendments to the Banking Act came into effect limiting limiting ownership by corporate shareholders in a financial institution to 20 per cent, the Fleet Group still retained a 59 per cent stake in the bank (KLSE, Annual Companies Handbook, Vol XV:664). For an account of the changes that have occurred in the structure and ownership of BOC see Gomez (1990:68-69) and (1994:76-80).

and the benefits it bestowed on UMNO in terms of wealth and patronage, clearly showed the often incestuous nature of the relationship between the government and the party.

It will be recalled that although UMNO-owned Hatibudi gained control of UEM in March 1985, the Minister for Works, Datuk Samy Vellu, did not publicly acknowledge UMNO's links with UEM until July 1987. In the interim, the close political ties between the company and the government gave UEM a considerable headstart in preparing its bid for the highway contract. Reports later revealed that on 14 August 1985, the chief executive officer of United Engineers, Halim Saad, wrote to the Prime Minister, Dr Mahathir, forwarding the company's proposal on the privatisation of the highway project[53] (Lim Kit Siang, 1987:11). Cabinet discussed the proposal in August or September 1985 (AWSJ, 18:1:1988). On 27 December 1985 United Engineers paid $26,030 to the Malaysian Highway Authority for documentation and plans for the highway project yet public tenders for the contract were not called until 4 April 1986 (Lim Kit Siang, 1987:11). In addition, applicants were required to submit their tenders by 2 July 1986. So while United Engineers had almost 12 months to work on its proposal other competitors had less than 3 months to work on theirs.

Controversy over the project grew further when the DAP revealed that two other companies, Pilecon and Syarikat Hashbuddin, had produced more competitive proposals than United Engineers. In addition, it was found that United Engineers had never built a major road or bridge and that the company was insolvent (The Star, 1:8:1987). In August 1987 the Leader of the Opposition, Lim Kit Siang, filed a legal suit in which he charged that the proposed award of the highway contract to United Engineers was unlawful and tainted by conflict of interest involving senior government officials who were also UMNO leaders. But the case only delayed matters, for on 15 July 1988 Malaysia's Supreme Court dismissed the challenge, thereby clearing the way for the government to grant the $3.24 billion highway contract to United Engineers (AWSJ, 18:1:1988).

In response to charges of 'conflict of interest', government spokesmen, notably Works Minister Samy Vellu, countered that Cabinet had not been involved in the decision to award the contract to United Engineers (NST, 11:7:1987). It seems that Daim insisted that the matter not be decided by the Cabinet but within the Ministry of Works and that

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53 Apparently the plan to privatise the highway project originated with United Engineers which initially hoped to be awarded the contract without even having to go through the motions of a competitive bidding process (AWSJ, 18:1:1988).

Ministry officials make the 'right decision' in favour of United Engineers[54]. Apparently the quid pro quo was a payoff to the Malaysian Indian Congress (MIC), the ethnic Indian component of the government headed by Works Minister, Samy Vellu. On 29 December 1986, ten days after the Public Works Ministry gave United Engineers the Letter of Intent, an official of the MIC wrote to Halim Saad, the Chief Executive Officer of United Engineers, and requested the company purchase $290,000 worth of lottery tickets from an MIC-sponsored Institute (AWSJ, 18:1:1988). Later, Halim Saad, in an affidavit to the Supreme Court responding to the legal suit brought against United Engineers by Lim Kit Siang, acknowledged that the company had indeed purchased $250,000 of MIC lottery tickets but claimed, somewhat disingenuosly, that the purchase "wasn't in any way connected with the award of the contract" (AWSJ, 18:1:1988).

The close relationship between the government and the party was not only evident in the manner by which the North-South highway contract was awarded to UMNO-controlled Hatibudi, but also the extraordinarily generous terms of the contract. The contract provided large government loans to United Engineers, a toll collection concession along the highway for 25-30 years, allegedly worth $54 billion (Lim Kit Siang, 1987:111) and a government guarantee of minimum traffic volume for a substantial portion of the life of the concession (AWSJ, 1:18:1988). Such generous government support not only protected United Engineer's profits but also shifted much of the costs and risks of privatisation to the government.

Besides the North-South highway contract, United Engineers Malaysia (UEM), was awarded a string of highly profitable contracts for services the sum of which generated a huge source of funds for the party. The most notable included:

- (1985) a $250 million contract to design a national sports complex (BT, 24:12:1985).
- (1987) UEM was part of a consortium that was awarded the $47.5 million Peninsular Gas Utilisation managment consultancy project in Trengganu (Lim Kit Siang, 1987:v).
- (1990) the privatisation contract for the highly profitable chain of pharmaceutical outlets operated by the Malaysian Governments Health Ministry (FEER, 20:12:1990).

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[54] Interview October 1987. Source close to the Ministry of Works.

- (1990) the contract to construct the $1 billion second causeway between Malaysia and Singapore (FEER, 20:12:1990).

Another form of privatisation is to issue licences to allow private companies to provide services previously monopolised by the government. This form of privatisation has provided another avenue by which the close government/party relationship has facilitated the development of UMNO's business interests. An example of such 'privatisation' was the award by the government in August 1983, of a licence to operate the country's first private television network, Sistem Televisyen Malaysia Bhd (STMB) or TV3, to the UMNO-owned Fleet Group[55].

Almost from its inception TV3 has been a highly lucrative business, its pre-tax profit rising rapidly from $2.16 million in 1985 to $31.6 million in 1990 (KLSE, Vol XV:1990:534) and (NST, 31:12:1990). The initial shareholders of TV 3 were Fleet Group (40 per cent), Utusan Melayu (20 per cent), Syed Kechik Foundation (20 per cent), Maika Holdings (10 per cent) and Daim Zainuddin (10 per cent) (AWSJ, 8:5:1991). Fleet Group won the television licence in competition against a foundation controlled by the then wealthy Bumiputra enterpreneur Syed Kechik Syed Mohamed (AWSJ, 21:9:1983). The ownership of TV 3 was noteworthy for the combination of party and private interests involved - those of Fleet and the private family companies of Daim Zainuddin, which collectively held 50 per cent of the company.[56] The fact that Daim was chairman of the Fleet Group when TV 3 was set up meant that he was able to combine the interests of the party with those of his private companies in a highly lucrative business.

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55 Besides obtaining the licence to operate Malaysia's first private TV channel, the Fleet Group also later obtained the rights to service users of Malaysia's new mobile telephone system. Apparently Fleet 'cajoled' government-owned Telecom Malaysia to create a new company to service that rapidly expanding and most profitable aspect of telecommunications services (FEER, 20:12:1990). In 1988 a joint-venture company called STM Cellular Communications Sdn Bhd (Celcom) was incorporated in which Fleet Communications held a 49 per cent stake while government-owned Syarikat Telecom Malaysia Bhd (STM) held the remaining 51 per cent equity (Gomez, 1990:97). Later this valuable asset was reshuffled within UMNO's own corporate empire when, in April 1990, Time Engineering bought Fleet Communications' stake in Celcom from the Fleet Group for $81 million. Both Fleet and Time Engineering were UMNO-linked companies which were later incorporated within the party's magaconglomerate, Renong Bhd. Time's chairman, Datuk Mohd Desa Pachi, was also a director of Celcom and the Fleet Group (AWSJ, 19:4:1990).

56 Daim's interests were held through two family companies, Daan (5 per cent) and Dani (5 per cent). Gomez (1990:73).

Fleet's later sale of the TV3 licence to another UMNO subsidiary, Pitisan Sdn Bhd), , and to Bumiputra interests in the private sector, Malayan Cables, as well as TV 3's own disparate acquisitions, notably including the food retailer Cold Storage, also provided fascinating insights as to how the enmeshing of interests between UMNO and UMNO-connected individuals in the private sector can assist the growth of both. Particularly pertinent in that regard was the lucrative licence a private Bumiputra company, Malayan Cables, received from the government to operate payphones and its apparent willingness in return to pay an inflated price to the Fleet Group for the 20 per cent stake it held in TV3.[57]

Government/Party/Private Sector Relations - Interlocking directorships and the transfer of assets

The use of common directorships between companies controlled by the party and publicly-listed companies controlled by the government has been another mechanism used to effect a shift of assets from the government sector to the party or UMNO-related Bumiputra business groups in the private sector. This may be illustrated by examining how a number of publicly-listed former tin mining companies were separated from the government-owned Malaysia Mining Corporation (MMC) and, via a web of minority shareholdings and common or sympathetic directors, later became the core of the UMNO-controlled conglomerate, Halimtan, whose activities embraced gambling, gold mining, manufacturing, food retailing and financial services.

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57 Fleet Group sold its stake in TV3 to Pitisan Sdn Bhd, and Malayan Cables in 1987. Fleet made a total of $38.75 million from the sale but $27.5 million of that came from the higher price Fleet charged Malayan Cables for its TV3 shares perhaps, as was noted at the time, as a quid pro quo for past favours (BT{S'pore} 23:7: 1987).

In July 1987 Fleet charged Malayan Cables $5.50 per share for the remaining 20 per cent stake Fleet held in TV3 whereas two months earlier in May 1987 Pitisan paid Fleet $4.50 per TV3 share for a 10 per cent stake, the same price it paid the Syed Kechik Foundation and Nabila Sdn Bhd for their interest in TV3, that is 20 per cent and 10 per cent respectively. Pitisan paid only $4 per share to Utusan Melayu which also had a 10 per cent stake in TV3 (BT{S'pore) 23:7:1987) and (NST, 8:5:1987).

Malayan Cables, which changed its name in January 1988 to Uniphone Telecommunications Bhd is owned by Sapura Holdings, controlled by Shamsuddin Kadir, formerly a director of Permodalan Bersatu Bhd (PBB), the holding company of UMNO's cooperative, Koperasi Usaha Beraatu (KUB). Malayan Cables had made large profits as the only company to receive a government licence to operate payphones (1975-1990) and, along with three other Bumiputra companies, shared in 1983 a highly controversial $2.5 billion cable laying contract from the government. The development of Sapura Holdings is examined in chapter 7.

The Cold Storage shares can be traced ultimately to Daim Zainuddin. An account of the movement of those shares between various UMNO-related companies illustrates the extent to which party and private Malay interests are often inextricably enmeshed in the corporate sector.

In June 1986 MMC, together with its subsidiary Tronoh Mines, sold its entire 42.9 per cent interest in Aokam Tin Bhd to a then unknown company called Halimtan Sdn Bhd. The sale went through despite vociferous objections from minority shareholders that Aokam Tin was being sold for half its market value (FEER, 6:10:1988). In order to understand the relationship between government-owned MMC and Halimtan it is necessary to give some background regarding the principal figures involved in both and their linkages with UMNO.

When MMC sold Aokam to Halimtan, the directors of MMC included Mohd Desa Pachi and Zain Azahari bin Zainal Abidin. Desa Pachi had been appointed by Daim as a director of UMNO's Fleet Holdings, and was chairman of many of the publicly-listed companies within the Fleet Group. He also sat on the board of some of Daim's family companies and had been a director of government-owned PNB, the major shareholder in MMC. Zain Azahari had been appointed chairman of the United Malayan Banking Corporation (UMBC) when Daim had control of the bank and had been appointed a trustee of Daim's considerable private business investments. Halimtan Sdn Bhd, the company to which MMC sold its interest in Aokam Tin, was founded in part by Halim Saad on 17 August 1982[58]. Halim Saad, it will be recalled, acted as an important proxy overseeing the growth of UMNO's business investments during the eighties. Some of his most important appointments in that regard included his position as director of Hatibudi and chairman of the Fleet Group and Pitisan.[59] He was replaced as a director of Halimtan[60] in December 1986 by Datuk Mohamed Rahmat, then Minister of Information and UMNO Secretary General.

On 29 October 1986, Halimtan made a takeover bid for the remaining shares in Aokam held by MMC's subsidiaries Tronoh Mines and Ayer Hitam Tin Dredging Bhd. The bid prompted a mandatory general offer[61] which was accepted by the subsidiaries concerned, again indicating that government-owned shares were being directed to UMNO-controlled Halimtan (Gomez, 1990:119). Tunku Abdullah, a member of the

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58 Halimtan was founded by Halim Saad and Daniel Tan See San. Daniel Tan's brother, Vincent Tan See Yin was a close associate of Tunku Abdullah's Melewar group (FEER, 6:10:1988).

59 Until January 1991 Halim Saad was also director of United Engineers, Projek Leburaya Utara Selatan and the Faber Group (NST, 17:1:1991).

60 In March 1988 Halimtan was renamed Waspavest Sdn Bhd.

61 Malaysian regulations make it mandatory for a firm on the threshold of acquiring 33 per cent ownership of a publicly-listed company to make a general offer for the remaining shares of that company.

Negri Sembilan royal family, was appointed chairman of Aokam. He was a close personal friend and one-time business associate of the Prime Minister, Dr Mahathir. Other board members included Shah bin Abu Mansor (managing director and a director of Halimtan), Tunku Iskandar, Tunku Abdullah's son, and Mohd Asri bin Abdul Ghafar, a son of the Deputy Prime Minister Ghafar Baba (BT, 27:10:1986).

Aokam ceased all tin mining operations in April 1986 and, after its takeover by Halimtan, was turned into an investment holding company. In 1987 Halimtan, using Aokam as its vehicle, acquired significant interests in a string of publicly-listed companies including Cold Storage (M'sia), Roxy Electric Industries (M'sia) Bhd, D & C Bank and Granite Industries Bhd.[62] The stakes purchased in Cold Storage were from Pradaz, a family company belonging to Daim Zainuddin (NST, 11:11:1986). Daim also had a stake in Roxy, and his protege and founder of Halimtan, Halim Saad was on the board of directors of both Cold Storage and Roxy. Aokam also bought a significant stake in Malaysian Assurance Alliance (MAA). Tunku Abdullah, the chairman of Aokam, controlled the Melewar Group which was the ultimate holding company of MAA (BT, 9:3:1987). Later MAA bought a parallel stake in Aokam (FEER, 19:4:1990). The significance of those acquisitions was again the apparent enmeshing of interests between UMNO and UMNO-connected individuals in the private sector. In other words, it was difficult to determine the extent to which the key figures in Halimtan, most notably Tunku Abdullah, were acting for UMNO, or using their ties with UMNO to benefit personally as directors of publicly-listed companies.

Besides Aokam Tin, other companies were also separated from government-owned MMC and, via a web of common directors and minority shareholdings, were drawn into UMNO-controlled Halimtan. In February 1987, MMC/Tronoh divested its controlling 31.3 per cent stake in Ayer Hitam Tin Dredging to a private company called Sendarta Sdn Bhd, [63] the main director of which, until his appointment as Information Minister, was UMNO Secretary-General, Datuk Mohamed Rahmat (FEER, 6:10:1988). Mohamed

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[62] In June 1987, Aokam acquired a 5.2 per cent stake in Granite Industries Bhd, and in July a 32.5 per cent stake in Cold Storage (Malaysia) Bhd; 20 per cent of Malaysian Assurance Alliance (MAA) and 14.7 per cent of Roxy Electric Industries (Malaysia) Bhd. The shareholding in Cold Storage was subsequently reduced to 22.5 per cent. See BT{S'pore, 11:11:1986, NST, 9:3:1987 and 20:7: 1987, BT, 20:6:1987 and KLSE Annual Companies Handbook, Vol X1V:38.

[63] Sendarta Sdn Bhd was incorporated on 15 February 1986 (FEER, 6:10:1988). It was a holding company which was 19.5 per cent owned by Visia Nominees. The owners of Visia Nominees were unknown (FEER, 19:4:1990). As of 31 October 1989 the 31.4 per cent contolling stake held by Sendarta in Ayer Hitam was held indirectly by Dr Abdul Razak bin Abdul who was also a director of Ayer Hitam (KLSE,Vol XV:886).

Rahmat was then also a director of Aokam Tin and, as noted earlier, also a director of Halimtan.[64] The links with UMNO were extended from Sendarta to Ayer Hitam through Datuk Mohd Noor Mohd Dom, the chairman of Ayer Hitam, who was also a member of the UMNO Supreme Council (KLSE, Annual Companies Handbook, Vol XV:886) and (FEER, 19:4:1990).

Soon after its disposal by MMC, Ayer Hitam embarked on a series of acquisitions which bore some startling similarities with those of Aokam, that is they involved companies in which Daim also held stakes, most notably Cold Storage and Roxy. The passage of Cold Storage Malaysia Bhd (CSM) through various UMNO-related companies also illustrates well the extrordinary meshing at some points of 'party' and 'private' Bumiputra business interests.

In 1984, a 32.5 per cent stake in Cold Storage (CSM), a manufacturer and distributor of food products, was sold to a Bumiputra company Pradaz, as part of an exercise to allow CSM to comply with bumiputra-ownership provisions of the NEP. As indicated earlier, Pradaz was a family company owned by Daim Zainuddin. Shortly after that acquisition Daim was appointed as a minister and, as such, was required by a cabinet directive to divest his shareholdings. In November 1986 Pradaz' 32.5 per cent stake in CSM was bought by UMNO-controlled Halimtan through Aokam Tin in a deal which valued CSM at $3.80 a share and Aokam at $1.90 a share (FEER, 6:10:1988). Less than a year later Ayer Hitam acquired Aokam's 10 per cent stake in CSM and 14 million shares in Aokam itself. The price it paid in cash for the CSM stake was 88 per cent above market value (FEER, 6:10:1988). In September 1988 those same CSM shares were sold again to another UMNO company, The New Straits Times Press (NSTP), for a profit of $3 million![65] (Ayer Hitam also purchased a stake in Roxy.) At the same time, Sistem Televisyen Malaysia Bhd (STMB) or TV3 entered into agreements with Aokam to purchase Aokam's 22 per cent stake in Cold Storage though these were later abrogated.[66] (Desa Pachi was chairman of TV3, chief executive officer of NSTP, and director of Fleet Holdings.) In other words, the Cold Storage shares originally bought by Daim, whether

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64 On 30 June 1988, Mohamed Rahmat was replaced as a director of Halimtan by Shah bin Abu Mansor who also became the companies main shareholder.

65 According to *Malaysian Business*, Ayer Hitam paid $17.8 million for its 10 per cent stake in Cold Storage in 1987 but sold it in late 1988 for $26.7 million which resulted in a gain of $3 million after accounting for money paid for Cold Strorage's rights issue subsequent to the purchase (MB, 1:6:1989).

66 See KLSE Annual Companies Handbook, Vol XV:534.

on his own behalf or for UMNO, were, to use Seaward's terminology, 'being shuffled from one (UMNO) safe haven to another' (FEER, 6:10:1988). More importantly, since those 'safe havens' were publicly-listed and cash-rich companies, initially Aokam and Ayer Hitam, and later NSTP, UMNO and presumably certain 'private' interests (Daim), profited in the course of those sales.

Two other companies were also separated from government-owned MMC in the eighties, notably Kampung Lanjat Tin Dredging Bhd (in April 1987) and The Sungei Besi Mines Malaysia Bhd (in June 1989). Both were also rapidly incorporated into UMNO-controlled or related conglomerates in much the same fashion as were Aokam and Ayer Hitam. Again, as publicly-listed companies, both were used to raise money for the expansion of their respective groups. Kampung Lanjat was drawn into the Halimtan network when, on 13 April 1988, Aokam acquired a 10 per cent stake in the company. Thus Halimtan, Sendarta, Aokam and Ayer Hitam were all linked through cross-holdings and interlocking directorships as indicated in Figure 5.5. By the early 1990's companies such as Aokam, Roxy, renamed Technology Resources (TRI), and Cold Storage had separated from the Halimtan network of companies[67] and constituted the nuclei of new Bumiputra conglomerates headed by some of the leading members of the emerging private Bumiputra business elite.

The growth of the Halimtan conglomerate illustrates how through common or sympathetic directorships and a web of minority shareholdings, publicly-listed companies controlled by the government (MMC) were shifted from the state sector to the party. In concert with that shift of resources was an enmeshing of the corporate investments of the party with those of some Bumiputra groups in the private sector. A notable example was the interlocking directorships held by Tunku Abdullah - as head of UMNO-controlled Aokam (through Halimtan), and the cross-holdings between Aokam and Abullah's own company, the Melawar Corporation through Malaysian Assurance Alliance (MAA). Another was the extraordinary passage of Cold Storage shares, originally acquired by Daim, through Aokam, Ayer Hitam and New Straits Times Press - all UMNO-linked, and at the time, cash-rich companies. Although it was difficult to determine at what points the individuals concerned were acting for the party, or their private corporate interests, ultimately it appeared that both were served by the relationship.

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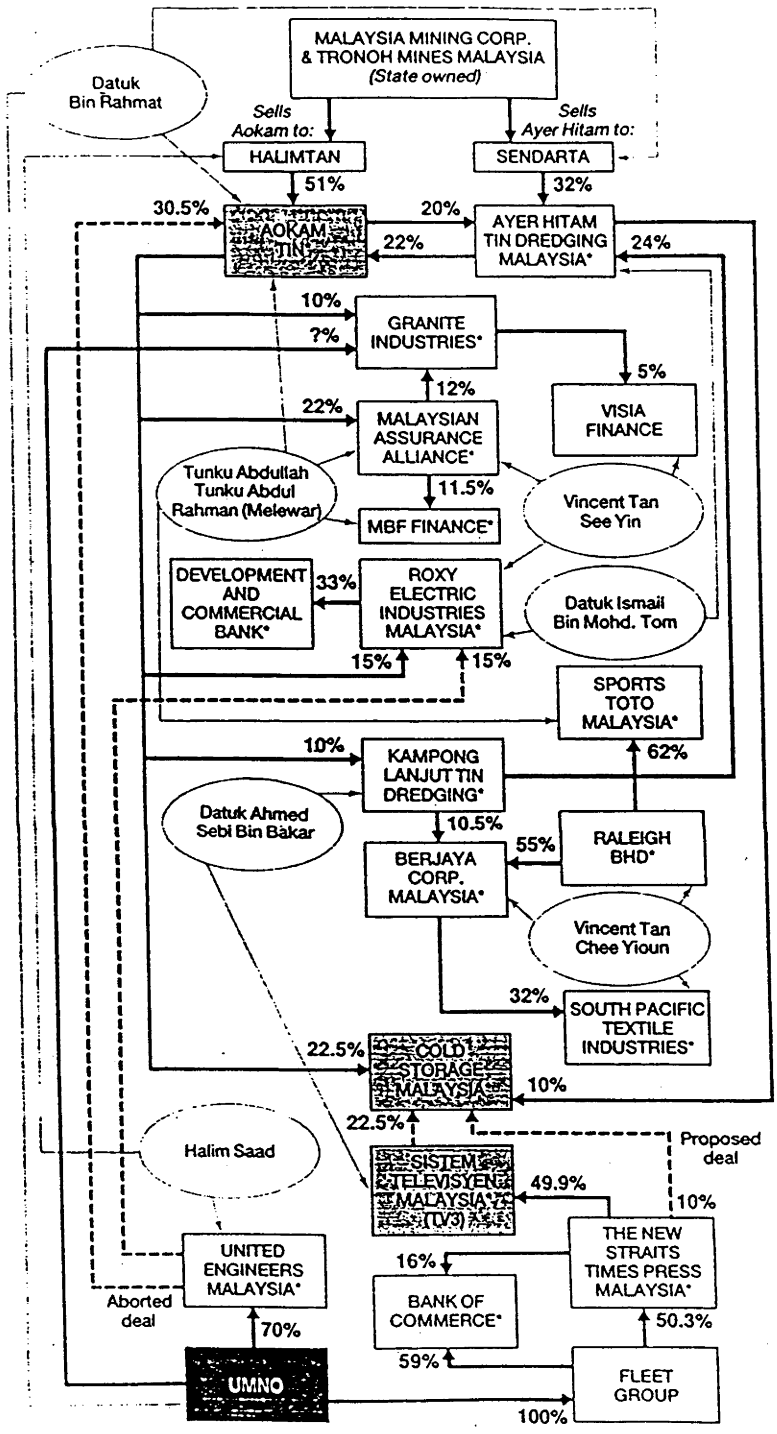
[67] For an account of developments within the Halimtan (later renamed Waspavest Sdn Bhd) network of companies in the early nineties see Gomez, 1994:105-116.

Figure 5.5: Halimtan and Sendarta: Common Directors and Cross-ownership circa 1988



*Indicates public listed companies.

Notes: Personalities are connected with companies either through holding office, past and present, or through direct or indirect ownership, or through effective management control.

Source FEER, 6:10:1988

Conclusion

This chapter has shown the extent to which UMNO itself became a major corporate player in the 1980's and its role in expanding Malay ownership of the economy. Critical to that development was the merging of government and party interests in the context of the NEP which facilitated the growth of UMNO's business groups. That close, if not incestuous relationship was highlighted by the various mechanisms UMNO was able to employ to effect a shift of resources from the state sector to the party or UMNO-related interests in the private sector. Those mechanisms included assistance from government-owned banks and key regulatory agencies such as the Ministry of Trade and Industry (MTI), the FIC and the CIC. Special (Bumiputra) shares, issued by companies to restructure their equity in accordance with NEP guidelines, were another means by which UMNO was able to extend its corporate empire, as in the case of the Faber Merlin group in the early eighties. The Mahathir government's privatization program also facilitated a shift of resources (and patronage), from the state to the party, the North-South highway and TV3 prominent amongst a host of other examples. (With regard to the latter there also appeared to be a quid pro quo arrangement between party capital (Fleet), and private Malay capital (Malayan Cables), that was advantageous to both and showed the intimacy and mutual advantage inherent in the relationship between UMNO and some Bumiputra groups in the private sector.) Finally, the use of common directorships between companies controlled by the party and publicly-listed companies controlled by the government, was another way that assets and business opportunities were shifted from the government sector to the party or UMNO-related interests. This was well illustrated by the way in which the Halimtan network of companies grew into a large conglomerate. In its growth, the Halimtan conglomerate again highlighted the complementary relationship between 'party' and 'private' Malay capital. But what sort of capitalists has that relationship produced and what are its consequences for the development of Malay capitalism? These questions are matters for our next chapter.

Chapter 6

POLITICAL CAPITALISTS: RELATIONS BETWEEN PARTY CAPITAL AND PRIVATE MALAY CAPITAL

In our examination of how the government-party relationship facilitated the growth of UMNO's considerable corporate investments it was apparent that the business interests of the party, or 'party capital,' were often inextricably entwined with Malay interests in the private sector. In this chapter we shall focus on how the fusion between elements of party and private Malay capital has facilitated the growth of "political capitalists". As the term implies, political capitalists derive their wealth primarily through their association with UMNO.

Political capitalists may be divided into two broad groups. The first consists of politicians and others who, as a result of their political prestige or party connections, are able to project themselves into business through the purchase of land and timber concessions or by the acquisition of contracts and directorships. Some prominent examples of politicians-turned-businessmen include the former Deputy Prime Minister, Ghafar Baba, Datuk Syed Kechik, Datuk Abdullah Ahmad, and the former Chief Ministers of Selangor and Sarawak, Dato' Harun Idris and Tan Sri Datuk Patinggi Rahman Yakub. A second group of political capitalists consists of those individuals whose entry to business was facilitated by their management of UMNO's corporate assets in the private sector. The most prominent individuals in this group of 'UMNO's proxy capitalists-turned-businessmen' share a common background of having worked with the former Finance Minister, Daim Zainuddin at Peremba, and include, besides Daim himself, Wan Azmi Wan Hamzah, Mohd Razali Abdul Rahman, Halim Saad, Samsuddin Abu Hassan, Ahmad Sebi and Tajuddin Ramli. In the 1980's most members of this group, apart from Daim, were still in their thirties and many had qualified overseas as accountants.

While both groups of political capitalists become businessmen, the starting point of each is different. On the one hand the transition of politicians or former politicians to business is largely as a result of their own political standing or connections, while that of 'UMNO's proxy capitalists' is due, at least initially, to their position as trustees of

UMNO's corporate assets. Not only is the starting point of the two groups different but, as we shall see, so is their capacity to eventually emerge as successful businessmen in their own right. In the five case studies that follow we shall be concerned to show the different methods of capital accumulation associated with these two groups of political capitalists, and how differences in the relationship between politics and business also relate to the capacity of individuals in those two groups to move (or not) beyond the networks of political patronage that originally sponsored them. With these purposes in mind we shall now examine the corporate rise of two prominent politicians-turned-businessmen, former Deputy Prime Minister Ghafar Baba, and the former 'strongman' of Sabah state, Syed Kechik.

POLITICIANS-TURNED-BUSINESSMEN

Abdul Ghafar Baba

Ghafar Baba's status as a senior UMNO politician was crucial to his rise in business.[1] Often characterised as 'a man for all seasons', Ghafar's political and business survival has, in large part, depended on his capacity to quickly side with the majority or winning faction in the fluid atmosphere of UMNO politics. As an UMNO vice-president since 1962, Ghafar twice appeared poised to take the deputy presidency, and with it the position of Deputy Prime Minister, but both times was passed over.[2] The second rebuff occurred after the death of Tun Razak in 1976, when Hussein Onn became Prime Minister and party president. Hussein chose Dr Mahathir as his deputy over Ghafar and Tengku Razaleigh, both of whom had outpolled Mahathir in the party's vice-presidential election the year before.[3] Reportedly angered by Hussein's decision, Ghafar resigned from the cabinet and went into business. Nevertheless, he remained an MP and, more

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1 A party veteran, Ghafar joined UMNO in 1951 and was appointed Chief Minister of Malacca in 1959. He became the first chairman of MARA in 1967 and from 1971 to 1976 served as Minister of National and Regional Development.

2 When Deputy Prime Minister, Tun Ismail, died in 1974 the then Prime Minister, Tun Abdul Razak, gave the deputy positions in the party and the government to another vice-president, his brother-in-law Dato' Hussein Onn.

3 It is generally believed that Hussein wanted to appoint Ghazali Shafie as Deputy Prime Minister, despite the fact that Ghazali had not succeeded in his attempts to win one of the three vice-presidential positions in the party. As rumours spread of Ghazali's possible ascension, the then three vice-presidents - Ghafar, Razaleigh and Mahathir - demanded that tradition be followed and the Prime Minister choose one of them as his deputy. See MB, 1:1:1987. Tengku Razaleigh corroborated this version of events in a biography by Ranjit Gill (1986:147).

importantly, continued to serve as secretary-general of the ruling multi-party Barisan Nasional or National Front.

Ghafar acquired the necessary capital for business from large profits made from buying and selling land in Kuala Lumpur (MB, 1:1:1987). In December 1979 Ghafar, through a family company, Goodyield Plaza, bought a 41 per cent stake in Pegi Malaysia Bhd. for about $850,000. At the time Pegi was estimated to be worth $3.2 million but the company had been suspended from the Kuala Lumpur Stock Exchange (MB, 1:1:1987). Shortly after Ghafar acquired his stake in Pegi, the company was re-listed on the KLSE and its share price soared from $2.50 to $16 at the height of the then (1981), stock market boom. (As a member of the BMF Commitee of Enquiry observed, 'the right connections' can facilitate the re-listing of a suspended company and minimise the time taken to obtain the necessary approvals from the regulatory authorities concerned.)[4] Besides the 'right connections', the principal reason for the extraordinary rise in Pegi's stock was that in mid-1980 the company had started buying into the British manufacturing giant, Dunlop Holdings. By the early eighties most of Malaysia's resource-based industries had been wrested from foreign, mainly British, control. The few remaining London-based companies, such as Dunlop Holdings, were obvious targets for restructuring to accord with NEP guidelines. Dunlop had two major Malaysian subsidiaries, Dunlop Estates Bhd (DEB), a plantation company, and Dunlop Malaysian Industries Bhd (DMIB), a manufacturing firm.

By May 1982, Pegi had acquired 26 per cent of Dunlop making it the single largest shareholder in the multinational. Pegi's acquisition was applauded as a patriotic endeavour and Ghafar contended that the Dunlop purchase was 'dirt cheap' (MB, 1:1:1987). Pegi bought most of its Dunlop shares for under 50 pence a share which valued the company at under $120 million when its world wide assets were estimated to be worth nearly $1 billion (Asiaweek, 9:3:1984). But it soon became apparent that while Dunlop had considerable assets, it also had huge debts (350 million pounds sterling). Moreover, in the midst of a recession in the tyre market in the early eighties, Dunlop's prospects were rapidly declining. In the circumstances, it was obvious that Pegi could not afford a fullscale bid for Dunlop, and did not have the resources to revive the debt-ridden conglomerate. In early 1986, after another company (BTR), one of the largest industrial concerns in Britain, took over Dunlop, Pegi gradually divested its holdings in the company (MB, 1:1:1987). Our principal concern here, however, is not with the details of

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4 See Chooi 1987:12.

Pegi's rather convoluted, and ultimately unsuccessful, attempts to acquire substantial stakes in Dunlop Holdings units in Malaysia, but rather how Ghafar's status as a senior UMNO politician and secretary-general of the Barisan assisted his move into business. The Pegi saga highlighted a number of issues in that regard.

First, it was apparent that Ghafar's considerable political status enabled him to borrow massive funds from local and foreign banks to finance his Dunlop bid which, in the context of the NEP, he was not adverse to painting as an exercise in the 'national interest' (NST:1/7/82). In that regard he also received financial backing from Kompleks Kewangan, a subsidiary of MARA. Ghafar was Executive Chairman of Kompleks Kewangan which is a Bumiputra unit trust that invests Malay capital in the securities market. Its six subsidiary companies include a bank, the Amanah Chase Merchant Bank Bhd.[5] (Ghafar relinquished his responsibilities for MARA when he resigned as Minister for Rural Development in 1976 but continued to hold the post of Executive Chairman of Kompleks.)[6] Kompleks Kewangan was an early and substantial buyer of Dunlop shares for 'investment purposes' (FEER, 27:2:1981).

Ghafar's political credentials were also important factors contributing to investor confidence and the extraordinary rise in the price of Pegi's shares. As the share price of that 'wonder counter' rose in August 1980, the directors of Goodyield Plaza, then ultimate owner of Pegi, reaped enormous profits. (During early 1980 Ghafar's fellow directors of Goodyield Plaza, Eng Chin Ah and Phoon Ah Lek, bought large blocks of Dunlop shares in their personal capacities.) When in August and September 1980 it was apparent that Pegi was making a bid for Dunlop, and Dunlop shares rose, Eng and Phoon sold their Dunlop shares to Goodyield Plaza.[7] At the same time, while Pegi's shares and investments were rising in spectacular fashion, those of another related company,

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5 The other subsidiary companies included Amanah Saham MARA Bhd, Amanah Saham MARA Nominees, Malaysia Discount Bhd, Pelaburan Amanah Nasional and Amanah dan Arthur International Sdn Bhd Gale (1981:57).

6 See FEER, 27:5:1986 and Malaysia: Who's Who 1983:93

7 Eng bought 3.27 million Dunlop shares between 13 February and 21 August 1980. He sold most of those shares between July and September 1980 when the market was at its peak and, according to Hugh Peyman, would have made between 465 and 620 thousand (pounds sterling) profit depending on whether he (Eng) made 15p or 20p profit per share. Phoon bought 1.71 million Dunlop shares between mid-March and the end of May 1980. In September, Phoon told the inspectors he had sold 1.37 million shares which with judicious timing he could have made a profit of approximately 275 thousand pounds sterling. See FEER, 27:2:81.

Goodyield Holdings, were concidentally falling by almost the same amount.[8] Shortly afterwards, Pegi was named in a petition by disgruntled shareholders of Goodyield Holdings for an official investigation of the affairs of twelve Pegi-related companies, companies that were all connected by Ghafar's chairmanship; but nothing ever became of the proposed suit.[9]

In the course of his rise in the corporate world, Ghafar's business interests became inextricably entwined with those of his sons who sought to capitalise on their father's standing in UMNO to further their own political and business careers. Most notable in that regard was Mohd. Tamrin, who was an MP, an executive committee member of UMNO Youth, and a director of Talasco Insurance. (Talasco Insurance was a wholly-owned subsidiary of Idris Hydraulic, the ultimate owner of which was Koperasi Usaha Bersatu Bhd (KUB), an UMNO-owned company which, was also one of Pegi's principal bankers.)[10] Besides Ghafar, two of his sons, Mohd. Asri and Mohd. Sofi, also became directors of Pegi.[11] Apparently, in the course of Pegi's attempts to take over Dunlop (1980-83), father and sons all borrowed heavily against their holdings in the company. When Pegi's fortunes slumped, as the recession of the mid eighties deepened and the company's losses mounted, so too did the debts of its most notable directors[12] Throughout, Ghafar retained his status as an UMNO MP, and in 1984 also retained one of the three vice-presidential positions in the party. Developments in UMNO then thrust Ghafar into the national leadership, just as his business fortunes appeared on the verge of collapse.

In March 1986 Musa Hitam resigned from his cabinet post as deputy Prime Minister citing "irreconcilable differences" with Prime Minister Mahathir (MB, 1:1:1987).

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8 Goodyield Plaza's investments rose 30-fold to over $10 million in one year (1980) while Goodyield Holdings decreased by the same amount (FEER, 10:4:81).

9 See BT, 1:7:1981 (Letter to the Editor, "Pegi Relisting" by Datin Peggy Taylor) .

10 See KLSE, Annual Companies Handbook Vol XIV, 1988: 560.

11 When Ghafar resigned on 30 April 1986, Mohd. Asri replaced him as chairman of Pegi.

12 By March 1984 Pegi had made a huge loss of $59 million; its original investment ($110.4 million) was far in excess of the then market value of its shares, around $51 million (MB, 1:1:1987). Since 1985 Pegi's losses continued to mount totalling $139.2 million by 1989. Pegi's progressive accumulation of debt occurred thus: 1985 ($47.5-) ;1986 ($42.7-) ; 1987 ($8.0-) ; 1988 ($11.4-) ; 1989 ($29.3-) KLSE, Annual Companies Handbook (VOL XV, 1990, P455). Pegi's investments in palm oil plantations (Swee Lam Estates) and Sateras Resources (Malaysia) Bhd, a company closely identified with business interests associated with the former Chief Minister of Sarawak, Abdul Rahman Yakub, were particularly hard hit by the 1985-86 recession. See Investors Digest, KLSE December 1986:34 and Cheong, 1990:16.

Confronted by a vacuum in government and an imminent general election, Dr Mahathir turned to the ranks of the party's vice-presidents to select a deputy (MB, 16:5:1990). The three contenders were Ghafar Baba, Datuk Wan Mokhtar and Datuk Abdullah Badawi. But in effect it was a no-contest affair. Wan Mokhtar was unacceptable because he was a 'state' rather than 'federal' politician. (Wan Mokhtar was then Chief Minister of Trennganu and such appointments have traditionally come from federal level politicians.) Abdullah Badawi, on the other hand, was 'seen' as sympathetic to Musa (MB, 1:1:1987). Viewed as neutral in the growing split in UMNO between the Mahathir and Musa factions, Ghafar was the obvious choice, and on 10 May 1986 was sworn in as Deputy Prime Minister.

On the same day that Ghafar was sworn in as Deputy Prime Minister, Standard Chartered Bank gave notice that it was initiating bankruptcy proceedings against his son, Tamrin. Two days later, the bank withdrew the notice without elaboration (Asiaweek, 15:3:1987). Meanwhile, Ghafar's debts grew as companies associated with him, particularly Pegi and Kompleks Kewangan,[13] made huge losses. Ghafar's opponents accused him of taking the post of Deputy Prime Minister only to ward off irate bankers (Asiaweek, 15:3:87). Whatever the case, it was apparent that as the split between the Mahathir and Razaleigh factions widened, and UMNO politics was, from 1986 to 1990, at its most fluid, Prime Minister Mahathir had a deputy who could ill-afford any notion other than total loyalty to the leadership.

Ironically, as Ghafar's business fortunes declined his political influence grew and facilitated, at least indirectly, business opportunities for other members of his family. Ghafar's political influence grew largely as a result of the key role he played as mediator or 'trouble-shooter' for UMNO in attempting to resolve disputes within the parties of the Barisan and between the federal leadership and that of the states.[14] Ghafar's considerable

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13 Founded in 1972, Kompleks Kewangan registered its first ever loss of $16.6 million in 1985 and continued to make big losses for the remainder of the decade. Eventually, in the late eighties it was necessary for PNB to inject a substantial amount of capital into Kompleks Kewangan in a bid to again make it solvent. See MB, 1:1:1987 and MB, 16:5:1990.

14 In 1975 Ghafar played a key role in the formation of the Berjaya party, used by the Federal leadership to oust Tun Mustapha's USNO which had threatened to take Sabah out of the federation. In 1977 Ghafar and Tengku Razaleigh, then Minister of Finance, encouraged the formation of Parti Berjasa in Kelantan which was later used by UMNO to oust its main Malay rival, the Parti Islam (PAS) from its 20 year rule of that state. In 1983 Ghafar helped to defuse a political crisis in Sarawak which arose after quarrelling in the Sarawak National Party (SNAP) and worked to admit its breakaway Iban-based faction, Parti Bansa Dayak Sarawak into the coalition. See Asiaweek, 13:4:1986. In 1985 Ghafar also played an important mediating role in a bitter dispute which had split the MCA into two factions, one led by Tan Koon Swan and the other by Neo Yee Pan. See Means, 1991:178. Ghafar's

influence as a power-broker at party and state level appeared to coincide with the appointment of Tamrin Ghafar as chairman of a company called Mycom Bhd. The principal shareholders of Mycom Bhd were UMBC and KUBB Nominees.[15] In early 1990 Mycom obtained control of the Lotteries Corporation (Sabah) Sdn Bhd which was authorised to organise lotteries in Sabah under a licence issued by the Sabah state govenment. Lotteries Corporation operated the highly lucrative Sabah Big Sweep. For 1990 alone Mycom's projected profits were $54 million. As chairman, Tamrin was allocated 2 million shares in the company (MB, 1:5:1990). Mycom's profitability was expected to further increase after amendments were passed to the Gambling Act in July 1989 which effectively restricted legal gambling to UMNO-linked companies.[16]

Ghafar Baba's status as a senior UMNO leader and secretary-general of the ruling National Front Coalition Government enabled him to borrow huge funds from state-owned banks with which he was able to finance his purchase of Pegi and so make his foray into the stockmarket. Ironically, as a longtime chairman of MARA, Ghaffar's political persona, as one committed to the expansion of Malay ownership and the promotion of Malay capitalists, sat oddly with his own record as a 'capitalist'. In business Ghafar appears to have been little more than an 'Ali Baba' figure, albeit a particularly high-profile 'Ali', who relied on his rather unscrupulous Chinese partners to manage Pegi. Stated baldly, but nonetheless accurately, Ghafar was a politician in business but he never became a businessman. He was a speculator whose short time horizons for quick profits relied upon political connections and a buoyant stockmarket. Luckily for Ghafar, he remained a politician, because it was only his ascent to the office of Deputy Prime Minister, that saved him from creditors when companies with which he was associated became mired in debt.

Datuk Syed Kechik bin Syed Mohamed

Another prominent politician-turned-businessman was Datuk Syed Kechik. Syed Kechik also used political influence to accumulate capital which in turn facilitated his rise in business. A lawyer and son of a small shop keeper, Syed Kechik played an important

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efforts in the MCA dispute prompted a joke in the Singapore press that 'The Malays have their Ali Baba, the Indians their Sai Baba; for the Chinese...it's Ghafar Baba' (MB:1/1/87). (Again in the 1986 'Sabah Crisis' Ghafar, as secretary-general of the Barisan, played an important role in defusing tensions between the Federal Government and the newly elected PBS Sabah State Government.)

15 See KLSE, Annual Companies Handbook, Vol XV, 1990:406.

16 See Gomez, 1991:3-7.

role in the mid-sixties as an intermediary in the central government's 1965 conflict with Singapore and the 1966 constitutional crisis in Sarawak. At that time he was also asked by the then Prime Minister, Tunku Abdul Rahman, to assist Tun Mustapha build his power base in the United Sabah National Organisation (USNO), in preparation for the forthcoming 1967 state elections in Sabah. Syed Kechik played a key role in Tun Mustapha's subsequent victory in those elections and, until Mustapha's defeat in 1976, was widely regarded as the *eminence grise* of Sabah politics, or the real power behind Tun Mustapha, who as chief minister turned Sabah into a personal fiefdom.

The interlocking roles played by Syed Kechik in Sabah's politics, government and then largely timber-based economy, quickly produced a huge fortune.[17] The body through which each of these interlocking roles came together was the Sabah Foundation, of which Syed Kechik became the first director on 15 June 1967. Although the objectives of the Sabah Foundation were social and economic - to provide scholarships for needy students and uplift the living standards of Bumiputras in Sabah - it was in fact an ancillary political base for Tun Mustapha for the distribution of patronage.[18] From 1970 to 1974 income for the Sabah Foundation from the sale of timber logs amounted to $167.3 million (NST:26/6/1976).

The source of that patronage was Sabah's massive timber resources, most of which were controlled by 12 major companies or concessionaires. Through the unscrupulous use of legal loopholes in the original leases signed by the 12 companies and with the

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17 The positions held by Syed Kechik in government, politics and business included: Senator for Sabah in the Federal Parliament (1973-77); member and Deputy Speaker of the Sabah Legislative Assembly (appointed September 1975); Member of the Central Executive Committee of USNO (1968-73); member and legal advisor to USNO and the Sabah Alliance 1968-74); legal advisor to the Chief Minister, Tun Mustapha (1968-75); chairman of the Sabah Land Development Board (1971-72); Secretary of the United Sabah Islamic Association (1969-71); Member of the Board of Trustees of the Sabah National Park; Managing director of Rakyat Berjaya Sdn Bhd, Rakyat Bersatu Sdn Bhd, Director of Syarikat Pintasan Sdn Bhd, Syarikat Segama Sdn Bhd and Pulau Bohayan Sdn Bhd. See MB, July 1975 and Who's Who in Malaysia, 1982:345.

Syed Kechik's rise in business in the seventies through combining his roles in government, politics and business was, in that respect, later replicated by Daim Zainuddin in the eighties - one at state level, the other at national level.

18 Such patronge included a cash distribution scheme that handed over $38 million to the public. Every adult person in Sabah was, in theory, a Foundation benificiary. There were handouts of $50 a head in 1971 and $60 in 1973 and 1974. A further $2.4 million was spent on a branch of the Universiti Kebangsaan in Sabah and about $6 million was spent on secondary and tertiary scholarships for Sabah students. Although Foundation money was also spent on buildings and recreational facilities, funds expended to improve the living standards of Sabah's Bumiputra's still appeared to fall far short of the considerable income available to the Foundation from timber. See MB, August 1976

backing of a panoply of state powers, not the least of which included those of detention and immigration, Syed Kechik successfully negotiated the return of 5, 900 square miles of timber land to the state government. Approximately 3, 500 square miles of the best of this timber land was immediately allocated to the Sabah Foundation and was in theory 'sacrosanct', in that none of it could be allocated or exploited for any other purpose.[19]

After negotiations with the 12 concessionaires in 1970, Tun Mustapha's brother, Datu Salam, arranged for Syed Kechik to be given interests in three timber companies in exchange for assuming responsibility for their legal affairs and management (Ross-Larson, 1976:141). The total area of timber land allocated to the three companies amounted to 270 square miles, 100 square miles of which was carved out of the supposedly 'sacrosanct' area reserved for the Sabah Foundation.[20]

One condition of Syed Kechik's appointment as Director of the Sabah Foundation was that the position be part-time, enabling him to open law offices in Sabah (Ross-Larson, 1976:97). The core business of his practice was handling the legal work of the Chief Minister, Tun Mustapha (ST, 15:2:1977). Tun Mustapha was already a very wealthy man from investments in timber, property and commercial ventures in the state. Besides being Tun Mustapha's legal advisor, Syed Kechik was also Mustapha's political advisor, and in that capacity virtually ran the government during the Chief Minister's frequent absences overseas. As a result Syed Kechik soon wielded considerable political power, which in turn meant that many people and businesses found it opportune to retain his legal services out of 'goodwill'. His law practice soon became the state's largest. Syed Kechik channelled the lucrative income he obtained from both his timber concessions and his law practice into property development.

The initial success of the massive property developments undertaken by Syed Kechik in Sabah were, again, due to his capacity to combine his roles in public office with those of his private interests. The most prominent example in that regard was the Zara project.

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19 The remainder reverted to the State Government, in effect the Chief Minister, who had the power to dispense portions of it as he saw fit.

20 The three companies were: (1) Syarikat Pintisan Sdn Bhd which was allocated 100 square miles from the area reserved for the Sabah Foundation. The directors of Pintisan included: Syed Kechik, his brother Syed Salem Albukhary and Datu Abdul Salem bin Datu Harun, Tun Mustapha's younger brother. (2). Segama Sdn Bhd which was allocated 100 square miles of timber land, the directors of which included Syed Kechik, Syed Salem and Datu Abdul Salem bin Datu Harun. (3) Pulau Bohayan Sdn Bhd which was allocated 70 square miles of timber land in the Silibukan and Ulu Kinabatangan forest reserves. The directors of Pulau Bohayan were Syed Kechik and Datu Abdul Salem bin Datu Harun. See ST{S} 26:8:1975 and Hunter 1976:45-46 and 64-84.

While chairman of the Sabah Land Development Board (SLDB), Syed Kechik and his partners, in a company called Zara Sdn Bhd, bought up or arranged the alienation of large tracts of land from the USNO state government (ST, 15:2:1977). The land, on the Inanam peninsula close to the state capital, Kota Kinabalu, was to be developed by Zara into a $200 million commercial-resort complex. Zara subsequently 'donated' some land in the project area free to the Sabah Foundation, a donation which then attracted state funding for necessary (and expensive) infrastructure, which in effect serviced the entire project and considerably enhanced its value.[21]

By combining his roles in government, politics and business, Syed Kechik quickly amassed a huge fortune. But a fortune built on political influence on the one hand, and timber concessions and property on the other, was vulnerable to the vagaries of politics. Already concerned about Tun Musapha's corrupt and dictatorial rule, the then Prime Minister, Tun Razak, was particularly incensed when, on 23 April 1975, Mustapha circulated a paper canvassing the possibility of Sabah's secession from Malaysia. In response, the federal government withdrew its support from Tun Mustapha, and paved the way for his defeat by the newly formed Berjaya party when state elections were held in April 1976.[22] One of the first actions of the new Berjaya government was to expel Syed Kechik, the principal architect of Mustapha's power in the state, from Sabah. In addition, all timber licenses and land purchases associated with Syed Kechik's business interests, the latter alone allegedly worth $200 million, were frozen by the state authorities.[23] In the meantime, however, Syed Kechik had channelled large sums of money into stock and property investments in peninsular Malaysia and so was able to start a new business career in the federal capital.[24]

When Syed Kechik returned to Kuala Lumpur in 1975, he benefited from the NEP's restructuring requirements, and used his accumulated capital, together with additional capital from bank loans, to build stakes in over 40 companies.[25] At the same time, although he was no longer an active politician, political links remained important to Syed Kechik's continued rise in business.

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21 See ST, 15:2:1977 and Ross-Larson, 1976:142.

22 See Bedlington, 1978:161-63 and Ross-Larson, 1976:176.

23 See ST {S} 8:2:1977. Syed Kechik confirmed that claims filed by his companies, notably Zara Sdn Bhd, for compensation had been unsuccessful and that he had not recovered "one cent back." Interview with author, 21 September 1987.

24 See ST, 15:2:1977.

25 See Jesudason, 1990:106 and also Lim M. H., 1985:53.

In the early 1980's members of the emerging, but as yet small Malay political/business elite, were a closely knit group, bound together in many mutually supportive and beneficial business arrangements. Syed Kechik's Bumiputra business partners at the time were quite illuminating in that regard. He was, for instance, a principal shareholder in Asiavest Holdings, a merchant bank and discount house whose other shareholders included Tengku Razaleigh (then (1975) chairman of Petronas and later Minister of Finance), Senator Kamarul Ariffin (chairman of Bank Bumiputra), and Datuk Syed Nahar Shahabuddin (the Mentri Besar or Chief Minister of Kedah).[26] Syed Kechik was also a director of Tengku Razaleigh's family company at the time, Highlands and Lowlands Bhd, in which he had a 10 per cent stake, and shared business interests (commercial real estate in Kuala Lumpur) with Dr Mahathir, a fellow home-town compatriot from Alor Star.[27]

As a politically influential Malay, Syed Kechik was an attractive partner and much sought after by Chinese firms seeking to restructure their equity to accord with the NEP's requirements. One of Syed Kechik's biggest investments in the mid seventies was a multi-storey building project, Wisma On Tai, with Tun Sir Henry Lee (Malaysia's first Minister of Finance), and his sons (MB, July1975). In 1978 he bought a 30 per cent share in Development and Commercial Bank, the sixth largest commercial bank in Malaysia, then controlled by Tun Sir Henry and his family. While that ploy kept the government out of the bank and allowed it to expand, [28] it also showed that even the (Chinese) company of a former finance minister was not immune from NEP imperatives and had to restructure in favour of Malay interests (Jesudason, 1990:106). At the same time the Lee family also found that Syed Keckik was not prepared to play an 'Ali-Baba' role in the business but indeed threatened their continued management and control of the bank.[29]

In May 1982, Syed Kechik was again the centre of corporate attention when he and others were involved in a share-swapping scheme in which Khoo Kay Peng's, Malayan

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26 The inspiration behind Asiavest came from Tun Ismail Ali, then Governor of the Central Bank, Bank Negara and brother-in-law of Dr Mahathir, then Deputy Prime Minister. See MB, July 1975.

27 Later, in 1980, Dr Mahathir sold a 17 per cent share in an office building, Wisma Budiman, in downtown Kuala Lumpur to Syed Kechik. See New Nation, 14:5:1980 and Lim, M H., 1985:53.

28 Confirmed in author's interview with Syed Kechik 21 September 1987.

29 Syed Kechik denied that during 1982-83 he attempted to obtain a majority shareholding in the bank and also claimed that at the time he did not have the funds for such a purchase. These claims were strongly refuted by Alex Lee then general manager of the bank. Authors interviews with Syed Kechik, 21 September 1987 and with Alex Lee, 9 November 1987.

United Industries (MUI) was supposed to take over the Development and Commercial (D&C) Bank and Kwong Lee Bank (Lim M. H., 1985:53). The association of Syed Kechik with MUI was expected to be a boon to the fast growing conglomerate whose 'Chinese character' had, by early 1982, become an impediment to further rapid growth.[30] Under the proposed scheme, Syed Kechik would have exchanged 30 per cent of his equity in D&C for 9.8 per cent of the enlarged MUI conglomerate, [31] but the deal fell through because of a revision of the terms of the valuation of D&C shares by the Capital Issues Committee (CIC).[32]

In addition to his investments in D&C and MUI, Syed Kechik was also a major shareholder in a property development company, Sri Hartamas Corporation Bhd. His fellow director-shareholders were Datuk Wong Kee Tat of Kuala Lumpur Industries and Tan Sri Chong Kok Lim who then owned Landmarks Holdings (MB, 1:2:1986). Syed Kechik's other investments included a controlling stake in Castlefield Development, equity in the Regent Hotel, Penang, the Pan Pacific and Oriental Hotels in Kuala Lumpur, huge investments in a Bumiputra movie empire (Solar Organisation) and a 10 per cent stake in Sistem Televisyen Malaysia (STMB) or TV 3, the private television network.

Syed Kechik's corporate career peaked in 1984, when he acquired Temerloh Bhd, an old publicly-listed plantation company. Temerloh was to become a holding company for all his investments and eventually, Syed Kechik hoped, a large diversified international conglomerate. With assets reported to be worth $800 million, Syed Kechik then appeared to represent the beginnings of a new class of independent Malay entrepreneurs. Syed Kechik himself certainly believed so, telling one interviewer that, 'there is now a new class of financially independent Bumiputras .. but there is still no big private international Bumiputra company (Asiaweek, 18:6:1982).

But Syed Kechik's rise in business, spectacular as it was, remained closely tied to property, stock and political influence. The 1985-87 recession in the stock and property markets wiped out much of the former value of Syed Kechik's holdings, while his

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30 See Asiaweek, 10:6:1982.

31 MUI's share capital before the proposed merger was $296 million and the company had a capitalisation of more than $1.2 billion. See Lim, M H., 1985:53 The other major shareholders of D & C at the time were: Alex Lee (32.5 per cent); Lee Loy Seng (9 per cent); Magnum Corp. (12 per cent) and Permodalan Nasional Bhd (8 per cent) See FEER, 21:5:1982.

32 See Gill, 1985:193

considerable debts - mostly in US and Singapore dollars - rose with higher interest rates and a depreciating ringgit (Asiaweek, 15:4:1988). The shuffling of anticipated assets for debt in related, and frequently indebted, companies only exacerbated an already parlous debt position. (A graphic example was the defaulting of Sri Hartamas on a US$40 million loan from scandal-ridden BMF in Hong Kong.)[33] Mounting debt forced Syed Kechik to shed most of his assets, including his stakes in D&C Bank and TV3. However it was the forced sale of Temerloh in March 1988, that symbolised the end of Syed Kechik's ambition to head his own conglomerate. Significantly, the buyer was Azman Hashim, one of the new generation of Malay business leaders whose wealth was based on banking and financial services.

Syed Kechik's major forms of capital accumulation were through the acquisition, as a minority shareholder, of property and stock in already existing and profitable companies. The companies in which he was a major shareholder did not perform well.[34] Like many other politicians-turned-businessmen, Syed Kechik's rise in business depended largely on two props, property and shares on the one hand, and political influence on the other. By the mid eighties changing political and economic circumstances had significantly undermined both those props. The 1985-87 recession wiped out much of Syed Kechik's assets in land and shares. At the same time as the Bumiputra business elite grew, so it was less the closely knit group bound by various mutually supportive arrangements of a decade earlier. Instead, competition for political patronage increased, particularly as resources became more scarce in the recession. With the rise of Daim and the group of young Bumiputra entrepreneurs that surrounded him, Syed Kechik was increasingly marginalised from the new centres of power. His apparent bid to obtain a majority shareholding in D&C Bank was thwarted,[35] so was his bid for the licence to run the

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33 The 'loan' was to buy land in California. Syed Kechik, Wong Kee Tat and three others were later ordered by the Kuala Lumpur High Court to repay the US$ 40 million to BMF. See ST(S) 14:8:1988.

34 Several of his aides agreed that Syed Kechik's tragic flaw was that he had become the classic politician-turned-businessman, who trusts no one and can't tolerate an independent voice "In any project where he was a minority partner, he always made money", said an aide. 'But whenever he was on his own, he always got into trouble.' New Nation, 14;5;1980. Syed Kechik lost a huge amount by indulging his passion for film production and distribution. One source claimed that the $12 million invested in movies was probably a total loss (New Nation, 14:5:1980).

35 Whatever the truth about Syed Kechik's alleged attempt to obtain a majority shareholding in D&C Bank may have been, it was clear that in the personal feud between Syed Kechik and Alex Lee over the management of the bank, Daim supported Lee. Alex Lee was an old friend of Daim and had helped finance Daim's first business ventures. Another key figure in the dispute was Aziz Taha, the governor of the central bank, Bank Negara. Aziz Taha accused Lee of irresponsible conduct and abuse of trust in his management of the bank. Ultimately a compromise was worked out whereby Lee

private TV3 channel, which went instead to the Fleet Group, [36] and approval was not forthcoming for a huge property development by Sri Hartamas on the outskirts of Kuala Lumpur.

The rather extraordinary circumstances of Sabah politics in the 1970's allowed Syed Kecik to control, for a time, the key levers of political and bureaucratic power in the state. Political power facilitated his access to state resources, principally land and timber. Later, as one of Malaysia's first Bumiputra entrepreneurs, he was much sought after by Chinese companies seeking to restructure their equity to accord with NEP requirements. However Syed Kechik's relationships with his Chinese partners, particularly the Lee family, was the cause of considerable tension as with capital and (initially) state support he apparently sought to challenge them for control of the bank. Although Syed Kechik was a politician who became a businessman, he remained heavily dependent on political patronage, particularly where his huge property investments were concerned. The collapse of his fortunes therefore also illustrated the often narrowly based nature of capital accumulated by politicians-turned-businessmen and the vulnerability of such capital to changing political relationships.

UMNO's PROXY CAPITALISTS: THE 'SPECIAL CASE' OF DAIM ZAINUDDIN

In our analysis of Malay capitalism we have noted how a key feature of the emerging Malay business class was the extent to which its rise was dependent on a fusion of state, party and private interests. The fusion of those three elements was most intense however in the rise of UMNO's proxy capitalists-turned-businessmen, and in the extraordinary corporate rise of a key figure in that group during the 1980's, Daim Zainuddin. Indeed Daim was the focal point at which the corporate interests of the party and those of business converged. Earlier, as head of Peremba from 1979 to 1984, Daim also groomed a group of young Bumiputra managers, mostly qualified accountants in their early

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resigned as general manager, but not from the board, in exchange for a tacit commitment from Aziz to approve a complex transaction that allowed the Lee family to take over another public company, Roxy Industries Bhd (AWSJ, 16:8:1984). See also FEER, 30:8:1984.

36 While Syed Kechik's bid for the TV3 licence did not succeed, Fleet later invited him to take 10 per cent in the company however, as indicated above, mounting debt in the mid eighties forced hm to sell that stake.

thirties, who played important roles in the management and growth of UMNO's corporate investments (and in most cases of those of Daim as well).

By the early 1990's many members of this group of UMNO's proxy capitalists-turned-businessmen had utilized their experience and corporate links with the party to become major corporate figures themselves. Prominent examples included Wan Azmi Wan Hamzah (Land and General), Samsuddin Abu Hassan (Landmarks), Ahmad Sebi (Batu Lintang), Mohd Razali Abdul Rahman (Peremba) and Tajuddin Ramli (Technology Resources). That is not to say that this group of businessmen cut themselves off from networks of political patronage, but clearly some had moved beyond those networks to become relatively independent businessmen in their own right. While Daim was also a member of this group of UMNO proxy capitalists-turned-businessmen, as its sponsor and by virtue of the pivotal positions he occupied in the government and the party, he was a 'special case'. But as a special case Daim's corporate rise highlights in dramatic fashion the merging of state, party and private interests so characteristic of this group of Malay capitalists, at least in the early stages of their development. Daim also serves as an important reference point, somewhere in the middle of the spectrum, between those who remain proxy capitalists of UMNO and those who have established new corporate empires.

Daim's rapid rise in business attracted more criticism than that of any other Malay for the way in which he combined his roles in government and the party to amass a huge personal fortune, and become by the mid-eighties one of Malaysia's most prominent businessmen.[37] Commenting on his own corporate rise, Daim, without the slightest hint of irony, said, 'I learned that if you want to do business you've got to go inside (government') (FT, 6:6:1984).

Daim grew up in the same village as the Prime Minister, Dr Mahathir, in the northern state of Kedah. From 1957 to 1959 Daim read law at Lincoln's Inn, London, where he had the opportunity to know and befriend some of Malaysia's future political leaders including Tun Hussein Onn, Tengku Razaleigh, Datuk Abdul Manan Othman and Alex Lee (NST, 15:7:84). On his return to Malaysia, Daim worked as a prosecutor and later as

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[37] In 1984 Daim's personal wealth was estimated to be close to $6oo million or US $259 million (Asiaweek, 27:7:1984). Daim dismissed the estimate saying, 'If I had that kind of money .. I should be relaxing' (NST, 5:9:1984).

a magistrate (FT, 6:6:84). In the mid-sixties he joined a private law firm in Kuala Lumpur and at the same time strengthened his ties with UMNO leaders[38].

Daim's first 'break' in business came in 1973 when he acquired with the help of an old friend, the Chief Minister of Selangor, Datuk Harun Idris, a large piece of land on the outskirts of Kuala Lumpur. Initially Daim, a then unknown Malay businessman, had some difficulty in obtaining a loan from the banks to purchase the land. The problem was solved by Alex Lee, an old friend from student days in London who, through his ties with D&C Bank, was able to facilitate the $5-6 million loan that Daim required.[39] In order to develop his property interests Daim formed a family-owned company called Syarikat Maluri Sdn Bhd. The properties of the company became a source of wealth for Daim who used it to borrow against, and later exchange for cash or shares in other companies (AWSJ, 24:8:84). Nevertheless during the seventies Daim's involvement in business remained relatively slight for in 1977 he was able to leave Malaysia for Berkeley, California, where he studied urban planning.

When Daim returned to Malaysia in 1979, another old friend from his student days, Abdul Manan Othman, then Minister for Public Enterprises, persuaded him to head Peremba, the property and commercial arm of the Urban Development Authority (UDA). According to the *Asian Wall Street Journal*, Daim's reorganistion of Peremba greatly enhanced his prestige and by 1980 he was regularly acting as an informal consultant on business matters for then Deputy Prime Minister, Dr Mahathir (AWSJ, 24:8:84). Although the two had been acquainted previously, the relationship between Daim and Mahathir only developed after 1975 when they were brought together by Datuk Harun (FT, 6:6:84). Daim's meteroic rise in politics and business has been attributed to his close connection with Dr Mahathir.

In July 1981 Dr Mahathir became Prime Minister with an ambitious agenda for the transformation of Malaysia's economy and the role of Malays in it. In many ways Daim typified Mahathir's image of the modern Malay as represented by a new generation of

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38 In 1966 Daim went to Sarawak to assist Syed Kechik in his efforts to remove the then Chief Minister of Sarawak, Datuk Stephen Kalong Ningkan, from office and in 1967 he joined Hussein Onn in championing the use of Malay as the national language. During the sixties Daim also made a number of attempts to embark on a business career, first producing table salt and later plastcs. Both attempts failed. According to Daim his venture into salt failed because he got 'no help from the government which allowed a rise in imports, 'prompting his earlier comment that 'I learned that if you want to do business, you've got to go inside' (FT, 6:6:1984).

39 Author's interview with Alex Lee, 9 November 1987.

dynamic Bumiputra businessmen. Supported by Dr Mahathir, Daim quickly rose to assume key positions in the government and the party. In 1980 he was appointed a senator, in 1982 he became a Member of Parliament and in July that year the Prime Minister, as UMNO's president, appointed Daim to head the party's main investment arm, Fleet Holdings. Only two years later on 14 July 1984, Daim was appointed Minister of Finance and UMNO treasurer.

Daim's growing influence and rapid rise in the government and the party, particularly from 1979 to 1984, concided with and was inseparable from the rapid expansion of his business interests during the same period. As noted earlier, in Daim's view national, political and private interests could be pursued simultaneously.[40] On one occasion Daim told an interviewer that, 'I am a man who can do many things at the same time, I can put everyone of them in separate compartments'.[41] Since our principal interest in Daim's business career was the extent to which his corporate rise was dependent on an ability to merge his public, party and private roles, we shall now by way of examples, illustrate how the merging of those roles facilitated some of his most important acquisitions.

Peremba - United Estates Projects - Baktimu

Daim's purchase of the lucrative property company, United Estates Projects Bhd (UEP), was facilitated by his capacity to combine his private business interests with his role as chairman of government-owned Peremba. (UEP was one-third owned by Peremba).[42] The UEP purchase also showed how Daim was able to raise large funds to finance his rise in business and the extent to which state-owned banks, Bank Bumiputra in particular, backed members of the emerging Bumiputra business elite in the early eighties.

In December 1982 Bandar Raya Developments, the property arm of the Malaysian Chinese Association's investment company, Multi-Purpose Holdings Bhd, sold its stake in UEP for $74.2 million (NST, 24:12:1982). The buyer was a company called Baktimu Sdn Bhd that had been formed just a month earlier with $2 in paid-up capital. Baktimu was a wholly-owned subsidiary of Syarikat Maluri Sdn Bhd which was owned by Daim. Under the terms of the sale Baktimu was given six months to pay for its UEP stake (BT,

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40 NST, 21:7:1984 (Hardev Kaur, 'Daim:Person behind the name').

41 FEER, 1:9:1988 (Nick Seaward, 'The Daim Stewardship').

42 The third largest shareholder in UEP was Permodalan Nasional Bhd (PNB), the government-owned equity corporation (BT, 4:7:1983).

24:2:1982). During that period Daim sought to obtain the $75 million required for the purchase. Meanwhile, by late February 1983, rumours spread that the influential Daim was behind Baktimu, and the value of UEP shares began to climb. On 9 March 1983, one day after the government approved the UEP purchase, Baktimu issued one million new shares to its parent company, Syarikat Maluri Sdn Bhd (AWSJ, 24-25:8:1984). Baktimu also pledged some of the UEP shares it was buying to obtain loans from several banks. The loans totalling $35 million, were obtained from D&C Bank, whose chief executive was Daim's friend, Alex Lee, and Chung Kiaw Bank. The remaining $40 million required by Baktimu to complete the purchase of UEP was obtained through a branch of the Union Bank of Switzerland in Singapore. To assist Baktimu to obtain the $40 million loan, state-owned Bank Bumiputra issued a guarantee on the company's behalf. (According to Raphael Pura, Baktimu was not even required to pledge further UEP shares to Bank Bumiputra as collateral for the loan and it was uncertain if Baktimu pledged any security to the bank in exchange for the guarantee.)[43]

Meanwhile, the strong financial backing Daim received in his bid for UEP prompted a rush to buy UEP shares. As the value of those shares rapidly increased, so did profits for the major shareholders. In six months Daim and his Maluri partners reportedly made a profit of $95 million on their $1 million investment in Baktimu (AWSJ, 24-25:8:1984). In addition, Daim in his dual roles as chairman of Peremba and owner of Baktimu, effectively controlled one of Malaysia's largest property companies.

Daim's dual roles in government and the private sector also appeared to facilitate the later sale of Baktimu's stake in UEP to Sime Darby, in which the government was a substantial shareholder,[44] on terms that were highly profitable for Daim and his partners. In January 1985 Sime Darby purchased a 32 per cent stake in UEP from Baktimu and Peremba, despite the vociferous protests of Sime's minority shareholders.[45] The

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43 AWSJ, 24-25:8:1984 (Raphael Pura, 'Malaysia's Daim Charts Path to Power').

44 Substantial shareholders of Sime Darby included ASN (16.6 per cent) and MMC (11.8 per cent). See KLSE Annual Companies Handbook, Vol XV:524.

45 The deal, agreed to in September 1984 meant that Sime Darby acquired 67.72 million shares or a 32.1 per cent stake in UEP, while Sime in return agreed to issue 97.08 million new shares to Baktimu and Peremba, which represented about 11 per cent of Sime's enlarged equity (The Star, 12:1:1985). Although the proportion of shares divested by Baktimu and Peremba were not disclosed, it was believed Baktimu put up 27 per cent, that is the bulk of the total 32 per cent of shares divested by Sime Darby (NST, 10:9:1984). Minority shareholders were particularly angry that there had been no choice but to accept the new Sime shares. Sime avoided the cash alternative by buying an initial stake of 32 per cent in UEP, just short of the trigger point of 33 per cent which would require a general offer for the minority shares. The offer was thus deemed a voluntary one and therefore did not

purchase was extremely advantageous to Baktimu, because it overvalued Baktimu at a time when property prices were falling, and it grossly undervalued Sime's huge plantation holdings.[46] The transaction also gave Daim a 7 per cent stake in Sime Darby, one of the regions largest conglomerates. In September 1986 a cabinet directive was issued which required ministers to divest themselves of interests in public companies, but Daim apparently had little trouble in selling his stake in Sime Darby to institutional investors, for what was reportedly a hefty profit, only a month later.[47]

Daim and the Fleet Group

As noted earlier, a feature of the Fleet Group's rapid growth after Daim Zainuddin became chairman of the company in June 1982 was the extent to which a number of its purchases, such as shares in TV3 and Cold Storage, also involved companies associated with Daim. The mix of party and private interests in Daim's corporate rise was also apparent in the links between Fleet, Faber Merlin, a hotel and property group and Daim's own companies.

In June 1983 Faber Merlin agreed to buy land from a company called Taman Bukit Maluri for $34.9 million (NST, 23:4:1987). At the time Daim controlled both companies. (Taman Bukit Maluri was then a wholly-owned subsidiary of Daim's corporate flagship, Raleigh Cycles (M'sia) Sdn Bhd) (AWSJ, 24:8:1984). One month earlier the Fleet Group, headed by Daim, had obtained control of Faber Merlin when it was allocated a Special Bumiputra share issue in the company by the Ministry of Trade and Industry (MTI). At the same time Fleet also purchased approximately 12.9 per cent of Faber's equity or 17 million shares on the open market from a private company called Citivest.

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require a cash alternative. See The Star, 8:1:1985 (Letter, 'Unhappy with Sime offer for shares, signed Ikan Bilis') and The Star, 12:1:1985 ('Rumblings over Sime's UEP Purchase').

46 The Sime/UEP deal was extremely advantageous to Baktimu for two reasons. First because the share swap was on the basis of two UEP shares with a then current market value of $6.36 for three Sime shares with a market value of $7.02. Secondly, UEP's assets were revalued shortly before the deal, while Sime's assets had not been revalued for the previous five years and thus were very much higher than their book values suggested. This was particularly true of Sime's huge plantation holdings, much of which could be converted for development purposes. In that regard an angry minority shareholder noted that Sime Darby had sold many pieces of land to UEP at agricultural values and was now buying UEP after the same land had been revalued and converted to commercial land. See The Star, 5:9:1984; NST, 10:9:1984 and The Star, 12:1:1985.

47 See NST, 11:10:1986) and Asiaweek, 22:4:1988.

Citivest, which apparently made a handsome profit on the deal, was also owned by Daim.[48]

Shortly after the Fleet Group gained control of Faber Merlin, Faber purchased a hotel called the Subang View Hotel (later renamed the Merlin Subang) from United Estates Projects (UEP). (Marina Yusof, a leading member of Tengku Razaleigh's Semanggat '46 claimed that Faber Merlin 'was directed' to buy the hotel from UEP and that the owners of UEP made large profits in the process.) The Subang View was bought for $56 million which was paid for through a share-for-property swap involving the transfer of 36 million Faber shares valued at $1.60 each to UEP (BT, 23:4:1987). Since the cost of construction of the Subang View was $26 million, this meant that UEP made profits of not less than $30 million and, through the issue of Faber shares, UEP also gained an 11 per cent stake in Faber Merlin (NST, 23:4:1987). Significantly, in a reply to Marina Yusof's allegations about the profits accruing to UEP's major sharehoders, the director of Fleet, Desa Pachi, did not attempt to refute the above calculations (BT, 23:4:1987). The reason for the sale of the Subang View became more apparent as the web of interlocking directorships held by Daim came to light. Daim effectively controlled two-thirds of UEP in his dual roles as chairman of government-owned Peremba and through his family company, Baktimu. Moreover at the time of the transaction the Fleet Group headed by Daim also had a stake in Faber Merlin. So Daim was in control of both the buyer and the seller in the deal, the outcome of which gave him an interest in another publicly-listed company, Faber Merlin through UEP, and a handsome profit (NST, 23:4:1987).

Yet another instance involving the Fleet Group and companies controlled by Daim was the purchase by Fleet Trading and Manufacturing of an ailing Daim company, Daza for $1 million on 31 August 1984. According to the *Far Eastern Economic Review* the

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48 Marina Yusof, a leading member of Tengku Razaleigh's Semangat 46 alleged that Daim and his partners made a profit of $50 million from the sale of Faber shares. In an interview with the New Straits Times, Fleet's director Desa Pachi did not dispute that Daim made a profit, only the size of that profit. While arguing that it was much less than $50 million, Desa declined to reveal how much Daim paid for the Faber shares and the price he sold them to Fleet. Nevertheless the New Straits Times reported that, 'there had been heavy buying of Faber shares in the light of the potential takeover by Fleet' (NST, 18:10:1983). For details regarding Fleet's purchase of Faber shares, including those of Daim see, NST, 23:4:1987, FEER, 8:10:1987 (Letters: Nick Seaward's reply to 'National Traitors') and The Star, 19:10:1983.

deal, which was done in a highly convoluted way also breached foreign exchange regulations and ended up costing Fleet $6 million or more.[49]

The purchase and sale of United Malayan Banking Corporation (UMBC)

The extent to which Daim's corporate rise depended on an ability to mix his government, party and private roles was most apparent in his highly controversial purchase, and later sale, of a controlling stake in the United Malayan Banking Corporation (UMBC), Malaysia's third largest bank.

Just a week before he was named Minister of Finance in July 1984 two of Daim's family companies, Daan Sdn Bhd and Dani Sdn Bhd, purchased a 41 per per cent stake in the UMBC bank from Multi-Purpose Holdings Bhd (MPH).[50] To finance the cash portion of the purchase Daim borrowed from the Oversea-Chinese Banking Corporation (OCBC) in Singapore. According to internal bank documents, OCBC approved a four-year loan of $133 million to Daan and Dani on 15 August 1984, one month after Daim became Minister of Finance.[51] As Minister, Daim had certain responsibilities under Malaysia's Banking Act of 1973 which included granting approval for any arrangement involving the sale of shares in a bank which resulted in a change of management or control. So Daim was in the awkward position of apparently contravening the Banking Act by approving, as Minister of Finance, bank transactions involving his own companies. The 'difficulty' was apparently overcome by having the office of the finance

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49 The deal was an extraordinarily complex one and there were several interpretations of what transpired. For the most comprehensive account of the purchase of Daza by Fleet, see FEER, 3:9:1987 (Nick Seaward 'Fleet Group sails into heavy weather' and 'A sense of missing shares'). Gomez' (1990:85-86) account of the deal is substantially drawn from Seaward's articles. Desa Pachi, the chairman of the Fleet Group, claimed that Daza was used as a shell company to acquire the shares held by Times Publishing in Singapore and that after the transaction Daza was transferred to Fleet without any profits made (NST, 23:4:1987).

50 The opportunity to obtain a major share in UMBC arose as a result of a decision by Multi-Purpose Holdings Bhd (MPH), the investment arm of the Malaysian Chinese Association (MCA) to sell its stake in the bank. In 1981 MPH had bought into UMBC hoping it would be able to control the bank, but that hope was frustated when following pressure from UMNO Youth the party leadership decided to restrict MHP's stake to 40 per cent. For a detailed account of the controversy see Gale, 1985:141-153.

51 As security for the loan Daim mortgaged to OCBC all the UMBC shares he was to acquire. According to the Asian Wall Street Journal the transaction was highly profitable for Daim as his companies reaped, at least on paper, extraordinary profits of $95.3 million. At the same time Daim won control of a much bigger bank, all without risking any of his own capital. See AWSJ, 30:4:1986 and Internal OCBC Memo dated 15 April 1985 (mimeographed).

minister approve the transaction though it was not clear as to whether the Banking Act allowed ministerial aides to assume such powers on the ministers behalf.[52].

By June 1985 Daim's family companies gained outright control of UMBC. The timing was significant as the takeover was completed just two months before the central bank announced a policy forbidding individuals or family-owned companies from holding more than 10 per cent equity in a local bank. The UMBC takeover was accomplished by a rights issue of new shares when Daim's companies, Daan and Dani, increased their shareholding in the bank to 50.3 per cent by buying the preferential rights issue allocated to, but rejected by the other co-controlling shareholder, Pernas.[53] (Pernas never explained why it did not take up the potentially profitable preferential rights issue allocated to it, thereby giving up co-control of UMBC to Daim's companies.)

To complete the takeover of UMBC it was necessary under the Banking Act for Daim's companies to obtain approval from the Minister of Finance. Again Daim's dual roles as a private businessman and Minister of Finance clashed. The Governor of the Central Bank, Datuk Jaffar Hussein, in response to mounting criticism as to how Daim managed to evade the apparent requirements of the Banking Act, later revealed that the

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52 To complete the takover of UMBC it was also necessary under the Banking Act for Daim's companies to obtain the approval of the Minister of Finance. In response to mounting criticism as to how Daim managed to reconcile that apparent conflict of interest, the Governor of the central bank, Bank Negara, revealed that the transaction was approved by the cabinet. But critics of the transaction, including some lawyers, claimed that Malaysia's Banking Act of 1973 made no provision for the cabinet to approve equity changes in banks and that the power rested soley with the Minister of Finance. See AWSJ, 15:5:1985 and 30:4:1986.

53 Daim's companies bought control of UMBC by acquiring two allocations of new shares made by the bank. The first allocation of 9, 108, 061 shares was made by UMBC on 24 May 1985. Daim's companies through Malaysia Nominees bought 6,778,442 shares and Petronas 1,481,481 shares. Pernas, until that time the co-dominant owner, did not take any of the new shares. On 29 June 1985 there was a second allocation of 7,558,685 new UMBC shares of which Malaysia Nominees took 7, 444, 002 shares on behalf of Daim's companies. Neither Petronas or Pernas, the two state-owned shareholders in the bank, took any of the allocation. After the two share allocations Malaysia Nominees, which held the UMBC shares for Daim's companies, became the majority shareholder in the bank with 38,627,388 shares or 50.38 per cent of UMBC's expanded share capital of $76,667, 285. Pernas' stake in UMBC fell to about 32 per cent after the company failed to take up its allocation of new shares (AWSJ, 30:4:1986).

The Oversea Chinese Banking Corporation (OCBC) in Singapore lent a total of $164 million to Daim's companies for the purchase of UMBC. In its evaluation of Daim as a credit risk an internal OCBC memo noted that Daim was the 'Malaysian Minister of Finance and a close personal aide of the Prime Minister' but acknowledged that 'there was no definite source of repayment' (for the loan). OCBC Internal Memo dated 15 April 1985:4-5 (mimeographed).

transaction had been approved by the cabinet.[54] While cabinet's action absolved Daim from any involvement in the process of approval and the obvious conflict of interest situation that would entail, it nevertheless violated the spirit if not the letter of the Banking Act.[55]

Daim's sale of his controlling interest in UMBC was as controversial as his acquisition of the bank. On 19 September 1986 Dr Mahathir announced that a cabinet directive required all ministers to dispose of their direct and indirect holdings in quoted companies (The Star, 10:12:1986). The following day Daim announced that he would sell his family's stake in UMBC.[56] While at the time, the cabinet decision provided Daim with a ready explanation for the sale of his UMBC shares, a more pressing reason for the sale appeared to be the deep recession of the mid-eighties which made an investment in a bank, at least in the short-to-medium term, less attractive. (The recession had also exacerbated the debt burden of Daim's own companies which had earlier borrowed heavily and used shares as collateral to effect the purchase.)[57]

Amazingly, the buyer of Daim's entire stake in UMBC was Pernas, the state-owned Malay investment holding company, which purchased the shares involved for about twice the price it had been offered, and rejected, barely twelve months earlier.[58] (Pernas

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54 While revealing that cabinet had approved the transaction, Datuk Jaffar also claimed that Daim 'was not at any stage involved in the process of approval, which was done strictly in accordance with proper and established procedures'. AWSJ, 15:5:1986 (Raphael Pura, 'Malaysia Defends Minister over Banking Transactions').

55 Critics of the transaction, including some lawyers, claimed that Malaysia's Banking Act of 1973 made no provision for the cabinet to approve equity changes in banks and that this power rested soley with the Minister of Finance. See AWSJ, 15:5:1985 and 30:4:1986.

56 In large part the cabinet decision was a response to criticism by Dr Mahathir's opponents in UMNO of Daim for mixing his public role with his private business interests.

57 Corporate records indicated that Daim's family owned companies owed more than $300 million to local and foreign banks. Daan Sdn Bhd and Dani Sdn Bhd, the two companies that ultimately held Daim's UMBC stake alone owed $164 million to OCBC in Singapore AWSJ, 26-27:9:1988 (Raphael Pura, 'Daim May Make Big Gain in Bank Sale').

58 Pernas' extraordinary turnabout and the terms of the sale contributed to the cluster of scandals that tarnished the government's self-proclaimed image of being 'clean, efficient and trustworthy in the lead up to the August 1986 general elections. The DAP, various interest groups, and Dr Mahathir's opponents in UMNO, attacked the government over the terms of the deal. Opposition Leader, Lim Kit Siang issued a statement asking, 'Why Pernas was negotiating to buy UMBC shares from Daim's family companies at $8.50 a share, nearly double the price of the rights issue of 7 million UMBC shares offered at $4.50 a share which the company had failed to take up earlier'. Lim claimed that had Pernas taken up the earlier rights issue at $4.50 a share 'it would have saved the Malaysian taxpayer $28 million (FEER, 9:10:1986). Daim claimed that his family companies' sale of UMBC stock to Pernas 'had not resulted in any loss or gain for his family concerns'. Bankers disagreed and indicated

purchased Daim's 50.3 per cent interest in UMBC for $349.2 million).[59] Pernas, which already had huge debts amounting to $996 million by the end of 1985, had to borrow additional funds for the purchase of Daim's UMBC shares (Asiaweek, 19:10:1986). To assist Pernas effect the purchase, Daim's own Finance Ministry obligingly arranged a large yen-denominated loan which, when the yen later appreciated sharply against the Malaysian dollar, left Pernas burdened with a heavy debt for years afterwards.[60]

By 1985 Daim had built a huge business empire. The extent of Daim's business interests was revealed when, in order to comply with the cabinet directive mentioned earlier, he had to dispose of his holdings in quoted companies. On 10 December 1986 Daim indicated that his family companies were selling their stakes in 17 corporations, which included many of the largest and most profitable companies on the Kuala Lumpur Stock Exchange (KLSE).[61] Controversy also surrounded the disposal of those assets. As the recession of the mid-eighties deepened the value of Daim's large shareholdings in many public companies tumbled. So when in February 1985 Daim, as Minister of Finance, froze all listings on the KLSE and in July the same year gave approval to government-owned or controlled investment agencies to buy large amounts of shares, his actions were widely interpreted as a move to bolster the price of his own stock-

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that the sale enabled Daim's family companies to realise a cash gain of almost $100 million on their initial purchase of UMBC in 1984 through the share swap with Malaysia French Bank AWSJ, 11:12:1986 (Raphael Pura, 'Malaysia Finance Chief Sheds Interests). For accounts of the controversy surrounding the sale of UMBC to Pernas see FEER, 9:10:1986 (Nick Seaward, 'The Stock Answer, Malaysia tells politicians to divest major shareholdings'); AWSJ, 26-27:9:1986 (Raphael Pura, 'Daim May Make Big Gain on Bank Sale'); Asiaweek, 19:10:1986 ('A Bank Sale Raises Interest');'Skandal UMBC' Letter to the Prime Minister, Dr Mahathir from Haji Suhaimi Kamaruddin (UMNO Supreme Council) dated 16 April 1987 (mimeographed); The Star, 6:10:1986, (Param: Reveal Details of UMBC Deal); The Star, 11:12:1986 ('Chandra to Daim: Give Details on Sale').

59 The price was not revealed until some time after the sale. See AWSJ, 22:7:1991 Raphael Pura ('Malaysian Banks Cease Efforts on Big Merger, Failed Plan Leaves UMBC Still in Need of a Strong Partner').

60 According to one banker, Pernas had to borrow additional funds to service its yen debt which further limited the company's ability to operate its own businesses. In 1991 the central bank, Bank Negara, was still attempting (without success) to unite UMBC with a stronger bank to relieve Pernas of the heavy debt it had acquired through the purchase of Daim's stake in 1986. AWSJ:22/7/1991 (Raphael Pura, 'Malaysian Banks Cease Efforts in Big Merger, Failed Plan Leaves UMBC Still in Need of a Strong Partner).

61 Besides the sale of his controlling stake in UMBC, Daim's divestments in the 16 other companies included: Raleigh Bhd; Sime Darby Bhd; Cold Storage Bhd; Sistem Televisyen Malaysia Bhd (STMB); Malayan Banking Bhd; Guthrie Ropel Bhd; Tasek Cement Bhd; Sateras Bhd; Oriental Holdings Bhd; Malayan Flour Bhd; Bolton Properties Bhd; Syarikat Permodalan Kebangsaan Bhd (SPK)); Syarikat Permodalan dan Perusahaan Perak Bhd (SPPK) and Industrial Oxygen Bhd (IOI). The Star, 10:12:1986.

holdings.[62] Even after Daim disposed of his various corporate investments critics continued to allege that he used his public role, albeit indirectly, to serve his private interests[63].

This survey of Daim's rapid rise in business has shown the extent to which that rise was facilitated by a symbiotic, if not at times incestuous, relationship between his public, party and private roles as Minister of Finance, as chairman of Fleet Holdings and as a businessman. As we have seen the fusion of those roles produced enormous wealth for Daim as in his purchase of UEP, the sale of property and shares to the Fleet Group and the acquisition of UMBC, Malaysia's third largest bank. At the same time such a multiplicity of roles also enabled Daim to protect the wealth he had already acquired, as in the disposal of his stake in Sime Darby, the sale of Daza to the Fleet Group, and the sale of his stake in UMBC to Pernas.

In the 1980's Daim Zainuddin was the prime example of what we have termed 'UMNO's proxy capitalists', that is individuals whose rise in business was due, in large part, to a fusion of party and private interests. It was that fusion or, to put more bluntly, exploitation of party and private roles that made Daim the most controversial member of the emerging Malay business elite and led critics to question whether such Malays could ever be the harbingers of an independent Malay entrepreneurial class. To answer that question it is necessary to place Daim in the context of change occurring within the Malay business elite or more specifically that faction of it we have termed 'UMNO's proxy capitalists-turned-businessmen'.

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62 In 1985 Daim approved investments totalling $70 million by the Employees Provident Fund (EPF) in certain companies, some of which did not have trustee-stock status. At least one of those companies whose shares were bought by the EPF (Raleigh Bhd) was closely associated with Daim. Daim later claimed that the government was responding to great pressure from the private sector to keep prices buoyant during the recession. Daim defended the decision to order the staturory bodies to invest, arguing that the scheme would have worked had it not been for the collapse of the Singapore Pan Electric group in December 1985. See FEER, 1:9:1988 (Nick Seaward, 'The Daim Stewardship').

63 In that regard there was a widespread belief that Daim's erstwhile stakes in such companies as Raleigh, General Lumber and Cold Storage were being looked after by proxies such as Vincent Tan, Wan Azmi and Halim Saad and that, as a result, such individuals received preferential treatment from the regultory authorities. In that regard see MB, 1-15:8:1990 (S. Jayasankaran, 'Daim De-Mystified).

FROM PROXY CAPITALISTS TO BUSINESSMEN

A characteristic feature of UMNO's modus operandi in business, particularly during the eighties, was the use of proxies who held shares or managed companies on behalf of the party. But considerable change and evolution has occured amongst what we have called UMNO's proxy capitalists. At what may be termed the 'base' of this group of 'capitalists' are those who remain proxies. Prominent examples in the early nineties included Halim Saad and Anwar Othman, individuals whose corporate stature and capacity to project themselves into the private sector was the result of their position as directors of Renong and other UMNO-related companies. At some halfway point in the evolution of UMNO's proxy capitalists-cum-businessmen were others, such as Daim, Tunku Abdullah (Melewar Group) and Ahmad Sebi (Batu Lintang), who had at least progressed to a stage where they managed their own companies (though the growth of those companies remained dependent to varying degrees on an enmeshment with the corporate investments of the party).

At the 'top end' of the spectrum are those former UMNO proxy capitalists such as Wan Azmi Wan Hamzah (Land and General), Samsudin Abu Hassan (Landmarks) and Tajuddin Ramli (Technology Resources Bhd) who have emerged from the corporate nursery of Peremba as managers within UMNO's network of companies to establish their own corporate groups. That is not to say that members of this group have cut themselves off entirely from party patronage but such patronage no longer appears to be critical to their survival and growth. In order to place the rather 'ersatz capitalism' associated with Daim and the eighties in some perspective, and show the broader processes of change and evolution at work amongst UMNO's proxy capitalists, we shall now consider examples at both the 'top' and 'bottom' of this spectrum. First let us turn our attention to those who remain proxies for UMNO.

UMNO's Proxy Capitalists: Halim Saad

By the early 1990's Halim Saad had emerged as UMNO's foremost proxy capitalist. Halim was educated at the elite Malay College, Kuala Kangsar, an institution that also produced a number of other key managers of UMNO's business interests such as Anuar Othman, managing director of United Engineers, Khalid Hj Ahmad, managing director of New Straits Times Press (NSTP) and Amirullah Abdul Muhi Mayuddin, managing

director of PLUS.[64] Halim later studied in New Zealand where he qualified as a Chartered Accountant and gained a Bachelor of Commerce degree.

Halim's corporate rise began when he joined Peremba in the early eighties. At Peremba, Halim quickly rose to become corporate services manager. At the same time, like others who later became part of this important core of the party's proxy capitalists, Halim also became involved with the personal interests of Daim, who was then chairman of Peremba. In that regard Halim was appointed in January 1984 as a director of one of Daim's family companies, Daza Sdn Bhd, that was later sold to UMNO-owned companies in the Fleet Group. Halim was also a director of the UMNO-linked Halimtan network of companies which included Pradaz Sdn Bhd, Cold Storage and Roxy, all companies that were then directly linked to Daim, as well as a director of Hatibudi Sdn Bhd, the company that in March 1985 acquired United Engineers (UEM). As noted earlier, Halim Saad himself revealed his role as an UMNO proxy when, in response to legal action by the DAP over the award of the North-South highway project to Hatibudi, Halim was obliged to state in an affadavit that he held the shares in Hatibudi 'in trust for UMNO' (AWSJ, 18:1:1988).

Halim's role as an UMNO proxy was also apparent from the way his career closely reflected that of UMNO's own corporate manoeuvrings. So when UMNO lost control of Hatibudi Sdn Bhd (and its valuable assets such as United Engineers) to the Official Assignee in 1987, it was Halim Saad (and Anuar Othman) who reappeared a year later as the directors and principal shareholders of Hatibudi Nominees which, by a rather convoluted share-swapping arrangement, regained control of UEM. Finally, Halim was the key figure who orchestrated the massive restructuring exercise that brought most of the party's assets under the control of one huge conglomerate, Renong Bhd.[65]

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64 Khalid Ibrahim is a member of the Chartered Association of Certified Accontants of the UK. He joined the NSTP Group in 1978 where he rose through various senior positions to become managing director in January 1991. Amirullah Abdul Muhi Mayudin is an economics graduate from the University of Malaya. He has held various posts at United Engineers, Idris Hydraulic, Promet and Aseam bankers Malaysia. He joined PLUS in 1988 as general manager of the corporate affairs division and was appointed managing director on 11 January 1991. See, The Star, 29:3:1991 (Profile: Halim - a young corporate giant).

65 In addition to his position as chairman of Renong, Halim also held senior positions in all the principal companies within that huge conglomerate including Kinta Kellas, Project Lebuhraya Utara Selatan (PLUS), Sistem Televisyen Malaysia Bhd (TV3), United Engineers, New Straits Times Press and the Faber Group. He was also chairman of the Fleet Group and Pitisan Sdn Bhd. Although in January 1991 Halim Saad relinquished his post as chief executive officer of United Engineeers (M) Bhd (UEM), Projek Lebuhraya Utara Selatan (PLUS), New Straits Times Press (M) Bhd (NSTP) and the Faber Group, he remained as executive vice-chairman of those companies. The Star, 17:1:1991.

While the corporate rise of proxy capitalists is dependent on their positions as managers of UMNO's assets, the relationship is by no means one-sided and is complicated by the ownership of such assets. In order for the party to claim that 'it does not own any company and is not involved in business' it was necessary for proxy capitalists to hold the party's assets, mainly shares, in their own names. So from a strictly legal and corporate point of view, owner-directors such as Halim Saad are not merely agents or 'proxies' but appear able to exercise a degree of independent action in their management of the party's considerable investments. The enormity of the wealth concentrated in the hands of UMNO's principal proxies became apparent in during the restructuring of Renong.

In the early 1990's Halim Saad, Anuar Othman and, for a time, Mohd Razali, were all owner-directors of UMNO-linked companies, though Halim Saad was by far the most dominant in terms of share ownership.[66] When Renong acquired Hatibudi Nominees the $454 million purchase involved no cash but instead the issue of new Renong shares to the vendors - mainly Halim who held 90 per cent of Hatibudi in his name and Fleet Holdings the 100 per cent owner of Fleet Group (Asiaweek, 18:5:1990). Hatibudi's net worth as at 31 March 1990 was $244.9 million (The Star, 1:5:1990). By March 1991 Halim was believed to control directly and indirectly a massive 73 per cent of Renong's shares (The Star, 25:3:1991). In a declaration required by the Companies Act, Halim advised the authorities that he held 15.07 per cent of Renong shares directly in his own name and a further 50.67 per cent indirectly through the shares registered under various nominees and Fleet Holdings in which he held an indirect 50 per cent stake (The Star, 3:4:1991). In addition, Halim together with his wife, Datin Norani Zolkiffli wholly owned a company called Hanuma Sdn Bhd. Hanuma Sdn Bhd bought the entire equity in Pacific Fleet Sdn Bhd and Hanurai Sdn Bhd, both of which also had significant stakes in

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66 Halim Saad and Mohd Razali Abdul Rahman were both owner-directors of Hatibudi Snd Bhd. In July 1985 when Hatibudi's paid up capital was increased to $1 million, Halim Saad and Mohd Razali each held 499, 999 $1 shares in the company. Gomez:1990:108. Anuar Othman was a director of Hatibudi Sdn Bhd, Hatibudi Nominees, United Engineers and Renong Bhd. In a form 29B notification of the change in interest of a major shareholder Anuar Othman revealed that on 28 November 1990, under a sales and purchase agreement dated 26 April 1990 he acquired 12, 245 Renong shares registered under his own name. Anuar, who was also a director of Fleet Group Sdn Bhd, also declared that he owned another 60, 000, 000 shares registered under Syarikat Nominee Bumiputra Sdn Bhd. He added that on 28 November 1990, 1, 990, 355, 177 million shares were purchased by Fleet Holdings in which he too declared a 50 per cent indirect interest. According to the KLSE Handbook of Companies Anuar Othman's shareholdings direct and indirect in Renong amounted to 31.98 per cent. See BT, 17:1:1991 and KLSE Annual Companies Handbook, Vol.XV11 Book I. p 700. The composition of Halim Saad's dominant shareholding in Renong is described in the following footnote.

Renong.[67] Already, by December 1990, Renong was one of Malaysia's largest publicly listed companies with assets totalling $1.26 billion, placing it second only to Sime Darby on the Kuala Lumpur Stock Exchange (NST, 8:12:1990). Control, direct and indirect, of 73 per cent of Renong meant therefore a massive concentration of wealth in the hands of its executive chairman, Halim Saad. A study by *Malaysian Business* (16:4:1992) to determine ownership by directors of publicly-listed companies revealed that Halim Saad and his wife Noraini Zolkifli were among the top ten owners of corporate stock in Malaysia, the remainder being Chinese. The combined corporate equity owned by Halim ($1.7 billion) and his wife ($717 million) amounted to over $2.4 billion more than that of any other group among the top ten owners of corporate stock.

The potential dilemma for UMNO in separating its ownership of such massive assets by the use of proxies was highlighted, perhaps inadvertently, by the Prime Minister Dr Mahathir who while claiming that 'Halim Saad was not a front man for UMNO, 'went on to point out that 'UMNO has been cheated many times in the past because people entrusted to look after UMNO's funds suddenly said there was no money at all.'[68] In

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67 When Renong took over the Fleet Group and Hatibudi Nominees in April 1990, Renong's largest shareholder was a company called Pacific Fleet which held 14 per cent of the company. Pacific Fleet's only two shareholders were Halim Saad and Anuar Othman. In January 1991 Halim Saad, as executive chairman of Renong informed the company that as of 28 November 1990 he had 220,410,909 Renong shares registered in his own name. On 12 March 1991 Halim disposed of 20 million shares, reducing his direct holding to 200,410,909 or 15.07 per cent. In addition to the shares held under his own name, Halim advised the company that he had an indirect interest in another 476,739,620 Renong shares or 50.67 per cent. Halim's indirect interest was comprised of 355,177,120 shares purchased by Fleet Holdings in which he had declared a 50 per cent interest, 60,000,000 shares registered under Syarikat Nominee Bumiputra Sdn Bhd, 30,312,000 shares registered under BCB Nominees Sdn Bhd and a further 31,250,000 shares registered under Rothputra Nominees Sdn Bhd. In November 1990, Renong announced that Hanuma Sdn Bhd became a substantial shareholder of the company with 121,563,000 million shares or 9.1 per cent. This arose from the purchase by Hanuma of the entire paid-up capital of Pacific Fleet Sdn Bhd and Hanurai Sdn Bhd. Pacific Fleet and Hanurai were private holding companies; Pacific Fleet holding 60 million shares in Renong and Hanurai 61,563 million. Hanuma was wholly owned by Halim and his wife, Datin Noraini Zolkiffli. Halim's wife is also a director of Renong. See BT, 28:11:1990, NST, 17:1:1991, The Star, 28:3:1991 and 3:4:1991 and KLSE, Annual Companies Handbook Vol XVII, Book 1 p 700.

68 NST, 19:7:1991 ('PM:UMNO not involved in business'). These comments were made by the Prime Minister, Dr Mahathir when he replied in Parliament to Opposition Leader, Lim Kit Siang who had earlier alleged that Halim Saad was a 'front man for UMNO'. Dr Mahathir said that, "I sleep well every night as I am not worried that UMNO's money will be lost because UMNO money is not involved. I admit that if UMNO money to the amount of $1 billion is involved, I will not be able to sleep well. UMNO has been cheated many times in the past because people entrusted to look after UMNO's funds suddenly said there was no money at all. As such, I am not trusting to the extent of allowing others to be fronting (for UMNO). ...Now I am aware that there are people who only want to take care of UMNO if they can own it".

other words to view UMNO's principal proxy capitalists as little more than corporate cyphers of the party leadership underestimates the role they play. Indeed, of the three types of directors identified by Lim Mah Hui (1981:70) that is executive-professional directors, functional directors and owner-directors, the roles performed by 'proxies' such as Halim Saad combine the two most important of those categories, executive-professional directors (who perform the day-to-day management functions), and that of the owner-directors (who both own and take an active interest in the operations or policies of corporations).

UMNO's proxy capitalists wield considerable corporate power not only from their ownership, direct and indirect, of large amounts of shares but also from the multiple directorships they hold on the party's behalf. With regard to the latter, it is members of this small and select group who, to a large extent, determine the investment strategies of some of Malaysia's largest companies on the Kuala Lumpur Stock Exchange. The potential to use or exploit such a concentration of corporate power is of course considerable, the possibilities of which were highlighted in 1990 when several UMNO-owned or related companies were the subject of insider trading investigations. One investigation focussed on Renong's $1.95 billion restructuring earlier that same year. The case involved trading in the shares of some of the most prominent listed companies within the Renong group, notably United Engineers, Kinta Kellas and Time Engineering.[69] Halim Saad was a director and/or held substantial shares in all three companies. Of particular interest to the authorities was why United Engineer's share price leapt to more than $12 on the last day of trading of 1989 when it was $4.30 only nine months earlier (FEER, 18:7:1991). The Finance Minister, Datuk Anwar Ibrahim, acknowledged that Malaysia's Registrar of Companies and police had interrogated Renong personnel in connection with the companys' restructuring but said they found insufficient evidence to pursue charges against any individual.[70]

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69 According to the *Far Eastern Economic Review*, Malaysia's Registrar of Companies asked all 53 stockbroking firms in February 1990 to provide trading information on shares in UEM from 1 April to 31 December 1989, for Time Engineering from 1 July to 31 December 1989 and for Kinta Kellas from 1 September to 31 December 1989. The government also requested information regarding share transactions in Multi-Purpose Holdings (MPH) which was the focus of a takeover by Hume Industries. Hume Industries was 23.8 per cent owned by a unit of Renong's Fleet Group. Some observers claimed that the government's main purpose in mounting the insider trading investigations was to frighten would-be offenders but others argued that insider traders had offended powerful interests in UMNO by utilising advance information of corporate monoeuvres to engage in unauthorised transactions. See FEER, 18:7:1991 (Doug Tsuruoka, 'Unfair shares').

70 The NST, 13:7:1991 reported that Deputy Home Minister, Datuk Megat Junid said that police had recorded statements from the former chairman of Bank Bumiputra, Tan Sri Basir Ismail, Renong

The corporate rise of Halim Saad, UMNO's most prominent proxy capitalist, highlights some key features associated with this important group within the Malay business elite. As both owner-directors and executive-professional directors of some of Malaysia's largest companies, UMNO's proxy capitalists exercise a considerable degree of power and independence in corporate circles where they are amongst the country's most influential 'movers and shakers' in business. Yet, at the same time, UMNO's proxy capitalists are still capitalists by virtue of their loyalty the party leadership and their positions as managers of the party's assets. However that fundamental limitation is temporary because most 'proxies' have utilised the considerable corporate experience, connections (and capital) amassed while managing UMNO's investments to become corporate tycoons in their own right.

From Proxy to Corporate Captain: Wan Azmi Wan Hamzah

How former proxies move beyond the networks party patronage to establish themselves as independent corporate entities can be seen in the case of of our next study, Wan Azmi Wan Hamzah. Wan Azmi's corporate background was typical of most former UMNO proxies - many of whom had also been associated with Daim at Peremba and managed various arms of the Fleet Group in the 1980's - and who, by the 1990's, had emerged to head their own Bumiputra business groups. In this survey of Wan Azmi's corporate rise we shall also pay attention to the complementary character of the relationship that appears to be developing between the new Malay and Chinese business groups as well as their common and close relationship with the state.

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executive chairman Datuk Halim Saad and had questioned a lawyer, Zaid Ibrahim 'in connection with the probe into insider trading'. The following day Megat Junid claimed that he had not disclosed any names in relation to the probe and had been misreported by the press. See NST, 13:7:1991 ('Insider trading : Three questioned by police'); AWSJ, 19-20:7:1991 (Raphael Pura, 'BBMB Loss Spurs Illegal-Trading Charge') and NST, 13:7:1991.

The Board of directors of another UMNO-related company, Sungei Besi Mines Malaysia Bhd, were reprimanded for being 'totally irresponsible' after a controversial share offer in which the company revised the price of its shares from $12 to $4 in order to finance a 30 per cent stake in a sugar refining company, Tradewinds Malaysia. Bank Bumiputra Malaysia Bhd's stockbroking unit BBMB Securities Sdn Bhd, lost $72 million in deals associated with Sungei Besi shares and in November 1991 the unit's chief executive, Ghazali Noor, was found guilty and fined for illegal trading. For a detailed account of the convoluted price-rigging scheme that involved trading in Sungei Besi shares see Cheong, 1990:31-36 ('The Sungei Besi Mines Malaysia Bhd : Another UEM Link') FEER, 18:7:1991 (Doug Tsuruoka, 'Unfair shares') and AWSJ, 7:11:1991 (Stephen Duthie, 'BBMB's Ex-Chief Fined for Illegal Trades').

The son of a Supreme Court judge, Wan Azmi was born in Kelantan in 1950 and qualified as a chartered accountant in the United Kingdom. After working briefly for the Guthrie Corporation in the mid 1970's he joined the UMNO-owned New Straits Times Press in 1977 where he rose to become financial controller of the organisation. Two years later he joined government-owned Peremba Bhd, then headed by Daim with whom he forged a 'deep and personal friendship' (The Star, 7:6:1990). In 1983 he became managing director of United Estates Projects, a publicly-listed company that was later renamed Sime-UEP Bhd, a director of the Malaysian French Bank Bhd in which Daim's family companies then had a majority stake, and was a director of the UMNO-controlled Fleet Group and some of its subsidiaries (MB, 16:3:1991). Later, as Minister of Finance, Daim appointed Wan Azmi as Chief Executive Officer of the government-owned Malayan Banking Bhd, Malaysia's third largest commercial bank in 1985. Wan Azmi was only 36 at the time, extraordinarily young for such a senior position. His stay at the bank was shortlived, and a difficult one, as it coincided with the recession of the mid-1980's. As head of the bank, Wan Azmi had to call in the growing debts of many of his Bumiputra business friends. It also became public knowledge during this period that Bank Bumiputra and Malayan Banking had extended huge loans to Maminco Sdn Bhd, the company set up by the government in its ill-fated attempt to corner the world tin market.[71] After less than two years he left Malayan Banking to strike out in business on his own.

Wan Azmi's entree to business was facilitated by Daim who offered him an 8 per cent stake in an ailing timber company called General Lumber owned by Raleigh Bhd[72]. (Raleigh had been Daim's former company before he relinquished control to his business associates after he became Minister for Finance in July 1984.) Wan Azmi obtained seed capital for the purchase of his stake in General Lumber from the sale of shares he had in UEP Bhd to Sime Darby and through borrowings from the banks. The banking sector was quite willing to lend capital to a rising Bumiputra businessman, particularly one who was already well known in financial circles as a former Chief Executive Officer of Malayan Banking (Interview, 13:1:1992 and MB, March 16-31:1991). Wan Azmi subsequently raised his interest in General Lumber to 14.5 per cent and became chairman of the company.

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71 See Jomo, 1990:74 and The Star, 16:11:1986.

72 See FEER, 19:10:1989. Also confirmed in author's interview with Wan Azmi, 13:1:1992. General Lumber was formerly owned by a prominent Chinese businessman from Johore, Datuk Kang Kok Seng and his family. As a Chinese-owned company it apparently had had increasing difficulty in obtaining timber concessions.

For Wan Azmi the attraction of General Lumber was that as a publicly-listed company it provided the vehicle for him to raise funds and launch his own corporate career. In that regard Wan Azmi later told the *Far Eastern Economic Review* that 'General Lumber's problem was that it neither had cash flow nor collateral. We had to go with a series of acquisitions of landed assets where the medium of settlement could be General Lumber shares. This allowed us, using the acquisitions as collateral, to source funds to activate the core business' (FEER, 19:11:1989). Wan Azmi and his brother-in-law, Nik Mahmood Haji Nik Hassan, then set about creating one of the few fully integrated timber operations in Southeast Asia. This coincided with the Malaysian Government's targetting of value-added wood products as a promising future growth area. Despite initially funding acquisitions through new share issues, General Lumber's share price leapt more than 200 per cent as brokers assumed that General Lumber would be a major beneficiary of the furniture industry's relocation from South Korea and Taiwan[73] where costs had risen sharply (FEER, 19:10:1989).

While vertical integration within the timber business moderated the cyclical features of that industry, General Lumber sought to ameliorate these further by the diversification of its activities.[74] Consequently since the late 1980's General Lumber branched into the manufacture of resins and compounds for the plastics industry, property development (through the acquisition of Sri Damansara) and stockbroking through a stake in Rashid Hussein Bhd. By December 1991 General Lumber's original core activity in primary logging was a relatively minor component of the groups activities and, to reflect that, the company changed its name to Land and General Bhd (NST, 6:12:1991). The transformation of Land and General from what had been a small struggling timber company to a profitable and diversified concern was a testament to Wan Azmi's corporate skills and was reflected in an assessment by a Malaysian business magazine (Corporate World, 7:1992), which ranked the company thirty-six in terms of profitability in comparison with more than 350 companies listed on the Kuala Lumpur Stock Exchange. Although Land and General was the centrepiece of Wan Azmi's business holdings, it

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73 In the late 1980's General Lumber entered into a strategic alliance with one of Taiwan's top furniture exporters and also bought UMW Industries (UMWI), from an arm of the Pahang state government. UMWI manufactured furniture for export to the US, Britain and Japan (FEER, 19:10:1989).

74 Political risks, that is the growing power of the green lobby and international concern over the logging of tropical rainforests, provided a secondary justification for the diversification of General Lumber. (By the late 1980s General Lumber was already a substantial 'logger' in the region. In a $1.6 billion deal it reportedly secured a 200,000ha forest concession in Papua New Guinea. In Indonesia Azmi entered into a joint venture with a local company, Kuala Langsa, to log 5,000 ha with an option to log a further 10,000ha in Sumatra.) See The Star, 7:6:1990.

nevertheless constituted only part of a diverse investment portfolio which included stakes in a range of public companies including Gadek Bhd, Malaysian Resources, Cycle and Carriage, Cold Storage Bhd (the latter a company controlled by Daim in the early 1980's), and an overseas bank, the Southeast Asia Bank in Mauritius.

In the course of his corporate rise Wan Azmi clearly benefitted from state support and the friendships of other powerful businessmen, Bumiputra and Chinese alike. However, on closer examination, a reciprocity was often apparent in those relationships that belie easy categorization so while his business investments on occasion appear to have had a 'symmetry' with those of the party, by the early nineties he was generally regarded as a relatively independent corporate player. This apparent mix of roles can best be illustrated by reference to a number of his business dealings and relationships.

The coincidence between the corporate interests of the party and those of Wan Azmi appeared most notable in his purchase of assets of the hotel and property group, Faber Merlin. In our earlier survey of the Fleet Group, it was noted how in the early 1980s one of the Group's most important acquisitions was Faber Merlin, a company which after the recession and property slump of the mid-eighties was encumbered with large debts. In an attempt to salvage Faber, the Fleet Group called on several companies to either take-over Faber or purchase some of its assets, but none were prepared to do so (Asiaweek, 30:9:1985). With the likely prospect of being wound-up, Faber was 'saved' when its principal asset, the Kuala Lumpur Merlin, was purchased in February 1990 by Ampang Hotel Sdn Bhd for $113 million - a company, which through various shareholdings, was linked ultimately to Wan Azmi[75]. Shortly thereafter Faber's financial problems were resolved after a restructuring exercise and its movement into UMNO's Renong group.[76]

Another instance where Wan Azmi's corporate investments also appeared to serve those of the party was his purchase in June 1990 of Nanyang Press, publisher of one of Malaysia's most influential Chinese newspapers, *Nanyang Siang Pau.* At the time many

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75 Ampang Hotel Sdn Bhd was owned by Singapore-based Ampang Investment Pty Ltd which was a joint-venture company in which Cycle and Carriage Ltd had a 40 per cent stake. One of Cycle and Carriage's main shareholders was a Hong Kong-based company, Yung Pui Co Ltd, controlled by Wan Azmi and former Bank Bumiputra chairman, Basir Iamail (Gomez, 1994:85). See also KLSE Annual Companies Handbook Vol XV:754 and The Star, 1:9:1990.

76 After it was brought under Renong's control, Faber was awarded a 50 per cent stake in PLUS the lucrative concession company incorporated by United Engineers (UEM) to implement the North-South Highway project. On Faber Merlin, see chapter five 'The Renong Takeover' particularly footnotes 37 and 38 and 'Government assistance to the expansion of UMNO companies' and also chapter six 'Daim and the Fleet Group.'

observers speculated that Azmi was being used as a proxy by UMNO, under the direction of its treasurer, Daim to take control of a major Chinese newspaper ahead of the then forthcoming general elections[77]. Although *Nanyang Siang Pau* ultimately ended up under the control of UMNO-connected Hume Industries that, according to Azmi, was not the result of any machiavellian design but a combination of circumstances which involved him in a particularly troublesome investment. His own account of that episode, which in fact caused him some difficulty with Daim and the UMNO leadership, is illuminating.[78]

In March 1990 Wan Ariff, Wan Azmi's brother bought a 20.26 per cent stake in Nanyang Press through his Hongkong-based company, Oriental Highland. Although Oriental Highland had the largest stake in Nanyang, the company's stock was very divided as Pernas, Kuok Brothers, SEA Housing and a number of other investors held small stakes in it.[79] Nanyang was a profitable company but, according to Azmi, it had no real leadership because its shareholding was so divided. Ariff turned to his brother for advice. Wan Azmi, with a background as a former financial controller of New Straits Times Press (NSTP), thought *Nanyang* was a good business proposition so, in June 1990, purchased a controlling 30 per cent stake in the company (The Star, 7:6:1990).

It quickly became apparent however that the investment was a mistake as the Chinese community boycotted what was seen as Bumiputra, and possibly UMNO, control being extended over yet another major Chinese daily. For Wan Azmi matters were made worse when just before the 1990 general elections, *Nanyang Siang Pau* published (in English) the manifesto of the opposition Semangat '46, an action which resulted in a phone call and a rebuke 'What's this man?' from Daim. It was, according to Azmi, the only occasion on which Daim had called him on a business matter.[80] Embroiled in controversy with both the Malay and the Chinese community by his Nanyang venture, Azmi gladly sold his stake in the company to Hume Industries, a unit of Quek Leng Chan's Hong Leong group.[81] The sale was politically astute since Nanyang ostensibly remained in Chinese hands though Hume, at one step removed, was closely linked with UMNO's

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77 See for instance FEER, 28:2:1991.

78 Authors interview with Wan Azmi, 13 :1: 1992

79 At the time Pernas held 13 per cent of Nanyang while Kuok Bros and SEA Housing each held about 6 per cent with minority stakes held by a variety of other small investors (FEER, 12:4:1990).

80 Authors interview with Wan Azmi, 13:1:1992.

81 Wan Azmi's company, General Lumber, made a profit of $12.7 million on the sale (The Star, 9:2:1991).

Renong group.[82] So while UMNO eventually extended its control, albeit indirectly, over *Nanyang Siang Pau,* it would nevertheless seem mistaken to characterise Wan Azmi's role in that exercise as that of an UMNO proxy.

Clearly Wan Azmi has benefitted from state support but, at the same time, he has successfully capitalised on the opportunities afforded by such support. A notable example in that regard concerned the restructuring of the American-controlled RJ Reynolds Tobacco Company. RJ Reynolds was under pressure from the Malaysian government to indigenise its equity to conform to NEP guidelines by the end of 1990. Wan Azmi orchestrated a rather complex deal which involved the rejuvenation of a listed, but previously moribund, company called Juara Perkasa Corp (JPC), and the Malaysianization of RJ Reynolds through a reverse takeover. On that occasion luck, a willingness to risk his own capital, and strong links with the authorities all combined to serve the interests of both Wan Azmi/JPC and RJ Reynolds. In essence, RJ Reynolds was able to Malaysianize its operations, obtain a listing on the KLSE within six months of the merger, and remit $230 million back to its head office, while Wan Azmi made a handsome profit. For an outlay of $10 million he obtained a 14.5 per cent stake in a company with a net worth of $261.5 million (Asiamoney, March 1991). (A synopsis of the deal is given below.)[83]. So while state backing has been a 'facilitator' in Wan Azmi's corporate rise - importantly, as in the RJ Reynolds/JPC deal - he has capitalised on that

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82 In December 1989 Jaguh Mutiara Sdn Bhd, a company owned by the Fleet group, obtained a substantial 23.8 per cent stake in Hume Industries. Later the Fleet group was subsumed within the Renong group. See chapter 4 and The Star, 6:4:1991.

83 In February 1990 Wan Azmi, through his family holding company, Rohas Sdn Bhd, acquired a loss-making but publicly-listed company called Juara Perkasa Corp (JPC). Originally he had been considering a co-operative arrangement with the Hong Leong Group to revitalize JPC but, with Quek Leng Chan's agreement, called off the arrangement when he was approached by the RJ Reynolds which had to restructure its equity so as to conform to the NEP's requirement of 30 per cent ownership in Bumiputra hands by 1990. In essence, the deal structured largely by Azmi involved four steps. First he converted JPC's $8.7 million debt to equity and then purchased J & P Coates, an associate of JPC for $5.7 million. Secondly JPC purchased RJ Reynolds Sdn Bhd issuing 250 million new JPC shares to parent RJ Reynolds (New Jersey). In the reverse take-over, JPC became a 95.6 per cent subsidiary of RJ Reynolds (New Jersey). Third RJ Reynolds (New Jersey) divested 29.6 per cent of its share in JPC and remitted $230 million to the parent company. Finally, RJ Reynolds (New Jersey) agreed to sell another 6 per cent a year later. With a 60 per cent stake, the company completed its Malaysianization. Ultimately Wan Azmi held 14.5 per cent of JPC with 5.5 per cent going to Bumiputra institutions and 10 per cent to the Malaysian public (Asiamoney, March 1991). See also MB, September 16-30 1990. According to Azmi (author's interview, 13:1:1992) the details and share prices involved in the deal as related by *Asiamoney* were essentially correct.

support and, as one Kuala Lumpur investment banker observed, 'Wan Azmi now carries a lot of weight on his own. His survival isn't dependent on someone else'[84]

Wan Azmi's status as a corporate player in his own right was well illustrated by the role he played in the battle for a billion dollar housing project, called Sri Damansara, on the outskirts of Kuala Lumpur. The details of that rather complex three-way deal between Wan Azmi and two Chinese tycoons Lim Thian Kit (T K Lim) and Vincent Tan are given later in the study.[85] However, an outline of the story here, from Azmi's perspective, will serve to show the complementary character of the relationship between the new Malay and Chinese business groups and their common and close relationship with the government.

By 1990 Sri Damansara was owned by a company called Magnum Corporation which had been acquired by T K Lim in the course of his takeover of the MCA's former investment arm, Multi-Purpose Holdings Bhd (MPH). Vincent Tan, another prominent member of the new generation of Chinese tycoons to emerge in the 1980's, was - through his company the Inter-Pacific Industrial Group (Inter-Pac) - the other major shareholder of Magnum. A corporate tussle ensued between Lim and Tan for control of Magnum. Tan applied pressure on two fronts - on the one hand by increasing his stake in Magnum, and on the other by 'posturing' (Azmi's phrase), that he had more political clout than Lim.[86]

Already burdened with large debt, Lim turned to Azmi both for capital and political clout in his bid to avoid an entire sell-out of Magnum/Sri Damansara to Tan. At that point Azmi played a pivotal role in structuring a deal in which all the parties, though himself in particular, gained handsomely. In essence Azmi acquired Sri Damansara from Lim/Magnum for $200 million in a share swap as a result of which Lim/Magnum became a substantial shareholder in one of the leading Bumiputra conglomerates, Azmi's Land and General. The deal also doubled Land and General's paid-up capital and gave Azmi a 'call option' that allowed him to purchase from Magnum whatever it held in excess of 20 per cent of Land and General's expanded share base. In effect this meant that while

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84 See FEER, 19:10:1989 (Jonathan Friedland, 'Malaysian Entrepreneur turns around General Lumber: Out of the Woods').

85 See chapter 9 and the study of the Hong Leong Group.

86 That assertion was given some credence when Daim, as Finance Minister, overruled a finding by Malaysia's central bank that Lim had violated the country's Banking and Financial Institutions Act (BAFIA) by failing to file notice of his share purchase (FEER, 14:6:1990).

Magnum was a substantial shareholder, Azmi's control of the expanded conglomerate remained secure.

Vincent Tan, whose Inter-Pac group had a 23.9 per cent stake in Magnum, objected to the deal, arguing that the $200 million purchase price was too low (MB, 16-31:1991). So in November 1991 Azmi/Land and General sold 25 per cent of its stake in Sri Damansara to Sports Toto, a company owned by Vincent Tan for a profit of $9 million (The Star, 6:11:1991). Why the apparently conciliatory gesture? The reason, according to Azmi, was both profit and 'face'. Tan believed, correctly, he had missed out on a good investment where Sri Damansara was concerned and in Malaysia's politicised corporate world it appeared he had been 'cut out of the action'. So Azmi gave him a 25 per cent stake for $59.5 million cash (The Star, 6:11:1991). The arrangement suited Azmi whose company, Land and General, was then under some strain owing to heavy borrowing, while Tan regained 'face' and a stake in a company whose profits were expected to soar as the economy continued to recover from the slump of the mid eighties.

From the incubus of the state and the party (Peremba and the Fleet Group) Wan Azmi emerged by the late 1980's to head one of Malaysia's largest Bumiputra business groups. After his own entree to the corporate world provided by General Lumber, Wan Azmi skillfully used the mechanisms of the stockmarket to finance an integrated timber operation which in turn was transformed into a more diversified, durable and profitable group. (Interestingly the manner of his rise and close relationship with the state bore striking similarities to that of the new Chinese business groups to emerge in the eighties.) In the case of RJ Reynolds, Wan Azmi capitalised on NEP requirements to orchestrate a deal ultimately to the satisfaction and profit of the government, foreign capital and domestic (Bumiputra) capital. In the Sri Damansara compact the pivotal role he played not only belied notions of 'proxy capitalist' or 'Ali Baba' type arrangements, but showed how the attractions for Chinese of integration with Bumiputra capital were not confined to the latter's connections with the state but, as importantly, the mutual benefits each offered the other in terms of finance and ownership. A reciprocity was also apparent in the relationship between Azmi and the corporate interests of the party. (Thus his apparent 'rescue' of Faber Merlin was explained as a return or quid pro quo for past favours.) But the key feature of this more dynamic element amongst UMNO's former proxy capitalists represented by Wan Azmi, and others such as Samsuddin Abu Hassan and Tajuddin Ramli, is a capacity to build on, rather than become dependent on networks of state and party patronage and to move beyond them.

Conclusion

Political capitalists who derive their wealth or gain an entree to business through an association with UMNO constitute an important element in the evolution of Malay capitalism. Two broad groups of political capitalists were identified, that is politicians who became businessmen and former managers of the party's own considerable assets (UMNO's proxy capitalists), who later also become businessmen. Not only is the starting point of the two groups different but, as we have seen, so was their capacity to move beyond rent-seeking activities and establish themselves as businessmen largely independent of party or political patronage.

From our study of the corporate rise of two prominent politicians-turned-businessmen, Ghafar Baba and Syed Kechik, a number of features emerged which appear fairly common to many who fall within this category. Politicians become businessmen through the power or influence they are able to use to acquire land and resources or contracts and directorships. But, as our case studies showed, the dependence and vulnerability of such capital to changing political relationships prompts speculative activity and short time horizons for quick profits. Capital accumulated in this manner is invariably narrowly based - property, timber or speculative plays on the stockmarket, the initial gains from which - unlike the more dynamic elements of Malay capital - are seldom re-invested to deepen or diversify capital and place it on a more durable base. Indeed a roll call of some of the more prominent politicians-turned-businessmen including Ghafar Baba, Syed Kechik, Abdullah Ahmad, Rahman Yakub and Harun Idris is a catalogue of rent-seekers and 'ersatz capitalists'. The static nature of this group was in contrast to the more varied and more dynamic characteristics associated with some of UMNO's former proxy capitalists who have become businessmen.

In contrast to politicians who become businessmen, the transition of UMNO's proxy capitalists to business is facilitated by the corporate experience and connections gained as managers of the party's considerable investments and/or, in some cases, by enmeshing their own corporate interests with those of UMNO. The record of UMNO as an incubus for this important group of capitalists is mixed. At one end of the spectrum are those like Halim Saad who remain proxies, that is they are capitalists by virtue of their positions as managers of the party's assets. Yet, as our survey indicated, notions of proxy should be tempered by a recognition that as both owner-directors and executive-professional directors of some of Malaysia's largest companies, those who remain 'UMNO's proxy capitalists' nevertheless wield considerable power, and it seems, a degree of independence in business. Another group of UMNO proxy capitalists-cum-businessmen

included Daim, Tunku Abdullah, Ahmad Sebi and others who managed their own companies though the fortunes of those companies were tied in varying degrees to the corporate investments of the party. Indeed the capacity of such business groups to operate and develop as free-standing entities appeared limited. The archetypical example of this facet of Malay capitalism was of course Daim, whose extraordinary rise in buiness owed much to a fusion, if not exploitation, of his party and private roles.[87]

But as we saw Daim, and his sort were only part of the story, for proxy capitalists also included individuals such as Wan Azmi, Samsuddin Abu Hassan and Tajudin Ramli, who have emerged from the incubus of Peremba and UMNO's network of companies, to establish some of Malaysia's leading Bumiputra business groups. The important characteristic of this group was a capacity to build on networks of state and party patronage and move beyond them. These UMNO proxy capitalists-turned-businessmen, of which the case of Wan Azmi is fairly typical, have transformed and diversified what initially were often narrowly-based and rather speculative enterprises into groups with a more solid asset base. In concert with this economic change, a complementary rather than clientalistic relationship also appears to have developed between Azmi (and others of this group) both with the state and with foreign and Chinese capital. The critical point however is that this group have shifted from proxy capitalists in the eighties to become relatively independent businessmen in the nineties, and that while this group has grown, the rentier and ersatz elements associated with Daim and others have remained static or declined. While change and transition is apparent amongst some elements of Malay capital spawned by the state and the party, it is also apparent in Malay capital whose origins have been largely based in the private sector. It is to this third leg in the development of Malay capitalism that we now turn.

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87 In the development of Malay capitalism Daim's greatest legacy may not be his own example but the opportunities he provided for that key group of Malay entrepreneurs who emerged from the corporate nursery of Peremba and the Fleet Group.

Chapter 7

PRIVATE MALAY CAPITAL: RENTIERS, TRANSITIONAL GROUPS AND ENTREPRENEURS

The growth of Malay capitalism in the eighties has attracted the attention of many scholars, but accounts of this important development have generally been given in descriptive or historical terms,[1] that is greater attention has been paid to the origins of Malay capital - ex-bureaucrats, ex-politicians, royalty and so on - rather than the dynamics involved in their emergence and development.[2] By contrast the primary focus of our study has been on the relationship or intensity of the fusion between the three main vehicles through which greater Malay ownership of the economy was pursued - the state, the party and the private sector - since it was the merging of those categories that has determined the character of Malay capital and provided the combustion for its growth. Throughout we have been concerned to emphasise however that while such categories as 'state', 'party' and 'private' serve a useful heuristic purpose in analyzing the development of Malay business groups, in reality there is considerable blurring and overlap between them. This chapter will be concerned with the third leg, or group, in the development of Malay capitalism, that is those Bumiputra entrepreneurs whose origins and growth have been largely based in the private sector, in short 'private capitalists.'

The spectrum found amongst Malay capitalists who have emerged from the incubus of the state and the party can also be found amongst those who have emerged from the private sector where we also find rent-seekers, transitional groups and entrepreneurs. This chapter will be concerned to identify the key factors associated with the static and more dynamic elements of Malay capitalism associated with each of those categories in the private sector. So in the case studies of rentiers, transitional groups, and entrepreneurs that follow, particular attention will be paid to the relationships between

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1 See Sieh Lee, 1992:112-124; Lim, M. H., 1981:52-62; Tan, 1982:281-292; Jesudason, 1990:105-109 and Ho, 1990:263-275.

2 For a succinct but comprehensive overview of the evolution of the Malay business class see Crouch, Malaysian Government: Authoritarian Repression and Democratic Responsiveness (unpublished manuscript), chapter 11.

Bumiputra capital, the state, and Chinese or foreign business on the one hand, and the implications of those relationships for the development of Malay capitalism on the other. First we turn to the rentiers, where the fusion of those relationships and their implications for rent-seeking behaviour were most apparent in the dramatic rise and fall of one of Malaysia's most prominent Bumiputra capitalists of the 1980's, Tan Sri Ibrahim Mohamed.[3]

RENTIERS

THE CASE OF TAN SRI IBRAHIM MOHAMED AND PROMET BHD

The case of Ibrahim Mohamed and his company, Promet Bhd, illustrates in stark and dramatic fashion how patronage and a close relationship with the government and the party can sponsor spectacular growth but at the same time so politicize a company's image and operations as to destroy it. Moreover, as the case of Promet shows, such a relationship may also encourage and facilitate for a time a circuit of quick and easy wealth production that belies the government's goal of fostering a robust and resilient community of Bumiputra entrepreneurs. But to appreciate the political character of Promet's rise and demise some background is first necessary concerning the initial means by which Ibrahim accumulated capital in the 1970's, and the friendships he forged at that time with prominent Chinese businessmen and leading figures in UMNO.

Ibrahim Mohamed was born in 1942 in Kota Bharu, Kelantan. After graduating in economics from the University of Malaya in 1965 he was awarded a Bank Negara scholarship and read law at Lincoln's Inn, London In 1970 Ibrahim commenced his career as a lawyer in Kuantan, Pahang with a $9,000 loan from MARA (FEER, 2:9:1977). During that period, the early seventies, Ibrahim became acquainted with Tengku Ahmad Shah, the future Sultan of Pahang and later Agung (King) of Malaysia. Ibrahim assisted Tengku Ahmad Shah, often known in business circles by his acronym (TAS), in the development of the Sultan's business interests, notably Taman TAS, Kuantan's first major Bumiputra housing project (BT, 5:9:1983). In 1974, while still in his early thirties, Ibrahim also ventured into business on his own in Pahang and

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3 Some other prominent examples of rentier or static capital whose origins are more commonly associated with the private sector include Mazlan Harun (son of the former Chief Minister of Selangor) and his company Bidara Holdings; Haji Matshah Safuan of Kesang Corporation Bhd; the late Tengku Ariff Bendahara of Pahang (TAB Holdings) as well as most other companies associated with royalty, particularly those linked to the Sultans of Selangor and Pahang.

Trengganu where he obtained rights to log timber concessions covering 5,000 acres from which he made $500,000 (BT, 5:9:1983). He invested that capital in Kuala Lumpur's then (1971-1973) booming stockmarket and made profits of several million dollars[4]. During the mid seventies Ibrahim's business interests also expanded into the construction industry where within two years he was able to obtain contracts worth $140 million, while his legal practice, which was an early beneficiary of the NEP, was also making huge profits.[5]

Ibrahim's move into the corporate sphere began in 1975 when he was appointed chairman of Tan Sri Lim Goh Tong's tourist and gambling conglomerate, Genting Highlands Bhd. Since the bulk of Genting's interests were in Pahang, the company required a Bumiputra partner with links in that state. Ibrahim, already active in business in Pahang and a confidante of the Sultan was an obvious choice.[6] At Genting, Ibrahim obtained the formal approvals necessary for the subdivision of land owned by the company and so enabled it to considerably expand its facilities. He was also involved in the company's bid for control of the London-based plantation group, Golden Hope. Although the bid failed, Ibrahim and his right hand man and then general manager at Genting, Tan Koon Swan (who later became head of the MCA and the party's investment arm Multi-Purpose Holdings Bhd), gained valuable experience concerning the operations of the stock market (MB, May:1983). Both were soon to employ that experience in building their respective corporate groups.

While chairman of Genting Bhd, Ibrahim also continued to develop his own business interests. In 1976 he acquired his own public company when two statutory authorities, the Selangor Economic Development Corporation and Kumpulan Perangsang Selangor, agreed to sell their shares in a company called General Ceramics to Ibrahim's family company, Fawanis (BT, 5:9:1983). A year later, Ibrahim sold General Ceramics (which under its managing director, Tan Sri Low Keng Huat, had become a very profitable

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4 Ibrahim received financial backing from state-owned Bank Bumiputra and Malayan Banking to fund his acquisitions of land and shares (BT, 5:9:1983).

5 By 1977, Ibrahim's legal practice alone, was making profits of $1 million annually (FEER, 2:9:1977).

6 A public indication of the Sultan's favour where Ibrahim was concerned was the conferring by the Sultan of several state awards, including the honorific title, "datuk" on Ibrahim. The titles were conferred presumably for services rendered to TAS Industries and, it was rumoured, for settling some of the Sultan's debts in London. In November 1978 the Sultan stripped Ibrahim of his titles. The reason for the Sultan's action was never publicly disclosed but fortunately for Ibrahim he remained a "datuk" having received the same award from the Sultan of Kelantan (NST, 16:11:1978).

company) to finance his acquisition of another company, Associated Plastics Industries (API). At the time API[7] was in debt, but after Ibrahim purchased the company its shares became the focus of market speculation. Many, including the KLSE committee, suspected that API shares were being cornered by its directors and as a result the counter was suspended[8]

In the course of his corporate rise in the mid seventies, Ibrahim not only established ties with some of Malaysia's most prominent Chinese businessmen, notably Lim Goh Tong, Low Keng Huat and Tan Koon Swan, but also with senior UMNO leaders, particularly Dr Mahathir and Tengku Razaleigh, who at the time also held the most powerful economic portfolios in government. (Dr Mahathir was then Deputy Prime Minister and Minister of Trade and Industry while Tengku Razaleigh was Minister of Finance.) Dr Mahathir's longstanding interest in business, and concern to rapidly promote a Malay business elite, drew him to young audacious Bumiputra entrepreneurs like Ibrahim. Ibrahim, for his part, played-up for public and corporate consumption the 'close contact' and 'frequent consultation' he had with Mahathir and, as to his relationship with Tengku Razaleigh, claimed that 'He (Razaleigh) is like a big brother to me' (BT, 5:9:1983). (Ibrahim's longstanding aquaintance with Razaleigh started during his teenage years in Kota Bharu.)

Ibrahim's associations with senior UMNO leaders facilitated his appointment as a director or chairman of about twenty publicly-listed companies (FEER, 2:9:1977). He was also appointed deputy chairman of KUB, UMNO's Cooperative in April 1983 and managing director of PBB, a wholly owned subsidiary of KUB, in August the same year. After his appointment to the board of directors of KUB and PBB, the Cooperative, using its publicly-listed vehicle, Idris Hydraulic, became much more active in the corporate sphere, particularly the property develpment sector. Significantly, most of Idris Hydraulic's involvement in the property sector was with companies in which Ibrahim had an interest.[9] In addition to his direct links with UMNO's business investments through KUB, Ibrahim also played a leading role in the development of joint ventures between the investment arms of UMNO and MCA. What facilitated that linkage was Ibrahim's earlier partnership with Tan Koon Swan at Genting. The fate of the joint ventures need not

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7 After Ibrahim purchased API, the name of the company was changed from Associated Plastics Industries to Amalgamated Properties and Industries.

8 It was widely believed that Ibrahim was involved in the incident. See BT, 5:9:1983 (Kadir Jasin, 'Tan Sri Ibrahim Mohamed: A meteoric rise in the corporate world').

9 See section on KUB in chapter 5 and also Gomez, 1990:157.

concern us here,[10] though it is important to recall that the leading role played by Ibrahim in the early eighties in what appeared to be the beginnings of a co-operative business relationship between UMNO and the MCA, further enhanced his profile and value as a Bumiputra business partner. (At the same time the publicity surrounding the proposed joint-venture arrangements between PBB and MPH also added to the stature of Tan Koon Swan, then managing director of MPH, and assisted his political ambitions in the MCA.) But these various alliances and associations were a precursor to Ibrahim's identification with the fortunes of one of Malaysia's most prominent business groups in the 1980's, Promet Bhd, an acronym for Progressive Methods.

Promet: Rise and Fall

In the early eighties Brian Chang, a Singaporean with interests in oil rig construction, was seeking access to opportunities offered by Malaysia's rapidly expanding oil construction business. At the same time, Ibrahim Mohamed was also seeking to move into the oil industry and expand his interests beyond Malaysia. Both Ibrahim and Chang had a longstanding friendship going back to the late sixties when both were students in London. The combination of skills and connections in an Ibrahim-Chang partnership, and the business opportunities they offered both, led Chang, who owned Promet Pty Ltd, to make a reverse takeover of an ailing but publicly-listed company called Bovis Southeast Asia. Ibrahim had just been appointed chairman of Bovis after his family company, Fawanis, had paid $30 million for a one-third stake in the company (BT, 27:6:1981). Chang and Ibrahim then reconstituted and renamed Bovis as Promet Bhd. Given NEP requirements, the Chang-Ibrahim partnership appeared to be an ideal combination to win lucrative contracts, particularly in the rapidly expanding state sector. Initially, that was indeed the case, and Promet rapidly grew into a massive conglomerate whose profits trebled in three years from $41 million in 1981 to $115 million in 1983 by which time it was the 14th largest company on the Kuala Lumpur Stock Exchange with a market capitalisaton exceeding $100 million[11].

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10 Within only a few years, that is by 1987, the much vaunted hopes that joint venture arrangements between PBB and MPHB would signal the beginning of a beneficial inter-political-ethnic relationship came to naught as it became apparent that MPH largely saw its relationship with PBB as a means to obtain consent to develop various housing projects, while PBB seemed content merely to be well paid and make handsome profits for such services. For details concerning the verious joint ventures undertaken between PBB and MPHB, and their ultimate fate see Gomez, 1990:157-160.

11 See KLSE, Annual Companies Handbook, Vol X11:625 and SCMP, 3:6:1986.

Promet's profits came from a number of major government contracts, some of the most notable of which included a construction project (Terminal Two) at Subang airport, a $1 billion deal to build a tourist resort in Trengganu (MB, 1:2:1986), and a share in a controversial $2.25 billion contract for the construction of a gas grid project in Sabah.[12] Ibrahim admitted that Promet was "handpicked" for the Subang airport contract and, despite denials by Promet that the contract for the construction of the Sabah gas grid was awarded 'because of political connections with the Prime Minister' (The Star, 30:4:1983), the manner and circumstances surrounding the award suggested otherwise. Senior state officials in Sabah told Jeffrey Segal of the *Far Eastern Economic Review* that the only serious bidders for the contract were a Japanese-American group consisting of Marubeni, Nippon Kokan and Brown and Root, and a South Korean-French consortium, Hyundai and Fleur. The third bidder, Promet with McDermott of the United States, was out of the running. In July 1982 the Sabah authorities selected the Marubeni consortium, since it offered the best financial terms, but the selection was rejected by the federal government. In August 1982 the Prime Minister, Dr Mahathir, instead sent back his own proposal for a "restructured" consortium of the three original winners, plus Promet (FEER, 14:4:1983). A likely explanation for the Prime Minister's intervention appeared to be that at the July 1981 UMNO General Assembly Ibrahim, by then the epitome of the NEP's success in producing a new class of rich Bumiputra businessman, had, amidst considerable fanfare, donated $9 million worth of shares to the party.[13]

While such huge donations to UMNO facilitated the generous patronage Promet received from the government, the company's intimate relationship with the political leadership also embroiled it in very costly ventures in which political considerations appeared to take precedence over profit. The most notable example of such a venture concerned the government's ambitious plan to develop the island of Langkawi into an international tourist resort. Ibrahim was instrumental in procuring the Langkawi project for Promet (MB, 1:3:1986) but the project quickly became an enormous drain on the company's resources.

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12 The project was questioned by many in Sabah on the grounds of cost and economic viability. See FEER, 14:4:1983 (Jeffrey Segal, 'The burning issue of Sabah's unused gas'). Ibrahim criticised Segal's article and claimed 'the tender was fought very keenly' and that 'it was the pure envy of competitors that Promet got the contract' that prompted remarks that 'it was awarded because of the connections with the Prime Minister' (The Star, 30:4:1983).

13 See Interview with Datuk Seri Dr Mahathir Mohamed in Tan, C.K., 1984:63.

The grandiose $3 billion plan developed by Promet for the Langkawi project committed the company to provide the massive infrastructure required to develop the resort and attract the huge foreign investment necessary to fund construction of luxury hotels and associated facilities. Government backing, state and federal, was critical to support Promet's heavy investment in the project. Consequently, much publicity was given in the press to the 'blessings' the project received from the Prime Minister, Dr Mahathir, and the Chief Minister of Kedah, Syed Nahar,[14] and to indications of support by Mahathir regarding Promet's requests for special tax breaks and other incentives for all companies involved in the project.[15] Seizing on the Prime Minister's call for greater co-operation between the state and private sectors, encapsulated in the slogan "Malaysia Incorporated, " an ebullient Ibrahim cited the combined efforts of Promet and the task force set up by the Federal Government as an example of the "Malaysia Incorporated" concept in action (The Star, 28:11:1983). However, notwithstanding the hype surrounding Promet's government connections, the much needed foreign investment crucial to the viability of the project did not materialise. Yet, since Promet had adopted such a high political profile where the project was concerned, the company had little option but to continue what became an extraordinarily costly commitment. In retrospect, Ibrahim admitted that Promet's involvement (in the Langkawi project) was more a "social obligation" than a pure business venture (MB, 1:2:1986). Brian Chang was more direct, claiming that "the $3 billion project originally mooted destroyed our (Promet's) credibility completely" (NST, 24:5:1986).

In addition to the financial costs associated with Promet's political profile, the company's rapid expansion into property development and oil exploration made it highly vulnerable to any slowdown in the economy. So when the stockmarket and property prices slumped in 1985 the reversal of Promet's fortunes was dramatic. In 1983 Promet made a profit of $115 million, but by 1985 it made a loss of $92 million, while the company's stock fell from $11 a share in late 1981 to 80 cents a share in 1986, and its indebtedness to eighteen banks soared to over $100 million.[16]

Promet's parlous financial situation was exacerbated by the actions of Ibrahim and his brother Abdullah who, it was believed, were seeking to reduce their large personal debts

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14 Amidst much fanfare Dr Mahathir witnessed the signing of the agreement for the project aboard the Promet yacht, ASEAN Lady. See NST, 22:7:1983 and 28:11:1983.

15 See NST, 24:11:1984 (Mahathir : Government willing to consider Promet requests.)

16 See Asiaweek, 19:1:1986 and 2:9:1988. In corporate circles some wags dubbed Promet, Plummet Bhd.

by transferring less profitable assets in other companies to publicly-listed Promet, thereby shifting their debt burden to the company's shareholders (The Star, 11:12:1985). Ibrahim and Abdullah had borrowed large sums of money from local and Singaporean banks during the boom, using Promet shares as collateral in order to buy land, develop property and buy more shares. A particular focus of their attention were shares in a large property company, SELPROP, which planned to develop a $3.6 billion town centre in Kuala Lumpur. Ibrahim reportedly bought $120 million worth of $2.5 SELPROP shares financed entirely through bank borrowings only to find their value slashed to $1.35 in the wake of the property slump (Asiaweek, 19:1:1986). It was alleged he planned to inject his 15 per cent stake in SELPROP and other property interests into Promet while at the same time enlarging his stake in the company at the expense of his partner, Brian Chang (BT, 16:1:1986).

Ibrahim's manoeuvres in this regard provoked a bitter power struggle with Chang for control of Promet during which Ibrahim and his brother Abdullah attempted to 'wrap themselves in the flag,' claiming Promet would have a better future if it were 'Malaysianised'[17]. But Ibrahim's 'nationalist' appeals came to naught as the banks, which were owed over $100 million by Promet, successfully pressed for his removal from the company[18]. In February 1986 Ibrahim resigned as chairman and director of Promet and by November the company was placed in receivership and its assets frozen. Three years later Ibrahim restructured his company API, which became Uniphoenix Corporation Bhd, but, at least until the early nineties, the company continued to incur large losses (BT, 20:10:1989). Ibrahim's corporate fall seemed complete when in August 1993 he pleaded guilty to selling 825,000 shares in a company, Union Paper Holdings Bhd (UPHB) he did not own and was fined $500,000 (AWSJ, 30:8:1993).

Of the leading Bumiputra businessmen to emerge from the private sector in the early eighties few had established such a powerful network of political and business relationships as Ibrahim Mohamed. More than any of his contemporaries Ibrahim was closely identified with the Mahathir leadership, as a result of which Promet enjoyed access to an enormous amount of political patronage and was, for some years, one of Malaysia's wealthiest and fastest growing public companies. But dependency on patronage and a buoyant stock and property market (and an ill-timed move where the oil industry was concerned), meant that Ibrahim's corporate existence - like other rent-

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[17] See The Star, 11:12:1985 and BT, 22:1:1986.

[18] See The Star, 31:1:1986 (It's Bankers who want to oust Ibrahim).

seekers, be they from the state, the party or the private sector - was fragile indeed as soon as one of those props fell. But in addition, as Promet found, patronage and politicization of a company's image and operations could also be something of a double-edged sword as it could involve the company in expensive ventures for political reasons rather than profit. Significantly, after the departure of Ibrahim, Chang, who had to set about rebuilding Promet's image, emphasised that his first task was to "de-characterise Promet" (NST, 24:5:1986). In other words to regain its credibility and viability the political links and personality cult which had become associated with Promet's initial success had to be shed.

TRANSITIONAL GROUPS

While Ibrahim Mohamed provides a good illustration of static or rentier capital and the relationships associated with it the subject of our next study, Datuk Dr Mokhzani Abdul Rahim, formerly of Innovest provides important insights into an element of Malay capital somewhere between rentiers and entrepreneurs, that is of 'transitional groups'. Although by early 1993 Mokhzani had lost control of Innovest, the key point in our study is the role he played in the growth of the company and the relationships he forged with the state and his Chinese partners in the process. A combination of elements which again illustrate the increasingly variagated character of Malay capitalism.

Innovest: Datuk Dr Mokhzani Abdul Rahim

Datuk Dr Mokhzani was born in 1938 and was in his early forties before he went into business. An economist and former academic with a Ph.d. from the London School of Economics, Mokhzani rose to become Dean of the Faculty of Economics and Public Administration (1971-76), and later Deputy Vice-Chancellor of the University of Malaya (1976-79), before 'university politics' prompted his departure from academe to business. Mokhzani's transition to the private sector was facilitated by Datuk Eric Chia, then chief executive of United Motor Works (UMW).[19] At the time, August 1979, Chia had just lost the services of a prominent Malay on UMW's board Datuk Syed Nahar Shahabuddin who had resigned to become Mentri Besar of Kedah (MB, 16:8:1986).

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[19] Mokhzani was introduced to Eric Chia through mutual friends in the Chinese community who knew that Mokhzani was looking for an opportunity to enter the private sector. Author's interview with Mokhzani, 11:11:1987.

Chia's personality, and the diverse range of UMW's activities,[20] proved an ideal training ground for a 'would be Bumiputra entrepreneur'. As a Straits-born Chinese or 'Baba', Chia was fluent in Malay and at ease with members of that community. He had also won the respect of the UMNO leadership for his entrepreneurial skills.[21] The partnership between Chia and Mokhzani proved to be a mutually beneficial one where each capitalised on the strengths of the other, as for instance when UMW sought to diversify further and move into Malaysia's rapidly growing motor vehicle market. In 1982 UMW won, in what was hailed as a 'brilliant coup, ' the lucrative franchise for Toyota automobiles in Malaysia from the then holder of the franchise, Inchape Bhd (BT, 31:8:1981). The success of that venture was the result of five months of hard negotiations with the Japanese during which Mokhzani, as one of the principal negotiators, gained first-hand experience of the workings of the corporate world from Chia. At the same time Mokhzani's range of contacts amongst senior Malaysian government ministers, including the then Minister for Trade and Industry, Dr Mahathir, proved invaluable in terms of gaining access at the highest levels of government for Toyota's representatives. It was an access that UMW's competitor, Inchape, did not have and was important in helping to close the deal in UMW's favour.[22]

After five years at UMW, Mokhzani sought to branch out on his own and in early 1984 with a former classmate, Cheam Tat Phang, he began negotiations with the owner of an ailing company called Fusan Fishing Net Manufacturing Company Bhd. Fusan was short of capital, its expansion plans were blocked by its suspension from the stock exchange, and its core business, the manufacture of fishing nets, was no longer

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20 By the late sixties Chia had developed UMW from basically a distributer of construction and heavy equipment (mainly Japanese Komatsu products) into a company whose activities included engineering and manufacturing as well as insurance leasing and finance.

21 In 1979, Dr Mahathir then Deputy Prime Minister, had singled out Chia as a Malaysian 'who had ventured boldly into new fields and succeeded' (Gill, 1985:163). Chia and Mahathir had formed a close friendship in the early seventies when both had worked together in the government-owned food-based company Kumpulan Fima Bhd.

22 UMW's good relationship with the government contrasted sharply with that of Inchcape, an old British company that was widely perceived as having moved too little too late to accept the NEP and which also suffered from the fallout of the deteriorating relationship between Britain and Malaysia at the time. See FEER, 15:12:1983.

Unfortunately for UMW, soon after it won the costly Toyota franchise ($160 million) the recession and the introduction of the government-backed national car, the Proton Saga, pushed the company to the brink of collapse. See The Star, 21:9:1982 and Asiaweek, 26:7:1987. Although UMW's difficulties were eased a little by its receiving a share in the distributorship of the Proton Saga, after a major restructuring exercise in 1987 control of the company passed to the government's principal trust agency, Permodalan Nasional Bhd (PNB). See The Star, 27:10:1987.

profitable. Mokhzani and his colleagues believed that a new combination of experience and connections could offer Fusan a 'quantum leap and not mere incremental growth' (MB, 16:8:1986). The new combination of skills and connections included Lim Geok Chan, Fusan's founder, Cheam Tat Phang, a businessman with extensive contacts in the banking community, and Thomas Chong Teck Fook who controlled a profitable Singapore-based company, Hart Engineering.

To this combination Mokhzani bought the necessary Bumiputra participation that facilitated the re-listing of the company and in turn allowed it to raise more capital. But not only did he play a key role in bringing together a new combination of experience and skills essential for Fusan's future viability, but after the company was restructured he also became an owner-director of the company. In short, Mokhzani's role in the re-activation of Fusan was not that of a mere 'figurehead capitalist' and nor could his relationship with his Chinese colleagues be characterized in Ali-Baba terms. But how did he became an owner-director and raise the necessary funds for a stake in the company? In order to obtain a re-listing on the Kuala Lumpur Stock Exchange, Fusan's equity had to conform to NEP guidelines in terms of Bumiputra participation. Fusan satisfied those guidelines through a special issue of shares at par to Bumiputra investors. Usually such share issues were taken up by a Malay statutory corporation (such as PNB) on behalf of the Malay community but in the case of Fusan Mokhzani managed to persuade the authorities to allow an individual, ie himself, to purchase the bulk of the special Bumiputra share issue.[23] To obtain the necessary funds to take up the shares Mokhzani had to mortgage all his assets and borrow heavily from the banks. His own contacts in the banking sector as well as those of his Chinese partners (particularly Cheam Tat Pang) were all required to raise the necessary funds (Interview with Mokhzani, 11:11:1987).

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[23] As the Malay business class grew there was increasing pressure from its members in the early eighties for assets held by government institutions in trust for the Bumiputra community to be transferred directly to individuals or business groups in that community. It was against such a background that Mokhzani wrote directly to the Prime Minister, Dr Mahathir, seeking permission that he, as an individual be allowed to take up the special share issue in the case of Fusan. According to Mokhzani, Mahathir 'characteristically' did not indicate a position on the matter but his neutrality helped, indirectly, Mokhzani press his case in other quarters. (Mokhzani had got to know Mahathir personally many years before when as a youth he spent some time in Alor Star where Mahathir was then a medical practitioner.) Mokhzani also wrote to Tengku Rithaudeen, then Minister of Trade and Industry, to press his case. Some of Mokhzani's former students in the Ministry helped prepare the submission that was eventually approved. Mokhzani also approached Tun Ismail Ali, the chairman of PNB who, while initially cool towards the proposition, mainly because he thought Fusan a poor investment, also eventually agreed to Mokhzani taking up the special Bumiputra issue. Author's interview with Mokhzani 11:11:1987.

After its re-listing in 1983, Fusan raised further capital which was used to acquire new companies in high growth sectors such as engineering, high-technology manufacturing and warehousing. Fusan's most important acquisitions included Hart Engineering (mainly engaged in the design and sale of fire protection equipment and services), Industrial Boilers and Allied Equipment (IBAE) (manufacturers of industrial boilers and organic water treatment plants), and Sun Metal Works (specialist designers for the manufacture of oilfield and gas equipment)[24]. Fusan also began to diversify into the food and service related industries when, together with a Bumiputra company, Antah Holdings, and Jardine Matheson, it acquired a share in the US-based 7-Eleven franchise in Malaysia.[25] At the same time (late 1983), Fusan sold off its net manufacturing operations and in June 1984 changed its name to Innovest to better reflect its new core activities. The composition of those core activities was significant for unlike many other new business groups, whether Malay or Chinese, Innovest did not seek investments in the plantation or property sectors (where the quality of assets was often questionable), but instead concentrated on manufacturing and food and service related industries which the company identified as sectors with the potential for substantial, though not spectacular, growth.[26]

Innovest's most important acquisition in the food and service related industries was the purchase in June 1986 of Poon Guan Holdings, the local franchise holder for Kentucky Fried Chicken. The owner of the Kentucky Fried Chicken franchises in Singapore and Malaysia was an eccentric millionaire, Loo Cheng Gee. (Loo's hold on the franchise had been shaken not only by his own financial difficulties but also by the unorthodox antics he had employed in a self confessed attempt to corner the crude palm oil (CPO) futures market - antics that had antagonised the Malaysian authorities and many in the Malay community).[27] Loo's difficulties aside, there was nevertheless considerable

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24 See MB, 16:8:1986

25 See MB, 1:10:1984.

26 See MB, 16:8:1986 (Magasvaran, 'Innovest: Faith in new ways').

27 Loo alleged that the Kuala Lumpur Commodity Exchange (KLCE) was being defrauded by an alliance of 'corrupt administrators and buccaneering businessmen' and that they were responsible for his financial troubles, including the price of palm oil which had become too expensive to fry his chickens. Loo provoked a crisis on the KLCE when he embarked on a "selling short" spree, selling oil futures to drive down prices. In March 1984 CPO prices plunged from $2, 600 per tonne to $1,200. The KLCE took several years to recover from the crisis. In addition Loo's public berating of some VIP's and other antics, such as getting his men to run around Kuala Lumpur dressed up as Mickey Mouse and Tonto (Loo thought of himself as the 'Lone Ranger'), soon began to affect his hold on the KFC franchise. Accusations were made by 'certain quarters' that the chickens sold in KFC outlets were not 'halal' and therefore could not be eaten by Muslims. Such an accusation effectively

scepticism at the time about the prospects of Innovest's proposed investment in the KFC franchise. The Malaysian economy was in a deep recession, the fast food business had no established record in the country and the price asked for the franchise, $75 million was considered very high (MB, 16:3:1992). Mokhzani and co-director Cheam Tat Pang had to extensively canvas their respective contacts in the financial community for a syndicated loan. Still short of the funds required as the deadline to finalise the deal loomed, Mokhzani successfully persuaded PNB to take up the balance, that is approximately a 30 per cent stake in the company.[28]

Though the purchase of KFC initially posed a huge strain on Innovest's financial resources, the investment proved to be highly lucrative for the company and provided an effective counter to the cyclical nature of the manufacturing and engineering activities of the group. Innovest broadened its fast food business by acquiring three additional franchises in 1988 and then consolidated its food related activities into a separate listed subsidiary, KFC Holdings, in November 1988.[29] KFC Holdings quickly outgrew its original form of being just a fast food operator and by 1991 had established backward and forward linkages to become a fully integrated food processing group which had also begun to invest in similar operations overseas (The Star, 26:7:1991). At the same time the company continued to diversify its manufacturing and engineering operations. Innovest Systems and Services Sdn Bhd (ISS), a wholly-owned subsidiary, was active in the rapidly growing information technology industry where it won substantial contracts, while another subsdiary, Innopower Electronics Sdn Bhd (whose main activities included the design and manufacture of standby power supplies, microprocessors systems, transformers and thermo elements for local and overseas markets), was successful in attracting substantial Japanese investment.[30]

But the rosy picture of rapid growth and profits in the late eighties was replaced in the nineties by Innovest's large burden of debt. In essence Mokhzani and his colleagues' belief that their combination of experience and connections could offer Innovest a

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barred a large proportion of Loo's customers, the Malay public. However following the takeover of KFC by Innovest, Malays returned to eating Kentucky Fried Chicken. See MB, 16:8:1985 ('Lone Ranger in Battle') and NST, 19:8:1989.

28 See BT, 10:7:1985 ('Innovest arranges finance for acquisition') and MB, 16:3:1992 (Zoe Poon, 'KFC:The best is yet to come').

29 The three additional franchises acquired in 1988 were Shakey's Pizza Restaurant, White Castle Burger, and State Ria (MB, 1:12:1988).

30 See The Star, 27:12:1989 and NST, 30:7:1991.

'quantum leap' and not mere incremental growth, proved to be the groups achilles' heal. By May 1991 the group had 110 subsidiaries and 30 associated companies with operations all over the world (Innovest 1990 Annual Report). Many of Innovest's subsidiaries proved to be corporate haemophiliacs. Overdiversification and poor management of the group's subsidiaries, a number of which were engaged in dubious deals, saw the company's debt grow to $541 million by the end of 1990 (MB, 16:3:1992). Of particular note were the activities of Innovest's Singapore-listed associate, Inno-Pacific Holdings, which had attracted the attention of both PNB and the regulatory authorities in Singapore concerning loans within the group and deals involving the purchase of land in Bangkok and Hongkong.[31] By early 1993 Mokhzani and his partners had lost control of Innovest leaving a number of other corporate groups struggling for control of the company.[32]

While state backing was crucial to Mokhzani's rise as an owner-director he nevertheless effectively combined that advantage with the greater business experience of his Chinese partners to build the makings of a significant corporate group. In the process of building that group, Mokhzani, in concert with his fellow directors, had to risk his own capital and investment judgements in the market place. He was also actively involved in the day-to-day management of the company. Such attributes clearly set him apart from the 'static' elements of Malay capital such as 'figurehead' capitalists (that is directors who play little role or take little risk in the development of companies with which they are connected), or the 'Ali-Baba' type of business relationship where the Malay partner is often little more than a front man for Chinese interests. But as an entrepreneur, Mokhzani is clearly not in the same league as Azman Hashim and Shamsuddin Abdul Kadir, the subjects of the case studies that follow.

ENTREPRENEURS: AZMAN HASHIM AND SHAMSUDDIN ABDUL KADIR

After our discussion of representative rentier and transitional businessmen, we now turn to the most dynamic element of Malay capitalism, the origins and growth of which has been largely based in the private sector - that of the entrepreneurs. Of central theoretical importance in our examination of this group however is the question of 'dynamic'

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31 See FEER, 1:10:1992 (Malaysian fund questions Innovest deal).

32 See MB, 16:6:1994 (By fair means or foul).

capitalism. We will, therefore, seek to highlight a number of characteristics associated with this group that are indicative of its being the harbinger of a more independent and 'dynamic' Malay capitalist class. In that regard it will be argued that while the groups in question remain strong supporters of the state and the party, most have increasingly distanced themselves from such centres of patronage in their day-to-day operations and development. Secondly our studies will show that while some of these groups had rather 'ersatz' origins in terms of their early methods of capital accumulation, and accompanying characteristics of rapid growth and high levels of debt, by the early 1990's many had diversified and/or, more importantly, consolidated their operations. (Indeed one of our studies, that of Sapura Holdings, developed capitalist credentials even by Yoshihara's lights, that is a capacity to compete internationally with its innovative high-tech products.) Finally, as with the rentier and transitional 'representatives' of Malay capitalism examined earlier, we shall focus on the relationship between this more dynamic group, the entrepreneurs, with foreign and Chinese capital.

While we shall be concerned to elucidate the more dynamic characteristics in the development of Malay capitalism that are associated with two particular groups, Arab Malaysia (Azman Hashim) and Sapura Holdings Sdn Bhd (Samsuddin Abdul Kadir), such characteristics are shared to varying degrees by a growing number of other Bumiputra groups including Rashid Hussain Bhd (Rashid Hussain), Diversified Resources and Gadek (Yahya Ahmad), the Sedap group (Amin Shah Omar Shah) and Grand Care Sdn Bhd (Ishak bin Ismail).

The Arab-Malaysia Group: Tan Sri Azman Hashim

Azman Hashim is one of Malaysia's most successful businessmen whose net worth by 1994 was estimated to be around $1.5 billion (US$585 million). Unlike a number of others who rapidly accumulated great wealth in the eighties there has never been any hint of scandal associated with Azman's business dealings. Neither is there any trace of him having used politics for business gain despite the fact that he once sat on UMNO's political bureau and was a former director of Fleet Holdings (MB, 1:2:1990). Before the implementation of the NEP, Azman was already a qualified and experienced accountant with strong links in the banking sector. So he was well placed to benefit from the strong state support given to that relatively small group of professionally qualified Malays in the early 1970's who, by the 1990's, would constitute the nucleus of the Malay bourgeoisie. Though the path to wealth was rapid, and facilitated by the support of state-owned banks, Azman used those initial advantages to build a huge and diversified conglomerate

that by the end of the eighties was noted for its profitability and professional management.

In 1955 Azman, then only 16 years old, won a Colombo Plan scholarship and studied accountancy for five years in Australia. He qualified in 1959 and in 1960 returned to Malaya and joined the newly established central bank, Bank Negara. In 1964 he left the bank and set up his own accountancy firm which later became Azman, Wong Salleh and Co (MB, August 1978). The practice flourished, helped in part by good references from Azman's former chief and head of Bank Negara, Tun Ismail Ali. In 1966 Azman was also appointed to the Board of Malayan Banking Bhd. The bank was then in the process of being taken over by the government after it had been racked by a series of scandals arising form the activities of its managing director at the time, Tan Sri Khoo Teck Puat. (Apparently Tun Ismail was keen to have Azman assist in the process of refurbishing the image of Malayan Banking and in 1971 Azman was asked to become executive director of the bank, a position he held until 1980.)

By the early seventies Azman was already a wealthy man, having made large profits in the property and stock market (MB, 1:2:1990). At the same time, as head of Malayan Banking, Azman was introduced to the workings of the corporate world and made many valuable contacts in it. He was appointed to the boards of numerous state agencies including Malayawata Steel Bhd, Komplex Kewangan Malaysia Bhd, Malaysian Airline System, Pernas Securities, Malaysian Mining Corporation and the Pilgrims Management and Fund Board (LUTH). Azman also held senior positions in many business and professional organisations, including the presidency of the Malaysian Institute of Chartered Secretaries and was a member of the governing council of the Malaysian Institute of Management and chairman of the Association of Finance Companies of Malaysia (MB, November 1982).

However in terms of learning the workings of the business world Azman's most important 'corporate nursery' was Pernas, where he worked closely with Tengku Razaleigh, then (1970-76) head of the group. Azman's principal involvement with Pernas was with Pernas Securities, a vehicle used by the government to carry out such corporate activities as mergers and takeovers. Together, Razaleigh and Azman masterminded in 1975 the acquisition by Pernas Securities of London Tin (FEER, 20:2:1981). Azman's close involvement in such complex deals gave him first hand knowledge and experience of the techniques of rapid expansion through borrowing and takeovers.

Azman's close association with Tengku Razaleigh, then UMNO treasurer, also led to his appointment as a director of Fleet Holdings, UMNO's first investment arm when it was incorporated in October 1972. However according to Gomez, Azman, who was then UMNO Selangor treasurer, was only a trustee for Fleet Holdings and he played no role in the management of the company which was handled solely by Junus Sudin in consultation with Razaleigh (Gomez, 1990:54). He resigned as a director of Fleet Holdings in May 1978. In other words, while Azman had a direct association with UMNO and its investment arm in the seventies, that association was a very formal one and since that time he apparently maintained a discreet distance from UMNO politics.

In 1980 Azman resigned from his position as executive director of Malayan Banking to become chairman of its subsidiary, Kwong Yik Bank. The reason for this 'sidestep' was because Azman was "under the impression" that he would be allocated a majority stake in the bank but two years later he was still a minority shareholder and so he left Kwong Yik (MB, 1:2:1990). The same year, 1982, he bought a 40 per cent stake in Taiping Textiles, a publicly-listed but largely moribund company. As Jesudason (1990:106) observed, Azman was less interested in textiles than gaining access to a corporate vehicle. In 1982 Azman also bought Arab Malaysia Development Bank (AMDB) a merchant bank jointly owned by state-owned Malaysian Industrial Development Finance (MIDF), and Arab interests[33]for $101.8 million.[34] With the purchase of AMDB Azman had the distinction of being the only Malaysian to have for a time 100 per cent control of a bank (MB, November 1982). The purchase was facilitated by Azman's capacity to borrow from state-owned banks, particularly Malayan Banking, and its willingness to accept as security some of the shares he was purchasing. Apparently the quid pro quo was Azman's disposal to Malayan Banking of his substantial stake in its subsidiary, Kwong Yik Bank.[35] In other words the acceptance by Malayan Banking of this 'risky form of collateral' was driven largely by the prospect of some gain

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33 The shareholding in ABDB comprised state-owned Malaysian Industrial Development Finance (MIDF) 55 per cent, Arab Asian Investment Company of Kuwait 33 per cent and the National Commercial Bank of Saudi Arabia 12 per cent (FEER, 7:5:1982).

34 The takeover was in two stages. In April 1982 Azman purchased a controlling 55 per cent from Malaysian Industrial Development Finance (MIDF) for $55.9 million by raising a $50 million credit line from local banks, principally Malayan Banking, in return for a collateral of 6 million shares he owned in other companies (BT, 28:4:1982). In the second stage, Azman bought out the remaining minority shareholders by again borrowing from local banks and other financial institutions and securing those borrowings by his AMDB shares and assets in other companies he controlled (MB, November 1982).

35 See Cheong, 1990:87

rather than, as suggested by some, an altruistic committment to the development of a Malay bourgeoisie.[36] Moreover Azman, in contrast to many Bumiputra businessmen, did have considerable security to offer his creditors by way of assets (estimated in 1984 to have a net value of between $525 and $840 million), [37] as well as an established record as an experienced and successful banker.

By December 1983 Azman was ready to set about forging a major new financial/property/manufacturing group. To that end he used his control of Taiping Textiles to make the company buy 45 per cent of Arab Malaysia Development Bank. (At the same time, to more accurately reflect the activities of his principal companies, Taiping Textiles was renamed Arab Malaysia Development Bhd and Arab Malaysia Development Bank was renamed Arab Malaysia Merchant Bank {AMMB}). The cost of the proposed 45 per cent stake in Arab Malaysia Development Bank to Taiping Textiles was $311 million.[38] In other words Azman proposed to sell for $311 million a stake in a merchant bank for which he had paid $120 million in total eighteen months earlier. The deal was criticised on the grounds that it was unfair to Taiping shareholders (FEER, 24:11:1983). In the event however the deal did not go through and Azman did not make the windfall profit claimed by some writers.[39] Instead, the Capital Issues Committee (CIC)[40] intervened and drastically cut the proposed sale price of AMMD from $311 million to $144.9 million, a reduction of more than 50 per cent on the original consideration.[41] So Azman, like a number of other prominent members of the emerging Bumiputra business elite, also found his corporate plans stymied somewhat by the CIC, which, under the chairmanship of Tan Sri Aziz Taha, often acted as an important constraint of the corporate excesses of this group of businessmen.

Despite the temporary set-back that the Arab-Malaysia group received as a result of the CIC's intervention, Azman pressed ahead with plans to diversify and extend the

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36 See for instance Jesudason, 1990:106-7.

37 This estimate was made in a 1984 survey by the Singapore Mirror which rated Azman as one of the 20 richest men in Singapore and Malaysia. Azman has downplayed the estimate with the comment, 'I wonder if they considered my liabilities". MB, 1:2:1990

38 See MB, 1:2:1990 (S Jayasankaran, '*Bona Fide* Entrepreneur).

39 See for instance Jesudason, 1990:107 and MB, 1:2:1990.

40 The main role of the Capital Issues Committee (CIC) was to ensure that companies offering shares to Bumiputras did so at reaonably attractive and realistic prices and secondly to guard against abuse of new issues by prior inflation of profits and asset values.

41 The purchase was effected through the issue of 144.9 million AMDB shares (MB, 1:12:1988).

activities of the group to provide a variety of financial services. At the same time he attracted to the group a highly talented and experienced team of economists and managers, the most prominent of whom included Malek Merican, formerly managing director of Aseam Bankers Malaysia Bhd and Group Director of Sime Darby, and Patrick Low Han Hing, a chartered accountant who was later to become chairman and chief executive of Daim's former publicly-listed vehicle, Raleigh Bhd.

When Malaysia's economy was plunged into recession in the mid-eighties it took a particularly heavy toll of the emerging Bumiputra business class. Azman's growing Arab-Malaysia group was also hard hit when the value of loans secured against property and stocks plunged precipitiously. But Azman survived through shrewd management and the sound prospect of future profit he was able to offer potential investors. By a complex incentive deal that guaranteed prospective investors a certain minimum profit for three years,[42] Azman was able to attract two substantial investors, first another Bumiputra group, Antah Holdings, which in February 1987 purchased 20 per cent of AMMB, and later in August the same year, Tokai Bank of Japan, which purchased another 20 per cent. Although he sold 40 per cent of AMMB, Azman retained effective control of the bank and at the same time was able to substantially reduce his debts.[43] The sale also enabled AMMB to tap business opportunities from the diversified Antah Group and benefit from Tokai Bank's links with Japanese business groups in Malaysia. (MB, 1:2:1990).

Though the last of the twelve merchant banks to be established locally, AMMB was the first to be listed on the Kuala Lumpur Stock Exchange (KLSE) on 12 December 1988. Analysts have supported Azman's claim that AMMB has diversified its activities more than most other financial companies or institutions in Malaysia. AMMB owned a licensed finance company, a hire purchase financing and leasing company, a life and general insurance company and a stock broking company[44]. By 1990 AMMB was the largest merchant bank in Malaysia in terms of deposits, assets, shareholders funds and

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[42] Basically Azman pledged that the bank would reap profits of at least $45.4 million over three years and prospective investors would get a portion (almost 20 per cent) of that if they bought into the bank. In hindsight, Azman's estimates of AMMB's prospective profits were vindicated and Tokai and Antah almost tripled their investment. See MB, 1:2:1990.

[43] At one point in the 1985-86 recession banking analysts estimated that Azman's debts to be in the region of $350 to $400 million. It has been estimated that Azman made $161 million when he sold stakes in AMMB to Antah and Tokai. See MB, 1:2:1990.

[44] See MB, 1:12:1988 (Yong Kwai Meng, 'Ahead with a string of firsts').

profits.[45] The efficient and effective managment of the bank was also widely recognised. It won the award for the most outstanding Annual Report for three consecutive years (1986-88)[46] and was ranked top portfolio manager for retirement and pension funds among leading fund managers in Malaysia by William Mercer Zainal Fraser, an independent professional actuarial firm[47]. In June 1991 Asiamoney, a Euromoney publication, also ranked AMMB amongst the Top Six Best Managed Listed Companies in Malaysia in 'recognition of the Group's ability to record consistent profits in changing economic and political circumstances'.[48]

Azman's corporate empire grew further when in March 1988, through a family company, Arishah Sdn Bhd, he purchased a controlling stake in another publicly-listed company, Temerloh Rubber Estates Bhd, popularly known as 'TRE'. Temerloh had previously been under the control of Syed Kechik. Temerloh's sale represented the dramatic changes of fortune wrought by the recession of the mid-eighties amongst the Bumiputra business elite. Reputed to be the richest Bumiputra businessman in the seventies, Syed Kechik, as we saw earlier, was forced in the wake of the recession to sell Temerloh to Azman for $15 million (FEER, 1:12:1994), which was less than half of what he (Kechik) had paid per share for the company in 1983.[49]

After acquiring Temerloh, Azman converted it from a small plantation-based company into a well diversified group. From 1989 to 1990 Temerloh purchased controlling or substantial stakes in over half-a-dozen companies whose activities included the manufacturing of rubber and plastic goods, transportation, environmental and waste management, financing, freight handling and the repair and maintenance of equipment for the oil and gas services industry. In July 1991 Temerloh acquired a 40 per cent stake in AMMB from Antah Holdings (10 per cent) and Ginagini, a wholly-owned company of

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45 See KLSE Annual Companies Handbook Vol XV 1990:659.

46 BT, 6:12:1988. Malaysian annual corporate report awards are co-sponsored by the Bank of America and the Business Times.

47 MB, 1:12:1988. Other notable achievements by AMMB include: its choice as financial advisor to Jabatan Telecom Malaysia, the first major public sector enterprise to commence privatisation; the launching in May 1987 of the Malaysia Fund Inc. a close-end investment company listed on the New York Stock Exchange in an effort to promote Malaysian stocks abroad; and in 1989 the launching of the Malaysia Growth Fund aimed at tapping Japanese financial resources to invest in the KLSE. See KLSE:Annual Companies Handbook, Vol XV, 1990 :659.

48 The survey compiled views from institutional investors of how the international investment community judged the managment skill in Asia's listed companies. See AMMB Annual Report March 1991, p16.

49 See NST, 25:3:1988 (Azman takes control of Temerloh).

Azman (30 per cent). It also acquired 30 per cent in Arab Malaysia Development Bhd (AMDB); 30 per cent in Redec Holdings; and 15 per cent in Rediffusion Malaysia (BT, 26:7:1991).

By these acquisitions, all of Azman's principal companies were consolidated under Temerloh (renamed Arab-Malaysia Corp. or AmCorp) which in turn became a huge and diversified conglomerate and Azman's 'flagship company' (BT, 26:7:91). More changes followed. AAMB Holdings' wholly-owned finance company, Arab Malaysia Finance was listed on the KLSE in 1992 and raised $200 million and AmCorp bought Azman's stake in both AMDB and AMMB Holdings in a share swap that gave Azman 75 per cent of AmCorp. Twelve months later (1993) Azman sold 25 per cent of his stake in AmCorp. The sale raised $315 million and wiped out his debt.[50] His financial empire was complete when in March 1994 Finance Minister Anwar Ibrahim gave permission for Azman to acquire a commercial bank, Security Pacific Bank, the Kuala Lumpur branch of Bank of America (Asia).

Azman's rise in the early eighties was faciltiated by his access to funds from state-owned banks and the skilful use of the stockmarket to achieve rapid corporate growth. But he moved beyond mere 'paper entrepreneurism' to build one of Malaysia's most sound, efficient and profitable financial institutions. By 1994 the company Azman had bought for $101 million was worth more than $5.4 billion, putting it among the top 20 on the Kuala Lumpur Stock Exchange (FEER, 1:12:1994). To achieve that transformation Azman combined entrepreneurial flair with a shrewd reading of Malaysia's volatile economic circumstances, particularly in the mid eighties. AAMB's rapid growth and high borrowings, especially in the early eighties, were also tempered by consolidation and professional and efficient management. That AAMB not only survived the 1985-86 recession when many other Malaysian banks and financial institutions collapsed, but by the early nineties was debt free, was a testament to Azman's experience and skills as a banker. Finally, as Jayasankaran has observed 'Azman isn't regarded as someone who parlayed connections into profit - the image of so many other Malaysian businessmen' (FEER, 1:12:1994). Indeed Azman's relations with the government and the party appear 'good and proper' rather than 'intimate and political', perhaps due in the past at least to his apparently cool relationship with the former Finance Minister, Daim Zainuddin.[51]

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50 See FEER, 1:12:1994 (S.Jayasankaran, 'You Gotta Believe, Azman Hashim:a new-age Malaysian millionaire').

51 See FEER, 1:12:1984 (S. Jayasankaran, 'Icing on the cake'). Jayasankaran cites Azman's difficulty in obtaining permission to purchase a commercial bank during the Daim era and a listing of his stock-

Tan Sri Shamsuddin Abdul Kadir: Sapura Holdings Sdn Bhd

Of the Malay capitalists who have built successful and self sustaining businesses, none defy the image of a fragile Malay bourgeoisie more than Tan Sri Shamsuddin, the founder and head of Sapura Holdings. Shamsuddin capitalised on the initial backing he received from the state, by way of large government contracts to build a company whose technical expertise enabled it to design, manufacture and export specialised telecommunications equipment to markets in Japan, the United States and Europe. In other words Sapura outgrew its origins of being nurtured by government to become an independent and profitable company whose growth did not come from mergers and takeovers but its ability to compete internationally with its innovative high-tech products. So Shamsuddin is a 'capitalist' even in Yoshihara's terms.

Shamsuddin was born in 1931 and qualified as an electrical engineer in Britain in the mid-fifties. On returning to Malaya in 1959, he joined state-owned Jabatan Telekom Malaysia (JTM) where he rose to become Telecoms Controller for Perak. His twelve years with Telecom gave Shamsuddin a thorough knowledge of the workings of telecommunication systems and valuable contacts in JTM, the country's sole telephone authority. In 1971 Shamsuddin left Telekom for the private sector and joined Eric Chia's United Motor Works (UMW), where he rose to become executive chairman. (Interestingly, two of the Bumiputra capitalists considered in this chapter, Mokhzani and Shamsuddin, were linked to Chia who played something of the role of a 'corporate trainer' in both cases.) It was during the five years he spent at UMW (1971-75) that Shamsuddin found the opportunity to strike out on his own (BT, 29:12:1989). His first breakthrough came with payphones. UMW was leasing red tabletop payphones to shops but the business had been unprofitable so UMW willingly sold the company, called Uniphone Works, to Shamsuddin when he left UMW in 1975 (MB, 1:4:1990). Shamsuddin's ability to purchase Uniphone Works was facilitated by a loan of $400,000 from Bank Bumiputra and flexible terms by Eric Chia for payment of an inter-company loan of $1,158,000 million.[52]

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brokerage Arab-Malaysia Securities, as indicative of the 'cool' relationship between Azman and Daim. He also relates a story, probably apocryphal, that Azman as an executive director of Malayan Banking turned down an application from Daim in the late 1970's. Nevertheless, in his interview with the FEER Azman agreed that 'if not for Anwar it (the purchase of Security Pacific Bank) would not have been possible'.

52 In an interview with Malaysian Business (July 1-15, 1993) Shamsuddin revealed that while he was able to obtain a loan of $400, 000 from Bank Bumiputra he was still short of $1,158,000 so he went back to UMW and said, 'Eric, I still cannot pay.' He (Chia) said, 'Ah, you pay me monthly.

As an electrical engineer and former Telekoms man with considerable experience in the operations of telecommunications systems, Shamsuddin was able to make the payphone business profitable. He continued the business at his own company called Sapura Holdings. Sapura Holdings was incorporated in 1975 with a paid up capital of $2 million and began operations in a one room office in Kuala Lumpur. Shamsuddin and his wife, Siti Sapura, after whom the company was named, owned all the shares in the company and sat on the board (NST, 31:8:1991).

Uniphone Sdn Bhd, a subsidiary of Sapura Holdings, had acquired considerable experience in telephone cable splicing and jointing projects and servicing payphones in Kuala Lumpur. Having established itself as a leader in the industry, Uniphone tendered successfully for a ten year licence to supply, install and maintain public payphone services in Malaysia when JTM privatised the loss-making service in 1975. Under three five-year contracts the licence was extended until 1989 with JTM/STM.[53] On 1 January 1989 the licence was renewed for another 15 years (BT, 13:6:1989). About $60 million a year was expected to be collected from payphones making it the most stable long-term source of income for the Sapura group (MB, 1:4:1990). Sapura was also one of the first local turnkey contractors to lay cables for JTM in the mid seventies, a record that enabled the company later to win a quarter share of a $2.5 billion cable laying contract in 1983, one of the biggest government jobs before the $3.4 billion North-South highway contract.[54]

Like most of the Bumiputra business elite, Shamsuddin is said to be close to some members of the UMNO leadership, most notably the Prime Minister, Dr Mahathir[55]. He was once director of Permodalan Bersatu Bhd, the holding company of UMNO's co-operative Koperasi Usaha Bersatu, but unlike some of his contemporaries he was not content to rely on good contacts and government contracts alone (MB, 1:4:1990). Rather

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Whatever you collect.' So from the payphone collections Shamsuddin paid the bank and other expenses. Whatever remained, he paid back to UMW. Payment took nearly two years.

53 JTM was corporatised into Syarikat Telekom Malaysia (STM) in 1987.

54 The contract was divided regionally among four Bumiputra contractors - Uniphone, Binafon, Electroscon and Sri Communications. Each had nearly $636 million worth of cable works to complete. Uniphone was the only company to deliver on schedule, and more than was promised. See MB, 1:4:1990 (Ngam Su May, 'Sapura Holdings, The Making of a Giant') and MB, 1:7:1993 (Rajen Devadasan, 'Making the right calls').

55 Sapura's deputy chairman Rameli Musa is said to be a confidante of Finance Minister Datuk Seri Anwar Ibrahim - they were class-mates at the Malay College, Kuala Kangsar (MB, 1:7:1993).

than merely sourcing supplies for government, Shamsuddin went one step further and began to manufacture made-in Malaysia telephones through full franchise transfers of technology from various established int ernational companies in the field of telecommunications (Cheong, 1990:55). As a result Sapura won virtual control of the domestic market and between 1977 and 1989 supplied about 1.7 million phones to JTM/STM valued at about $131 million (MB, 1:5:1990).

In the eighties telecommunications had become one of the major growth areas in Malaysia's rapidly expanding economy. In order to take full advantage of further opportunities arising in the telecommunications sector Shamsuddin sought to expand and diversify. To raise the necessary capital his company, Sapura Holdings acquired a publicly-listed company, Malayan Cables Bhd, in September 1984. Shortly after the takeover of Malayan Cables by Sapura Holdings, Malayan Cables bought Uniphone Sdn Bhd, then Sapura's principal operating company which had already begun to diversify its product range by the manufacture of public payphones, feature phones, PABX's, main distribution frames and minature protector connnectors[56]. The takeover of Malayan Cables not only helped Sapura to raise capital and diversify but also established important backward linkages for the group. (Sapura's subsidiary, Uniphone, was already a turnkey contractor for JTM's multimillion dollar cable laying contract, thus the takeover of Malayan Cables (later renamed Uniphone Telecommunications) meant that the company was assured of its cable supply). At the same time Sapura's growing technical capablities enabled the company to obtain the lucrative Apple Computer distributorship in Malaysia, Singapore and Brunei.[57]

In the mid-eighties overseas interest in Sapura's products increased after the weakening of the Malaysian dollar and the strengthening of the yen which had rendered some Japanese exports uncompetitive (NST, 14:7:1986). As Sapura's attention was turning to potential export markets, the considerable backing the company had received from the state in terms of valuable government contracts was undergoing change.

After the privatisation of Telekom in 1987 the new corporatised entity, Syarikat Telekom Malaysia (STM), became much more preoccupied with cost. The outlook and operation of the new entity, STM, eroded Sapura's formerly very good and highly

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[56] See MB, 1:4:1990 (Ngam Su May, 'Sapura Spreads its Wings').

[57] The Star, 25:2:1986 (J.T. Khoo, 'Why Apple picked Uniphone'). Appple's regional sales manager, Thomas Cullen said 'Apple considered Sapura's technical background in communications vital and a perfect criterion for their selection'.

profitable relationship with that instrumentality as evidenced by two developments. First a dispute broke out between STM and Sapura's wholly-owned subsidiary, Uniphone, over the installation of card phones and the sharing of revenue from the payphone service. After bitter wrangling for almost a year the dispute was finally settled with apparently better terms for STM.[58] Secondly Sapura lost a valuable $32 million contract to supply STM with telephones to a foreign (Taiwanese) manufacturer. Shamsuddin pleaded, but to no avail, for a 'level playing field' because although the Taiwanese company quoted a lower price it also enjoyed tax and other advantages associated with its 'pioneer status' in the Prai free trade zone near Penang (BT, 4:12:1989). (In addition the product manufactured by the Taiwanese company did not have the high local content of its Sapura counterpart {60 per cent} and was, according to Shamsuddin, of inferior design and manufacture.)[59] Neverthless loss of the contract did provide a futher incentive for Sapura to produce innovative products that would find a niche in export markets.

Consequently Sapura concentrated on the manufacture of specialist telecommunications products that differed from those normally offered to the mass market. According to Shamsuddin, as of October 1990, the company had spent almost $10 million on research and development, an investment that led to the design and manufacture in Malaysia of a microcomputer-based phone, a voice-activated phone and various other high tech items including card payphones (BT,30:10:1990). As a consequence of these developments Sapura Holdings signed in August 1989 a five-year contract worth $70 million with GEC Plessey Telecommunications Ltd for the manufacture and sale of card payphones in Malaysia and eight other countries. With the

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58 Previously a fixed formula for revenue sharing existed between Uniphone and JTM for providing the necessary telephone lines for public payphones. After 1987 that responsibility fell to the newly privatised STM. Consequently the new 15-year licence followed a different formula with better terms for STM. Another source of contention between Uniphone and ASTM concerned Uniphone's 'capture' of the more lucrative urban areas for the installation of public phones leaving the bulk of the rural (comparatively more expensive areas) to be serviced by STM. Although there were reports of a resolution to these disputes in the press, there were few details concerning the actual terms of the settlement. For background see MB, 1:4:1990, The Star, 4:10:1990 and Cheong, 1990:57-58.

59 The Taiwanese manufacturer was Formula Electronics. The $32 million contract issued by STM was for the supply of 600,000 S 2000A telephones. The contract was given to Formula Electronics which quoted a lower price - $37.20 - compared with Sapura's $54. (MB, 1:4:1990).

contract Sapura became the first company in the ASEAN region to manufacture card payphones.[60]

Being a small player in the global telecommunications market, Shamsuddin did not attempt to confront his larger established foreign counterparts but rather adopted a variety of relationships that provided mutual benefits, so where licensing was not practical Sapura opted for equity participation on a joint-venture basis.[61] For instance Sumitomo Electric Industries Ltd of Japan which has a 40 per cent stake in a Sapura subsidiary, Uniphone Cables, also assisted the company to penetrate export markets with its high-powered cables manufactured in Malaysia. But in another case Sumitomo, which was awarded a contract to supply $500,000 worth of phones to the Greater Dhaka Telecommunications network, turned to Sapura to manufacture and supply the phones[62]. Similar collaboration occurred with Sumitomo in El Salvador where the company obtained a contract and in turn sourced it to Sapura which then manufactured and exported to that country telephone testing equipment worth $200,000 (The Star, 7:10:1989). In addition, Sapura successfully concluded joint venture arrangements with India, Pakistan, Jordan and Vietnam. The arrangements involved either the manufacture of phones or the transfer of various aspects of telecommunications technology developed by the company.

Sapura's success in the export of its products was probably most evident, however, when feature phones designed and manufactured by the company were sold to some of the most advanced telecommunications groups in the world including ITT, Net of Japan and Alcatel of Belgium.[63] Sapura also began to make inroads into the US and German markets (NST, 31:8:1991). By a combination of various arrangements and strategies, therefore, Sapura has successfully penetrated niche markets worldwide. Although the Sapura Group only started exporting in the late 1980's, the contribution of exports to company profits leapt from $2 million in 1989 to $170 million in 1993, or about 24 per cent of sales (MB, 1:7:1993).

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60 NST, 3:8:1989 The deal gave Sapura the exclusive rights to sell the phones in Malaysia and non-exclusive rights to market the product in Indonesia, Brunei, Vietnam, Bangladesh, Myanmar, Nepal the Philippines and Sri Lanka

61 BT, 30:10:1990 (R Ismail, 'Sapura won't fight the big boys').

62 See The Star, 7:10:1989 and NST, 9:7:1991.

63 Although having just commenced exports to Japan and Belgium, sales to those markets were expected to be worth $5 million in 1990. See MB, 1:4:1990.

By 1991 the Sapura group comprised some 30 subsidiaries and two publicly-listed companies, Uniphone Telecommunications Bhd and Sapura Telecommunications Bhd. The Group's turnover had grown from approximately $11 million in 1980 to $700 million in 1992 and its reputation as a profitable long-term investment or 'blue chip' stock was highlighted by the fact that foreign banks and institutional investors held some 25 per cent of UTB's paid up capital (Cheong, 1990:61).

Shamsuddin is an outstanding example of a Bumiputra entrepreneur who was not content to rely on good government contracts and contacts but used the initial advantages bestowed by state support to build a strong, dynamic and profitable company. Unlike some of his peers, Shamsuddin has not been associated with 'paper entrepreneurism, ' that is acquisitions, mergers and takeovers to make quick capital gains. He also eschewed profit and growth by expanding into several unrelated sectors of activity, preferring instead to consolidate the group's operations in manufacturing where he focussed in particular on products associated with telecommunications and computer technologies and component parts for vehicle manufacture. Sapura's capacity to develop its own up-to-date technology on the one hand and its flexible approach in licensing, sales and joint-venture arrangements on the other has also enabled the company to take advantage of the growing internationalisation of Japanese capital to penetrate valuable niche markets both in the developed and developing world. In that regard Sapura also defies the oft-put image of Malaysian companies, whether Malay or Chinese, as mere 'screwdriver operations' for foreign capital.

Conclusion

There has been a strong tendency in studies of Malay capitalism to assert that since the emerging Malay business class shares a common starting point or path to wealth, the future development of that class will share a common trajectory and common outcome. In that regard scholars have been inclined to argue that since the origins to Malay wealth are based on strong links to political power, large borrowings, speculative investments and Malaysia's generally high growth rates, such origins will necessarily lead to a form of capitalism which is weak, parasitic and dependent rather than independent, robust and resilient. Evidence for such a view of the development of Malay capitalism is generally derived from a cursory examination of prominent Malay entrepreneurs who are seen as an homogeneous group. The differences that are identified are generally of a descriptive or historical nature. Less attention has been paid to the dynamics involved in the growth of Malay capitalism. In that regard our study of leading Malay businessmen or groups, in this and previous chapters, has been concerned to demonstrate that not only has the

development of Malay capitalism been more complex and variegated than generally supposed but, more significantly, there is real evidence of important transformations taking place in the evolution of a Malay capitalist class. In other words, while some individuals and groups are static, others clearly are not and have developed beyond, and become more independent of, the networks of state or party patronage that first sponsored them. In that regard some groups have built self-sustaining and enduring economic bases in banking, financial and other corporate and technical services, agribusiness and the export of processed primary products. Throughout we have been concerned to emphasise, however, that it is not the background of Malay capital that is important, whether ex-politicians, ex-bureaucrats, royalty and so on, or its often speculative origins, that provide clues to its future development, but the interaction between state and business that is the source of dynamism or defeat in the development of Malay business groups.

PART III

CHINESE CAPITALISM : PARIAH OR ENTREPRENEUR? RELATIONS WITH THE STATE AND RESPONSE TO THE RISE OF MALAY CAPITALISM

The promotion by the state of a Malay capitalist class has had a profound effect upon Chinese business. The next three chapters look at the relationship of Chinese business with the state and its response to the rise of Malay capitalism. Linking all these chapters is the key question posed earlier, that is 'Have Malaysia's political circumstances trapped Chinese businessmen into dependency relationships similar in kind if not degree to Rigg's pariah entrepreneurs'?[1] To answer that question we shall focus throughout on the nexus between the state and business because, it is argued, that nexus has been central not only to the growth and character of Malay capitalism but, since the introduction of the NEP, to Chinese capitalism as well. The first chapter in this section examines the case of Multi-Purpose Holdings Bhd [MPH] or what has been variously dubbed the Chinese 'institutional' or 'group' approach[2] to the NEP; the second examines the rise of some big Chinese conglomerates after 1970, regarded as 'new wealth,' and their relationship with the state and Bumiputra business groups; while the third examines those same relationships but with regard to the response of 'old wealth', that is Chinese capital accumulated before the NEP.

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1 Mackie, 1992 [a]:173. See also discussion that follows this quote in the introduction.

2 Heng,1992:134-137 describes the MPH response to the NEP in 'institutional' terms while Jesudason, 1990:154-159 describes it as the 'Chinese group' response to the NEP.

Chapter 8

MULTI-PURPOSE HOLDING BHD: THE FAILURE OF THE CHINESE INSTITUTIONAL RESPONSE TO THE NEP

In the early 1980's Multi-Purpose Holdings Bhd (MPH) was one of the largest companies in Malaysia. Established, promoted and staffed by senior members of the MCA, it was the most ambitious of the party's attempts to maintain its leadership of the Chinese and safeguard the future of Chinese commercial life in the face of constraints posed by the NEP. The rise and fall of MPH has been examined by a number of scholars[1], so an outline of the story here will suffice for our purposes. In that regard our principal concern is to contrast the close relationship described earlier between the government and UMNO in the expansion of Malay ownership, with the suspicion and obstruction that MPH encountered from UMNO when it attempted to mobilise and expand economic resources on behalf of the Chinese community. However while that contrast in the government-business relationship was a key factor in the demise of MPH, this chapter argues that the seeds of failure also had much to do with the intense mix and confusion of political, personal and business goals that bedevilled the company from the start.

The most important of the constraints on Chinese business imposed by the NEP in the 1970's was the introduction of the Industrial Coordination Act (ICA) in 1975 through which the government sought of impose strong administrative controls on the manufacturing sector. Such controls threatened the interests of many Chinese small businesses and highlighted the MCA's political weakness. The party's response to the ICA was the formation in 1975 of MPH. MPH sought to mobilise funds held by individual family businesses, as well as those held collectively by voluntary associations and clans, into a financially viable "multi-purpose" enterprise that would be better able to compete with large Malay corporate organisations.[2]

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1 See Gale, 1985; Jesudason, 1990; Heng, 1992 and Gomez, 1994.

2 See Heng, 1992:135 and Jesudason, 1990:155.

While the formation of MPH was part of a wider program to improve the MCA's political fortunes after its debacle in the general elections of May 1969, it was also an attempt by the new party president, Datuk Lee San Choon, to increase his personal standing within the Chinese community. With his lower class background, Lee San Choon was not generally accepted by the Chinese multi-millionaires who had formed the party's traditional backbone. In that regard it has been argued by Gale (1985:11) that the formation of MPH can be seen as an attempt to bypass that group by getting the support of the Chinese middle class.[3] Heng (1992:135) has also reiterated that theme, stating that 'by getting the Chinese Chambers of Commerce (CCC) and the Chinese clan associations (*huay kuan*) to corporatize, the MCA leadership hoped to re-establish the close relationship the party had had with such middle class groups in the 1950's but had steadily lost in the 1960's'.

The most important point about the formation of MPH, however, was that from the beginning the company's directors brought conflicting political, economic and personal interests to bear in their management of the company. But in the late 1970's and early 1980's the damaging consequences of those conflicting motives had yet to become apparent, so MPH received the enthusiastic support of the Chinese community. The company's initial issue of $30 million shares in 1977 was oversubscribed, and it had little difficulty in raising funds in its early years. Not surprisingly members of the various Chinese Chambers of Commerce were particularly strong supporters of MPH since such organisations generally represented the interests of medium-scale businessmen, who were the ones most adversely affected by the ICA. The MCA Youth's Cooperative Society, Koperatif Serbaguna Malaysia (KSM), set up in 1968 by the party's lower middle class membership, became the largest shareholder in MPH with just over 40 per cent of its equity (Heng, 1992:136). The bulk of KSM's shares were held by some 80,000 families, mostly from Chinese in "New Villages" and small towns (Asiaweek, 22:6:1986). But while the Chinese middle class was enthusiastic in its support for MPH, the company had little attraction for big business. Although the 'old-money' tycoons who had accumulated their wealth before 1970 were often supporters of the MCA, they had, especially, since the 1970s, relied more on personal connections with the UMNO leadership to protect or promote their interests than the MCA. The preference for dealing directly with the Malay political and business elite became even more pronounced, as the

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3 Lee San Choon's difficulties in attempting to establish links with Chinese business leaders were also compounded by the fact that his cabinet position as Minister for Labour was not a key economic portfolio which would help him establish such links.

next chapter will later show, where Chinese 'new' wealth was concerned; i.e. among those businessmen who had emerged after the NEP.

At the MPH's birth in August 1975 the MCA leadership chose two prominent Chinese businessmen to head the new corporation. Tan Sri Lee Loy Seng, popularly known as Malaysia's "rubber king", was appointed chairman, and Tan Koon Swan, the epitome of 'new wealth,' was appointed managing director. In August 1983 Lee Loy Seng resigned as chairman of MPH[4] and was replaced by Tan Koon Swan whose spectacular rise in business in the post-NEP era had earned him the admiration of many in the Chinese community. It was Tan who played a pivotal role in both the spectacular rise and the fall of the corporation, whose fortunes increasingly became deeply enmeshed with Tan's own political ambitions and business interests.

Tan began his career as a clerk in the National Electricity Board (NEB). In 1962 he joined the Income Tax Department which he left six years later to take up an appointment as a tax advisor with Exxon. In 1970 he became general manager of Genting Bhd where he developed a close relationship with the company's major shareholder, Lim Goh Tong, and other prominent Chinese businessmen including Khoo Kay Peng, head of Malayan United Industries (MUI), and Quek Leng Chan, head of the Hong Leong group.[5] During the sharemarket boom of 1973, Tan made a huge profit by selling the shares he had acquired in Genting Highlands, which he then used to purchase a controlling stake in a publicly-listed company, Sungei Way Dredging Bhd (Gale, 1985:28). The company's name was changed to Supreme Corporation in 1976 and thereafter, as Tan's own family-based company, it embarked on a rapid expansion program, a prominent feature of which was the acquisition of property and other assets, generally already well-established enterprises, through loans and the issue of shares.[6] This was a method of growth that bore many similarities to the preferences and business style of Daim Zainuddin and at that

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4 These changes were not unexpected. In agreeing to head MPH in 1975, Lee Loy Seng said he would only hold the post for three years. When he resigned in August 1982 he said he would be happy to make way for a younger man but said he had been asked to stay on while the company consolidated its varied interests (Gale, 1985:179). It was generally known however that Lee had become increasingly annoyed with what he considered excessive political interference in what was in his (Lee's) view, purely a business concern. See MB, 1:3:1987.

5 Tan's friendship with Khoo Kay Peng and Quek Leng Chan led to his introduction to the MCA president Lee San Choon who later appointed Tan as managing director of MPH. See Gale, 1985:28.

6 In addition to Sungei Way Dredging/Supreme Corporation, Tan's other major acquisitions in the latter seventies included 100 per cent-owned Supreme Housing Development (involved in property development) and 46 per cent-owned Supreme Plantations, which was later renamed Everpeace Corporation. Supreme Plantations was formerly known as Mega Chemicals. Tan's other major acquisition was the purchase of a small finance company known as Kengsoon Finance, later renamed Supreme Finance. See The Star, 25:1:1986

time, just as Daim had applied those same personal business methods - an extensive involvement in property and the stockmarket - to his managment of the Fleet Group, so Tan applied his methods of expansion at Supreme to MPH.

Under the stewardship of Tan, acquisitions and mergers became MPH's special forte. Through a series of bonus issues and share swaps MPH acquired substantial interests in Bandar Raya Developments, a property company, the lucrative gambling enterprise Magnum Corporation Bhd, Dunlop's Malaysian rubber estates, and Guthrie Bhd, a Singapore-based trading subsidiary of the Guthrie Corporation in Britain (renamed Mulpha Trading). MPH grew rapidly to become a huge conglomerate by 1985, with, the largest issued and paid-up capital (over $571 million) of the companies listed on the Kuala Lumpur Stock Exchange. But rapid growth was also accompanied by soaring debt.

Unlike other Chinese companies, MPH sought a high profile but its political agenda led it to pay what many believed was far too high a price for such status symbols as Guthries.[7] MCA leaders defended such acquisitions with the claim that by purchasing or establishing subsidiary companies in key sectors of the economy (plantations, trading, finance and shipping) MPH would prevent these traditionally foreign-dominated sectors from being monopolised by Bumiputra interests (Gale, 1985:11). In a more colourful vein Tan justified such purchases to the author by claiming that if such purchases were not made 'we (the Chinese community) would only be left with the *rojak* ' (leftovers).[8]

When MPH was established, some MCA leaders took care to reassure the UMNO leadership that the company posed no threat to the NEP's goals of expanding Malay ownership of the economy.[9] In that regard they pointed to the joint ventures undertaken by MPH and UMNO's investment arm Permodalan Bersatu Bhd (PBB) as an extension of MCA-UMNO political co-operation in the economic field. As indicated earlier, the impetus behind the joint-venture company established by MPH and PBB in September 1983, Multi-Purpose Bersatu Development Bhd, came primarily from the close alliance established between Ibrahim Mohamed and Tan Koon Swan when both worked together at Genting Bhd in the mid-1970's. But while Koon Swan referred to the joint ventures

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7 MPH paid $48 million for its 73 per cent stake in Guthrie Trading (renamed Mulpha) which was two or three times what many experts thought the firm was worth (Asiaweek, 22:2:1986).

8 In Malaysia a dish of *rojak* consists of small pieces of various fruits and vegetables, essentially a side dish to more substantial and tasty morsels such as chicken, fish and rice which, presumably, Tan was equating with the strategic sectors of Malaysia's economy. Authors interview with Tan Koon Swan, July 1981.

9 See Heng, 1992:138-139.

between MPH and PBB as the beginning of a lasting and beneficial relationship (BT, 14:9:1983), it soon became apparent that MPH saw its relationship with PBB as a means to obtain consent to develop various housing projects, while PBB seemed content merely to be well paid and make handsome profits from the arrangement.[10] Eventually, by 1986, only three years after the formation of Multi-Purpose Bersatu Development Bhd, the much vaunted hopes for a beneficial inter-ethnic-political relationship between MPH and PBB had come to naught, and only served to emphasize Malay suspicions of MPH's high profile and avowedly 'Chinese' character. Those suspicions had been given vent in the controversies that erupted over MPH's proposed purchase of two companies, UMBC and Dunlop Estates Bhd.

In June 1981 MPH purchased for $204 million a 56 per cent share of UMBC, Malaysia's third largest bank, from other Chinese interests. The state corporation Pernas already held a 30 per cent stake in the bank (Gale, 1985:141). The takeover by MPH meant that Pernas was likely to lose control of the company and be reduced in status to that of a minority shareholder. Unfortunately for MPH, news of this impending takeover coincided with party elections in UMNO that year, when progress towards expanding Malay ownership in the economy was a hot issue in intra-party contests[11]. Datuk Suhaimi Kamaruddin, the then leader of the Youth wing of the party (who was also facing re-election), seized on the issue of MPH's purchase of UMBC claiming that: 'These acts (takeovers) will not only affect the economic situation of the Malays and other Bumiputras but also threaten national solidarity and security' (NST, 22:3:1981). The political furore created by UMNO Youth was sufficient to force a top-level compromise between the leadership of UMNO and the MCA, in which Pernas and MPH were to hold an equal 40 per cent share in UMBC with the proviso that further purchases by either party would be shared between them.[12] (Gale, 1985:151). Thwarted in its attempt to gain

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10 See Gomez, 1990:157-160 and 1994:138-143.

11 See ST (S) 27:6:1981 (Uproar over sale of UMBC shares).

12 In 1981 the then Minister of Finance, Tengku Razaleigh, was standing against Datuk Musa Hitam, then Minister of Education in a contest for the deputy presidency of UMNO. The proposed takeover of UMBC by MPH gave Tengku Razaleigh's opponents in the party an issue they could use to discredit him, Tengku Razaleigh, whose popularity in UMNO was largely due to his close association with government agencies such as Pernas and Bank Bumiputra, responsible for expanding Malay ownership of the economy, could not afford to be seen as selling out to Chinese interests. So Razaleigh, who had earlier appeared supportive of MPH's proposed takeover of UMBC by saying that the matter should be treated as an ordinary business transaction and that he had told MPH executive director, Tan Koon Swan, 'to go ahead through the proper channels,' later backed away from his apparent endorsement of the takeover saying that, 'If you come to me to say you are getting married I would say go ahead, but whether you succeed or not might depend on whether the girls father accepts you' (BT, 8;4;1981). See also ST (S), 27:6:1981 ('Uproar over sale of UMBC shares'); The Star,

a controlling stake in UMBC, MPH disposed of its interest in the bank and acquired instead a controlling interest in a much smaller institution, Malaysian French Bank, whose major shareholder at that time was Daim Zainuddin.[13]

No sooner had the MPH/UMBC conflict been resolved then MPH became embroiled in another conflict with UMNO Youth, this time over MPH's proposed acquisition of a controlling 51 per cent stake in a major plantation company, Dunlop Estates Bhd (DEB) for $252 million (Gale, 1985:164). DEB's parent company was Dunlop Holdings of the UK. By September 1981, Pegi Malaysia, a company controlled by an UMNO Vice-President, Ghafar Baba, was the largest single shareholder in Dunlop.[14] Fearing a possible takeover by Malaysian interests, Dunlop reached an agreement with Pegi Malaysia and MPH whereby Dunlop was to sell DEB to MPH, after which MPH and Pegi were to form a joint-venture company to share their assets in DEB and Dunlop Holdings. The quid pro quo was that Pegi would agree not to buy any further shares in Dunlop (Gale, 1985:156-71). Suhaimi Kamaruddin, the UMNO Youth leader criticised the deal claiming that the Pegi-MPH arrangement was "obviously against the NEP" (BT, 16:12;1982). Suhaimi argued that DEB should have been offered to Pernas or PNB the national equity corporation first, and not MPH. Furthermore, under the proposed arrangements, Suhaimi claimed that DEB would only be 40 per cent owned by Malays when a long established company in Malaysia like Dunlop should have ensured that Malay interests held a majority 51 per cent stake (BT, 13:10:1981). The controversy led to MPH and Pegi dissolving their planned joint-venture in December 1982, and to an undertaking by MPH to the authorities that Malay participation in DEB would soon be raised to 50 per cent (Jesudason, 1990:157).

The controversies surrounding MPH's takeover of DEB, and its failure to establish a financial arm through UMBC, highlighted the limits of the Chinese 'group' or 'institutional' approach to protecting or expanding that community's wealth in the post-NEP era. MPH's mobilisation of resources on a communal (Chinese) basis invariably led

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7:4:1981 '(The UMBC Deal: No control by single party'); Gale, 1985:141-153 and Jesudason, 1990:156-157.

13 MPH sold its shares in UMBC to two of Daim's companies, Dani Sdn Bhd and Daan Sdn Bhd for $262.3 million in exchange for acquiring a controlling 51 per cent stake in Malaysian French Bank from Aslira Sdn Bhd whose shareholders were Daan Sdn Bhd and Dani Sdn Bhd (BT, 19:6:1984). Daim's controversial purchase of UMBC and later resale to Pernas is discussed in chapter 6. See also Gomez, 1994:203-206.

14 For details see chapter 6 'Politicians-turned-Businessmen' : Ghafar Baba.

to conflict with the UMNO leadership and charges by ambitious Malay politicians that its corporate takeovers threatened the NEP's goal of expanding Malay ownership of the economy. The economic dimension of that conflict posed further difficulties for MPH since in its attempt to acquire stakes in foreign-owned companies, particularly in the planatation sector, it was often competing with powerful state-backed Malay organisations such as PNB, whose access to federal funding and government-secured loans gave them an unrivalled advantage in the market place.

MPH's problems were compounded by the fact that the company became closely identified with the political and business fortunes of Tan Koon Swan (Heng, 1992:139). MPH was critical to Tan's rapid rise in politics from an MCA MP in 1978 to party president in November 1985. As MPH grew so did Tan's political stature and the use of the media to publicise the rapid expansion of MPH added to his image as a dynamic MCA leader. At the same time, while MPH's conflicts with UMNO politicians had economic costs, such conflicts also had political benefits in that they enhanced the MCA's image as a champion of Chinese economic interests against the constraints imposed by the NEP (Jesudason, 1990:157). (In the eyes of its supporters MPH's image in the early eighties as a protector of Chinese interests clearly outweighed its relatively lacklustre economic performance and the fact that the company had not paid out dividends since 1977).[15] The apparent nexus between the early growth of MPH and that of the MCA's popularity was reflected in the party's changing electoral fortunes. In the 1978 general elections, the MCA won only seventeen of the twenty-seven parliamentary seats it contested while in the 1982 elections, it won twenty-four of the twenty-eight seats contested (Jesudason, 1990:157).

As managing director and later chairman of MPH, Tan Koon Swan was able to strengthen his political base among the many MCA members who comprised the majority of the corporation's small investors, a group that was culturally predisposed to accord high social and political status to anyone who had demonstrated capacity and success in business.[16] Tan's opponents accused him of also using MPH to set up a parallel system of patronage. Although Tan rejected the accusation claiming that, 'All (his) chief executives with one exception were strictly professional managers' ... he did nevertheless boast that, 'MPH had created 16,000 new jobs for Chinese' (FEER, 10:5:1984). In addition to bolstering his support in the MCA, Tan's position as head of MPH also

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15 The parlous state of MPH's finances was already apparent by the end of 1982 when Group borrowings totalled $358 million and interest expenses at some $36 million equalled 62 per cent of pre-interest profits. See FEER, 10:5:1984.

16 See Heng, 1992:139.

facilitated his own business interests in that it afforded him access to important contacts in the Chinese business community and to the UMNO leadership.

When Lee San Choon the MCA President resigned in 1983, Tan Koon Swan and his supporters, who had built their political base on MPH, challenged the Acting President, Neo Yee Pan, for the party's top position. Tan's challenge precipitated a debilitating two year leadership struggle in the party. In March 1984 Neo, under threat, used the power of the presidency to expel Tan and seven other supporters from the central committee of the MCA, 'in the interests of the party' (NST, 20:3:1984). The prolonged dispute between the two factions involved differences of personality, political style and substantive issues.[17] Neo represented the archetype of a party bureaucrat whose rise was largely through party channels, whereas Tan, the self-made millionare rose through the status he acquired as a businessman and chairman of MPH. Expelled from the party, the Tan faction responded with a petition calling for an Extraordinary General Meeting (EGM) of the MCA that was supported by over one-third of the Central Committee members, as was required by the party constitution. The rejection of the pertition led the Tan faction to claim that it had discovered massive padding of membership by illegal registration of 'phantom' members based on the identity cards of non-Chinese (Means, 1992:177). Various attempts to resolve the dispute by National Front leaders failed. It was only in November 1985, when the prospect of general elections drew near, that both factions agreed to settle the dispute. Tan Koon Swan and his faction emerged the victors, but the bitter struggle had severely damaged the party's standing in the Chinese community and the MCA only won seventeen seats in the August 1986 general elections compared to twenty-four in 1982. The decline in the MCA's fortunes was further emphasised by the fact that the party's victories came in 'marginal constituencies where substantial Malay votes helped offset the Chinese votes which went to the DAP in droves' (ST(S), 4:8:1986). Thus, while MPH had enhanced the MCA's prospects in the 1982 elections, in the 1986 elections it had become a burden and a financial embarrassment.

While politically motivated policies and an entanglement with the faction fighting within the MCA sapped the capacity of MPH to operate as an efficiently managed business, the company's financial difficulties were also due in large part to economic factors, notably the recession and poor investment decisions by its managers (Heng, 1992:140). The most obvious example of the latter was MPH's decision in April 1983 to buy into a Hong Kong shipping company, Promtpship, that operated a fleet of 35 ageing

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[17] For accounts of the differences in political style between Tan and Neo and of the issues involved in the dispute see, ST(S), 15:4:1984 (Ismail Kassim, 'Mr Hatchet versus Mr Popular) and Means, 1991:176-179.

bulk carriers and liner vessels at a time of over-capacity in the world shipping industry. Tan Koon Swan 'justified' the puzzling purchase on the dubious grounds that, 'MPH is a company for a thousand years and this (economic) downturn is just as good a time as any for us to move into shipping'.[18] By 1984 MPH had acquired an 80 per cent shareholding in Promtship for which it paid $90-$100 million (FEER, 15:5;1986). That same year Promtship lost $12 million and in 1985 a further $45 million.[19] The recession, depressed trading conditions and low prices for commodities placed further strain on MPH's highly geared financial structure. Besides Promtship, other subsidiaries also posted losses or significantly reduced profits in 1985. Mulpha (formerly Guthrie Trading) made a loss of $22 million. (Another puzzling decision was the change of name from the prestigious 'Guthries' to the obscure 'Mulpha', particularly, as noted above, after MPH had paid $48 million for its 73 per cent stake in Guthries, two or three times what many experts thought the company was worth).[20] The profits of other MPH subsidiaries including Bandar Raya, Dunlop Estates, Malaysian Plantations and even the most lucrative concern, the lottery company, Magnum Corporation, also fell.[21] Tan's strategies of rapid corporate growth through share-swaps and mergers also contributed to MPH's soaring debt. The company's borrowings by the end of 1985 amounted to a staggering $446 million of which interest charges alone cost the group $46.7 million (BT, 24:2:1987). The parlous state of MPH's finances was reflected in its losses[22] - $192 million in 1985 and $228 million in 1986 - which until that time were the largest losses ever suffered by any local firm (BT, 24:2:1987).

MPH's financial difficulties were also greatly exacerbated by corruption. Tan Koon Swan and his fellow directors channelled MPH funds, and those of several Deposit-

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18 See BT, 22:4:1983 ('Why Multi-Purpose went into shipping'). Tan also 'justified' MPH's move into shipping on the grounds that, 'it was partly in line with the government's call to the private sector to help reduce the large deficit in the balance of payments due to invisible imports.' MPH's investment in Promtship nevertheless continued to mystify shipping circles in Hong Kong. In a profile of Promtship published by Maritime Asia in June 1985, it was stated that, 'the present management of the company admits that Promptship Corp. was on its last legs when Multi-Purpose Holdings stepped in' (FEER, 15:5:1986).

19 See Asiaweek, 22:6:1986 and Jesudason, 1990:158.

20 See Asiaweek, 22:6:1986. Apparently Mulpha is an approximate rendering of the Chinese characters 'Ma' and 'Hua' which form part of the word for Malaysianisation. But Malaysians and foreigners alike remained puzzled by the reasons for the change. See FEER, 10: 5:1984.

21 Bandar Raya's pre-tax profits dropped from $7.7 million in 1984 to $6.5 million in 1985 while Dunlop Estates profits fell from $24 million to $13 million due to low commodity prices as did the profits for Malaysian Plantations that were halved from $5 million to $2.2 million. Magnum's net income dropped by 25 per cent to $18 million (Asiaweek, 22: 6:1986).

22 See KLSE, Annual Companies Handbook:Vol XV 1990:394 and Asiaweek, 22:6:1986.

Taking Co-operatives (DTC'S) linked to the MCA, to their own private companies whose fortunes had slumped with the onset of the recession and the slump in share and property prices. Besides managing MPH's diverse interests, Tan simultaneously built a personal corporate empire of bewildering complexity, of which the principal vehicles were publicly-listed Grand United Holdings (GUH) and Supreme Corporation. Through these companies Tan had a substantial shareholding in a Singaporean public company called Pan Electric (Pan El). It was the collapse of Pan El and circumstances related to Tan's purchases of shares in the company that resulted in Singaporean authorities sentencing Tan in August 1986 to two years imprisonment and a fine of $S500,000 (US$232,558) for criminal breach of trust and stock market manipulation.[23] In a desperate bid to prevent the collapse of Pan El, Tan, without the approval of MPH's board of directors, transferred $23.2 million of the company's funds to accounts associated with Pan El in Singapore. That action later resulted in a Malaysian court also finding Tan guilty of criminal breach of trust for which he served a further term of imprisonment in Malaysia.[24]

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23 Tan pleaded guilty to a charge that he abetted a director of Pan El, Tan Kok Liang in dishonestly paying S$144,853 on 11 September 1985 from Pan El's account to buy shares in his (Tan Koon Swan's) own company (Grand United Holdings). Fourteen other charges were dropped.

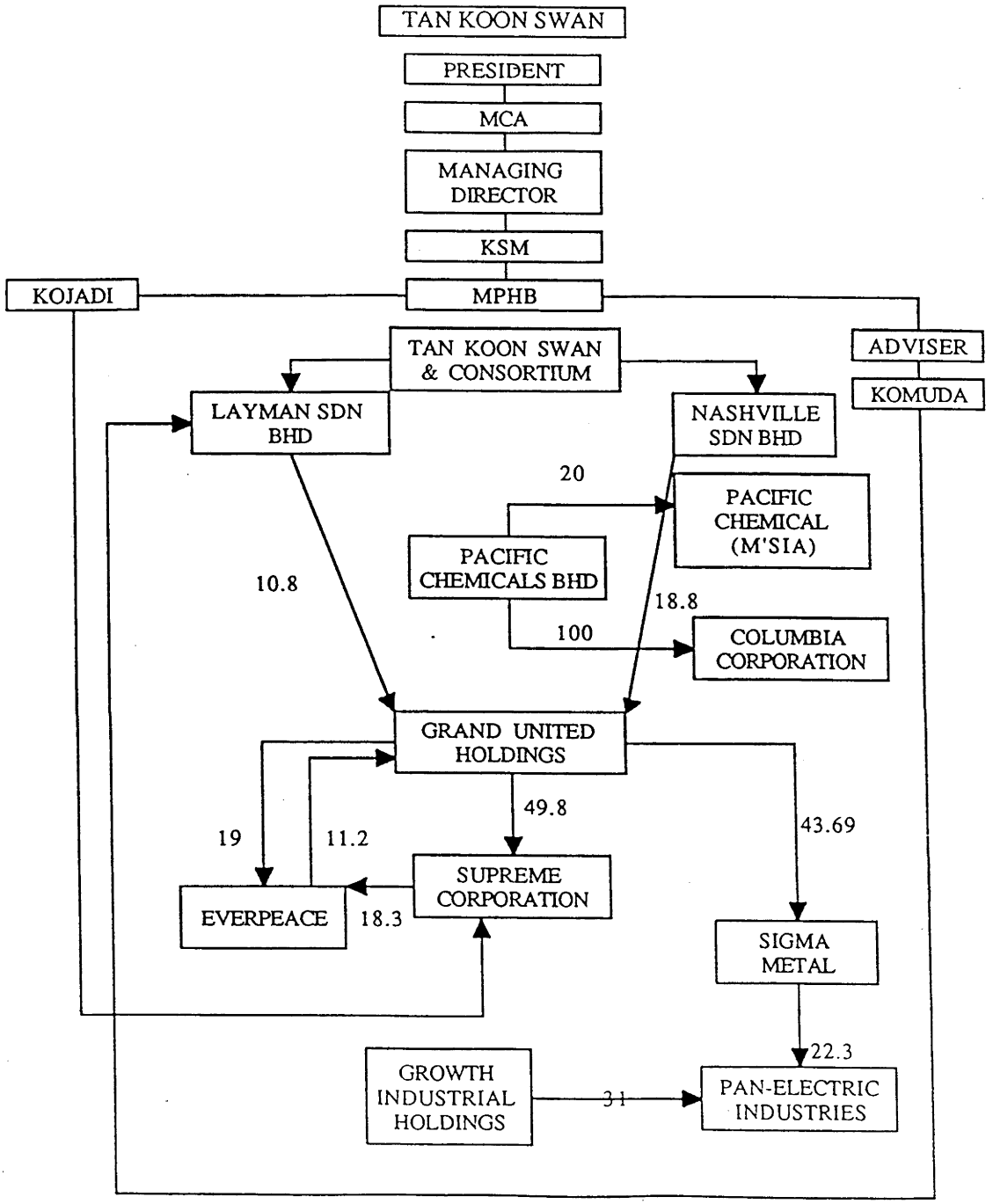
Tan, through companies he controlled, held an indirect 22.3 per cent stake in Pan El. Pan El had become a major player on the Kuala Lumpur and Singapore Stock Exchanges, borrowing heavily. In November 1985 Pan El's creditors, who were owed about S$450 million, were alarmed to discover that the company had also entered into more than S$100 million in forward contract obligations. (Forward contracts are agreements to sell shares for future delivery at a pre-determined price and are often used as collateral to raise cash).

The S$100 million in forward contracts were held primarily by two Tan-controlled companies, Grand United Holdings (GUH) and Supreme Corporation. Tan contracted to sell S$66 million worth of shares in GUH and its subsidiary, Supreme Corporation, to Pan El as part of an arrangement with former Pan El director, Peter Tham, who agreed to buy a corresponding block of shares in GUH and Supreme. Bankers in Singapore and Kuala Lumper characterised the arrangement of cross-holdings between Pan El and Tan's own companies as a "warehousing" operation that would shore up the prices of the shares involved during a period both parties needed to bolster their financial positions.

When Pan El defaulted on a loan arrangement in mid November 1985, trading in the company's shares was suspended on the Kuala Lumpur and Singapore Stock Exchanges. After Tan failed in an attempt to rescue Pan El, the company was placed in receivership on 30 November 1985. The announcement of Pan El's financial difficulties forced an unprecedented three day closure of the Kuala Lumpur and Singapore Stock Exchanges from 2 December 1985 and caused prices of other shares to plunge when the markets re-opened. See AWSJ, 4:12:1985 and 28:12:1987. For a complete account of the judgement against Tan Koon Swan see NST, 27:8:1986.

24 For details see NST, 19:1:1988. In June 1988 Tan Koon Swan was declared a bankrupt and ordered to pay $1000 a month to the Official Assignee. Outstanding claims against Tan amounted to $423.8 million, which it was estimated would take him 35,316 years to pay (NST, 4:5:1989).

Figure 8.1
Companies related to Tan Koon Swan



Sources: The Star, 25:1:1986, Straits Times(S) 25:11:1985

The misuse by Tan and his fellow directors of the funds of MPH was by no means an isolated example of their exploitation of the enormous funds entrusted to them by many thousands of MCA supporters. A government investigation into the collapse of 24 Deposit-Taking Co-operatives (DTCs) in 1986, in which half a million people, mainly working class Chinese investors lost $1.5 billion, found that losses were due to, "over-investment in land and shares, (as well as) numerous instances of fraud, negligence and conflict of interest (that) led to imprudent lending of funds, including to directors and other interested parties."[25] Besides Koperatif Serbaguna Malaysia (KSM), the largest DTC and largest shareholder in MPH, many other DTC's were also closely linked to the MCA. The chairman of one of those DTC's, Koperasi Pembangunan Ekonomi Pemuda Malaysia (Komuda), was Datuk Kee Yong Wee, a close associate of Tan Koon Swan. (Kee was also MCA Youth leader and briefly Deputy Minister of Trade and Industry). Under the chairmanship of Kee, Komuda spent about $20 million buying shares in companies controlled or associated with Tan Koon Swan, presumably to boost the share prices of those companies (Asiaweek, 1:6:1986). A number of those 'transactions' were revealed by a Government Report on the DTCs, for instance a $1 million advance was given by Komuda to Tan to buy shares in Grand United Holdings (GUH). In addition Komuda advanced $350,000 to its subsidiary, Komuda Credit and Leasing Sdn Bhd to acquire 400,000 GUH shares from Layman Sdn Bhd, a company in which Tan held 13.3 per cent of the shares. Komuda also paid $, 140, 830 to acquire 600,000 shares in Supreme Corporation. Both GUH and Supreme were then controlled by Tan (NST, 13:11:1986). Koperasi Jayadiri (M) Bhd (KOJADI), the MCA's educational co-operative of which Tan was a director, also held shares in Supreme, Genting, Malaysian Resources, Bandar Raya and Magnum, all of which were connected in some way to Tan either privately or in his capacity as head of MPH (Gale, 1985:218).

Like Tan, Kee Yong Wee also enmeshed his own business interests with those of the party. (Tan had drafted Kee to head Bandar Raya, the property subsidiary of MPH.) It was while managing Bandar Raya that Kee launched his own corporate career. In early 1981 Kee took over a small chemicals manufacturer, Perak Carbide, and renamed it Malaysian Resources Corporation Bhd. The firm was quickly turned into a real-estate corporation. Its main shareholders were Kee Yong Wee, Datuk Chan Wan Kah and Kee-Chan Holdings, a company jointly owned by Kee and Chan (NST, 30:8:1986). Malaysian Resources' rapid growth was also accompanied by the accumulation of large debt, some $48 million by 1986. Yet that same year Komuda, the MCA linked Youth Co-

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[25] Report on the Deposit-Taking Co-operatives, Kuala Lumpur, 1986 pp 22 and 30.

operative of which Kee was also chairman, entered into an agreement with Kee-Chan Holdings to buy 40 million Malaysian Resources shares from the latter for $34 million. This valued each share at 86 cents, even though the prevailing market price then was about 52 cents (MB, 16:2:1987). Later, in January 1988, Kee was found guilty on two counts of criminal breach of trust involving $3.3 million belonging to Komuda and was sentenced to two years jail.[26]

With the departure of Tan Koon Swan and some of his closest associates from both the MCA and MPH, the company underwent a major restructuring. On 13 February 1987 the entire MCA-dominated board of directors of MPH headed by Datuk Lee San Choon resigned. In order to inject new confidence into MPH which had become a highly politicised, directionless and desperately struggling investment conglomerate, the MCA leadership persuaded the respected Chinese businessman, Robert Kuok, to head a new board. Kuok immediately set about shedding MPH's political and communal image in favour of a purely business approach where considerations of efficiency and profit were paramount.[27] After its restructuring under Kuok, MPH again became a sufficiently attractive business proposition to attract a hostile takeover bid by Hume Industries, a company controlled by Quek Leng Chan's Hong Leong Group. The MCA viewed Hume as a hostile bidder because it believed the company might carve up MPH or share control of it with investors close to certain UMNO leaders. Although the MCA leadership succeeded in blocking Hume's bid and control of MPH ultimately passed to a perceived 'friendly party', Kamunting Corporation, it was a pyrrhic victory. Shortly after acquiring a controlling stake in MPH, Kamunting's chief executive, Lim Thiam Kit, who also had

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26 Kee was also fined a total of $2.5 million in default 15 months jail See NST, 30:1:1988.

Other dubious dealings by KSM/MPH directors came to light in another scandal, dubbed the 'Kok Lanas deal'. In May 1983 KSM purchased 41 acres of land in Kok Lanas, near Kota Baru for development as a housing estate. During KSM's annual conference in September 1983 a lawyer, Wee Choo Keong told the press that the $11.1 million KSM had agreed to pay for the land was exorbitant. (Wee was secretary of the 'No deal to Kok Lanas' ad hoc committee formed by over 500 KSM members in Kelantan who were opposed to the purchase). According to Wee the Finance Ministry's property market report of 1982 stated that an acre of land in Kok Lanas cost between $13,000 and $41,000 at most. Yet KSM directors were prepared to pay about $287, 000 per acre, that is seven times the maximum price quoted by the report (Star, 26:4:1984). Wee and his supporters made representations to the Co-operative Department, apparently to good effect, because on 12 November 1983 the department rejected the deal on the grounds that the price was too high and the prices of the houses to be built there were not competitive. (Author's interview with Wee Choo Keong, 16:1:1992).

27 Besides Robert Kuok, other new appointments to the board of MPH included: Tan Sri Lee Loy Seng, head of the large plantation group, Kuala Lumpur Kepong Bhd and the first chairman of MPH, Chan Hua Eng, a corporate lawyer from Shearn Delamore and Company, and Oh Bak Kim, executive director of Kuok's company, Perlis Plantations. Oh was appointed managing director of MPH. See The Star, 14:2:1987.

close ties with UMNO leaders, stripped the company of its principal assets and the once mighty conglomerate was broken up - a process that signalled in dramatic fashion the ultimate failure of the Chinese communal or institutional response to the NEP.

In retrospect, the failure of MPH's 'institutional' or 'group' approach to the NEP was due as much to the poor investment decisions made by Tan Koon Swan and his fellow directors, and their corrupt use of the company's assets to enhance or protect their personal business interests, as to the resistance MPH encountered from the state and Malay politicians. From the beginning MPH's goals contained conflicting political and economic objectives. What was initially seen as an innovative response to the NEP, the mobilisation of funds in the Chinese community to safeguard certain sectors of the economy for Chinese business, became subordinated to the quest for rapid expansion and a high corporate profile to build loyalty and distribute patronage to bolster the political and business ambitions of MPH's chairman Tan Koon Swan and his supporters. But the critical difference with Malay capital was that whereas Tan's Malay counterpart, Daim Zainuddin, could rely on the state to facilitate and protect his business interests, and those of UMNO, Tan Koon Swan could not where his interests and those of the MCA were concerned.

But the fate of the narrowly focused approach of MPH to the NEP and the rise of Malay capitalism was a far cry from that adopted by those tycoons and large Chinese business firms who have carried out their economic activities in ways acceptable to the state and the Malay power brokers and who have generally prospered (Heng, 1992:142). So it is to the relationships established by 'new' and 'old' Chinese wealth with the state and Bumiputra business groups and the implications of those relationships for the question of their status as pariahs or entrepreneurs that we now turn.

Chapter 9

CHINESE BUSINESS GROUPS: NEW WEALTH

GROWTH AND RELATIONS WITH THE STATE AND BUMIPUTRA BUSINESS GROUPS

A strong theme persists in studies of Chinese capitalism in Malaysia that determinedly seeks to classify Chinese capitalists in either/or terms, that is as either dynamic entrepreneurs or dependent pariahs. By an examination of a cross-section of Chinese business groups, the following chapters will show that such attempts to classify or characterise Chinese capital are no longer adequate to describe the complexity and dynamism found in the responses of Chinese capitalists to the NEP and their relationships with the state and Bumiputra business groups. Since the nexus between the state and business has also been central to the growth and character of Chinese capitalism after 1970 it is useful, for analytical purposes, to distinguish between 'old' and 'new' money that is, as indicated earlier, between those Chinese groups who accumulated their wealth before the NEP and those whose corporate rise took place after 1970, that is within the environment and constraints of the NEP.

We shall begin our study with an examination of a number of individuals/groups representative of 'new wealth'. More attention will be paid to members of this group because their relationship with the UMNO leadership and the emerging Bumiputra business groups is more 'intense' and complex than that of old money; secondly, less scholarly attention has been given to them than to members of the 'old' group whose rise has been charted by a number of writers; and finally, with the decline of many of the companies associated with old Chinese wealth, the relative importance of 'new' to 'old' Chinese money appeared, by the early nineties, to be moving toward some approximate balance.[1]

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1 In discussions with Chinese businessmen and Chambers of Commerce the author was given various estimates as to the relative importance of 'new' to 'old' wealth ranging from 60:40 old/new to the reverse 40:60 new/old.

Prominent examples of 'new wealth' include Vincent Tan (Berjaya), Khoo Kay Peng (MUI), Lim Thian Kit (Kamunting), Quek Leng Chan (Hong Leong), Loy Hean Heong (MBf Holdings Bhd), Dick Chan Teik Huat (Metroplex), William Cheng Heng Jem (Lion Corporation), Yeoh Sock Ping (YTL Corporation Bhd) and Lim Kim Hong (Dreamland Holdings Bhd), and of course Tan Koon Swan whose corporate rise and fall was examined earlier. While the distinction between 'old' and 'new' money is a useful one for analytical purposes, the placement of individuals in one or other category is of necessity somewhat arbitrary. In that regard, two groups, Quek Leng Chan's Hong Leong group and Loy Hean Heong's MBf Holdings Bhd share characteristics in common with 'old money' (at least in terms of their origins), but at the same time also share characteristics associated with the 'new money,' that is in terms of the (relative) intimacy of their political links with the state and Malay capital. Since we are primarily concerned with the latter those groups will, for our purposes, be considered as new money.

Before turning to individual cases it is pertinent however to list some principal features associated with the rise of new Chinese wealth in the 1980s. These features include:

- rapid growth through dependence on external rather than private or internally-generated sources of finance. Principal sources of finance are banks, state funds and the mechanisms of the stockmarket. Particular attention is focused on gaining control of a public company or 'listed vehicle' which can raise capital through share issues, mergers and takeovers.

- investment in divergent fields rather than concentration in or identification with one sector or core activity such as commodity production or manufacturing invariably property development, building and construction, banking (MUI and MBf) and the provision of financial services.

- the rapidity and the means by which the new groups were built meant that most were highly leveraged, and the personalities associated with them incurred large debts in the eighties, but by the nineties a number had consolidated and acquired a core of solid income-generating assets which gave them a resilience and durability that they clearly lacked a decade earlier.

- most of the new tycoons are closely associated with a prominent member of the Malay political-business elite. In contrast members of old or established groups

tend to be associated with a Malay institutional partner such as PNB or a former senior bureaucrat.[2]

- while the tycoon's identification or association with a powerful member of the Malay political/business elite can offer mutual benefits and considerable rewards for both parties, such associations are also vulnerable to changing fortunes in UMNO politics.

- the close integration of the investments of the new tycoons with Malay capital has an interdependent and complementary character that promotes the growth of both parties. In order to illustrate the characteristics of 'new wealth' listed above and their implications for Chinese capitalism as 'pariah' or 'paragon' - to use McVey's[3] terms - we shall now examine some of the most prominent Chinese business groups that have emerged in the 1970's and 1980's.

Vincent Tan Chee Yioun : Berjaya

More controversy has surrounded the rapid rise of Vincent Tan's conglomerate, Berjaya Corporation Bhd, than any of the other new Chinese groups.[4] Vincent Tan Chee Yioun was born in 1952 at Batu Pahat, Johore. He hoped to study law in New Zealand but had to shelve such plans when his father's fortunes failed. Instead he went to work in a bank but at night Tan sold insurance for American International Assurance (AIA). Since he obtained ten times more income from his part-time sales job, he left banking and at the age of 23 became an AIA agency manager. He held the postion until 1982 when he turned 30. At the same time Tan started private companies involved in trading, general insurance, real estate development and the haulage industry but his first major corporate breakthough came in 1982 when he won the McDonald's fast food franchise in Malaysia against very strong competition from such powerful and well established concerns as the See Hoy Chan, East Asiatic and Federal Hotels' groups of companies (BT, 31:3:1982). How could a 30-year old "unknown" Chinese win such a franchise? Observers could only speculate that Tan must have had strong backing from someone in UMNO.

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2 In the NEP environment Chinese tycoons investing in new areas of business (such as leasing, insurance and opportunities flowing from the government's privatisation program) or those requiring a good deal of 'up front' negotiations (such as contracts for property development and licences to provide banking and other financial services) are better served by a prominent member of the Malay political/business elite than a Malay institution or a former senior bureaucrat.

3 See McVey, R., 1992 'The Materialization of the Southeast Asian Entrepreneur' in McVey (ed), Southeast Asian Capitalists

4 Vincent Tan Chee Yioun should not be confused with Vincent Tan See Yin who is closely associated with the Melewar Group controlled by Negri Sembilan royalty.

The McDonald's coup gave Tan the credentials he needed to seek more capital and further his corporate activities. In April 1984 Nautilus Corporation Bhd, a company jointly owned by Tan's family company, United Prime Corporation Bhd, and Datuk Azman Hashim, then executive director of Arab-Malaysia Bank, acquired a 38 per cent interest in Berjaya Corporation.[5] Shortly thereafter Azman sold his entire stake in Nautilus in order to concentrate on his own business affairs at Arab-Malaysia Bank.[6] Azman sold his stake in Nautilus to Serdang Enterprise Sdn Bhd, a firm that was described as a 'Bumiputra company' whose principal shareholders were not disclosed at the time but were later revealed as Ahmad Mustapha bin Mohamed Hassan[7], a nephew of the Prime Minister, Dr Mahathir, and Mohamed Shah bin Tan Sri Abdul Kadir, a son of the former Attorney General, Tan Sri Abdul Kadir.

Meanwhile, Berjaya, whose principal activity had been the manufacture of steel wire products, embarked on an extensive diversification program. Initially it diversified into property development and marketing and the distribution of consumer durables (most notably through Regnis (Malaysia) which operated the Singer sewing machine business). Berjaya also expanded its interests in insurance[8] and textiles, the latter through South Pacific Textile Industries (SPTI),[9] a publicly-listed company whose directors included several prominent Bumiputras and UMNO politicians.[10] In retrospect, Berjaya's most significant acquisition however was a 20.1 per cent stake in Raleigh for $50.7 million, the company that the Finance Minister, Daim Zainuddin had intended to make the flagship of his corporate empire (BT, 30:9:1987). By the mid-eighties these acquisitions had

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5 Berjaya Corporation was formerly known as Berjaya Kawat Bhd. The 37.9 per cent stake was acquired from an Australian company, Broken Hill Proprietary Ltd (BHP) and National Iron and Steel Mills of Singapore for $20.5 million. See The Star, 27:4:1985.

6 Tan Sri Datuk Azman emphasised that he had enjoyed an amicable business association with Mr Tan and described his withdrawal as "very much regretted" due to his full-time involvement in the management of the Arab-Malaysia Development Bank group of companies (The Star, 27:4:1985).

7 Ahmad Mustapha's business career is examined in chapter 4 in the discussion of Bureaucrats-turned-Businessmen.

8 Berjaya acquired a majority interest in United Prime Insurance, a joint venture with Tokio Marine and Fire, a Mitsubishi company. See Asiaweek, 27:5:1988.

9 In April 1985 Berjaya acquired a 23 per cent stake in SPTI but had by 1988 increased that holding to 72.4 per cent of the company. See NST, 27:4:1985 and KLSE, Annual Companies Handbook, Vol X1V:684.

10 As noted in chapter 4, the chairman of SPTI was Ahmad Mustapha bin Mohd Hassan, a nephew of the Prime Minister Dr Mahathir. (His links with Berjaya via Serdang and Nautilus Corporation have been outlined in the text above.) Other directors of SPTI included Dato Abdullah Ahmad UMNO MP for Kok Lanas and Mohd Tamrin Abdul Ghafar, UMNO MP for Batu Berendam and a son the Deputy Prime Minister, Ghafar Baba. See BT, 28:1:1987.

transformed Berjaya from a mere steel wire products manufacturer to a mini-conglomerate.

While Tan's early career is a testament to his reputation as a shrewd and enterprising businessman, it was the spectacular growth of Berjaya, particularly after 1985, through the apparent close enmeshing of his business interests with those of powerful figures in the Malay political/business elite, that made Vincent Tan such a prominent and controversial figure in Malaysian business. The source of most controversy surrounding Tan was the award of one of the government's first privatisation projects, the lucrative Sports Toto lottery to a Tan company, B&B Enterprises. In the twelve months prior to its privatisation Sports Toto made a profit of $7.03 million (The Star, 28:5:1985). Sports Toto was set up under the Companies Act in 1969 to promote and develop sports from the proceeds of gambling. On 21 May 1985 the Ministry of Finance Incorporated (MOF), until then the sole owners, sold 70 per cent of Sports Toto shares to B&B Enterprise. Simultaneously, B&B sold 10 per cent of Sports Toto shares to the Melewar Corporation, a company wholly-owned by a branch of the Negri Sembilan royal family headed by Tunku Abdullah, brother of the Sultan (The Star, 12:7:1987). The chairman of the newly privatised Sports Toto was Tan Sri Thong Yaw Hong, who had only recently retired as Secretary General of the Ministry of Finance, the former owner - through MOF - of the company.

There was no open tender for the privatisation of Sports Toto, apparently no discussion in Cabinet and even Sports Toto chairman at the time, Dr Agoes Salim, had no knowledge of the proposal until rumours appeared in the press.[11] Despite some intense questioning by the Opposition as to why there was no open tender for Toto, the Prime Minister Dr Mahathir would only say that:

> "the idea came from a private sector group and it would have been unfair if their unique proposal had been accepted by the government and then awarded to someone else".[12]

The 'unique' aspect of Tan's proposal to which the Prime Minister referred was never spelt out. Neither was the price at which the 70 per cent stake in Sports Toto sold to B&B ever officially disclosed but it included a full payout to the Government of $35.5 million

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11 See The Star, 18:1:1987 and 29:5:1985.

12 The Prime Minister's answer prompted the Opposition Leader, Lim Kit Siang, to conclude that, "the Government's privatistation policy had degenerated into piratisation where a select few were allowed to raid the public domain for their own interests" (The Star, 14:3:1987).

in retained earnings as well as premiums estimated at $428 million.[13] When the company was listed on the Kuala Lumpur Stock Exchange in June 1987 its share price rose fivefold within days (MB,16:6:1990). B&B made use of this opportunity to raise funds by reducing its holding to 45 per cent.[14] Clearly Sports Toto was crucial to Tan's plans for further expansion. The company's lottery operations provided a much needed cash flow and Tan benefited enormously from the sharp rise in Sports Toto's market value after it was publicly-listed. Interestingly, Tan Sri Thong Yaw Hong who, as Secretary General of the Ministry of Finance was responsible for Sports Toto when it was incorporated as a government company, almost immediately reappeared after his retirement as chairman of the privatised and publicly-listed Sports Toto.

Reasons for the award of Sports Toto to Vincent Tan remain obscure, but subsequent corporate developments indicated the intimate and symbiotic nature of Tan's relationship with business interests associated with the former Finance Minister, Daim Zainuddin. It is to the nature of that relationship that we now turn.

After Tan got control of Sports Toto he quickly swapped his shares in the lottery concern for additional shares in Berjaya, thereby gaining a controlling stake in the company. The swap took place when the newly listed B&B shares were at their peak in the Stock Exchange in late 1987. Less than a year later, in May 1988, "Tan repaid the favour (the Sports Toto windfall that had facilitated his gaining control of Berjaya) by swapping his Berjaya shares for control of Raleigh Bhd, the loss-making company closely associated with Daim Zainuddin" (FEER, 31:8:1989). Daim was Minister of Finance when the ministry sold Sports Toto to Tan. As indicated earlier, Raleigh was controlled until 1986 by Daim's family company, Seri Iras. Daim had intended to make Raleigh the flagship of a huge corporate empire but that aim was abandoned following Prime Minister Mahathir's decree that cabinet ministers could not hold shares in publicly-listed companies.[15] Prior to selling off many of his assets in late 1986, Daim had injected several property companies into Raleigh. Shortly thereafter there was a severe slump in property prices and Raleigh's fortunes declined. In 1984 the company made a profit of

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13 Under the privatisation agreement, B&B was required to pay 3 per cent of sales as an annual royalty to the government, as well as 10 per cent of pre-tax profits to the National Sports Council, but, as John Mulcahy observed, the only restraint to growth was the public's appetite for a punt. See FEER, 17:9:1987 (Shroff, 'Pick a number - every one a winner').

14 MOF still retained 30 per cent and Melewar's shrunk to 7.5 per cent. (The MOF also retained a Special Share that meant its consent was necessary in basic decisions affecting company policy.) The remaining shares, about 17.5 per cent, were held by Sports Toto directors, employees and individuals. See The Star, 12:7:1987.

15 See section on Daim Zainuddin in chapter 6.

$29.9 million but by 1987 it reported a loss of $1.2 million.[16] "With bicycles and property development" said one observer, "Raleigh was doomed to go down the tubes" (Asiaweek, 27:5:1988).

After he became Finance Minister, Daim's holding companies, including Raleigh, passed to some of his close associates and to other friendly parties, a number of whom were - coincidentally or not - prominent in the stable of companies acquired by Berjaya. When Berjaya was absorbed by Raleigh in what was described as 'a friendly deal with all the hallmarks of a reverse takeover,' it was also seen, as one analyst put it, as 'Daim's associates consolidating under one umbrella the diverse holdings they have' (Asiaweek, 27:5:1988).

When Raleigh took over Berjaya, Tan renamed the company Inter-Pacific Industrial Group Bhd (Inter-Pac). Inter-Pac rivalled in size some of Malaysia's largest corporations with controlling stakes in some of the country's most profitable publicly-listed companies in manufacturing, financial services, property and construction, plantations and gaming.[17] The takeover involved Raleigh buying 54 per cent of Berjaya for $70.5 million from B&B Enterprises, the private company controlled by Vincent Tan. Raleigh also acquired 45 per cent of Prudential Assurance Sdn Bhd and another 30 per cent of Sports Toto.[18]

The groups prepared to underwrite Raleigh's massive $253.7 million rights issue to finance these acquisitions also indicated the strength of Tan's political and state connections and the extent to which funding from state and party sources was important in facilitating the deal. Some of the principal groups that underwrote Raleigh's rights issue included the Employees Provident Fund (EPF), Mara, Arab-Malaysia Merchant Bank and Commerce International Merchant Bankers. The presence of Commerce

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16 See KLSE Annual Companies Handbook, Vol XIV:596.

17 Some of the most prominent and profitable companies in the Inter-Pac group included the already diversified Berjaya, South Pacific Textile Industries, Sports Toto, Inter-Pac Securities, Prudential and Nam Fatt Engineering. See MB, 16:6:1990 (S. Jayasankaran, 'Big is Beautiful at Inter-Pac').

18 With the new acquisitions Raleigh's paid-up capital leapt from $72.4 million to $326.2 million. B&B Enterprises, which had sold 54.16 per cent of Berjaya to Raleigh for $70.5 million, bought a 20.1 per cent stake in Raleigh (that Berjaya had purchased earlier, in September 1987) for $38.8 million thus completing the complex reverse takeover. Vincent Tan's B&B Enterprises 20.1 per cent of Raleigh amounted to a controlling stake. Analysts said that the remaining 40 per cent shareholding in Raleigh was in the hands of friendly parties. The next largest shareholders included three state-owned foundations - Mara, the Employees Provident Fund and the National Savings Bank - which owned 15 per cent between them. See FEER, 26:5:1988 (Nick Seaward, 'Wheels of Fortune'); FEER, 16:6:1988 (Nick Seaward,'Shroff'); Asiaweek, 27:5:1988 ('Reversing into Riches'); KLSE, Annual Companies Handbook, Vol XV:220 and BT, 30:9:1987.

International Merchant Bankers aroused particular interest because it was the merchant bank controlled by the same people as Hatibudi whose ultimate beneficial owner was UMNO.[19] Other borrowings by Tan also indicated that the interests of other influential parties were being protected or promoted in the course of his corporate rise.[20]

Apparent political support for the Raleigh takeover was further reinforced by the controversial decision by the state holding company, Minister of Finance Incorporated (MOF), to sell its 30 per cent stake in Sports Toto to Raleigh. Apparently when Sports Toto was privatised in 1985, the MOF had promised to retain its 30 per cent stake in the gaming company. The MOF was thus criticised for agreeing to dispose of its entire stake with the exception of the one Special Share to Raleigh Bhd. As Cheong asked rhetorically "Why Raleigh?" (Cheong, 1989:140). Altogether in the course of the complex reverse takeover, Raleigh acquired a controlling 62 per cent stake in Sports Toto,[21] one of Malaysia's most fecund 'cash cows' whose profits under Tan's management had soared from $5 million in 1985 to $36 million in the year to April 1989 (FEER, 31:8:1989). Raleigh was not the only winner in all these manouverings however.

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19 See FEER, 16:6:1988. For background on Commerce International Merchant Bankers (CIMB) and its relations with UMNO see chapter 5 and sections on 'The Growth of the Fleet Group' and Hatibudi Sdn Bhd.

20 The Sports Toto transaction and several others by Tan were partly financed by borrowings from the Co-operative Central Bank (CCB), the Co-operative that collapsed in 1986 because of questionable loans. While many of CCB's borrowers were prosecuted or had their passports impounded and their assets frozen pending investigation, no action was taken against Tan, one of the institutions biggest customers (AWSJ, 6:11:1989). Tan had borrowed $68.6 million from CCB. In an affidavit in reply to allegations that 'certain persons (notably Vincent Tan and Loy Hean Heong) had their loans written off by Bank Negara appointees in the CCB', Mr Lee Siew Kuan a special assistant to the Governor of Bank Negara (the central bank), said that Mr Tan had written to the bank undertaking to repay the amounts outstanding in his account and that "of certain related borrowers" (The Star, 7:3:1989). Intriguingly the identity of the "certain related borrowers" was never revealed.

Two months before Tan and his associates began borrowing heavily from CCB, (May to December 1985) the Co-operative's chairman, Mohamed Hassan Abdul Wahab, and its chief executive, Sinnappan Periasamy, joined the board of directors of Nautilus Corporation, the company Tan used to buy the initial stake in Berjaya. Both former CCB executives resigned from the Nautilus board more than a year later, after Tan and his associates stopped dealing with CCB and financial problems ended the institutions spending spree. See AWSJ, 6:11:1989 (Stephen Duthie, 'Malaysia's Tan Builds Image and Empire but Political Connections and Rapid Rise Continue to Stir Questions').

As of 9 March 1989 Tan had repaid $48.4 million. See The Star, 7:3:1989.

21 For a breakdown of Raleigh's direct and indirect interest in Sports Toto at that point, May 1988, see FEER, 26:5:1988 (Nick Seaward,'Wheels of Fortune'). Raleigh did not keep its Sports Toto stake for long and sold its shares in the company to Berjaya. In a round about way, control of Sports Toto went back to B&B Enterprises which controlled Berjaya Corporation and which in turn controlled Sports Toto (Cheong, 1989:137). The bewildering movement of Sports Toto within Tan's companies continued. In November 1991 it was announced that Far Eastern Assets (at least until August 1989 a Berjaya-related company) purchased Sports Toto for $600 million. See MB, 1:11:1991 and FEER, 31:8:1989 (Inter-Pac Group's Structure).

According to Nick Seaward, Vincent Tan (who had earlier taken Sports Toto over through his company B&B Enterprises and then swapped his shares in Toto to gain a controlling stake in Berjaya), also made a clear profit of $129 million on B&B's original investment in Toto.[22] While Tan had amassed nearly $200 million in personal debt in the course of the purchase of Raleigh and its transformation into Inter-Pacific (AWSJ, 6:11:1989), he was able to significantly reduce that debt when in August 1989, Tan Chin Nam's IGB Corporation Bhd bought a 20 per cent stake in Inter-Pac.[23] (In a rare interview with the *Far Eastern Economic Review* Tan said he would be debt free, 'If I reduce my holdings in Inter-Pac a little bit'.)[24] At the same time, Tan, through his private holding company B&B Enterprises, retained a controlling 20.1 per cent stake in Inter-Pac (which also became the holding company for Berjaya), a conglomerate that by 1990 had assets of over $2.1 billion and made a profit of $106 million.[25]

Inter-Pac associates and executives denied that political connections played any part in securing Sports Toto or in the eventual purchase of Raleigh,[26] and Daim denied that he had appointed any of his friends, including Vincent Tan or Datuk Amad Sebi Abu Bakar (a well-connected UMNO businessman) as proxies to manage his business affairs after he joined the cabinet.[27] Neverthless an examination of Berjaya's complex shareholding, the network of companies to which large blocks of Berjaya shares were moved, and the sources of funds for these various transactions will show how difficult it is to categorise relationships within the new Chinese conglomerates and to differentiate 'Malay' from 'Chinese' capital/interests in some of them.

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22 See FEER, 16:6:1988 (Nick Seaward, 'Shroff').

23 Several commentators also noted how Inter-Pac's alliance with IGB Corporation gave the fast moving Vincent Tan 'respectiblity' and an opportunity to consolidate. See FEER, 31:8:1989 (Christopher Marchand,' The Burger Kingdom'); AWSJ, 28-29 July 1989 (Stephen Duthie, 'Malaysian Firms Plan Powerful Alliance') and MB, 16:6:1990 (S Jayasankaran, 'Big is Beautiful at Inter-Pac').

24 See FEER, 31:8:1989 (Christopher Marchand, 'The Burger Kingdom').

25 KLSE, Annual Companies Handbook, Vol XV11, Bk 1:28 &168.

26 AWSJ, 6:11:1980 (Stephen Duthie,'Malaysia's Tan Builds Image and Empire But Political Connections and Rapid Rise Continue to Stir Questions').

27 Utusan Malaysia, 16:4:1989 Daim added that,"All my shares in companies listed on the KLSE have been sold. I have no proxy. My own view is that I am better at business than Ahmad Sebi or Vincent Tan. (I am) better at saving money in a bank than any proxy". See also The Star, 17:4:1989 ('Daim:I Don't Use My Friends as Proxies'); MB, 16:6:1990 (S Jayasankaran, 'The Mysterious McTan') and MB, 1:8:1990 (S Jayasankaran, Interview with Daim entitled 'Daim De-Mystified').

The close business associations between Daim and Ahmad Sebi in the early eighties have been discussed by Gomez.[28] Suffice to note here, however, that in May 1985 Ahmad Sebi apparently played a key role as a go-between or broker in the privatisation of Sports Toto and its sale to Vincent Tan's B&B Enterprises.[29] Ahmad Sebi was also prominent amongst the small group of Tan associates who gave personal guarantees as part security for the $19 million loan arranged by Arab-Malaysia Merchant Bank to finance B&B's purchase of Sports Toto shares from the Ministry of Finance.[30] He was also a director of Nautilus Corporation (the company used by Tan to acquire control of Berjaya from foreign interests) and a director and controlling shareholder of Sehasrat Sdn Bhd (The Star, 12:4:1988), a company which by September 1986 had a major 30 per cent stake in Berjaya.[31] In addition, Ahmad Sebi was a director of Budimaju Sdn Bhd, a company that was incorporated on 23 December 1986 with paid-up capital of $2 but which on 27 October 1987 had its paid-up capital increased to $50,000 when 49,998 shares were issued to none other than, Ahmad Sebi (The Star, 12:4:1988). At about the same time Budimaju also purchased a block of Berjaya shares so that Ahmad Sebi (or those interests on whose behalf he was acting), was, through Sehasrat Sdn Bhd and Budimaju, a substantial shareholder in Berjaya prior to, and including, the period when the company was absorbed in the reverse takeover by Raleigh.

Earlier we saw how in 1988 shares in the large food retailing company, Cold Storage (Malaysia) Bhd, originally bought by Daim (whether on his own behalf or for UMNO), were sold by Ayer Hitam Tin Dredging Malaysia Bhd to The New Straits Times Press (Malaysia) Bhd. In other words, as Seaward observed[32], those same shares were

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28 See Gomez, 1990:76,105,125 & 1994: 101-102,108-109, 169-170, 269-270.

29 Several well placed sources in banks and securities firms confirmed to the author that they understood that Ahmad Sebi was the broker between Daim/Ministry of Finance and Vincent Tan in the privatisation of Sports Toto.

30 The Star, 12:7:1987 (Tan Siok Choo, 'Things Investors are not told (but should)'). According to this report, security for B&B's $19 million loan to purchase 6,001 Sports Toto shares from the Ministry of Finance comprised: 6,001 Sports Toto shares; a debenture executed by B &B; land in Simpang Kanan, Batu Pahat owned by Indah Corporation; a corporate guarantee given by Nautilus Corp (a company in which both Mr Vincent Tan and his brother Mr Tan Chee Sing had considerable interests); and personal guarantees given by Mr Vincent Tan Chee Yioun, Mr Tan Chee Sing, Encik Shuib bin Yacob, Kapt. Zainuddin bin Basar and Encik Ahmad Sebi bin Bakar. The report noted that except for Encik Ahmad Sebi all those who guaranteed the loan were B &B shareholders. Ahmad Sebi was at the time managing director of Sistem Televisyen Malaysia or TV 3. His name did not appear in the Registrar of Companies files either as a B&B shareholder or as a director.

31 By September 1988 Sehasrat Sdn Bhd had reduced its stake in Berjaya to 10.5 per cent. See KLSE Annual Companies Handbook, Vol X1V:46.

32 See FEER, 6:10:1988.

apparently "being transfered from one UMNO safe haven," namely Ayer Hitam Tin Dredging in the UMNO-controlled Halimtan network of companies, "to another," the more profitable New Straits Times Press in the Fleet Group, presumably to make profits for all concerned[33]. In the same year (1988) a similar exercise also occurred involving Ahmad Sebi and the sale of Berjaya shares. At that time, one of Ahmad Sebi's family companies, Sehasrat Sdn Bhd, controlled 20 per cent of Kampung Lanjut Tin Dredging Bhd and 10.47 per cent of Berjaya (The Star, 11:4:1991).

On 11 April 1988, Sehasrat sold 5 million shares in Berjaya to Kampung Lanjat for $8 million, and the balance, 17 million shares, to Ayer Hitam for $27.2 million the next day. Both Ayer Hitam and Kampung Lanjut were key companies in the UMNO-controlled Halimtan network of companies. Altogether Ahmad Sebi, through Sehasrat sold a total of 22 million shares in Berjaya, representing Sehasrat's entire 10.47 per cent stake in the company, for $23 million.[34] Besides whatever profits may have accrued to Ahmad Sebi, or those for whom he was acting, the Berjaya shares (like those of Cold Storage) had at the same time found another safe haven in the Halimtan group of companies controlled by UMNO.

The rapid growth of Berjaya after 1985 was facilitated by Tan's winning the privatised gaming concern, Sports Toto. Sports Toto gave Vincent Tan a much needed cash flow by which he was able to gain control of Berjaya and eventually the larger Inter-Pac. Along the way Tan made large profits, was able to reduce considerable debt and developed an independent capital base. At the same time state support that helped Berjaya/Raleigh/Inter-Pac to flourish also facilitated the capacity of the group to act as a safe haven for companies formerly associated with Daim Zainuddin, and possibly other UMNO-connected interests, where they were carefully nurtured (and probably appreciated in value), before being passed on to various other UMNO-controlled companies. Tan's complex, interdependent relationship with the state and Malay capital defies easy categorization. He cannot be simply classed as a 'pariah', for while on the one hand he still needs access to contracts and concessions, on the other Malay business, both private and political, also needs his corporate acumen to protect and promote their/its interests. At some points Tan was a 'client' but at others a 'patron', often for the same Bumiputra business interests. Nevertheless it is clear that the amalgam of interests found in Berjaya, including Chinese and Malay capital as well as state support, has produced, as Figure 9.1 shows, one of Malaysia's biggest conglomerates.

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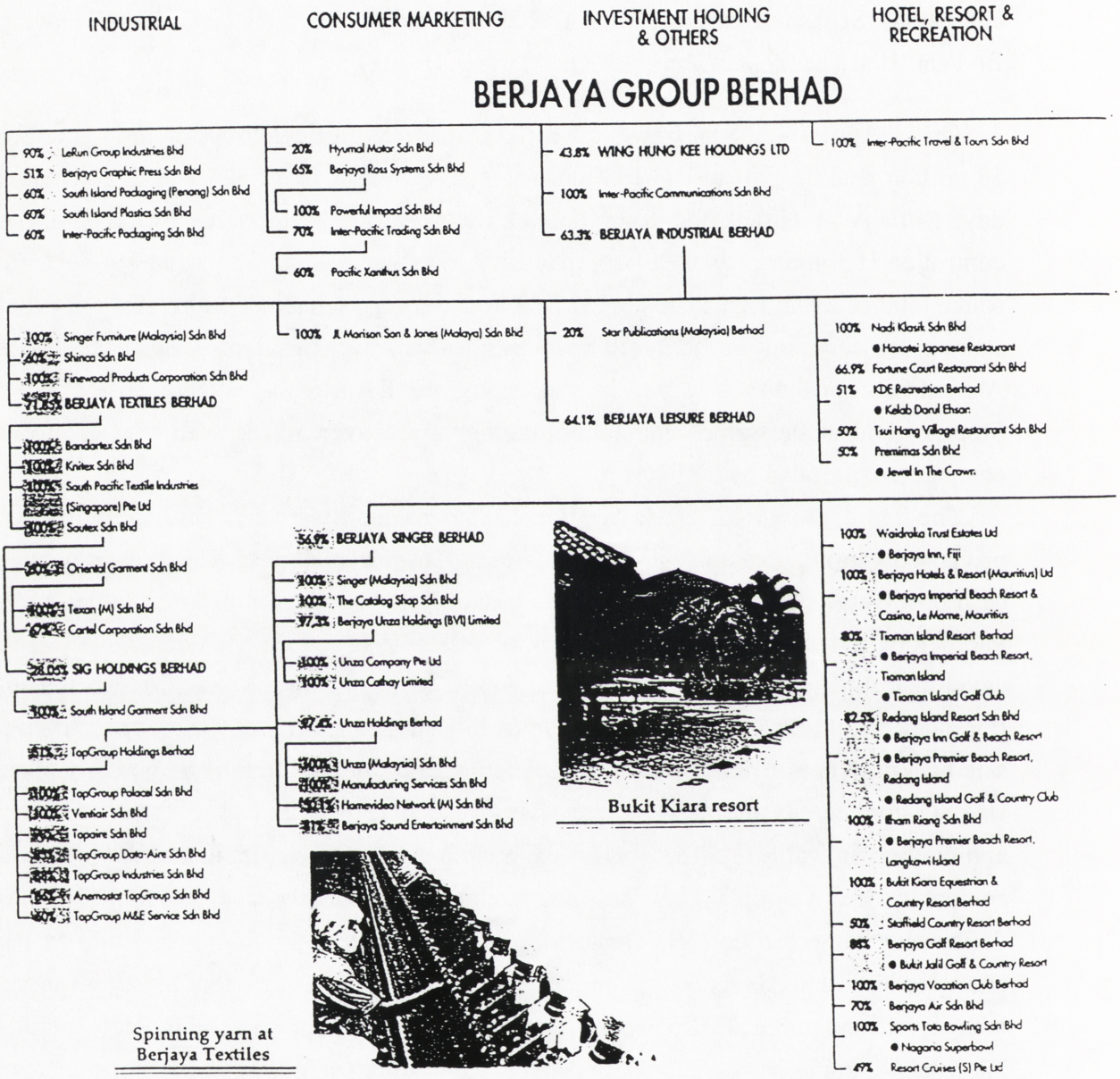
33 See chapter 5 'Government/Party/Private Sector Relations : Interlocking directorships and the transfer of assets.

34 See The Star, 13:4:1988 & 11:4:1991.

Figure 9.1 Berjaya: Corporate Structure as at 11 September 1993.



Source: MB:16:12:1993

Figure 9.1 (cont.)

PROPERTY

50% Bridgecon Engineering Sdn Bhd
100% Inter-Pacific Development Sdn Bhd

68% Berjaya Green Development Sdn Bhd
51% Taman TAR Development Sdn Bhd
20% Indah Water Konsortium Sdn Bhd

100% Gemilang Cergas Sdn Bhd
- Pines Condominium, Kuala Lumpur

100% Securiservices Sdn Bhd
- Petaling Indah Condominium, KL

70% Cerah Bakti Sdn Bhd
- Menara Greenview, Penang

100% Semangat Cergas Sdn Bhd
- Ixora Apartments, KL
- Fairview Condominium, KL

100% Tiram Jaya Sdn Bhd
- Sri Pelangi, Kuala Lumpur

70% Cempaka Properties Sdn Bhd
- Sri Dagangan Kuantan Commercial Centre, Kuantan

100% Kemajuan Gemilang Sdn Bhd
- Kelang Lama Business Park
- Gemilang Indah Apartment, KL
- Medan Indah, Kota Tinggi
- Taman UPC, Ayer Hitam
- Bandar Banang Jaya, Batu Pahat
- Robson Condominium, KL

57% Sekat Makmur Sdn Bhd
100% Indra Ehsan Sdn Bhd
- Taman Gemerlang, Ulu Kelang, Selangor

100% Sri Panglima Sdn Bhd
- Taman Kinrara, Puchong

100% Noble Circle (M) Sdn Bhd
- KL Plaza, Kuala Lumpur

100% Sinar Merdu Sdn Bhd
- KL Court & KL Heights, KL

100% Nural Enterprise Sdn Bhd
- Plaza Berjaya, Kuala Lumpur

100% Kota Raya Development Sdn Bhd
- Kota Raya Complex, KL

100% Klasik Mewah Sdn Bhd
- Sri Indah Court, Johor Bahru

100% Pearl Crescent Sdn Bhd
100% Pelangi Istimewa Sdn Bhd
100% Angsana Gemilang Sdn Bhd
100% Puncak Damai Sdn Bhd
53% Wangsa Sejati Sdn Bhd
51% Pakar Angsana Sdn Bhd
100% Amat Teguh Sdn Bhd
100% Juara Budi Sdn Bhd

GAMING

100% [illegible]
40% INTERNATIONAL TOTALISATOR SYSTEMS, INC

66.4% BERJAYA SPORTS TOTO BERHAD
100% [illegible]
100% [illegible]
71% [illegible]

FINANCIAL SERVICES

65% Berjaya Prudential Assurance Berhad
72% Inter-Pacific Capital Sdn Bhd
100% [illegible]
100% [illegible]
100% [illegible]
20% [illegible]
20% [illegible]
100% Pacific Credit Leasing Sdn Bhd
70% Berjaya General Insurance Sdn Bhd

‡ Combined interest

The Inter-Pacific Securities trading floor

Online Sports Toto operations. Draws are held thrice weekly (inset).

Source: MB:16:12:1993

Khoo Kay Peng : Malayan United Industries Bhd (MUI)

Khoo Kay Peng typified much of the 'new' Chinese wealth in the eighties by the way in which he used the mechanisms of the stockmarket to raise capital and quickly build a huge conglomerate, Malayan United Industries Bhd (MUI), through share issues, mergers and takeovers. Such methods of growth and capital accumulation relied heavily on state support and that of the general public as shareholders. To ensure such support, MUI's corporate rise was also accompanied by considerable publicity regarding the alleged close relationship between Khoo and one of UMNO's most powerful figures in the early eighties, the then Finance Minister, Tengku Razaleigh. This survey of MUI's changing fortunes will focus on how too close an identification of the new Chinese groups with powerful members of the Malay political/business elite, while offering considerable rewards for both parties, can also undo both when there is a shift of political fortunes in UMNO.

Khoo Kay Peng was born in 1938 in Batu Pahat, Johore - coincidentally, Vincent Tan's birthplace also - where his father was the manager of the local branch of the Overseas Chinese Banking Corporation (OCBC). In 1955 Khoo also joined OCBC in Singapore where he worked for Khoo Teck Puat who was soon to become one of Malaysia's most prominent and controversial tycoons.[35] In 1960 Khoo Teck Puat, after successsfully lobbying for support from the Chinese business community, was able to set up a new bank, Malayan Banking Bhd in Kuala Lumpur.[36] Shortly thereafter Khoo Kay Peng joined his mentor, Teck Puat, at the newly established Malayan Banking where he rose rapidly to become a manager of the bank. In 1965 Khoo Kay Peng was seconded to Bank Bumiputra which had just commenced operations and required key personnel with experience in banking. At Bank Bumiputra, Khoo rose quickly to a senior position as director of banking operations (MB, 16:11:1985). The chief executive of Bank Bumiputra at the time was Tengku Razaleigh. Evidently Khoo Kay Peng impressed Tengku Razaleigh, with whom he worked closely at Bank Bumiputra, and gained the latter's confidence. The ties that Khoo forged with Razaleigh during the latter 1960's at Bank Bumiputra, as well as with Robert Kuok, a founder-director of the bank, and later with Tan Koon Swan and his Multi-Purpose Holdings group of companies were all to play important roles in Khoo's rapid corporate rise (AWSJ, 26:8:1980).

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35 For an account of Khoo Teck Puat's controversial corporate careeer see Gill, 1987:19-35.

36 Principal figures in the Chinese business community who supported Khoo Teck Puat's efforts to establish Malayan Banking included the late Loke Wan Tho, Oei Tjong, Goh Tjoie Kok, Ng Eng Hiam and Wang Teng Kiat. See Gill, 1987:12.

In 1976, after ten years at Bank Bumiputra, Khoo Kay Peng left to build his own business. Khoo started by developing two small pieces of property in Kuala Lumpur with a loan from Southern Banking, an investment that gave him his first million dollars.[37] In 1976 Khoo acquired a major stake in Malayan United Industries (MUI), a small household-utensils and toothbrush manufacturer which was incorporated in 1960 and converted into a public company in 1971. MUI became the vehicle Khoo used for his corporate takeovers. Khoo demonstrated repeatedly a fundamental skill which other tycoons either misunderstood or failed to acquire that is, 'if you can create enough faith in a stock's performance, that faith can be utilised to acquire real assets' (Gill:1985:154).

There were two distinct phases in MUI's rapid growth. In the first phase, from 1976 to 1981, MUI acquired Tong Bee Finance (later renamed Malayan United Finance) and a joint venture in insurance with Continental Insurance Company of New York. After those acquisitions MUI gained control of Central Sugars Bhd, later renamed Malayan United Manufacturing Bhd, which had interests in cement manufacturing and sugar refining. During the second phase of MUI's growth from 1982 to 1987 the company expanded into prime hotels and urban commercial properties, and also acquired Kwong Lee Bank, later renamed Malayan United Bank. During this period the MUI group extended its operations beyond Malaysia to Singapore, Hong Kong, Australia and North America (MB, 16:5:1991). MUI's asset base grew tenfold and pre-tax profits catapulted from a mere $1.6 million in 1979 to $59 million, in 1988 only to almost double to a peak of $91 million in 1984.[38] On the then-booming Kuala Lumpur Stock Exchange, MUI's market capitalisation soared past $1 billion, with MUI stock trading at several hundred times earnings at one point (AWSJ, 26:1:1984).

The manner of MUI's spectacular growth earned the company a reputation as a swashbuckling outfit built on other peoples' money, shrewdly exploiting the free-wheeling stockmarket and Khoo's close ties with the then Finance Minister, Tengku Razaleigh and other senior UMNO figures.

Khoo's good standing with the government and the UMNO leadership, at least until the mid-eighties, was indicated by Razaleigh's appointing him vice-chairman of government-owned Malayan Banking, his membership of delegations accompanying the Prime Minister, Dr Mahathir, on official overseas visits and his appointment by the Prime

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37 The original investment led to the building of a hotel, the Kuala Lumpur Holday Inn, which Khoo later sold to the Selangor Government for a profit (BT, 24:11:1980).

38 See AWSJ, 26:1:1984 and KLSE, Annual Companies Handbook Vol XV:314.

Minister as director of the government-run Tourist Development Corporation (TDC).[39] At the same time Khoo was careful to allocate directorships in his companies to such luminaries of the Malay elite as Tan Sri Mohamed Noah bin Omar who was appointed chairman of MUI when his son-in-law, Datuk Hussein Onn, was Malaysia's Prime Minister (1976-1981). Other Khoo appointees included Tan Sri Mohamed Khir Johari, former minister and diplomat who became a director of Malayan United Manufacturing (MUM), and Mohamed Tamrin bin Abdul Ghafar, UMNO MP, whose father, Ghafar Baba, became Deputy Prime Minister in 1986 .

Khoo's takeover of Central Sugars Bhd, one of his most important acquisitions in the early eighties, illustrates how he combined political connections and savvy manipulation of Kuala Lumpur's freewheeling stock market to quickly acquire great wealth.[40] The strategy involved a close alliance between Khoo's companies and the MCA-owned Multi-Purpose Holdings Bhd (MPH), of which Tan Koon Swan was chairman (AWSJ, 26:8:1980). In 1977 Khoo took a small shareholding and was appointed chairman of Magnum Corporation, a lucrative lottery company. Shortly thereafter MPH also bought a stake in Magnum and in fact became the dominant shareholder in the company. At about the same time Khoo, in company with sugar tycoon Robert Kuok, and Quek Leng Chan whose family controlled the Hong Leong finance group, purchased a controlling stake in Central Sugars Bhd. Once the group controlled Central Sugars, and while the price of the company's shares was rapidly appreciating, the group had the company buy a major stake in Pan Malaysia Cement Works Bhd (PMCW), which in turn controlled another company, Pan Malaya Rubber Industries Bhd (PMRI).[41] Both PMCW and PMRI were profitable publicly-listed companies.

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39 Khoo was appointed to the board of Malayan Banking in August 1980 and appointed vice-chairman in December that year (BT, 8:10;1982). It was an honorary position and one which Nik Hassan bin Wan Abdul Rahim, a director of Malayan Banking said was made under the advice of the Minister of FInance, Tengku Razaleigh (AWSJ, 26:8:1980). Khoo resigned from all his posts at Malayan Banking on 1 November 1982 in order to avoid any conflict of interest in view of MUI's proposed acquisition at the time of other banking interests, notably shares in D&C Bank and Kwong Lee Bank. See The Star, 8:10:1982.

Khoo was appointed chairman of the Tourist Development Corporation in March 1985 (BT, 27:3:1985).

Khoo accompanied the Prime Minister, Dr Mahathir on an official visit to the South Pacific in October 1982. Other businessmen in the delegation included Robert Kuok and Tan Koon Swan. See The Star, 9;10;1982.

40 The following account of Khoo's takeover of Central Sugars Bhd and the dealings and relationships connected with it is substantially drawn from the AWSJ, 26:8:1980 (David Zielenziger, 'Malaysian Tycoon Credits God, but Worldly Friends Help').

41 See AWSJ, 26:8:1980.

In late 1979 and early 1980 Kuok and Quek sold their interests in Central Sugars, presumably at a profit, giving Khoo and his allies more than 55 per cent of the company's stock. During that same period there was intense trading in the shares. Much of the intense trading, which dramatically increased the value of Central Sugars shares, was stimulated by Multi-Purpose Holdings and various MUI subsidiaries which acquired large shareholdings in the company. Amongst the convoluted transactions that took place concerning Central Sugars stock was one in July 1980 when Multi-Purpose swapped most of its Central Sugars shares for MUI stock (AWSJ, 26:8:1980). Interestingly the Central Sugars shares were valued well below the market price thereby giving Khoo windfall profits and a shareholding of over 78 per cent in Central Sugars. At the same time Khoo's companies, MUI and the Central Sugars subsidiaries, were buying into Magnum, the gambling company in which Multi-Purpose was the dominant shareholder. Intense trading in Magnum shares meant that Multi-Purposes' interest in Magnum soared in market value from $16 million to $147 million.[42]

From the above it is apparent that because the issued capital of Magnum and Central Sugars was acquired by a tight group, the principals of that group, notably Khoo and his allies, were able to profit handsomely from the intense trading activity they were able to promote in the companies concerned. Simultaneously Khoo, as chief executive and main shareholder, was able to swap MUI shares (whose price rocketed in little more than a year (1980) from under $2 to over $24)[43] 'for controlling stakes in going concerns and float new stock to euphoric investors' (ASWSJ, 26:1:1984). Khoo's vaunted political connections also appeared to assist him when trading in Central Sugars shares became a matter of concern to the Registrar of Companies. In March 1980 the Registrar ordered all Kuala Lumpur brokers to report their positions in MUI and Central Sugars for a four month period, but suddenly he withdrew his order with the delphic comment that, "Whoever called it off called it off" (AWSJ, 26:8:1980).

In the course of its rapid growth MUI's tactics provoked ire in some quarters. The major Bumiputra unit trust, Permodalan Nasional Bhd (PNB), refused to take up what it believed to be inflated MUI stock in a special Bumiputra share issue[44]and the Singapore

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42 See AWSJ, 26:8:1980. While MPH increased its wealth in those transactions, analysts believed that the immediate beneficiaries were a small group of businessmen (presumably including Tan Koon Swan and possibly other directors of MPH) rather than the 27,000 small Chinese Malaysians who had invested their savings in MPH.

43 See FEER, 6:3:1981 (Hugh Payman, 'A slip by the superstars').

44 According to Hugh Peyman, PNB, which MUI had hoped would take up the bulk of the special Bumiputra share issue, turned it down, 'even at a third of the market price'. See FEER, 6:3:1981 (Hugh Peyman, 'A Slip by the Superstars').

authorities insisted on a cash alternative to MUI shares when the company attempted to buy a hotel in the Republic.[45] In the mid-eighties Khoo sought to downplay MUI's earlier 'highflying' image in favour of one that showed MUI as adept at running its empire as it was in building it. In that regard analysts agreed that by 1985, MUI's image lagged behind the reality, and that MUI had matured into a sound conglomerate with solid longterm prospects.[46] It had acquired real assets in profitable sectors such as cement manufacturing, building materials and rubber processing and had increasingly shifted the focus of its activities to banking and financial services which became the main contributor to the group's profits. In contrast to many other big Malaysian concerns, by good timing (and luck), MUI had deferred plans to make property one of its mainstays well before the 1984-85 recession and so was one of the few groups to emerge from the recession with no debt and large reserves of cash. This put the company in a potent position to expand.[47] Yet at that point, political and personal, rather than economic factors combined, to curtail MUI's prospects.

What had been perceived as MUI's strengths, its identification with one man, Khoo Kay Peng, and Khoo's close association with Tengku Razaleigh, became the company's Achilles' heel when Razaleigh lost out in a power struggle in UMNO and Khoo became embroiled in the Pan El scandal in Singapore. (Pan El had already claimed the political and corporate scalp of Khoo's erstwhile business colleague, Tan Koon Swan.)

The ties between Khoo and Razaleigh were forged, it will be recalled, when both worked closely together at Bank Bumiputra in the sixties. As Khoo rose rapidly in the corporate world, Razaleigh moved quickly through a series of senior posts in party and government to become by 1976 an UMNO vice-president and the Minister of Finance. Razaleigh's appointment as Finance Minister coincided with MUI's acquisition of Tong Bee Finance, later Malayan United Finance (MUF). MUF represented the first major breakthrough for the MUI group from a small manufacturer to a company with a base in financial services, a base which provided the platform for the group's more concerted takeoff subsequently (BT, 24:11:1980). As licences for finance and insurance companies

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45 The Singapore Government through the Economic Development Board (EDB) was a large shareholder in the Ming Court hotel and therefore an interested party in the takeover. Consequently the Singapore Government insisted on a cash alternative to MUI shares as it was not enamoured of MUI shares at a value of $15 when PNB had turned them down at $4.50. See FEER, 6:3:1981.

46 See BT, 4:4:1983 (MUI's ambitious blueprint: Building up a top-ranking company); The Times, 3:10:1983 (MUI, set to be a money spinner); Financial Times, 7:7:1985 (Wong Sulong, 'Cash rich MUI well placed for expansion').

47 See AWSJ, 26:1:1984 (Raphael Pura, 'MUI's fast growth yielding solid results'); NST, 21:11:1985 and BT(S), 24:7:1985.

were limited, it was assumed that Khoo's relationship with Razaleigh was not unhelpful. It would also seem to have had a bearing on the unwillingness of the regulatory authorities to pursue with any vigour some of the dubious dealings by MUI in Central Sugars and Magnum shares. The benevolence of the authorities also extended to MUI's purchase of Kwong Lee Bank (later Malayan United Bank) in October 1982, a purchase affected by a share swap in which the (over) valuing of MUI shares was later to cause massive losses for the underwriter and implicate Khoo in the Pan El fiasco.[48]

While MUI initially benefitted from the general perception that Khoo enjoyed a close relationship with Razaleigh, Razaleigh's relationship as Minister of Finance with Khoo and other Chinese businessmen made him vulnerable to charges by opponents in UMNO that he was less committed than others to expanding Malay ownership of the economy. The charge, encapsulated by a play on Razaleigh's nickname, "Ku Li" as "Tan Khoo Lee," denoting his association with Tan Koon Swan, Khoo Kay Peng and Lee San Choon, contributed in part to Razaleigh's loss to Musa Hitam in the contest for the deputy presidency of UMNO in 1981.

Khoo's relationship with Razaleigh rebounded against him as power struggles in UMNO led first to the marginalisation of Razaleigh and his supporters in the party, and subsequently their complete break from it. After Razaleigh's second unsuccessful challenge for the deputy presidency of UMNO in 1984, he was moved laterally to the less important post of Minister of Trade and Industry and Daim Zainuddin became Minister of Finance, while other key posts were filled by men closely affiliated with Dr Mahathir.[49] The continuing power struggle within UMNO then led, it will be recalled, to Razaleigh and his supporters ('Team B') challenging Dr Mahathir and his allies ('Team A') for leadership of the party and the government at the UMNO General Assembly in April 1987. After narrowly losing that hard-fought contest, Tengku Razaleigh and his team were purged from the cabinet and shortly thereafter from all levels of the party and government as well.

An important feature of Team A's continuing campaign to weaken and isolate their opponents in Team B was to cut off or 'punish' all sources of patronage and support from which it was believed (or suspected) Tengku Razaleigh and his supporters had

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48 See AWSJ, 25:5:1989.

49 In addition to Daim other key appointments of (then) Mahathir loyalists included Anwar Ibrahim who was promoted from Culture, Youth and Sports to Agriculture and Abdullah Badawi who became Minister of Education. Musa remained Minister of Home Affairs but was surrounded by those elevated by Mahathir in the reshuffle.

benefited. In that regard MUI and its idenfication with Khoo came under a cloud where perceptions of government favour were concerned, and those clouds further darkened as Khoo was linked to the Pan El scandal. In July 1987 Khoo, in an effort to rid MUI of its image of being a one-man show dependent for its survival on his personal fortune, reduced his stake in the company to 20 per cent from 31.6 per cent the previous year (FEER, 23:7:1987). The shares were sold to his old friend, Robert Kuok, whose presence and impeccable establishment credentials 'were expected to enhance the image of MUI which had been the subject of viscous rumours' (BT(S), 13:7:1987). The rumours, though consistently denied at the time, that Khoo was implicated in the massive losses suffered by Pan El and feared arrest in Singapore, were later proved correct. In the first half of 1988 Khoo paid S$36 million to the liquidators of Pan El in an attempt to clear the rumours which were sufficiently persistent to depress MUI's share price.[50]

Meanwhile Khoo continued to dilute his once dominant shareholding in the company by selling another large block of MUI stock to IGB Corporation, the property and construction-based company controlled by the family of Malaysian businessman, Tan Chin Nam. With IGB leading, the idea of a super conglomerate - a MUI-IGB-Inter-Pac troika - emerged but quickly crumbled amid recrimination and differences among the principals.[51] The souring of that alliance and the general perception by the late eighties that MUI was a sleeping giant whose increasingly reclusive chief executive had lost his earlier entrepreneurial drive[52] prompted some of the erstwhile principals of that troika, most notably Vincent Tan's Inter-Pac group to attempt a takeover of MUI. In the course of the bitter and prolonged struggle for MUI Khoo significantly increased his shareholding in the company and put Tan on the defensive with an attempted takeover of Inter-Pac.[53]

The details of that corporate struggle need not concern us here but rather, in conclusion, what it indicated is our interest lies in about the vulnerability of the new Chinese business groups not only to shifting alliances within UMNO but also other Chinese groups with better state/party connections. As noted previously, by the late 1980's MUI's principal asset and the main contributor to the group's profits was MUI

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50 See AWSJ, 25:5:1989 (Raphael Pura, 'Settlement links Tycoon to Pan-Electric').

51 See AWSJ, 28:7:1989 and 13:3:1991.

52 See MB, 16:6:1990 (The Giant Slumbers on).

53 In the end it was difficult to say who won the struggle between Tan and Khoo. Khoo retained his grip over his massive conglomerate but Tan made $30 million in the course of the tussle. For a good summary of the struggle between Khoo and Tan see MB, 16:6:1993 (The tussle for MUI - A chronology of events) and MB, 16:7:1993.

Bank. But MUI's capacity to develop that key asset was severely circumscribed by the Banking Act and the attitude of officials at the central bank, Bank Negara. Pertinent in that regard were MUI's plans to seek a public listing for its bank. After Dr Mahathir's victory over his arch political rival, Tengku Razaleigh at the 1987 UMNO Assembly, there was doubt, in view of Khoo's former close association with Razaleigh, whether any application by MUI Bank for public listing would be favourably entertained.[54] The 'close attention' paid to MUI Bank by central bank officials, and persistent market talk that 'some quarters' (Team A) wanted to see control over MUI Bank change hands, finally led to an announcement in November 1993 that Khoo was relinquishing control of MUI Bank to a Chinese company renowned for its strong UMNO connections, Quek Leng Chan's Hong Leong group[55].

In the early eighties Khoo Kay Peng used the mechanisms of the stockmarket to quickly build a huge conglomerate. The means by which he quickly accumulated capital depended on a buoyant economy and a perception in the market that MUI enjoyed political support. From rather sharp wheeling and dealing associated with MUI's rise Khoo nevertheless consolidated his early gains and established the company on a more durable base. But Khoo's identification with Tengku Razaleigh gave the company a 'political identity'. It was a was a mixed blessing. As Razaleigh's political fortunes in UMNO fell, so MUI, or at least those elements of it most vulnerable to state control, notably MUI Bank, found their operations stymied. MUI's vulnerability soon attracted the attention of another Chinese group whose strong state connections were the key to its capacity to wrest from MUI its most prized asset, MUI Bank.

Lim Thian Kit : Kamunting Corporation Bhd

Probably Malaysia's youngest tycoon, Lim Thian Kit, more popularly known in business circles as T K Lim, the chief executive of Kamunting Corporation Bhd, controlled a conglomerate of interlocking public companies with a total market capitalisation of $4 billion before he turned 30 in 1989 (AWSJ, 9:10:1989). In October 1992 Kamunting, by then the controlling shareholder in Multi-Purpose Holdings Bhd, was the fifth largest group in corporate Malaysia.[56] At one level T K Lim's rapid corporate rise again shows how closely enmeshed the new Chinese business groups are with Bumiputera

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54 For comment regarding Bank Negara's alleged preference for someone else other than Khoo to head MUI Bank see MB, 16:2:1992 and AWSJ, 12:11:1993.

55 The Quek-controlled Hong Leong Group purchased MUI Bank Bhd and MUI Finance Bhd for a total of $1.1 billion (US$431 million). See AWSJ, 12:11:1993.

56 See MB, 16:10:1992.

political/business interests and the strong backing most such groups have from state-owned banks and financial institutions. More importantly Kamunting's rise highlights how the relationships such groups have with the Malay political/business elite can develop and mature with the growth of the group. While Kamunting's beginnings owed much to a patron-client type relationship with certain powerful Malays, as the company grew and forged mutually beneficial cross-holdings with Malay business groups a patron-client relationship gave way to a more sophisticated and inter-dependent set of relationships with Malay capital.

T K Lim is the son of a wealthy former tin miner, Dato Lim Bok Eng. By the early seventies Lim Bok Eng owned 14 mines, one of which at Puchong near Kuala Lumpur yielded a rich reservoir of ore at a time when prices for tin were high. (The Star, 13:11;1989). Before the sharp fall in tin prices Lim Bok Eng, together with his second son, Lim Thian Kit (who had returned to Kuala Lumpur from San Francisco in 1983 with a degree in business administration), invested heavily in the Hong Kong property market. Both made windfall profits. In December 1981 Lim Bok Eng formed a company, Seri Angkasa Sdn Bhd, to bid for government construction jobs. A $2 company, Seri Angkasa did nothing until May 1984. By that time Lim Thian Kit had returned to Malaysia and had already established close ties with Daim Zainuddin, well before Daim had become Minister of Finance,[57] and with Daim's brother, Wahab Zainuddin. That combination of money, friendship and connections quickly transformed Seri Angkasa and, as in the case of Vincent Tan's Berjaya, promoted through a complex web of relationships both 'Chinese' and 'Malay' business interests in such a manner that all emerged wealthier as a result.

The transformation of Seri Angkasa began on 22 May 1984 when the company allocated 999,998 new $1 shares to three parties: a Lim family concern called Triple Event Sdn Bhd, later renamed Triple Construction (30 per cent); a longtime Lim family-associate, Abdul Ghani Abdul Manap (35 per cent); and a company called Sri Alu Sdn Bhd (35 per cent).[58] On 23 May, the day after the shares were allocated, Datuk Lim's son, Lim Thian Kit ,and Datuk Abdul Ghani joined Seri Angkasa's board as did Abdul Wahab Zainuddin and Hassan Abas. As noted earlier, Wahab Zainuddin, a businessman,

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57 See MB, 16:10:1992 (Rajen Devadason, 'Playing to Win, Interview with T K Lim').

58 This account of the shareholdings and personalities involved in the transformation of Seri Angkasa and its subsequent successful bid for the lucrative privatisation of the Jalan Kuching road toll concession in Kuala Lumpur is substantially drawn from a detailed account of the episode in AWSJ and a summary of that account in ALIRAN Monthly. See AWSJ, 5:31:1988 (Raphael Pura, 'Malaysia's Daim tied to Contract Award') and ALIRAN Monthly, June 1988 (K J Khoo, 'Shuffling of Cards').and Gomez, 1990:132 and 1994:213.

is the former Finance Minister Daim Zainuddin's brother and was a shareholder or director in a several companies associated with Daim.[59] Hassan Abas, an accountant, had worked for Daim at Peremba Bhd and played a role in companies associated with the Daim family and UMNO. Messrs. Wahab and Hassan were the representatives of Sri Alu Sdn Bhd on Seri Angkasa's board. Sri Alu was established on 13 July 1984, one day before Daim was named Minister of Finance (AWSJ, 5:31:1988). Sri Alu's registered office in the Hong Kong and Shanghai Bank Building also served as the legal domicile of several of Daim's companies and Sri Alu's original company secretaries were the same two women who played similar roles in several other Daim and UMNO associated concerns including Hatibudi Sdn Bhd., the trustee company through which UMNO controlled United Engineers.[60]

On 9 August 1984 tenders were called for the privatisation of the Kepong project which involved the upgrading of a highway and the construction of a highway interchange, a toll plaza and related facilities. In April 1985 the Kepong project was awarded to Seri Angkasa, apparently because the Ministry of Works had decided Seri Angkasa's bid was the "most suitable"[61]even though the company had never done any construction work. Daim's Finance Ministry which was involved in approval of the tender by the Works Ministry had 'no objection' to the proposal. After obtaining the Kepong project Seri Angkasa had to obtain construction expertise and money. By August 1985 the company had obtained government permission to sub-contract the entire project to Japan's Mitsui Company. To obtain funds for the project Seri Angkasa used the lucrative toll concession as leverage to arrange the necessary finance, a Swiss franc loan equivalent to $93 million through the Singapore branch of Union Bank of Switzerland. The loan was guaranteed by state-owned Malayan Banking. As security, Seri Angkasa assigned its toll-collection rights to Malayan Banking and the bank's guarantee was also secured by personal guarantees by Seri Angkasa's directors, Wahab Zainuddin (who had by then resigned as a director), as well as a guarantee by Sri Alu which was owned by Wahab and Hassan.[62]

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59 Wahab had functioned since 1984 as a trustee shareholder and director in Daza Holdings Sdn Bhd., the concern that held, through other companies, the Daim family's stake in United Malayan Banking until it was sold in late 1986. See AWSJ, 5:31:1988.

60 Sri Alu's original company secretaries were Wan Rohaya Wan Hassan and Engku Naiimah Engku Embong (AWSJ, 5:31:1988).

61 In response to written questions by the *Asian Wall Street Journal*, Daim's spokesman said that seven companies had submitted proposals for the project. It has never been publicly disclosed who the bidders were or what their offers involved. See AWSJ, 5:31:1988.

62 Malayan Banking's guarantee was secured by personal guarantees of all Seri Angkasa's directors at the time which included: Datuk Lim; his son Lim Thian Kit; Datuk Abdul Ghani and Mr Hassan.

During 1986 and 1987 Seri Angkasa's board and shareholding structure continued to change. On 1 January 1986 Mohamed Amir Mohamed Senawi[63], Daim Zainuddin's nephew, became a director and by mid-1986 Seri Angkasa's shareholders had transferred their registered offices to the Peremba building which also accommodated the registered offices of UMNO's Fleet Group and other companies associated with Daim's family. At the same time Datuk Abdul Ghani sold his 35 per cent in Seri Angkasa to another $2 company Tjin Sdn Bhd. In early 1987 Sri Alu's 35 per cent stake in Seri Angkasa was transferred to another $2 company called Kencana Mewah Sdn Bhd. Those changes, as Figure 9.2 shows, left the Lim family controlling 65 per cent of Seri Angkasa, which in turn shared ownership of the lucrative Kepong project (expected to generate $209 million in toll revenues through 1995), with only Kencana Mewah.[64]

Why should a Chinese company be awarded such a lucrative toll-road project? It will be recalled that during this period, Daim in response to a cabinet directive in September 1986 requiring cabinet ministers to shed their corporate holdings was in the process of divesting himself of his considerable investments, many of which were concentrated in his former flagship, Raleigh Bhd. Perhaps coincidentally in October 1986, less that twelve months after T K Lim's Seri Angkasa had been awarded the Kepong project, Daim's company Seri Iras announced that it had sold a 27.6 per cent stake in Raleigh for $40 million to an investment holding company called 'Main Chance'. The principal shareholders and directors of Main Chance were T K Lim and Encik Abdul Rahman, a company secretary of Seri Angkasa.[65] In other words just as Vincent Tan's acquisition of the privatised Sports Toto and the later series of complex transactions associated with Berjaya's reverse takeover of Raleigh[66] appear to have assisted Daim in the divestment of his Raleigh-linked assets, so there also appeared to be a quid pro quo for the gains flowing to T. K. Lim/Seri Angkasa from the privatisation of the Kepong project.

Wahab Zainuddin also gave a personal guarantee to Malayan Banking even though he had resigned as a director of Seri Angkasa on 2 July 1985, reflecting as the *Asian Wall Street Journal* commented, 'his continuing interest in the company.' Triple Construction, a Lim family company also provided a corporate guarantee to Malayan Banking. See AWSJ, 5:31:1988.

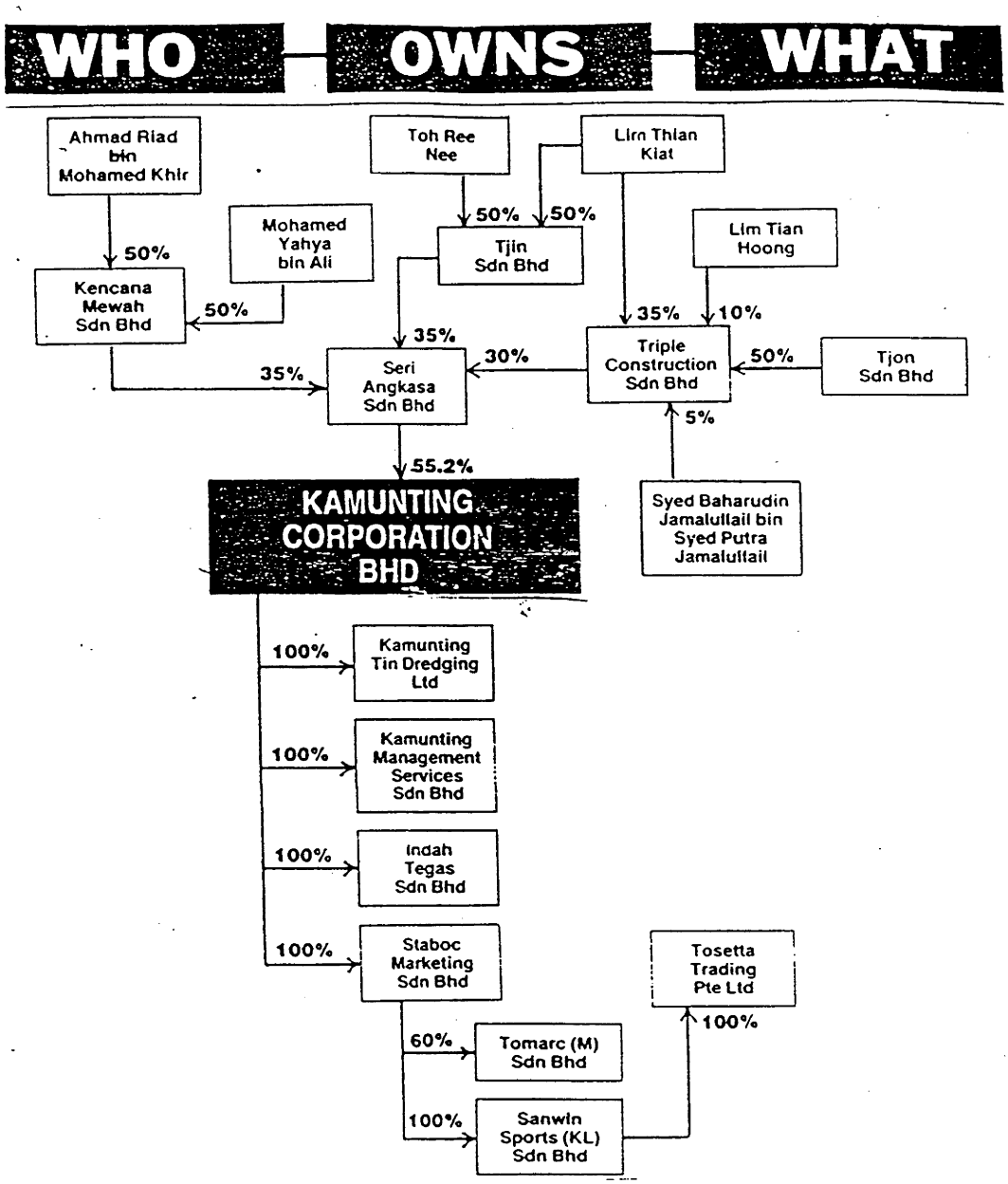
63 Mohamed Amir Mohamed Senawi was a director of several UMNO-linked companies. In March 1987 he was named managing director of Duta Consolidated Bhd, a publicly listed company of which Datuk Desa Pachi was chairman. See KLSE, Annual Companies Handbook, Vol XIV:139.

64 See AWSJ, 5:31:1988.

65 The Star, 25:10:1986 (Daniel Ng, 'The people who are buying Raleigh stake'). The 27.6 per cent stake in Raleigh comprised 20 million Raleigh shares at $2 each or $40 million. Of the 20 million shares Seri Iras Sdn Bhd owned 16 million, Syarikat Maluri Sdn Bhd 3 million and Mekar Berbunga Sdn Bhd 1 million. See NST, 25:10:1986.

66 Before he divested his stakes in Raleigh Bhd, Daim held two-thirds of the company's shares through two of his companies, Seri Iras and Syrikat Maluri. See MB, 1:1:1986 (M. Magasvaran, 'Raleigh, Riding on Acquisitions') and BT, 23:9:1986 (C.S.Tan, 'Daim selling Raleigh stake').

Figure 9.2: Links Within Kamunting Corporation Bhd



Source: The Star, 6:12:1988

The assured flow of funds from the Kepong project enabled Seri Angkasa to take the next step in its corporate development, the acquisition of a publicly-listed company as a means of realising an early profit on the privatisation contract. The firm selected was Kamunting Tin Dredging (M) Bhd, later renamed Kamunting Corporation Bhd. Kamunting was a largely moribund company controlled by state-owned Malaysian Mining Corporation (MMC). The deal consumated on 3 August 1987 involved a reverse takeover whereby Kamunting agreed to acquire Seri Angkasa's road toll concession in exchange for Kamunting shares.[67] The transaction gave Seri Angkasa a controlling 79.4 per cent stake in Kamunting. Raphael Pura noted that approvals for the deal came unusually swiftly for a bureaucracy where proposed takeovers of public companies routinely languished for months (AWSJ, 5:31:1988). In addition, Seri Angkasa obtained further funds, notably a $67.5 million loan from state-owned Malayan Banking which was guaranteed by Seri Angkasa directors who included Daim's nephew Mohamed Amir Mohamed Senawi and again by Daim's brother Wahab even though he had resigned as a director of the company in July 1982.[68]

Undoubtedly T K Lim's greatest and most controversial corporate coup was the takeover of the MCA's investment arm, Multi-Purpose Holdings in June 1989, a company with capitalisation 15 times that of Kamunting (AWSJ, 15:5:1989). The takeover of MPH and the subsequent growth of Kamunting highlighted many of the elements associated with new Chinese wealth - political connections, a close and mutually rewarding relationship between Malay and Chinese capital, the backing of state-owned banks, and last but not least the considerable commercial daring and acumen of the tycoon concerned.

Earlier, it was noted how after MPH's disastrous losses in the mid-eighties, the MCA leadership persuaded prominent Chinese businessmen, notably Robert Kuok and Lee Loy Seng, to re-organise and return the ailing conglomerate to profitablity. By 1988 the salvage effort by MPH's new management and a booming economy had again made MPH a profitable concern and its considerable assets an attractive target for a takeover.

On 12 April 1989 Hume Industries (Malaysia) Bhd, a quoted subsidiary of Quek Leng Chan's Hong Leong group of companies, made a $1.13 billion bid for MPH. The MCA viewed Hume as a 'hostile bidder' whom it feared might carve up MPH or share

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67 For details of the takeover see BT, 4:8:1987 and AWSJ, 5:31:1988.

68 The loan was to reduce Seri Angkasa's foreign exchange exposure by refinancing locally a large portion of the $93 million loan (Swiss franc equivalent) that Sri Angkasa had obtained from the Union Bank of Switzerland in 1985 to finance the Kepong project. See AWSJ, 5:31:1988.

control of it with investors close to UMNO (AWSJ, 9:6:1989). The basis for such a view was that on the same day Hume announced its bid for MPH it also disclosed that PLUS, the contractor for United Engineers, the UMNO-owned company overseeing the lucrative North-South Highway project, had awarded Hume a $500 million contract to supply materials for the project (MB, 16:6:1989). Chinese apprehension regarding Hume's links with UMNO were given further credence when in December 1989 Jaguh Mutiara Sdn Bhd, a company in the UMNO-owned Fleet Group, acquired a substantial 24 per cent stake in the company.[69]

Hume's move on MPH prompted a counter bid by Kamunting and a corporate battle between the two Chinese companies in which, despite the fact that both were closely linked to Bumiputra or UMNO-related interests - Hume through Jaguh Mutiara and Kamunting through Seri Angkasa - Kamunting, somewhat inexplicably, was hailed as the friendly 'white knight' in the contest.[70] The key factors in Kamunting's ability to portray itself as 'friendly' to Chinese interests, and prevail over Hume in that contest, was the support the company received from MCA President Ling Liong Sik; the better terms it offered KSM depositors; and the financial backing the company was able to muster from state-owned Bumiputra financial institutions.[71]

Kamunting offered $592 million to acquire the assets of Koperatif Serbaguna Malaysia or KSM, the MCA-sponsored co-operative which held a controlling 28.9 per cent stake in MPH.[72] MCA President, Ling Liong Sik, hailed Kamunting's bid as 'friendly' because it involved a full refund for thousands of small MCA depositors in exchange for all the assets of the financially ailing co-operative.[73] Ling's support coincided with a critical parliamentary by-election the MCA faced on 13 May 1988 against its main rival, the DAP in Pahang. Many of the Chinese voters in the constituency were KSM's shareholders and were disillusioned with their investments in debt-burdened Multi-Purpose. The announcement of Kamunting's bid several days before the election bolstered the MCA's image as a defender of Chinese interests in Multi-Purpose and was

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69 The links between UMNO, Jaguh Mutiara and Hume are discussed in the next case study in this chapter of the Hong Leong Group. See also The Star, 6:4:1991 and Gomez, 1994:87.

70 See MB, 16:6:1989 (Chew Lee Fun, 'MPH Takeover Bid, Knight and Suitor do Battle'). and AWSJ, 5:18:1989.

71 See AWSJ, 5:8:1989 and 9:10:1989.

72 Kamunting acquired all the assets of KSM for $592 million in two parts. The first was the issue of 296 new shares valued at $1 each to the receivers, who converted them to cash. Secondly it issued 296 million units of convertible loan notes directly to depositors of KSM. See MB, 16:3:1990.

73 KSM had been in the hands of the receiver, Price Waterhouse and Co. since 1986.

believed to have been an important factor in the party's overwhelming victory in that contest (AWSJ, 3:1:1990).

To fund its massive $592 million purchase of KSM's assets, Kamunting had the backing of an underwriting consortium of banks led by Bumiputra Merchant Bankers, a unit of state-owned Bank Bumiputra Bhd. The rapid approval of that arrangement by the central bank and other regulatory authorities was crucial to the success of Kamunting's bid.[74] An element of political cynicism may also have been involved in the government's support and facilitation of Kamunting's proposal. Not only did T K Lim bear the high risk involved in the arrangement[75] but, if in retrospect the break-up of MPH was probably inevitable, then it would be better for a Chinese company to carry the odium attached to that. In any event, as Lim himself observed, Kamunting's bid, unlike that of Hume, involved a full refund for depositors and therefore 'saved the government the need to come in with additional (public) money.'

Despite his earlier portrayal as a 'white knight' protecting Chinese interests and assurances by Lim that he would keep MPH intact and dramatically increase its profits[76], MPH's dire need for capital and Kamunting's small size in comparison forced Lim to restructure MPH and sell many of its assets. Thus MPH's plantation interests in Dunlop Estates, its trading interests in Mulpha International and its shipping interests in Promptship were either sold or the company's stake in them was reduced or reorganised. As a result MPH's debts of about $250 million were cleared (MB, 16:3:1990). At the same time prime property holdings in MPH subsidiaries, notably Magnum Corporation Bhd, were transferred to a Kamunting controlled company[77] and several cash-rich Multi-Purpose units[78] were pressed to obtain multi-million dollar loans or use their reserves to

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74 See MB, 6:6:1989; AWSJ, 15:5:1989 and 5:8:1989. Lim admitted that the response of Malaysia's merchant banks to his audacious bid for MPH had been "cool," forcing the advisor and lead underwriter, Bumiputra Merchant Bankers (BMB), to turn to other sources, such as security companies, to get the whole issue underwritten. FEER, 15:5:1989 (Nick Seaward, 'Kamunting secures finance to buy MPH stake').

75 In an interview with Malaysian Business, Lim claimed that all the risks in the transaction were borne by him and him alone. His family were not involved and neither were there any 'hidden partners'. See MB, 16:3:1990 (Ngam Su May, 'T K at the Top' Interview with T K Lim).

76 In May 1989 Lim boasted that he could boost Mult-Purpose's pre-tax profit between six and eightfold by 1994 to at least $400 million and at the same time keep the company intact. See AWSJ, 3:1:1990.

77 See AWSJ, 3:1:1990; FEER, 7:12:1989 and MB, 16:3:1990.

78 Magnum and Dunlop Estates both had to buy Kamunting stock. See FEER,7:12:1989 (Christopher Marchand, 'Strip Search for Cash'). According to the *Asian Wall Street Journal* several of the stock purchases made by MPH units were made at prices above prevailing market rates. See AWSJ,

build up a stake in Kamunting whose share price had fallen after the takeover of MPH.[79] While Lim claimed he was shedding liabilities, many commentators saw his activities more in terms of an asset-stripping exercise which also tightened through a complex series of cross-holdings the control of Seri Angkasa, Lim's family company, over Kamunting and MPH without him having to hold a majority stake in the company (MB, 16:3:1990).

In his takeover of MPH, T K Lim had acquired considerable debt, at least $300 million by one estimate (FEER, 26:4:1990). In the process of reducing that debt through shedding MPH's assets and transferring others to Kamunting controlled companies, Lim planned to purchase a mammoth housing project called Sri Damansara from Magnum Corporation. (In the takeover of MHP Lim had acquired Magnum, a lucrative gaming company which also held considerable property assets). Lim had hoped to use his leverage as Magnum's principal shareholder to have the valuable Sri Damansara property site on the outskirts of Kuala Lumpur sold to one of his own subsidiaries, Kuala Lumpur Land for $184 million[80] though the property was estimated by some to be ultimately worth as much as $2 billion (FEER, 14:6:1990). Vincent Tan, who controlled the rival Sports Toto gaming company, and who had built up a 23.5 per cent stake in Magnum through his Inter-Pac group, opposed the plan because it diluted the value of his holding in the company.

A bitter corporate battle for control of Magnum then took place between Lim and Tan. The details of that corporate episode and the central role played by the Malay tycoon, Wan Azmi, the head of General Lumber in it have been outlined earlier but from Wan Azmi's point of view[81]. Our attention here therefore will focus on how, in the struggle for Magnum, Lim needed Azmi's capital at least as much, if not more so, than his political clout, thus highlighting the increasingly complementary nature of the relationships developing between the new Chinese business groups and their Bumiputra counterparts.

3:1:1990 (Stephen Duthie, 'Kamunting Draws Fire on Mult-Purpose: Once seen as a saviour, the Malaysian firm is said to be stripping assets').

79 Kamunting's share price had slumped from a high of $1.47 before the Multi-Purpose takeover in May 1988 to about $1.15 in January 1990. See AWSJ, 3:1:1990.

80 Lim intended to sell Sri Damansara to Kuala Lumpur Land, which was a wholly-owned subsidiary of Kamunting-controlled Malaysian Plantations. For details of Lim's plans see MB, 16:3:1990; AWSJ, 15:3:1990 and FEER, 14:6:1990.

81 See chapter 6.

In the course of his bid for Magnum, Tan, besides increasing his stake in the company and amassing standby credit of $1 billion, was 'posturing'[82] that he had more political support than Lim. So T K Lim needed a partner with as much perceived political clout as Tan but, with his heavy debt, Lim also desperately needed capital. Lim, who then controlled about 40 per cent of Magnum, Sri Damansara's parent company, approached Wan Azmi and a complementary deal beneficial to both was worked out.[83]

In June 1990 Wan Azmi (General Lumber) paid Lim (Magnum) $200 million for Sri Damansara by issuing 80 million new shares at $2.50 each to Magnum.[84] As a result General Lumber's paid-up capital doubled to $278.8 million.[85] A key term of the agreement was a buy-back option which allowed Azmi to purchase from Magnum whatever it held in excess of 20 per cent of General Lumber's expanded share base.[86] The deal was regarded as generous to General Lumber and its chairman, Wan Azmi. At the same time, however, Wan Azmi bought the entire paid-up capital of Sri Trimal, a property company owned by Lim's family, a purchase which significantly helped to reduce the large debt Lim had acquired in the takeover of MPH.[87] The arrangement also meant that T K Lim/Magnum became a substantial shareholder, almost 23 per cent, in an expanded General Lumber, one of Malaysia's premier Bumiputra property companies (MB, 16:10:1992). The ten-month takeover battle for Magnum concluded with something for all the major players: Vincent Tan sold his stake in Magnum to Lim's Dunlop Estates for a considerable profit;[88] Wan Azmi sold a 25 per cent stake in Sri Damansara to Tan at

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82 Wan Azmi's terminology. Author's interview with Wan Azmi, 13:1:1992

83 Interview with Wan Azmi, 13:1:1992.

84 The Star, 8:12:1990. Apparently the price represented a 34 per cent discount from General Lumber's last quoted price on the Kuala Lumpur Stock Exchange. See FEER, 14:6:1990 (Doug Tsuruoka, Magnum's odd man out').

85 See AWSJ, 8:12:1990 and FEER, 14:6:1990.

86 In effect this meant that Azmi could lift his stake in General Lumber to as much as 36 per cent, so his control of General Lumber remained secure.

87 See The Star, 19:6:1990 (In partnership - T K Lim and Wan Azmi) and The Star, 8:12:1990 ('$38 Million gain for G Lumber') and AWSJ, 6:6:1990 (Stephen Duthie, 'Malaysia's Lim will sell Family-owned Land Firm').

88 Tan sold his 32.9 per cent stake in Magnum for $310.2 million thereby making a capital gain of $43.8 million (FEER, 20:12:1990). Tan denied accusations of corporate 'greenmail' in which a hostile investor takes a strategic stake in a company until bought out at a higher premium. Tan's marshalling of $1 billion in standby credit from the banks would seem to support his assertion that he was genuine in his attempt to gain control of Magnum. Raphael Pura of the AWSJ sighted Tan's cheque for the bid. Interview, Raphael Pura and Steve Duthie, 9:1:1992.

a 20 per cent mark-up on what he had earlier paid Lim;[89] and Lim reduced debt and successfully absorbed a leaner MPH and its more profitable assets, most notably Magnum and Dunlop Estates into his Kamunting group.[90]

Some commentators suggested that perhaps a quid pro quo for Lim's control over Magnum,[91] the valuable gaming concern whose turnover in 1990 was over $1 billion with profits of $123 million,[92] was the company's generous special Bumiputra share issue in 1991 that enabled Bumiputra investors to take a 30 per cent stake in the company. Bumiputra investors were allowed to purchase their shares at a sharply discounted price of $2 a share, permitting them to reap an extraordinary overall gain of $400 million (FEER, 14:5:1992). In April 1991 Lim restructured Magnum and its gaming business under a new subsidiary, Leisure Management Bhd. When Leisure Management was subsequently listed on the Kuala Lumpur Stock Exchange on 15 August 1991 the biggest beneficiaries were the fortunate recipients of the Special Bumiputra Share Issue who stood to make windfall gains of $74 million (MB, 1:4:1991). Such share issues made Lim even more popular with government officials and leading members of the Malay business community.[93]

In the late eighties and early nineties T K Lim quickly and skilfully built Kamunting into a large and profitable conglomerate.[94] It is probably too early to assess whether Lim is a successful businessman or merely a ruthless corporate predator and clever deal maker. But the rise of T. K. Lim and Kamunting does highlight the symbiotic relationship between Chinese capital, the state and Malay capitalists, and how the intimacy and enmeshing of those elements is a key factor in the growth of the new Chinese business groups. In the case of Kamunting, state/political support was crucial to an assured flow of funds from a privatised toll-road contract, which in turn enabled Lim/Seri Angkasa to take the next step in its corporate development, the acquisition of a publicly-listed company, Kamunting Corporation Bhd. But, at each step along the way in

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89 MB, 16:3:1991 (Azzah Mahidin, 'A Corporate Maestro Indeed') and Author's Interview with Wan Azmi 13:1:1992.

90 See FEER, 14:5:1992 and MB, !6:10:1992.

91 See MB, 16:10:1992, '(T K's Say, Interview with Malaysian Business') and FEER, 14:5:1992 (Doug Tsuruoka, ' Bloodied in Battle').

92 KLSE, Annual Companies Handbook Vol XV11, Bk 1:227.

93 According to M Magasvaran, Capital Corp. Securities one of the principal Bumiputra beneficiaries was Rohas the family company of Wan Azmi and his wife. Interview, 8:9:1992.

94 In the fiscal year to end 31 March 1991 Kamunting's pre-tax profit rose 36 per cent from a year earlier to $21 million. Revenue increased 79 per cent to $61 million (FEER, 14:5:1992).

Kamunting's growth, individual Bumiputras or Bumiputra investors also made handsome gains - viz Main Chance, Magnum and Leisure Management - all of which served to emphasize the complementary relationships between the state, Malay capital and the new Chinese groups like Kamunting.

Quek Leng Chan: Hong Leong (Malaysia) Bhd

There has been a greater convergence between the business interests of the Hong Leong group and those of UMNO than most other Chinese business groups - 'old' or 'new'. Although, as noted earlier, the Hong Leong Group (see Figure 9.3 below) was well established before 1970 and could be classified as 'old wealth', it shared much in common with the new money in the eighties in terms of the intimacy of its political links and the close integration of its capital with Malay capital. Hong Leong's rapid growth in the eighties shows how, through relinquishing some ownership in its key subsidiaries to UMNO-owned companies, it was able to achieve steady and larger earnings thereby enabling it to expand and become not only one of the most prosperous groups in Malaysia but also a major regional conglomerate through the Hong Kong-based Guoco Group.[95]

The rags-to-riches rise of Kwek Hong Png, the founder and patriarch of the Hong Leong group, was initially derived, like most of the 'old wealth' Chinese family firms, from trading in commodities. Expansion was funded by internal growth rather than external sources such as large borrowings from banks and the use of the stockmarket. Kwek Hong Png arrived in Singapore from Fuzou in China in 1929 as a virtually penniless immigrant; yet by 1941 he had reportedly accumulated $S7,000, sufficient capital to start Hong Leong as a trading company.[96] In the early fifties, Hong Leong

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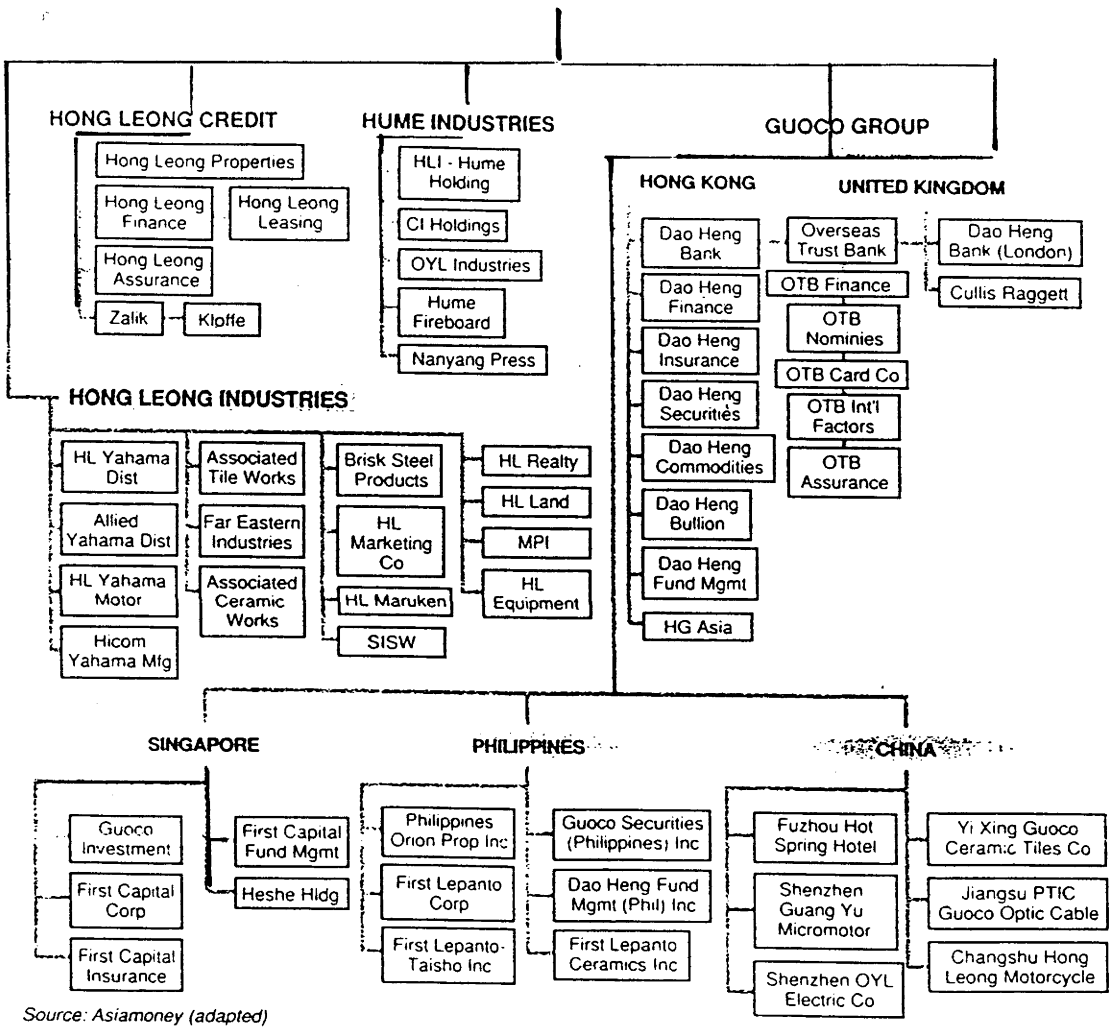
95 Incorporated in Bermuda and listed on the Hong Kong Stock Exchange, Gouco serves as the off-shore holding company for Hong Leong's interests in Hong Kong that are centred on the Dao Heng Bank. In May 1992 Guoco had assets of US$3.1 billion (FEER, 28:5:1992). Dao Heng was incorporated in Hong Kong and jointly owned by Hong Leong and the Kuwait Investment Office (KIO) in 1985. Quek Leng Chan is the executive chairman of Guoco assisted by his brother Kwek Leng Hai. In addition to Hong Leong and the KIO, Quek has brought two other powerful shareholders into Guoco - Hong Kong property magnate, Li Ka Shing and Italy's Agnelli family. The diversity of Guoco is apparent from the string of acquisitions made in the early nineties including a large stake in the international broker, Hoare Govett Asia, a joint venture in an airconditioner factory in Shenzen in southern China, a hotel in Fujian province and an industrial park in Guandong province. In Singapore, Guoco's locally-listed subsidiary, First Capital Corp. is the holding company for the group's varied property and manufacturing interests in the Republic. See FEER, 28:5:1992 (Jonathan Friedland, 'Quek off the mark, Malaysian tycoon exports his can-do style') and MB, 16:7:1991 (C S Tan, 'Hands across the waters').

96 Kwek's three brothers, Kwek Hong Khai, Kwek Hong Lye and Kwek Hong Leong (the company being named after the latter), soon joined the firm as partners. See FEER, 2:11:1989 and Asiaweek, 15:5:1992.

made a fortune during the rubber boom sparked by the Korean war. As Singapore began its industrialisation drive in the 1960's, Hong Leong established joint ventures with Japanese companies in a range of activities from manufacturing to property development, links which have continued to the present.[97] The group flourished in both Singapore and Malaysia throughout the sixties and seventies as it expanded its interests in finance, property, manufacturing and construction.

Figure: 9.3: Hong Leong Group Malaysia



Source: Asiamoney (adapted)

Source: MB:1:3:1994

97 Other prominent Chinese groups to establish links with Japanese companies during the sixties included Kuok Brother's Robert Kuok and UMW's Eric Chia.

In 1963 Hong Leong set up a branch in Malaysia. When Singapore was ejected from the Malaysian Federation in 1965 the group was split in two. Kwek Hong Png retained control of the Singapore business and his younger brother, Kwek Hong Lye, took charge in Malaysia. Heng Lye's son, Quek Leng Chan, a law graduate from London, succeeded his father in 1973. Linkages have been maintained since then through common directorships,[98] though Quek Leng Chan has been careful to keep Hong Leong Malaysia separate from the Singapore companies, even going so far as to emphasise in a company document that Hong Leong Malaysia, "is autonomous and operates independently of the Hong Leong companies in Singapore" (FEER, 9:6:1983).

It seems Quek's main concern in clearly asserting the independence of the two groups was to avoid the Malaysian operations being tainted by the group in Singapore, whose sharp and sometimes corrupt practices had brought Hong Leong Singapore into disrepute.[99]

Hong Leong Company (M'sia) Bhd is the holding company of most of the Hong Leong group in Malaysia. Principal companies in the group, all of which are publicly-

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98 Kwek Hong Png was chairman of, and a shareholder in, Malaysian-incorporated Hong Leong Industries until 1991 when he was replaced by Quek Leng Chan. Kwek Hong Png's son, Kwek Leng Beng, who manages Hong Leong's Singapore operations, is a director and shareholder of Hong Leong Credit - the other principal Hong Leong company in Malaysia. Quek Leng Chan, on the other hand, is the only Malaysian director and shareholder of Singapore-incorporated Hong Leong Finance, one of the Kweks' principal listed companies in Singapore. The rest of the directors are Singapore citizens. See FEER, 9:6;1983 (Anthony Rowley, 'A Singapore disconnection'); Cheong:1990: pp 61-68; KLSE Annual Companies Handbook: Vol XV: 192, 197, 675 and Vol XV11 Book 1: 133, 572.

99 There has been speculation for many years that the Kwek family's difficulties with the Singapore authorities, and with Lee Kuan Yew in particular, go back to the fifties and sixties. In the last twenty years there are numerous and well documented instances where the Hong Leong group in Singapore has antagonised the authorities and prominent members of the Republic's business community. For instance in the early seventies the group was widely reported to have had a major falling out with the Singapore tax authorities; in 1983 Quek Leng Chye and Gan Kai Choon, who held management positions in Hong Leong, were convicted of misdemeanours under the Companies Act; and in April the same year, the Monetary Authority of Singapore (MAS),then under Deputy Prime Minister, Goh Kheng Swee, refused Hong Leong a banking licence. The Business Times (S'pore) speculated that the reason was because of the company's "general standing and reputation" (FEER, 9:6:1983). Hong Leong's business tactics have often sailed close to the winds of illegality and alienated important business groups in Singapore. In the late seventies Hong Leong thwarted Wee Cho Yaw's United Overseas Bank (UOB) in a bitter battle to win control of Singapore Finance, prompting the assistant registrar of companies to step in at one stage and object to Hong Leong's tactics. More recently, on 20 August 1990 Kwek Hong Png, the founder of the group, and his nephew Quek Leng Chye were found guilty in a Singapore court 'for failure to exercise due diligence'. Both were fined and barred from holding management positions in dozens of companies. The charge was reduced from the imprisonable charges of criminal breach of trust and having received stolen property. See FEER, 9:6:1983; FEER, 2:11:1989 (N Balakrishnan, 'Tycoon in Trouble') and FEER, 30:8:1990 (Briefing, 'Singapore court fines Hong Leong founder').

listed companies, include Hong Leong Credit Bhd, Hong Leong Industries Bhd, Hume Industries (M'sia) Bhd and Malaysia Pacific Industries Bhd. Until the late eighties, Hong Leong kept a low corporate profile, helped in part by the fact that as a long-established group it had less need than others to rely on the mechanisms of the stockmarket to raise funds. Hong Leong's relationship with government appeared, publicly, at least, to be secured in much the same way as other established Chinese business groups, through the appointment of prominent members of the Malay elite as directors to companies in the group. In that regard, directors of Hong Leong Industries included Tan Sri Nasruddin Mohamed, former Secretary General of the Ministry of Finance, and Dr Agoes Salim, as well as Johari Tun Abdul Razak, the son of the former Prime Minister, Tun Razak and Tunku Dara Naquiah Jaafar, a member of the Negri Sembilan royal family and a director of a prominent Bumiputra business conglomerate, the Antah group of companies. The directors of Hume included Tan Sri Taib Hj Andek, a former chairman of Felda, Tan Sri Abdul Aziz Zain, a former Federal Court judge and chairman of the National Electricity Board, and Tan Sri Hj Ibrahim Ali, former Secretary General of the Ministry of Home Affairs.[100]

While these directors have remained with Hong Leong in the nineties, the company appeared to be adopting more direct and aggressive tactics in the late eighties where its relationship with the ruling party was concerned. The change in political tactics coincided with a string of acquisitions by Hong Leong and a decision, reportedly taken by Quek Leng Chan, to rapidly expand the group's activities in Malaysia.[101] (In the wake of the 1985-1987 recession, Hong Leong was one of the few groups with relatively little debt and so was ideally placed to take advantage of the recovery in Malaysia's economy and the boom after 1987.)

Linkages between Hong Leong and UMNO first came to public notice in April 1989 when, as noted earlier, Hong Leong's Hume Industries made what the MCA considered was a hostile bid for the party's investment arm, Multi-Purpose Holdings (MPH). The simultaneous announcement of Hume's bid for MPH and the company's success in securing a $500 million contract UEM, the UMNO-owned company overseeing the

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100 See chapter 4 where many of these individuals appear as 'figurehead capitalists.'

101 According to C S Tan in 1989 Quek Leng Chan set out his grand vision for the group in the nineties which was that by 1993 each Hong Leong division, that is Hong Leong Credit (HLC), Hong Leong Industries (HLI), Hume Industries and Malaysia Pacific Industries (MPI) would be as large as the entire group was in 1987. See MB, 16:6:1991 (C S Tan, 'Hong Leong Group 'When Dragons Learn to Dance'). During 1990 and early 1991 the Hong Leong group purchased substantial stakes in six publicly-listed companies - OYL Industries, Nanyang Press, Bedford, Mycom, Zalik Securities and Malaysian Resources Corporation.

North-South highway project, fuelled, it will be recalled, speculation within the MCA that Hume was acting as a proxy for UMNO interests. Rumours of an impending connection between Hume and UMNO-owned companies were confirmed in December 1989 when, in an apparent quid pro quo for the lucrative North-South highway contract, Hong Leong renounced its rights entitlement in a new share issue (representing 26 per cent of Hume), in favour of Jaguh Mutiara Sdn Bhd, which then became a substantial shareholder in the company.

Jaguh Mutiara's major shareholder was Dr Ismail Abdul Rashid who was also a substantial owner of a company called Peninsular Springs. He was also formerly the managing director of United Engineers (M) Bhd in 1985.[102] Jaguh Mutiara's connections with UMNO's Fleet Group were confirmed in April 1990 when Dr Ismail Abdul Rashid sold the company to the Fleet Group. In the same month, Hume effectively came under the umbrella of Renong Bhd when the Fleet Group was sold to Renong in its restructuring exercise (The Star, 6:4:1991).

The significance of the Hume-Jaguh Mutiara deal in terms of the growing integration between Chinese and Malay capital was that while Hume, as Malaysia's largest manufacturer of construction materials,[103] seemed poised for further growth on its own, Quek's willingness to sacrifice a share in the company in order to be part of the Renong group helped to secure a steady and larger earnings flow for the company.[104] Benefits from being under the Renong umbrella also included synergies from being a member of Renong's 'construction supermarket' with the entry of property developers, the Faber Group, into the group as well as the strong political connections enjoyed by Renong which were likely to assist Hume's expansion plans (The Star, 8:4:1991).

Other links were established between Hume and Renong in April 1991, when Renong subsidiary, United Engineers, and Hume Industries entered into an a joint

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102 See The Star, 1:3:1991 and FEER, 14:3:1991.

103 At least according to an analysis by the business section of The Star, 13:3:1991.

104 The Star, 6:4:1991. See also The Star, 8:4:1991 (Hume now a corporate giant with diverse interests'). Speaking about the convergence of interests between Hume and PLUS specifically with regard to the North-South highway project, Hume's managing director, Dr Steve Yoong said in 1989 that, 'the contract was symbiotic in nature'. He added that, 'PLUS needs us as much as we need them. From a practical viewpoint we need a firm committment to plough in investments to expand capacity. From their viewpoint, it is an effective means of costing' (NST, 17:4:1989). In retrospect there seems less justification for the size and duration of the contract between Hume and PLUS as a means to control costs given a revised estimate (as of January 1993) that the Norh-South highway would cost more than $6.2 billion, substantially more than the originally projected $3.4 billion. See AWSJ, 6:1:1993.

venture agreement with Seino Transportation Company Ltd of Japan to establish and operate an integrated road system, freight forwarding and warehousing operation. In an announcement to the Kuala Lumpur Stock Exchange both Hume and UEM said 'that their joint venture with Seino was in their long term interests in view of the synergies in their respective businesses' (NST, 1:4:1991).

Hume's ties with Renong, UMNO's main investment arm, were further strengthened when Hume announced on 28 February 1991 that it had acquired for $113 million a 45 per cent stake in Nanyang Press. Nanyang Press is the parent company of the largest Chinese-language daily newspaper in Malaysia, *Nanyang Siang Pau.* Hume, which already held almost 5 per cent of Nanyang through a subsidiary, had thus acquired a controlling 49.9 per cent in the publishing company (NST, 1:3:1991). The significance of the purchase was that Nanyang thereby came indirectly under the umbrella of the Renong group, by virtue of wholly-owned Jaguh Mutiara Sdn Bhd's 23.8 per cent interest in Hume (The Star, 1:3:1991). In other words via a significant stake in a Chinese owned company, Hume, UMNO's already extensive control of Malaysia's media was further strengthened.[105]

As noted earlier Quek's acquisition of Nanyang aroused suspicions that the deal was politically motivated, because the stake Hume purchased was largely from Wan Azmi, chairman of General Lumber Holdings and a protege of the then Finance Minister and UMNO treasurer, Daim Zainuddin. But, it will be recalled, the acquisition of Nanyang had embroiled Wan Azmi in some controversy and he was glad to sell it to Quek, at a profit of $12.75 million (FEER, 28:2:1991). However Quek's willingness to purchase Nanyang also suited UMNO. It allowed the party to downplay charges that it was taking over the country's independent Chinese businesses while at the same time ensuring that ownership of Nanyang passed to a friendly Chinese company, Hume, which had been brought indirectly within the ambit of the Renong group of companies anyway. Quek Leng Chan and Hume on the other hand gained control of a profitable and prestigious media company.[106]

The increasingly symbiotic relationship that Hong Leong has developed with Bumiputra capital in its quest for rapid expansion was most evident in the financial sector. Since the late eighties Hong Leong's principal flagship in the financial sector,

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105 Renong already owned the New Straits Times Press, the publisher of Malaysia's largest English-language daily, several Malay language papers, the country's only commercial television station (TV 3) and a Chinese-daily, *Shin Min Daily News.*

106 See FEER, 14:3:1991 (Hong Leong's scoop).

Hong Leong Credit, has sought to become a "financial supermarket" by adding stockbroking and banking to the services it already provided in the credit and insurance fields. In November 1986 Hong Leong Credit bought a controlling stake in a stockbroking firm, Zalik Securities (The Star, 24:11:1986). The robust growth of Malaysia's stock market during 1980-90, with market capitalisation rising to $131.7 billion from $43 billion, made investment in stockbroking highly attractive.[107] On 13 March 1991 Hong Leong Credit announced that its 51 per cent-owned Zalik Securities was seeking a listing on the Kuala Lumpur Stock Exchange (KLSE), and that concurrent with that listing Zalik would acquire a 20 per cent stake in a Penang-based bank, Ban Hin Lee Bank (BT, 14:3:1991). The day after Zalik's proposed listing was announced, on 14 March 1991, and the day before his official retirement from cabinet, the Finance Minister, Daim Zainuddin, introduced a controversial rule limiting to 10 the number of listed brokers on the KLSE. Critics charged that the 10-broker rule was created to give politically-linked companies an inside track in the securities sector (FEER, 25;4:1991). In that regard it was revealed that Zalik was part of a consortium of four local groups that proposed to set up the Kuala Lumpur Options and Financial Futures Exchange, or KLOFFE. The other groups comprising the KLOFFE included UMNO's primary investment arm, Renong, The New Straits Times Press, then a subsidiary of Renong's Fleet Group and Rashid Hussain Bhd, a fast rising Bumiputra financial conglomerate.[108]

Coincidentally, in the midst of these manoeuvres, Quek Leng Chan and Wan Azmi were working together to overhaul a loss-making property company, Malaysian Resources Corporation Bhd. After restructuring in early 1992, the company had again become a profitable concern and by August the Hong Leong group had a majority stake in the company. In January 1993, in a seemingly separate development, it was announced that four senior executives of the New Straits Times Press Group (NSTP) were to acquire through a management buy-out controlling stakes in NSTP and Sistem Televisyen Malaysia (TV3), two of the most profitable media companies in the UMNO-controlled Renong group.[109] The management buy-out, one of the largest in Malaysia's corporate history, cost the buyers 'a whopping $800 million' (MB, 16:1:1983). To effect

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107 In the same period 1980 to 1990, the number of listed companies rose from 250 to 285 with the daily trading volume rising from $22.6 million (6 million units) to $141.3 million (65.4 million units) The Star, 13:1:1992.

108 For a comprehensive overview of UMNO's links and those of Hong Leong in the financial sector see articles by Gomez in Aliran, Vol 11(5):1991 and Vol 111 (3) 1993.

109 The four executives were Mohmed Noor Mutalib, New Straits Times senior group manager; Ahmad Nazri Abdullah, group editor of the newapaper company's Malay-language pubications; Abdul Kadir Jasin, editor of the English-language publications; and Khalid Ahmad, managing director of the New Straits Times Press group. See AWSJ, 6:1:1993.

the buy-out, the four executives formed a company called Realmild Sdn Bhd, a small concern with only $101,000 in paid-up capital (AWSJ, 6;1;1993). The mystery as to how such a company could fund the huge $800 million buy-out was solved when it was revealed that Malaysian Resources Corporation Bhd, which was controlled by the Hong Leong group until shortly before the NSTP/TV3 buy-out, announced that it was taking over 'the rights and obligations of Realmild' (MB, 16:1:1993). In short, the Hong Leong group of finance companies arranged the necessary finance to enable the four Malay media executives to make their massive $800 million purchase. Quek's apparent reward was permission from the Finance Ministry to acquire Khoo Kay Peng's MUI Bank (FEER, 11:3:1993). Ownership of the bank, Malaysia's 12th largest, on an assets basis, enabled Quek to fulfill his ambition of transforming Hong Leong into a financial supermarket.

Quek's financing of the management buy-out of NSTP and TV3 and his subsequent acquisition of one of Malaysia's most sought after banks also illustrates how a variety of powerful political and financial interests may reinforce those alliances forged by Chinese business groups in their quest for growth.

In financing the NST/TV3 buy-out, Hong Leong assisted UMNO's primary investment arm, Renong, to overcome what the research chief of Baring Securities gently referred to as 'significant short term cash problems'.[110] The extent to which Hong Leong was prepared to assist in that regard cannot be determined with precision but the limited data available makes the point. Earlier it was noted how in April 1990 Renong had acquired three corporate groups - Fleet, United Engineers and Hatibudi (a group which included eight listed companies) - in a reverse takeover costing $1.23 billion[111] Yet just two of those listed companies were sold barely two years later for $800 million, which reportedly gave Renong a handsome profit of $490.2 million (MB, 16:1:1993). Needless to say, there was no satisfactory explanation of how the two companies in question, NST and TV3, could so appreciate in value, but commenting on the extraordinary profit a senior Renong executive put it tersely, 'It's a damn good deal as far as we're concerned' (MB, 16:1:1993)

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110 Asiaweek, 20:1:1993 (Conglomerates, 'The Party Lets Go'). At least in the short term analysts point to two causes of Renong's cash flow problems, one arising from cost overruns on the North-South highway, estimated in January 1993 to have reached $1 billion and Renong's perceived need to contribute its equity share in the financing needs of its various subsidiaries and associates. See Asiaweek, 20:1:1993 and MB, 16:1:1993.

111 See chapter 5, Restructuring UMNO's Corporate Assets:The Renong Takeover.

Besides raising badly needed cash for Renong, Quek, through Malaysian Resources' funding of the management buy-out of NSTP and TV3, also served (albeit indirectly), powerful political interests within UMNO. Since the restructuring of UMNO's assets under Renong's umbrella, groups sympathetic to former Finance Minister, Daim Zainuddin, and his successor, Anwar Ibrahim, had vied for control of UMNO's lucrative and influential media empire. Matters came to a head when Daim protege and Renong chief, Halim Saad, sacked the NST group's acting managing director, Datuk Nik Ibrahim Kamil, a protege of Anwar, in a boardroom tussle in January 1991 (FEER, 4:2:1993). While a rapprochement was reached between Daim and Anwar, the removal of the NST/TV3 media concerns from Renong's control to a new management group believed to favour Anwar was seen as a victory for the Finance Minister.[112] In his increasingly bitter battle with the Deputy Prime Minister, Ghaffar Baba, for the status of heir apparent to Prime Minister Mahathir, control over the NST/TV3 media operations was seen as important for Anwar in the run-up to what was expected to be a hard-fought contest in party elections due in November 1993.[113]

In the late eighties a particular feature of Hong Leong's growth was the extent to which that growth was facilitated through a close integration with Bumiputra, frequently UMNO-owned, capital (the Hume/Jaguh Mutiara/Renong link), whether in the construction (North-South Highway), transportation (joint venture between UEM/Hume/Seino) or financial sectors of the economy. Hong Leong's membership of the small consortium to set up the Kuala Lumpur Options and Futures Exchange, or KLOFF, with Renong, The New Straits Times Press and a fast rising Bumiputra financial conglomerate, Rashid Hussain Bhd) The other important feature that Hong Leong shared in common with other 'new' Chinese business groups, such as Berjaya and Kamunting, was that its access to lucrative contracts (North-South highway) and licenses (MUI Bank) could only be fully understood in the context of its complementary relationship with party and privately-owned Bumiputra capital. As we have seen, there was often both a financial and a political dimension to that relationship. Hume's acquisition of Nanyang Press brought Nanyang within the ambit of the Renong group and relieved a prominent Bumiputra capitalist, Wan Azmi, of a burdensome investment, while Quek's/Malaysian Resources financing of the management buy-out of NST/TV3 not only raised badly needed cash for Renong at one point but also facilitated a change in management favourable to one of the new power-holders within UMNO.

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112 See FEER, 4:2:1993 and Asiaweek, 20:1:1993.

113 See Aliran, Vol 111 (3) 1993:3 (Gomez, 'Anwar's men gain media control'); and FEER, 4:2:1993 (Doug Tsuruoka, 'Peace Offering, Malaysian media deal seals political truce').

Conclusion

The nexus between the state and business has been critical to the growth and character of the 'new' Chinese groups that have arisen after 1970, that is within the constraints of the NEP. In that regard a number of important features emerge from our study of some of the most prominent representatives of new wealth. First the rapid growth of the new Chinese groups - viz Berjaya, Kamunting, MUI and Hong Leong - was facilitated by the close integration of their capital, including at some points ownership, with Malay capital, the latter almost invariably a mix of state, party (UMNO) and private (the new Bumiputra business groups). At the same time in the course of their growth all these groups received the backing of the state's regulatory authorities and the support of state-owned banks and financial institutions. But, even more importantly, generous patronage in the form of lucrative privatisation projects was also critical to the capacity of some (Berjaya and Kamunting) to make the jump to successful conglomeratisation.

Another important feature of the new Chinese groups was how their growth was complementary to, rather than competitive with, Bumiputra interests, again be they state, party or private. Thus the integration of Chinese capital with that amalgam of Malay capital assisted the rise of the new Bumiputra groups, benefitted Bumiputra investors more generally, or facilitated UMNO interests both political and financial (Nanyang Press and the management buy-out of NSTP/TV3).

The political/personal dimension of that economic relationship was equally complex. In the early stages of their growth some of these groups, and the tycoons who led them, certainly fitted Rigg's description of 'pariah entrepreneurs' and their relations with the state and the UMNO leadership could be characterised in 'patron-client' terms. Yet ,as those conglomerates grew, and a more complex interweaving of interests - political, personal and corporate - emerged, notions of patron or client, pariah or paragon, also became less applicable and often meaningless as all parties prospered or benefitted from a constantly changing mix of arrangements. (This was well illustrated by the variety of interests served in the bewildering movement of shares in Vincent Tan's network of companies.) Yet as the example of MUI showed, the new Chinese groups can also be vulnerable to the changing vicissitudes of UMNO politics so necessitating a deeper and broader set of relationships with the Malay political and business elites if they are to avoid isolation or the stymieing of their corporate ambitions.

Finally it was apparent that as the origins of the new Chinese groups, their methods of capital accumulation, and their relations with the state bore many similarities with the new Bumiputra business groups, so these Chinese capitalists also occupied various

points along the spectrum from rentiers to entrepreneurs in the course of their growth and development. Thus while Quek is clearly an entrepreneur and Khoo (MUI) appears to have moved well beyond his 'ersatz' origins, erasatz characteristics remain more prominent in the Berjaya and Kamunting groups. But the variety and change found amongst 'new' Chinese capital can also be found amongst the 'old' and so it is to a survey of those groups that we now turn.

Chapter 10

CHINESE BUSINESS GROUPS: OLD WEALTH

GROWTH AND RELATIONS WITH THE STATE AND BUMIPUTRA BUSINESS GROUPS

This chapter argues that just as the nexus between the state and business after 1970 was critical to the growth and character of the new Chinese business groups similarly, it has also defined the more adaptable in comparison with less adaptable old groups. That is those who have intensified or established new links with the state and the UMNO leadership and those who have not. Before exploring this distinction and some of the economic implications of it further, some of the more important features associated with the rise of 'old wealth'[1] should be noted. These features include:

- Identification with a particular industry (often commodities or construction) as a principal or core activity, hence the popular tagging of leading business personalities as "sugar king" or "rice king". As Sieh (1992:105) has pointed, out 'business expansion was usually within related industries, through backward or forward linkages with the principal firm and while investment across sectors occurred, it was not common or sizeable'. (A situation that contrasted with that of the new groups whose investments were in diverse sectors of the economy from the start.)

- Compared to the new groups that grew rapidly through external financing (the stockmarket and bank borrowings), and incurred large debts in the process, the growth of the old groups was less rapid; a 'step- by-step' process, constrained as it was by internally generated sources of finance. At the same time, however, the old groups incurred relatively little debt, generally paying off borrowings at each stage of their growth.

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1 'Old wealth', it will be recalled, was defined as including those Chinese business groups that had accumulated significant capital, or were already well established business entities, before the implementation of the NEP.

- Although the MCA had exerted considerably more influence in the Alliance Government of the fifties and sixties, major Chinese business leaders relied, even then, on a web of personal connections with prominent members of the Malay political and bureaucratic elites, rather than seeking to protect or promote their interests solely through the MCA. In the pre-NEP period, political connections and 'clout' for Chinese business came after the accumulation of wealth and was not, as during the NEP, a corollary to the process itself. As a consequence, while the leading figures of the old groups often had strong and longstanding relationships with members of the Malay elite, those relationships were generally less intimate and more diverse than those forged by the new tycoons.

- Before 1970 'old wealth' was relatively homogeneous both in the manner by which it grew and in the nature of its relations with the state. On the basis of those criteria, however, 'old wealth' appeared to be increasingly divided into two broad categories by the 1980's, that is between a more adaptable and a less adaptable group. As noted above, the more adaptable groups have adjusted to the environment of the NEP by cementing or intensifying their relationship with the state, a process which has in turn provided new opportunities for them with the rapid expansion of the state's role in the economy after 1970 and as new areas of investment have opened up in Malaysia's increasingly diversified economy. (As elsewhere in this study there is in reality some overlap and arbitrariness involved in such a distinction, nevertheless it is a useful one for the purposes of analysis.)

ADAPTABLE OLD CHINESE GROUPS

Representatives of this more adaptable element of 'old wealth' include such business leaders as Robert Kuok (Perlis Plantations), Lim Goh Tong (Genting Bhd), Lim Thiam Leong (Bolton Properities Bhd), William Cheng (Amalgamated Steel Mills Bhd) T. K. Wen (Selangor Properties) and, if we are not to adopt too rigid a notion concerning categories, Quek Leng Chan (Hong Leong) and Loy Hean Heong (MBf Holdings Bhd), who could also be placed in this broad classification.

We shall first examine the cases of two prominent members of this more adaptable group, Robert Kuok (Perlis Plantations), and Lim Goh Tong (Genting Bhd), before turning our attention to the more variegated 'less adaptable' group. Throughout we shall

be concerned to focus on the changing relationships of these groups with the state and the UMNO leadership and the implications of those relationships for their growth and development.

Robert Kuok : Perlis Plantations

Robert Kuok Hock Nien, the 'sugar king', is reputed to be Malaysia's richest businessman. In 1990 it was estimated that his assets in various parts of the world were worth $4.05 billion (US$1.5 billion)[2] and that the profits from his various private and public group companies amounted to US$175-200 million (FEER, 7:2:1991). Two important features of the rise and transformation of Kuok's considerable business interests are often overlooked and both are connected. First, Kuok had forged important links with Malay partners and incorporated significant Malay interests into his businesses well before the NEP. Secondly, Kuok was also emerging as a major regional businessman even before 1970. Kuok's continued expansion off-shore in the 1970's and 1980's was therefore not motivated primarily by perceived constraints of the NEP or his exercise of the 'exit option;' rather it was the continuation of a trend already apparent in the Kuok group for some time, towards exploiting the advantages the group perceived in linking into the international network of capitalist enterprise. Meanwhile in Malaysia, Kuok, who had always been a highly political operator, extended his already considerable links to the key group of Bumiputra businessmen who had emerged around Daim Zainuddin in the early eighties.

Robert Kuok's business activities go back to 1949, when he and his brother, Philip, set up Kuok Bros Sdn Bhd, a company that principally dealt in commodities such as rice, sugar, salt and flour.[3] They quickly expanded the scale of their distribution business within Malaysia and integrated it with importing and processing operations. In 1959 Kuok founded Malaya Sugar Manufacturing Co (MSM) in conjunction with Malaysia's government-owned Federal Land Development Authority (FELDA), so that almost from the inception of his business, he had brought in Malay/Government shareholders. By the 1960's Kuok had become not only a major force in distribution but also Malaysia's leading refiner of sugar (FEER, 30:10:1986). It was Kuok's sugar monopoly which

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2 NST, 30:1:1990 (The NST's source is the Indonesian bi-weekly magazine, *Warta Ekonomi* (no date cited). *Forbes Magazine* , 23:7:1990 made a similar estimate of Kuok's wealth in its annual list of the world's richest businessmen.

3 Robert Kuok already understood the rice distribution business well having worked during the Japanese occupation in the Mitsubishi Shoji Kaisha's rice department in Johore Bahru (MB, 16:2:1993).

provided the foundation for future growth.[4] In the 1960's and 1970's, he expanded and diversified his activities - ship chartering led to ship-owning (Kerry Shipping); trade finance to banking and insurance (Malaysia-French Bank); land holding and property to hotel development (the Shangri-La chain); and plantations to manufacturing. This expansion was undoubtedly assisted by the links with Malaysia's elite he had forged as the son of a middle class merchant in the forties at the Johore Bahru English College, one of Malaya's finest schools, and at Raffles College in Singapore. Kuok's contemporaries at one or both of those institutions included the late Tun Razak and Tun Hussein Onn, Muhammed Ghazali bin Tunku Sulaiman (chairman of Pernas) and Geh Ik Cheong, now chairman of Kuok's publicly-listed flagship in Malaysia, Perlis Plantations.[5]

Even in the sixties, Kuok's already considerable influence sprang not only from his alumni connections and financial contributions to the Alliance Party[6] but also from his stature as a valued partner of the Malaysian Government in its efforts to promote a number of key economic projects. He was a founder-director of Bank Bumiputra, one of the first pre-NEP institutions set up to assist Malays to enter business; he marshalled the funds and implemented the establishment of a national shipping line, Malaysian International Shipping Corporation (MISC), a plan conceived by Malaysia's then Finance Minister, Tun Tan Siew Sin, as a means to break the stranglehold Far East Freight Conference lines had on Malaysia's commodity exports; and it was Kuok to whom Tun Razak, an old college friend, turned to assist in the process of creating heavy industry in Malaysia in the form of Malaysia Shipyard and Engineering Sdn Bhd at Pasir Gudang in Johore.[7]

Kuok's partnership with Government in such key projects was complemented after the introduction of the NEP by his attractiveness to state institutions as an investment partner. At the same time, state institutions have remained the preferred means adopted by the older established groups like the Kuoks, who were mainly concerned with consolidation and (sometimes) diversification, to satisfy NEP requirements for Malay equity. Malay equity in the form of institutional investment is less instrusive in the day-to-day management of enterprises (its prime concern being a 'good return' from proven

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4 Regarding the highly political nature of Kuok's sugar business see fn 11 following.

5 See Insight: August 1978 (Ian Verchere, 'The Changing World of Robert Kuok') and FEER, 30:10:1986 (Robert Cottrell, ' The silent empire of the Kuok family').

6 Insight, August 1978.

7 Insight, August 1978.

companies) than Malay equity which involves the incorporation of the new Bumiputra business groups. This situation contrasts with the requirements of the new Chinese wealth which in order to grow must seek linkages with leading members of the Bumiputra business elite who can more readily facilitate their access to business opportunities.

The Kuok's enterprises exemplify, on a grander scale than most, the considerable advantage old money has had in being able to establish a mix of linkages with the state enterprises most conducive to the protection and expansion of the various elements that make up their business (Heng, 1992:133). The Kuoks' interests in tin and rubber (Rahman Hydraulic Tin Bhd), for instance, and their property and housing interests in Johore (Pelangi Bhd), are secured through substantial shareholdings by the Johore state government. State-supported savings and investment bodies with significant shareholding stakes in some of the Kuok-controlled companies include Lembaga Urusan Tabung Haji - (LUTH), the Pilgrims Management and Fund Board and Lembaga Tabung Angkatan Tentera (LTAT), the Armed Forces Fund Board and Pemegang Amanah Raya Malaysia (Sekim ASN), the unit trust scheme of the national equity corporation, PNB (Heng, 1992:133).

In addition, the Kuok group, like most other representatives of old wealth - has prominent members of the Malay elite represented on the boards of its publicly-listed companies. In the Kuok group those individuals include representatives of Malay royalty, YTM Tunku Sulaiman (Perlis Plantations Bhd) and Tunku Osman Ahmad (Pelangi Bhd); former senior civil servants, Tan Sri Taib Hj Andak and Tan Sri Nasruddin, former secretary-general of the Ministry of Trade and Industry (Federal Flour Mills Bhd); and General Tan Sri Ibrahim Ismail (chairman, Rahman Hydraulic Tin Bhd).[8] The significance of such individuals as directors however is that, with the possible exception of Nasruddin, their roles all correspond to that of 'figurehead capitalists' described earlier, that is they have no control over or actual interest in the company but mainly perform representational or symbolic functions for the company in its relations with state institutions. (This situation contrasts most of the old Chinese groups with the new where often Malay owner-directors are present in the company and whose presence, as we saw earlier, involves the active integration of Bumiputra capital with the company concerned.)

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8 See Cheong, 1989:121-132.

While in the sixties and seventies many other large commodity producers in Southeast Asia became marginalised either through political disfavour or deregulation, Kuok showed he could adjust to changing political and economic circumstances. On the economic front he adapted to a more open trade regime through huge investments in plantations and refining while at the same time expanding into other areas such as hotel and property development and bulk shipping. At the same time the regional trading and commodity-producing alliances Kuok had forged in the late 1950's and early 1960's with other Southeast Asian producers and refiners became in the 1970's and 1980's global in scale. A further extension of that strategy was Sucden Kerry International (SKI), Kuok's 30 per cent owned venture with Paris-based commodities giant Cie Commercial Sucres et Denvees, the worlds largest sugar trader (FEER, 7;2:1991). The regionalisation and internationalistion of capital is thus well reflected in the expansion and diversification of the Kuok group, a characteristic, as noted earlier, that also made it less vulnerable than other Chinese groups to possible constraints under the NEP. In other words, Kuok's moves in the 1970's first back to Singapore and then to Hong Kong and China, reflect as much the pressures and opportunities for a maturing conglomerate operating on a regional basis, where he was already well integrated into the substantial, largely Chinese, capitalist networks, than any concern Kuok may have had that the group would not be able to reconcile its interests with those of the Malaysian Government.

Kuok's adaptability on the political front was reflected also in the continued employment of his private resources, both management and financial, to assist state policy objectives and in his capacity to forge new alliances with those who were to become leading Bumiputra businessmen. In the early eighties Kuok had a substantial stake in Malaysia-French Bank with Daim Zainuddin (FEER, 7:2:1991). At about the same time he also established close ties with that group of Bumiputra businessmen whom Daim was nurturing at Peremba, later to become a critical element of the emerging Bumiputra business elite. (In that regard Kuok, besides fulfilling a government wish that a first class hotel, office and convention complex be developed in Kuala Lumpur (UBN Plaza), also acceded to Daim's wish that Wan Azmi and his team at Peremba gain experience by assuming responsiblity for the management and construction of the project).[9] In addition, as we saw earlier, Kuok's stature and management skills were also called upon to set the MCA's highly policiticised and debt-burdened investment arm,

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9 Authors interview with Wan Azmi, 13:1:1992. Apparently Kuok was prepared to assist in the training of the young Malay managers at Peremba in this way rather than employing an already experienced management and construction team which he had assembled in the course of other projects.

MPH, back on a proper business footing. Kuok also performed something of a national service by raising the considerable bail money for the embattled MCA leader Tan Koon Swan when he was imprisoned in Singapore on criminal charges.[10]

No other Malaysian Chinese tycoon can rival the breadth of Kuok's connections and considerable influence in Malaysia[11] or the diversity and geographical spread of his group.[12] The strength and resilience those characteristics offer his businesses in negotiations with the state are reinforced by cautious financial management. In that respect the Kuok group, in common with many other established groups or 'old money', expect each company comprising the group to operate as a separate profit centre. In other words they do not cross subsidise business among their companies, as many of the new groups do, a practice that makes the latter at some points highly vulnerable to changes in the political or economic climate.[13] Finally the Kuok group, like other elements of 'adaptable old wealth' appear to have successfully resolved the problem of adjusting the group's structure and control to contemporay business demands by melding a close-knit family group with a core of competent professional executives.[14]

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10 See FEER, 7:2:1991.

11 Testament to Kuok's influence is the insulation still afforded to the group's highly lucrative flour and sugar business from word market fluctuations. Retail flour and sugar prices remain controlled by the government; as one Malaysian broker commented 'the price only goes up, never down .. it is very political and very profitable'. FEER, 7:2:1991 (Jonathan Friedland, 'Sugar tastes sour'). Friedland points out that, 'the Kuok group's Malaysian sugar business is largely insulated from world market cost fluctuations because of the Malaysian Government's contract with Australian producer (CSR) to purchase raw sugar at a rate that is fixed every three years. The rate is geared to Perlis' relatively inefficient cost of production. A similar scheme exists for wheat imports feeding Federal Flour Mills, which is 50.81 per cent-owned by Kuok's Perlis group'.

12 The diversity and strength of Kuok's links read like an International Who's Who. His partners include Thailand's Sophonpanich family, owners of Bangkok Bank; Indonesian magnate Liem Sioe Liong; and Filipino property and oil tycoon Alfredo Ramos. Government companies outside Malaysia in league with Kuok include: China Resources, China's overseas trading arm based in Hong Kong, and the former Soviet trading agency Prodintorg. Kuok's personal relationships extend to such personalities as Cuban President Fidel Castro, Chinese Premier Li Peng, Indonesian President Suharto and not surprisingly, Malaysian Prime Minister, Dr Mahathir. As K S Jomo, a social science professor at the University of Malaya observed, 'Kuok is the type of guy who insures himself extensively' FEER, 7:2:1991(Jonathan Friedland, 'Kuok the kingpin').

13 See FEER, 7:2:1991

14 Chief amongst the core of professional executives who have been working for Kuok's Malaysian concerns, many for over 25 years are Tan Sri Geh Ik Cheong, the chairman of Perlis Plantations and Khor Chin Poey, the company's managing director. Geh has characterised his relationship with Kuok as a complementary one, 'Kuok being the entrepreneur and trader and Geh the systems man who consolidated and tidied things up.' One of Kuok's sons and deputy chairman of Perlis, Kuok Khoon Ean (known as Ian Kuok) is expected to succeed Geh as chairman and probably oversee the group's Malaysian interests. See MB, 16:2:1993 (Rajen Devadason, 'The Taipan of Perlis').

Tan Sri Lim Goh Tong: Genting Bhd

While the size and diversity of the Kuok group and the breadth of its political connections sets it apart, even amongst the 'dynamic' element of old wealth, Lim Goh Tong's Genting group, is also a good example of old wealth that has successfully cemented and intensified its relationship with the state while at the same time expanding and diversifying its activities in Malaysia and abroad. By 1990 Genting was one of Malaysia's five largest corporations; its assets totalled $2.4 billion and the group employed 13,000 people nationally and internationally.[15] Lim's personal wealth alone was conservatively estimated to amount to $500 million (MB, 1:12:1987).

Lim Goh Tong is a typical 'rags-to-riches' story. Starting out as a penniless immigrant from China in 1937, he initially worked as a carpenter and hawker in Kuala Lumpur. While working for his uncle, a contractor, he was introduced to the construction industry, and then took on small contracts as he gained experience. With the money he saved, he established his own firm, Kien Huat Construction (NST, 17:11:1985). The company was appointed a Government contractor in 1955 and, as the economy of the newly independent Malaya boomed, so Lim's company expanded to become one of the largest construction firms in the country.

In the early 1950's Lim diversified into mining tin and iron ore, activities that by the mid-1960's also brought him multi-million dollar profits. In the late fifties he also diversified into rubber and oil-palm plantations. While in the process of applying for an iron ore mining licence in Johore in 1950, Lim struck up a friendship with a member of the Johore State Executive Council, Tan Sri Hj Mohd. Noah Omar, later father-in-law to two Malaysian Prime Ministers, Tun Razak and Tun Hussein Onn. The friendship proved invaluable when Lim sought permission to develop a tourist resort on a mountain near Kuala Lumpur, Genting Sempah. In November 1965, a company called Genting Highlands Bhd was formed with Mohd Noah Omar as chairman. At the time Tunku Abdul Rahman's Alliance Government was also keen to develop the area, but lacking funds, decided that the scheme was best passed to the private sector (MB, March 1981). To speed up the development of the Genting area into a comprehensive tourist complex,

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15 See KLSE Annual Companies Handbook Vol XV11 Bk 2:70 and The Star, 13:8:1990.

the then Prime Minister, Tunku Abdul Rahman announced he was prepared to grant a casino licence to Genting Highlands Bhd.[16]

Lim shrewdly combined the advantage of a casino licence, state support and the opportunities offered by the growth of Malaysia's stock exchange to adapt his business operations to the changing economic and political environment of the seventies. In the process he vastly increased his already considerable wealth. In the aftermath of the 13 May 1969 racial disturbances, banks were loathe to fund Lim's project so, apparently on the advice of one of his managers, none other than Tan Koon Swan, Lim approached the government agency, Malaysian Industrial Development Finance Bhd (MIDF), and obtained the tax advantages of pioneer status and simultaneously floated his company, Genting Bhd (Gill, 1985:142). Genting Bhd soon became one of Malaysia's most profitable companies, a 'blue chip' counter on the Kuala Lumpur Stock Exchange and a leading contributor to Government revenues.[17] At the same time the Genting group, sensitive to possible criticism in a Muslim-dominated country where gambling is officially frowned upon, extensively diversified its activities first in Malaysia and then abroad.[18]

In 1980 Lim bought Asiatic Development, a shell company, and used it to buy three Hong Kong-based Malaysian plantation companies. Asiatic Development became a listed subsidiary of Genting with former Attorney General, Tan Sri Kadir Yusof, as chairman. In line with NEP requirements, Asiatic Development issued a 30 per cent stake in the company to the Lembaga Tabung Angkatan Tentera (LTAT), the armed forces fund board. Asiatic Development grew rapidly so that by December 1990 its holdings in rubber, palm oil and cocoa plantations placed it (in terms of hectarage) amongst Malaysia'a top five companies in the plantation sector (MB, 16:3:1992). Rated by Morgan Grenfell Asia as one of Malaysia's most promising companies,[19] Asiatic also diversified downstream into processing and refining and through joint ventures into

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16 The Tunku has been quoted as saying that, 'it was (then Finance Minister) Tan Siew Sin who suggested that somebody build a resort (at Genting) at no cost to the government provided the government gives him a casino licence' (MB, 1:12:1987).

17 In 1989 Genting was the third largest corporate taxpayer in Malaysia after Shell and Esso. See MB, 16:3:1992.

18 In the early 1980's increasing government sensitivity to Islamic values was reflected in the formal banning of all Muslims from the casino section of the Genting tourist resort. See SMH, 9:5:1987. The casino licence is renewable every three months and, while a valuable contributor to government coffers, remains vulnerable to Malaysia's shifting political tides. See FEER, 5:1:1989.

19 See FEER, 5:1:1989.

manufacturing, particularly of rubber products. At the same time other parts of the Genting group moved into paper manufacture and property development.[20]

Overseas, through Genting International Ltd (GIL), the Genting Group's strategy was to establish world-wide links in its particular field of expertise, resort development. During 1985-86 Genting acquired interests in Australia that included a 42 per cent stake in the $300 million Burswood Island resort/casino in Perth and the management contract for another casino in Adelaide.[21] The extraordinary range of Genting's overseas partnerships was further illustrated in the United States where, in co-operation with an American Indian tribe, Genting undertook to build and manage a $US300 million resort in Connecticut (AWSJ, 17:3:1992). The group further raised its overseas profile when, in May 1990, Genting International obtained a listing on the Luxembourg Stock Exchange (FEER, 23:8:1990). Simultaneously, like other successful examples of old wealth, Lim built up a core of trustworthy managers to help him run his multi-million dollar multi-national group. Closely integrated with that core of managers were two of his daughters and three sons, one of whom, Lim Chee Wah an economics graduate from London University, was groomed to eventually succeed his father.[22]

Lim's ability to expand on the economic front was complemented by the new alliances he forged in keeping with Malaysia's shifting political tides and, like Kuok, his willingness to assist state objectives. The links Lim established in the sixties with such key political players as the Tunku, Tan Siew Sin and Mohd. Noah were extended to their equivalents of the eighties. In addition to contributions to a wide range of political parties,

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20 Paper manufacture was carried out by Genting International Ltd which commenced manufacturing in Malaysia and Singapore See MB, 16:3:1992. Genting's principal property projects included Ria Apartments and the Awana Country Club, the latter being graced by the presence of a French provincial mansion owned by former Finance Minister, Daim Zainuddin. See FEER, 5:1:1989.

21 In 1988 Genting sold its equity in Burswood to a Japanese consortium for A$110 million but GIL retained the management contract for Burswood. Genting also applied, unsuccessfully, for two separate contracts to build and operate casino/resorts in Queensland and one in Sydney, New South Wales. See FEER, 25:1:1989. Revenue from the Burswood casino in its second year of operation was more than A$70 million. Genting's partner in Burswood, the flamboyant Australian businessman, Dallas Dempster, was a close friend of the then state premier Brian Bourke who has since been convicted of various charges relating to his period in office and imprisoned. See SMH, 9:5:1987.

22 Except for a brief family spat in 1990 when Lim Chee Wah left the company temporarily apparently over a 'matter of the heart'- the Genting group appears to have avoided the succession problems that have beset many of the other companies representing 'old wealth. See FEER, 23:8:1990 (Doug Tsuruoka, 'Genting's family affair') and MB, 1:12:1987 (S. Jayasankaran, Manager of the year') One daughter, Lim Siew Kim, is the executve deputy chairman of Metroplex Bhd, a large listed property development company, of which her husband, Dick Chan Teik Huat, is the managing director.

though particularly those of the governing Barisan,[23] Lim also made judicious contributions to the rising generation of new power brokers in UMNO. He made for instance a $250,000 'personal' donation to a foundation, Gerak Bakti, headed by then Education Minister, Anwar Ibrahim.[24] (Given the vulnerability of the casino side of Genting's operations to Islamic sentiment in the country, a cynic might suggest that Lim's cultivation of Anwar, a former Islamic youth leader and later Minister of Finance, was good insurance.) In addition, when Genting undertook a reconstruction scheme in 1989 transferring its gaming, hotel and resort activities to another publicly-listed company, Resorts World, it was rumoured that it had enamoured itself to UMNO by placing $570 million of Resorts World shares in the hands of politically-connected individuals. The shares were believed to have been pledged to local banks as collateral against new loans (FEER, 23:8:1990).

At the same time Lim's extensive philanthropic activity and support for state objectives such as Malaysia's first fully-owned bank abroad, the Southeast Asia Bank Limited in Mauritius, also earned him the plaudits of the political leadership. Lim was a key figure in the overseas bank initiative which also included such luminaries of the new Bumiputra business elite as Tun Daim Zainuddin, Tan Sri Basir Ismail and Wan Azmi. Southeast Asia Bank was launched by Prime Minister Mahathir in August 1988 and was expected to facilitate Malaysia's utilisation of Mauritius' export processing zone (EPZ) to gain barrier-free access to the EEC.[25] A testament to Lim's ability to both prosper and adapt his companies operations to the economic and political environment of the NEP was provided by the Prime Minister Dr Mahathir who, praising Lim's achievements at the 25th anniversary of the company, noted that, 'he has been willing to comply with our rules and regulations including the restructuring needs of the country but (he) has become very, very successful'.[26]

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23 See MB, 1:12:1987 (S. Jayasankaran, 'Manager of the year') Jayasankaran quotes a friend of Lim's as saying ..'he's even donated to some opposition parties on the principle they need money too. Of course, he doesn't give them as much as he gives Barisan parties'.

24 UMNO Youth leader, Najib Razak, revealed the donation in the course of refuting an allegation by the Malay newspaper, *Watan,* that claimed Anwar received $500,000 of "gambling money" for the Gerak Bakti Foundation of which he was head, from Genting Bhd. Najib said, 'Anwar received only $250,000 ..and this was a personal donation from Tan Sri Lim and not gambling returns as alleged' (NST, 1:9:1990).

25 See The Star, 18:8:1988. Mauritius, being a signatory to the Lome Convention between the European Economic Community and developing African, Caribbean and Africn nations, enjoys barrier-free access to the European market.

26 The Star, 13:8:1990 (Excerpt from speech given by the Prime Minister, Dr Mahathir on the occasion of Genting's 25th Anniversary).

LESS ADAPTABLE/STATIC OLD CHINESE GROUPS

The second element of 'old' Chinese wealth consists of those groups we have broadly labelled 'less adaptable' because their links with the state and the UMNO leadership are more distant or 'formal' compared with the more adaptable' groups examined earlier. Amongst the less adaptable element of old wealth there is considerable variation. There are groups such as See Hoy Chan, Lee Loy Seng, Public Bank, IGB[27] and Khong Guan Holdings which continue to enjoy considerable success and prosperity, others, such as Oriental Holdings and the Low Yat Group whose fortunes were more mixed in the eighties, and some who have lost their companies (Chong Kok Lim/Landmarks) or whose fortunes were greatly diminished (Wong Kee Tat's/Kuala Lumpur Industries). In accounting for the variation between these groups we shall focus on two main factors.

First, the interests of most of the above groups are concentrated in established sectors of the economy such as plantations, property and distributorships. Expansion or diversification, particularly into new and unproven businesses has been shunned. Sectors of activity have implications as to the type of Bumiputra partner (or equity) required and the intimacy of that relationship. Expansion or diversification into new and frequently unrelated fields of activity is more likely to require close linkages with a Bumiputra individual or business group for 'up-front' negotiations for contracts, licenses or franchises. However groups which seek primarily only to secure investments in established sectors of the economy can do so through partnership with institutional Bumiputra investors, such as state enterprises and pension funds. (Moreover, as noted earlier, such associations are complementary as institutional investors, often flush with funds, seek to invest their capital in proven enterprises while for the Chinese business the advantage of such Bumiputra investment is that it is generally passive.)

Second, problems of succession and splits within a number of the above groups have meant that one tycoon or 'kingmaker' can no longer deal directly with the state or key individuals in the political leadership on behalf of the company concerned. In other words, even if they so wished, the diffusion of authority within some of these groups precludes them from having a more direct or intimate relationship with the state.

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[27] IGB is the acronym for Ipoh Gardens Bhd.

Surviving Groups

As indicated earlier such groups as Kuala Lumpur Kepong, Paramount Corporation and Public Bank remain the more successful and prosperous elements of old wealth. But the restraining influences on their future expansion, noted above, will be become apparent in the profiles that follow.

Tan Sri Lee Loy Seng

Tan Sri Lee Loy Seng was popularly known as Malaysia's rubber baron. In the late eighties his plantations ranked only behind PNB and Sime Darby in acreage and, as a family group, it was the largest plantation owning family in the country (Cheong, 1990:72). Lee was the son of wealthy third-generation tin-mining family from Ipoh. When his family made a mistake by buying some rubber land which turned out not to have tin, Lee was forced to learn about the rubber industry (MB, May:1973). He soon discovered that many locally incorporated rubber companies were grossly undervalued, though cash-rich, and so engaged in a domino-type strategy where he bought up one company and then used its resources to buy into another and so on (Jesudason, 1990:36). By that method he was one of the few Malaysian Chinese to make much headway in acquiring large foreign-owned plantation companies (Tan, 1982:150). With low levels of debt and well-managed plantations, Lee's companies became a 'blue-chip' counter on the Kuala Lumpur Stock Exchange and a favourite of Malay state institutional investors. Substantial shareholders in Lee companies such as Batu Kawan and Kuala Lumpur Kepong Bhd include PNB, ASN, the Employees Provident Fund and the Federal Land Development Authority (FELDA).[28]

Lee's three sons, all well educated, are on the boards of his principal companies and analysts do not foresee succession problems for the Loy Seng group. The most notable Malay director common to all the boards of Lee's principal companies - Glenealy, Batu Kawan and Kuala Lumpur Kepong is Tengku Robert Hamzah, who replaced his brother, Tengku Razaleigh, following the latter's appointment as a senior government minister in the mid-1970s. During the 1970's and early 1980's Razaleigh was one of the UMNO leaders with whom Lee was most closely identified. Nevertheless Lee apparently chose not to exploit his political connections to branch out into other kinds of business but remained strong in his own field. A result of Razaleigh's fall in UMNO was, according

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28 See KLSE, Annual Companies Handbook, Vol XV: 997 & 1050.

to observers, a 'cooling' and 'formalisation' of relations between the government[29] and the Lee group. However with the death of Lee Loy Seng in November 1993 the liability of the Razaleigh association may pass.

The See Hoy Chan Group

The founder of the See Hoy Chan group, the late Teo Hang Sam, provided another 'rags-to-riches' story. Early in the century, Teo started his career in Singapore as a general merchant trading in rice and sugar. By cultivating strong clan ties within the Teochew community of rice dealers he became so dominant in rice trading that he earned the sobriquet, 'Rice King of Malaya' (Jesudason, 1990:34). In the fifties See Hoy Chan diversified into plantations, insurance and property development. The Teo's first housing estate development, called Paramount Gardens (which became the name of the Teo's publicly-listed company), made windfall profits for the group that appear likely to be repeated in another project well under way by the early nineties, the $2 billion Bandar Utama housing project (BT, 19:10:1991). In the early nineties See Hoy Chan remained amongst Malaysia's most profitable groups with assets estimated to be at least $1.5 billion, little debt and a liquidity that enabled the group access to a staggering $300 million cash.[30]

With such huge assets in property and cash, and little interest in diversification, the See Hoy Chan group has little need to develop a closer relationship with senior figures in UMNO or the state. Rather it maintains a 'proper' relationship with government projecting wherever possible the corporate image of a modern Malaysian company responsive to community causes. This somewhat distant and correct relationship with the state has much to do with changes that occured in the internal structure of the group during the eighties.

Sibling rivalries and generational differences within the Teo family and a reluctance to incorporate outside professional management expertise, problems common to traditionally-run Chinese businesses, have been important restraining factors in this otherwise solidly grounded and prosperous company. The years from 1984 to 1988 were

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29 This view was derived from author's interviews with Chinese businessmen and editors of Chinese newspapers in January 1992.

30 Author's interview with Teo Chiang Kok, director See Hoy Chan Holdings, 21:1:1992. According to Teo, group assets of $1.4 billion and debt of only approximately $30 million were estimates made in the mid-eighties, but presently, circa 1992, the liquidity of the group was such that it could call on as much as $300 million cash. Teo was contrasting the low leverage and high cash flow of a number of the 'old' Chinese business groups compared with the highly leveraged, 'new' groups.

crucial for the future structure and operation of the See Hoy Chan group. During that period the 'hands-on' autocratic style of the older generation, headed by Teo Soo Chiang, was too slow to accommodate the third-generation Teos, many of whom were returning from overseas with professional business qualifications and who objected to the paternalistic style of their elders. In 1988, frustrated at being mere cogs in the group, the third generation out-voted the second generation and split the See Hoy Chan group eleven ways among the children of the three founding Teo brothers.[31] The division of the See Hoy Chan group in the eighties typifies the challenge faced by most of the 'old groups' as they seek to adapt the structures of a traditionally-run Chinese business to contemporary demands, both corporate and generational, to avoid the splintering of their resources. An important consequence of the diffusion of authority within See Hoy Chan was that it precluded any one person embodying the group and thus being able to represent its interests directly and more intimately to the Malay political or state elites.[32]

Tan Sri Teh Hong Piow: Public Bank

Tan Sri Teh Hong Piow is the founder and president of Public Bank Bhd. Of Malaysia's top twelve banks in 1990 only two remained Chinese-owned, Public Bank, which ranked fourth in terms of assets, and Khoo Kay Peng's MUI Bank which ranked eleventh.[33] In 1991 Teh's net worth was estimated at $44 million, a figure which predominantly reflected the value of his 40 per cent stake in Public Bank (FEER, 3:10:1991). Teh Hong Piow was born in Singapore in 1930. He joined the Overseas Chinese Banking Corporation (OCBC) in 1950 but resigned after ten years and moved to the fledging Malayan Banking that had just been established by Khoo Teck Puat in Kuala Lumpur. At Malayan Banking Teh quickly rose to the position of general manager. But during the 1960's the laissez faire policies of the Alliance Government and Malaysia's growing economy offered business opportunities outside the banking sector and Teh became active in property development around Kuala Lumpur. With windfall profits from his property investments, Teh left Malayan Banking and in 1966 applied for a licence to set up Public Bank. He was later to concede that 'getting a banking licence in those days wasn't easy, but with help of friends and connections we managed to secure one' (MB,

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31 Information concerning the changes within the See Hoy Chan group was obtained from authors interview with Teo Chiang Kok, 21:1:1992.

32 Developments in the See Hoy Chan group also highlight the transformation of old money from the first-generation patriarch, entrepreneurial and risk-taking, to members of the third generation, generally highly qualified but more inclined to caution and the careful management of their investments.

33 See chapter 3 'The Banking and Financial Sector.

1:8:1987). Teh has been coy about the connections that facilitated the banking licence but the consortium he assembled included prominent Chinese businessmen, a number of whom had considerable influence in the MCA, and in particular with the then President of the party and Finance Minister, Tun Tan Siew Sin.[34] A key figure in that regard was apparently Tan Cheng Swee, MCA treasurer in Malacca, Tan Sew Sin's home town.

Teh's nimbleness at developing key links within the Alliance in the sixties continued after 1970 when he forged similar ties with UMNO, mainly by adapting the bank's persona and policies to the demands of the NEP. At one level the bank avowedly eschewed any 'Chinese' image, stressing instead its 'Malaysian' identity and its active role as a responsible corporate citizen ever ready to lend its support to the arts, education, and sport.[35] At a more substantive level, however, Public Bank has responded quickly to UMNO policies. It has, for instance, offered low-cost home owner loans, introduced an innovative Special Loan Scheme for petty traders (in response to the government's call to assist small traders to start business), and energetically implemented a hiring program for Bumiputras.[36] At the same time, while the group has grown from a one-branch operation to a financial-services empire with more than 155 bank and finance-company branches in Malaysia, it has also vigorously expanded its operations overseas, particularly in third world countries, like Sri Lanka and Vietnam.[37] The latter, while consistent with the bank's strategy of identifying opportunities in high-risk markets amongst small to medium sized business, was also a savvy political response to Prime Minister Mahathir's goal of seeking to expand Malaysia's South-South economic and political ties.[38]

In terms of his relationship with the state and the political leadership, Teh is fairly typical of old style entrepreneurs. In the process of accumultating his wealth in the sixties he established close ties with MCA leaders, ties which were apparently important in his

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34 Source: A senior figure in Public Bank who indicated that the other members of the consortium who applied with Teh for the licence (pooling $1.5 million to do so), included Yeap Hock Hoe of Ban Hin Lee Bank, Tan Cheng Swee, Treasurer Malacca MCA, Ng Eng Hian and Singapore businessmen Seet Hong Kiat and Tay Beng Swee.

35 See for instance MB, 1:8:1987 (Public Bank, 'Doing its bit for society').

36 The Special Loan Scheme dispenses with the usual security requirement, giving loans of between $1,000 and $2,000 with a preferential interest rate of 10 per cent, on a monthly reducing basis. See MB, 1:8:1987.

37 See FEER, 3:10:1991 (Ed Paisley, 'Malaysian lender combines prudence with vision').

38 See FEER, 3:10:1991. Public Bank was the first Malaysian Bank to heed Prime Minister Mahathir's calls in that regard - yet another example, according to Ed Paisley of the *Far Eastern Economic Review*, of Public Bank's 'keen political acumen'.

obtaining a bank licence. Already wealthy before the NEP, and having secured a base, Public Bank, to further his corporate ambitions Teh has little need for patronage and his earlier political ties appear to have faded.

Declining Groups

Economic and social factors (a heavy reliance on property and succession problems), rather than political factors have further thinned the ranks, or diminished the former prominence, of other 'old' Chinese groups. Notable examples that illustrate this point include Low Boon Siew's Oriental Holdings Bhd and Chong Kok Lim's, formerly of Landmarks Bhd.

Datuk Loh Boon Siew: Oriental Holdings Bhd

Datuk Loh Boon Siew came to Malaya as a penniless migrant when he was 12 years old. After working for several years as an apprentice motor mechanic, he opened his own repair shop when he was eighteen and a year later acquired a fleet of eleven buses with which he started the Penang Yellow Bus Company (MB, January 1974). During the fifties Loh invested in housing and property, but his big break came when, after a visit to Japan, he acquired the local franchise to assemble and distribute Honda motorcycles in Malaysia. (In the 1970's Honda cycles supplied 70 per cent of the Malaysian market. Later Loh acquired the franchise for Honda cars as well.) Like many old tycoons, Loh was apparently reluctant to go 'public' but the sheer volume of his business and the need to separate some of his holdings prompted the decision in 1963 to establish a publicly-listed company, Oriental Holdings Bhd (Gill, 1985:178). During the 1970's Oriental diversified further from property, finance, motor-vehicle assembly and distribution to rubber and palm-oil plantations when it acquired estates formerly owned by Jardine Matheson. In the early eighties the group, in co-operation with Honda Motor Company Ltd of Japan, invested heavily to manufacture an increasing range of car components for export markets in Thailand and Indonesia so as to expand its market base and defray rising production costs in Malaysia (MB, 16:6:1988). Since its inception in the 1960's Loh's Oriental Holdings has been one of Malaysia's most profitable public companies, a record it maintained during the severe recession of the mid-eighties when other notable companies in the motor transport industry such as UMW/Toyota, Tan Chong Motors and Cycle and Carriage Bintang incurred heavy losses. In common with many of the old Chinese groups, Oriental has grown organically, that is from its own capacity to generate capital and has not in its 30-year existence made a single rights issue to raise funds (MB, 16:6:1988).

Its solidity and profitability notwithstanding, the structure and ownership of Oriental Holdings makes its long-term durability uncertain. The group is tightly controlled by Loh and his family who own just over 50 per cent of the company's shares. (The largest Bumiputra shareholders are two government institutional investors, ASN with 6 per cent and LTAT with 2 per cent).[39] The combination of both factors emphasise the absence of a major Bumiputra link where Oriental Holdings is concerned. By the early nineties the concentration of control by Loh and his family's apparent unwillingness to integrate a core of professional managers into the group appeared likely to become the Achilles' heel of this otherwise sound group. The catalyst in that regard was the murder of Loh's son, Loh Kah Kheng, in tragic and bizarre circumstances and a bitter split and feud in the family over his inheritance.[40]

Tan Sri Chong Kok Lim: Formerly Landmarks Bhd

The corporate fall of Chong Kok Lim and his loss of Landmarks Bhd was a story repeated by a number of 'old groups' who, tempted by the new sources of wealth provided by the property and stockmarket boom of the early eighties, risked what were often large and previously well-diversified companies built over a generation or two, to the vagaries of the stockmarket.

Chong Kok Lim migrated from China to Malaya in the 1920's. Initially he worked on rubber plantations and with his savings set up a provision store in Sungei Siput, Perak. He then went to Singapore where during the war he made considerable profits from shipping and trading (mainly with Java). In 1946, with the capital he had accumulated as a trader, he returned to Perak and invested his money in tin mining (Yoshihara, 1988:202). In the early fifties Chong was fortunate enough to hit a motherlode and made a fortune in tin mining. In the 1970's he invested heavily in property development and hotels; (his most notable properties included the Sungei Wang Plaza and the Regent Hotel). In 1982 Chong acquired a publicly-listed company, plantation-based Premium

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39 Loh's family company, Boon Siew Sdn Bhd held a 43 per cent share of Oriental while other Loh companies, notably Penang Yellow Bus Company, held 5 per cent and the Bayview Hotel Sdn Bhd held 3.5 per cent. See KLSE Annual Companies Handbook, Vol XV11, Bk 2:342 & MB, 16:6:1988.

40 On 25 February 1987 Loh Kah Kheng was strangled in his own home. A coroner's court concluded after extensive deliberations that the murder was planned and committed by a person/s 'very familiar' with Loh's house. Kah Kheng's widow and Loh Boon Siew and their respective supporters in the family have since contested Kah Kheng's will. Boon Siew has offered a $500,000 reward for information leading to the arrest and conviction of those responsible for his son's death. See, The Star, 19:6:1990 & 9:4:1991 and NST, 29:3:1990 & 17:4:1990.

Holdings Bhd, which he renamed Landmarks Holdings Bhd (Yoshihara, 1988:202). Chong held over 50 per cent of Landmarks shares while about a third was owned by Bumiputra institutional investors, the largest of which was Peremba, the government-owned property corporation with almost 25 per cent of the company (Asiaweek, 21:6:1987). After Chong took over Landmarks he sold the company's plantations and injected most of his property assets into the company. This was done in late 1983 when property values, including Chong's prized assets such as the Regent Hotel and Sungei Wang Plaza, were at a peak. So a painstakingly built well-diversified conglomerate became dangerously property-oriented and when property prices plunged in the recession of the mid-eighties, Chong lost control of Landmarks Bhd. In June 1987 ownership of Landmarks passed to state-owned Peremba, with former Foreign Minister, Tan Sri Ghazali Shafie, as chairman (The Star, 9:6:1987).

The Chong Kok Lim group's considerable liabilities, estimated by Authur Young in 1987 to total $922 million (The Star, 9:6:1987), were compounded by his association with two other property tycoons, Syed Kechik and Wong Kee Tat. The three businessmen had invested in a publicly-listed textile firm, Sri Hartamas Corporation, which they turned into a property company and, at about the same time, mid-1984, acquired a large parcel of land on the outskirts of Kuala Lumpur valued at $300 million (Asiaweek, 21:6:1987). (Each of the partners had pledged his shares in the company as collateral to buy more property also pledged.). The value of the land was expected to increase dramatically after government offices were built on the site but the deal failed to gain official approval and all three parties incurred heavy losses. Apparently it was hoped that the presence of a Bumiputra business partner, Syed Kechik, as a principal owner-director of Sri Hartamas, would facilitate government approvals. But by the mid-eighties Syed Kechik had been bypassed by a new generation of Bumiputra entrepreneurs, better qualified and more closely connected to key UMNO leaders such as Finance Minister, Daim Zainuddin. Sri Hartamas' dire financial problems[41] were exacerbated by Syed Kechik and other directors who used the company to obtain loans from Bumiputra Malaysia Finance BMF for the purchase of land in California, a scheme that contributed the massive losses suffered by BMF in what became Malaysia's greatest financial scandal)[42] In January 1992 Chong Kok Lim was declared bankrupt (The Star, 9:1:1992)

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41 See BT, 6:6:1987.

42 Syed Kechik, and other directors of Sri Hartamas borrowed US$40 million from BMF, a subsidiary of Bank Bumiputra, to buy land in California. Both Sri Hartamas and BMF were also incorporated in Hong Kong where the loan was obtained. Syed Kechik and the other directors of Sri Hartamas

and another group representing 'old Chinese wealth' passed from Malaysia's corporate scene.

Conclusion

This chapter on 'old Chinese wealth' has shown how the nexus between the state and business has also been a key factor in the increasing variation found amongst old Chinese capital since NEP. The more adaptable groups have adjusted to the NEP environment by intensifying and broadening their relationship with the state, a process which has in turn facilitated access to new opportunities with the rapid expansion of the state's role in the economy after 1970 and as Malaysia's economy became more diversified. In the cases of the groups studied, the complementary character of their relationship with the state was illustrated by the role Kuok played as a founder-director of Bank Bumiputra, and in the establishment of MISC, while Lim Goh Tong was prominent in the establishment of the South East Asia Bank. At the same time a number of these groups have become more integrated into the regional and international networks of capitalist enterprise. Thus their very strength and diversity, partly a product of their close relationship with the state, has also made them less vulnerable to Malaysia's political and economic circumstances.

A feature common to all old groups however is their structure of ownership and control. In that regard the publicly-listed companies of old wealth such as Genting Bhd, Perlis Plantations Bhd and Oriental Holdings Bhd are tightly held by family-owned companies.[43] Bumiputra equity invariably involves state institutions such as PNB, FELDA or pension and savings funds such as EPF, LTAT and LUTH. Thus old wealth is less integrated with the new Bumiputra business groups, both in terms of capital and ownership, than the new groups such as Berjaya and Kamunting - whose rise after 1970 necessitated extremely close ties with Malay capital - state, party and private.

The second element of old Chinese wealth in our survey consisted of those groups called 'less adaptable' - a description that derived mainly from their more formal relationship with the state compared to that of the adaptable groups. Considerable variation was found amongst the so-called less adaptable element ranging from the more

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involved in the deal all defaulted on the loan which they were later ordered by Malaysia's High Court to repay to BMF. See ST(S), 14:8:1988.

43 Genting Bhd's principal shareholder is Lim Goh Tong's family owned company Kien Huat Realty which has a 30 per cent stake: Perlis Plantations principal shareholders are Kuok Brothers (29 per cent) while Boon Siew Sdn Bhd has a 41 per cent stake in Oriental Holdings. See KLSE, Annual Companies Handbook Vol XV:154,427,457.

successful (See Hoy Chan, Lee Loy Seng groups and Public Bank), to those whose fortunes have been more mixed (Wong Kee Tat/Kuala Lumpur Industries, Loh Boon Siew/Oriental Holdings) or declined altogether (Chong Kok Lim/Landmarks).

The more formal relationship between the so called 'less adaptable' element of old wealth and the state was, as various corporate profiles indicated, also related (at least partly), to their structures and areas of economic activity. Many of those groups remained in established sectors of the economy - plantations, property, and distributorships and few have diversified or deepened their activities by vertical linkages - at least not on anything like the scale of the more adaptable groups. While such old groups are primarily concerned to protect and build on their often already considerable wealth, internal problems also contributed to their more distant relationship with the state. Increasing diffusion of power and, in some cases, the splitting of assets within old groups (such as Oriental Holdings and See Hoy Chan), precluded a more concerted or robust relationship with the state.

Finally, just as amongst the new Chinese groups there is a spectrum from rentiers to entrepreneurs, so there is amongst old wealth. Some of the 'paragons' of the 1990's, even including Robert Kuok exhibited, it should be recalled, some pariah-like characteristics thirty years ago (that is the sugar monopoly) which provided the foundation for later growth. At the same time other elements of old wealth who built solid, and in some cases diversified groups in the 1960's and 1970's became more 'ersatz' in the 1980's as their interests increasingly focussed on property and the stockmarket. For some this change spelt their demise.

Chapter 11

CONCLUSION

This thesis has been concerned with change and the transformation of Malaysian capitalism. It has argued that 'the nexus of business, politics and the state which has been central to the capitalist upsurge in Southeast Asia' (McVey, 1992:9) has also been central to the rise of Malay capitalism and the transformation of Chinese business in Malaysia. A concern throughout has been to provide a sense of the dynamics between these elements in the development of Malaysian business groups. In that regard the study has shown how just as the boundaries between business, politics and the state became increasingly blurred in the process of creating Malay entrepreneurs, so in the Malaysian context, as indeed elsewhere in Southeast Asia, it is not always easy to distinguish between 'real' capitalists or entrepreneurs on the one hand from rent-seekers, pariah entrepreneurs, client capitalists and speculators, on the other. But, from this amalgam, what sort of capitalism and capitalists have emerged in Malaysia since the NEP? To answer that broader question the thesis raised and sought to answer two questions that go to the heart of the debate concerning the character and strength of Malaysian capitalism. We shall summarize our findings to each in turn, first:

Has Government manipulation created new sources of entrepreneurship or only fostered rentiers?

A prime goal of the NEP was the creation of a Malay commercial and industrial community, or Malay capitalists. However considerable controversy and debate has surrounded the efficacy of the means used towards that goal. As we saw at the outset, in varying degrees and from various standpoints scholars have expressed scepticism as to whether government action in Malaysia could create new sources of entrepreneurship. Rather, the common view is that state support has fostered rentier activity and clients rather than entrepreneurs. Yet the rather static and deterministic quality of such a view stands in marked contrast to analyses of capitalism elsewhere in the Asia-Pacific region. In that regard a number of scholars have warned against creating sharp dichotomies between rent-seeking and 'true productive capitalism' or becoming too attached to such

discrete categories as state and capital if we are not to miss the distinctive and evolutionary character of Southeast Asian capitalism.

In the rise of Malay capitalism it has been the very blurring of such categories as the state, the party and the private sector that have determined the character of Malay capital and provided the combustion for its growth. While recognising the considerable blurring and overlap between these categories in the context of the NEP, their employment in the study nevertheless served a useful heuristic purpose in illuminating the relationship between them in the development of Malaysian capitalism. Let us first consider the state's role.

The pattern of ethnic ownership of the economy before 1970 meant that it fell to the state to play a key role in extending Malay ownership over the commanding heights of the economy and initially to play the role of corporate nursery or 'incubator' in the development of Malay capitalists. Clearly the state - as the representative or 'trustee' of Malay capital - achieved a large measure of success in the extension of Malay ownership in the corporate sector. Thus, the government through Petronas indigenized control over Malaysia's oil and gas reserves and through MMC achieved a large measure of control over the tin industry, while significant shifts toward greater Malay ownership through government agencies also took place in modern agriculture, manufacturing and the banking and financial sector. But to what extent was the expansion of Malay ownership matched by its intended corollory, the creation of Malay capitalists? Was the new Malay state a catalyst for capitalism or cronyism?

In that respect the record of the state was more mixed. A variety of avenues were identified by which bureaucrats and state managers made a transition to the corporate sector. In some cases the manner of that transition had implications for the sort of capitalists that emerged. At one end of the spectrum were the cronies and figurehead capitalists. Although figurehead capitalists remained a feature of Malaysian business in the 1990's, their significance in terms of the symbolic functions they perform is diminishing. Weakness as regards 'capitalist credentials' was also apparent amongst those who made the transition to business as state managers-turned-owners through privatisation by management buy-out (MBO) of government enterprises. So far the evidence suggests that MBO's have been used as a source of patronage for well-connected businessmen rather than a means to promote self-reliant Bumiputra entrepreneurs. But the state also fostered a rapid increase in the number of Malay executive directors since the mid-70's to oversee and manage the huge investments made by trust agencies to extend Malay ownership of the economy. By the mid-1980's the

emergence of an expanding core of Malay executive directors - whether of the 'professional' or 'trustee' type - was identified as a necessary and important feature adding 'ballast' to the development of Malay capitalism. As the boundary between the state and business increasingly blurred with the progress of the NEP, so some state managers and bureaucrats made the transition to the private sector for the advisory and brokerage roles they could perform as functional directors. However while some functional directors emerged as owner-directors of companies, the role of others appeared more passive. Such differences could also be discerned amongst some bureaucrats-turned-businessmen, that is between those who remained little more than rent-seekers on the one hand and others who combined technical or professional skills with state support to move beyond rentier origins to become entrepreneurs. But the mixed record of the state as catalyst for capitalism or cronyism was also mirrored by the party, which itself became a promoter of Malay capitalists.

The extraordinary growth of UMNO's corporate investments in the eighties first through the Fleet Group, then Hatibudi and finally Renong, meant that the party itself also played an important role in the expansion of Malay ownership and the promotion of Bumiputra capitalists. The shift from the state to the party in that regard arose from changes that were structural, political and personal. In the wake of the recesssion of the mid-eighties economic pressures for a check on the expansion of the state sector coincided with changing attitudes in UMNO as to the role of the state in the expansion of Malay ownership of the economy. This change was symbolised by the transfer of power to Dr Mahathir as Prime Minister and the growing influence of the Malay business elite within UMNO where its members began exerting pressure on the government for greater business opportunities by curtailing public sector expansion and effecting a more rapid transfer of assets to the private sector.

The growing influence of the emerging Bumiputra business elite within UMNO was epitomised by the appointment of Daim Zainuddin as Finance Minster in July 1984. The significance of Daim's appointment was that he brought to government a view that no longer saw the spheres of state, party or private interests as distinct entities, whether in the expansion of UMNO's corporate interests or in the promotion of Bumiputra capitalists. But what were the implications of the blurring of those categories for the development of political capitalists and what sort of capitalists were they?

Political capitalists were divided into two broad groups, politicians who became businessmen and UMNO's proxy capitalists who also became businessmen. Not only were the origins of the two groups different but so was their capacity to move beyond the

networks of patronage that initially sponsored them. A characteristic of politicians-turned-businessmen was their static nature as their very dependency on patronage further encouraged a form of capital accumulation that was narrowly-based and geared to short time horizons. The 'catch 22' situation of politicians-turned-businessmen, mostly rentiers, was in contrast to the greater diversity found amongst UMNO's proxy capitalists whose corporate experience and connections - gained in the course of managing UMNO's investments and/or at some points through enmeshing their own private corporate interests with those of the party - was the key to their capacity to become capitalists.

But UMNO's record as a corporate nursery or 'incubator' for this group of capitalists was also mixed. There were some who remained proxies, although as owner-directors and executive-professional directors of some of Malaysia's largest companies they nevertheless wielded considerable influence in corporate circles. Another group of UMNO proxy capitalists-cum-businessmen included those whose corporate fortunes were also closely linked with those of the party and whose rise in business owed much to the fusion of party and private roles. Generally speaking, however, while members of this group had made some advances as capitalists, their capacity to develop beyond UMNO's patronage networks as free-standing entities appeared limited. In short, while the merging of political and private roles was responsible for their rise, beyond a certain point that relationship also appeared to be a restraining factor in their further development as more independent and robust capitalists. But, at the same time, from the networks of party patronage there also emerged that important group of young Malay professionals, the 'Peremba graduates' who clearly demonstrated a capacity to build on rather than remain dependent on networks of party and state patronage. As members of this group rose and their capital, became more closely integrated with Chinese and/or foreign capital, their relationship with those elements, and the state, took on a more complementary rather than clientelistic character.

The spectrum of capitalistic development found amongst 'political capitalists' was also apparent amongst those Bumiputra businessmen whose origins and growth was largely based in the private sector. The status of individuals as rentier, transitional or entrepreneur also involved the evolution of their relationships with networks of state and party patronage on the one hand and generally, though not always, with Chinese or foreign capital on the other. Again a striking contrast between the two extremes, rentiers and entrepreneurs, lay in how the very intimacy of state/party links distorted and ultimately constrained the development of the former whereas the latter, the entrepreneurs, combined the initial advantages of state support with skills as bankers or

technocrats to consolidate early gains (from the stockmarket or government contracts) to develop strong groups in banking and manufacturing.

So, has government manipulation created new sources of entrepreneurship or only fostered rentiers? This study has shown that just as there has been a blurring of the categories of state, party and private in the development of Malay capitalism so from that amalgam has emerged both rent-seekers and entrepreneurs and many groups between the two. But just as in the case of Indonesia where Robison (1990:36) has identified a core of productive investment emerging within the cocoon of primitive accumulation and rent-seeking, this study has also identified such a core within Malay capitalism. In our analysis of Malay business groups, whether from a 'state', 'party' or 'private' perspective entrepreneurs who had emerged from commercial capitalists, speculators and rent-seekers were identified. The most prominent included Shahrani Hj Abdullah (Shapadu), Wan Azmi Wan Hamzah (Land and General), Samsuddin Abu Hassan (Landmarks), Tajuddin Ramli (Technology Resources), Ishak Ismail (Grand Care), Rashid Hussain (Rashid Hussain Bhd), Azman Hashim (Arab-Malaysia) and Samsuddin Abdul Kadir (Sapura). The existence and development of such groups would suggest some revision of the view that since the origins of Malay capital were often based, at least initially, on the twin props of strong links to political power and Malaysia's moderately high growth rates, such origins would necessarily lead to a form of capitalism that was parisitic and dependent rather than robust and resilient. In that respect this study has identified the complex interaction between the state, party and business as the source of dynamism or defeat in the development of Malay capitalists. Clearly, however, significant changes are taking place in those relationships, while at the same time more Bumiputra groups are developing a greater independence of patronage. These changes suggest that it is imperative that we keep our view of the nature of Malay capitalism open to revision.

Just as this study has sought to indicate that the growth of Malay capitalism is more variegated than generally supposed, so our survey of Malaysian capitalism has also sought to illuminate the change and transformation occurring among Chinese business groups. Linking those chapters of the thesis was the question -

Have Malaysia's political circumstances trapped Chinese businessmen into dependency relationships similar in kind if not degree to Riggs' pariah entrepreneurs?

To answer that question the focus throughout our survey of Chinese business groups was on the nexus of the state and business because it was argued that that nexus has been

central not only to the growth and character of Malay capitalism but, since the introduction of the NEP, to the growth of Chinese capitalism as well. After contrasting the close relationship of the government and UMNO in the expansion of Malay ownership with the suspicion and obstruction that MPH's 'group' or 'institutional' approach aroused in UMNO when it attempted to mobilise resources on behalf of the Chinese community, our survey turned to the response of the large Chinese business firms who have eschewed such a group or communal response to the NEP. In our analysis of Chinese business groups significant differences were found between 'old' groups and 'new' groups, both in terms of their relations with the state and with the new Bumiputra business groups.

Perhaps the most striking feature of the new Chinese business groups were the points of similarity between them and the rising Bumiputra business groups, both in their origins and their movement across a spectrum from rentiers to entrepreneurs. In the evolution of these groups there was both an economic and political dimension to their relationships with the state and Bumiputra capital. On the 'economic' side the rapid growth of the new Chinese groups was facilitated by the backing of the state's regulatory authorities, as well as often-generous patronage from the government's privatisation program which enabled a small number to make the quantum jump to conglomerate status. Another important aspect concerning the development of 'new groups' was the extent to which their capital, and at some points ownership, became closely intertwined with Bumiputra capital - state, party (UMNO) and private. (This was a principal point of difference between the new and old Chinese groups since the latter achieved Bumiputra equity and participation mainly through state institutions or pension funds.) A 'political' dimension was equally important to the rise of the new groups. In that respect it was notable how in the course of their growth an often complex mix of interests - political, corporate and personal - were served. Yet as these groups evolved, their inter-dependent relationships with the state and Malay capital increasingly defied easy categorisation and terms such as patrons or clients, pariahs or patrons no longer accurately portrayed the multiplicity of roles their leaders performed.

The nexus between the state and business was also identified as a key factor in the variation found amongst old Chinese capital - that is between the 'surviving,' and the 'declining' old groups. The more adaptable groups who had adjusted to the changed circumstances of the NEP by seeking a more engaged relationship with the state had also benefitted in terms of business opportunities. The complementary character of their relationship with the state and the UMNO leadership was in stark contrast to that of the declining groups, an increasingly small proportion of the Chinese business elite whose

principal sphere of political activity was, or remained, confined to the Chinese Chambers of Commerce. The political and economic marginalization of these groups was also exacerbated by other factors, notably the increasing diffusion of power and wealth within them.

Stepping back from the often considerable detail provided in our case studies of Chinese groups, new and old, what are the points of difference in this study with some of the scholarly writings on the subject referred to earlier? Perhaps particularly pertinent in that regard was Heng Peck Koon's (1992) rather pessimistic assessment in the mid-eighties of the relationship between the state and Chinese business. Heng, it will be recalled, was inclined to the view that Malaysia's political circumstances were likely to trap Chinese business in dependency relationships of the pariah sort. She concluded (Heng, 1992:127-28) that even the "success stories" that is those groups who have formed close and profitable alliances with Malay patrons, may 'merely reflect a transitional phase, or (from the perspective of the Malay power structure) a temporary "alliance of convenience" which serves as a necessary half-way station *en route* to complete Malay and foreign dominance of the major economic institutions of the country.' Jesudason's observation (1990:160) that 'the critical point is that the Malay state elite and Chinese business have viewed each other in zero-sum terms and have gone on divergent paths in their economic activites' implied a no less pessimistic conclusion.

But does this seem the case in the 1990's? Rather the contrary. Indeed the most striking feature of the new Chinese groups was the extent to which their capital was integrated with Bumiputra capital and the interdependence of that relationship. Similarly, amongst the old Chinese groups relations with the state have taken on an increasingly complementary rather than competitive character. Further, from the perspective of the mid-nineties it appears that the degree of integration and mutual interdependence of Chinese and Malay business groups (at least those studied) is likely to add new ballast in the amelioration of ethnic differences. Finally, at a general level, our survey of Chinese business, particularly the new groups, challenges a common view that Chinese capital is completely different to Malay capital. There are clear differences but, as noted earlier, increasingly there are important points of similarity - in the manner of their growth, their relations with the state and the UMNO leadership, and their credentials as capitalists.

In conclusion three general points emerge from our study of Malaysian capitalism. First, analyses in the 1980s which have described the relationship between the state and Chinese (as well as foreign) capital in Malaysia as discrete entities, and in antipathetical terms, no longer seem appropriate to the more complex and complementary character of

those categories in the 1990s. Secondly, in our examination of Malaysian business groups, an erosion of ethnic exclusivity and identity was apparent as both economic interests and cultural forces brought together Chinese and Bumiputra elites in pursuit of common goals. In other words, in many of the groups studied, capital - whether the state, Chinese or Bumiputra - not only lost its face but also its colour. Finally, this study has argued against drawing sharp contrasts between dependency and self-reliance, between state and capital, and between rent-seekers and true productive capitalists. For it was from that amalgam of categories and groups that this study has shown a form of capitalism emerging in Malaysia which nonetheless appears remarkably dynamic, vibrant and resilient despite its unorthodox origins.

Appendix 2.1:

Peninsular Malaysia: Ethnic Structure of Population, 1911-1957
(Percentage of Populations)

	Census Year						
Race	*1911*	*1921*	*1931*	*1947*	*1957*	*1970*	*1980*
Bumiputras	59	54	49	50	50	53	55
Chinese	30	29	34	38	37	36	34
Indians	10	15	15	11	11	11	10

Sources: Lim, C.Y., (1967, Table 7:5);

Appendix 2.2:

Foreign Ownership in the Malaysian Economy, 1970

	Share Capital	
	M$'000	*Foreign %*
Agriculture	(1,432,400)	(75.4)
Rubber	1,134,163	77.7
Oil Palm)		
Coconut)	298,237	66.8
Tea)		
Mining	(543,497)	(72.5)
Tin	434,477	71.5
Other	109,020	76.4
Manufacturing	1,348,245	59.6
Construction	58,419	34.1
Transport	81,887	12.0
Trade	(605,164)	(63.6)
Wholesale	450,593	70.1
Retail	154,571	44.5
Financial Sector	(636,850)	(52.3)
Banks	93,549	35.2
Insurance	7,670	55.3
Other	535,631	55.2
Other Industries	582,516	31.4
Total	5,288,978	60.7

Source: Adapted from Lutz and Tan, 1980:215.

Appendix 2.3:

Peninsular Malaysia: Size Distribution of Household Income by Ethnic Group

	Malay Households				*Chinese Households*				*Indian Households*			
	1957/9	*1967/8*	*1970*	*1973*	*1957/8*	*1967/8*	*1970*	*1973*	*1957/8*	*1967/8*	*1970*	*1973*
Income share of												
Top 5%	18.1	22.2	23.8	22.7	19.2	19.9	25.4	18.8	19.4	22.3	28.4	25.6
Top 20%	42.5	48.2	51.3	50.8	46.0	46.7	42.3	48.6	43.6	48.1	53.6	51.3
Middle 40%	37.9	34.8	35.7	35.9	35.9	36.3	33.5	35.5	36.6	35.6	31.5	33.7
Bottom 40%	19.6	17.0	13.0	13.7	18.1	17.0	14.2	15.9	19.8	16.3	14.9	15.0
Mean Income	140	163	172	222	302	349	381	444	243	260	301	365
Median Income	112	120	122	n.a.	223	261	269	n.a.	188	191	195	n.a.
Gini Ratio	0.34	0.40	0.46	0.45	0.38	0.39	0.46	0.42	0.37	0.40	0.47	0.44
Theil Index	0.21	n.a.	0.40	0.36	0.35	n.a.	0.39	0.31	0.23	n.a.	0.39	0.35

Sources: Snodgrass (1975); Isak Shari and Rogayah M. Zain (1978). As cited by Jomo, 1986:251.
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