The Rise and Fall of Capital:
Corporate Malaysia in Historical Perspective

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The Developmental State and Business History in Malaysia

In a good number of analyses of economic and enterprise development in East Asia, the concepts employed are from the perspective of political economy, specifically the body of literature dealing with the developmental state.[1] A careful reading of this literature would suggest, however, that it does not provide sufficient insights into the reasons for the dynamism of private companies actively promoted by the state or for the fall, stalling of growth or demise of others which also appeared to possess entrepreneurial capacity. The inadequacy of the tools of analysis provided by the developmental school literature to assess the performance of these companies was patently obvious following the East Asian currency crisis of 1997.[2]

This study argues that in order to appreciably improve analyses from the developmental state perspective, it is necessary to consider applying the concepts from another body of literature, that of business history, specifically those based on the work of Alfred Chandler.[3] Both these sets of literature have never been employed in conjunction with each other, and almost no attention has been paid to Chandler's work.[4] And yet, the collective application of the concepts in these two bodies of literature is crucial for securing a proper understanding of economic and enterprise development in East Asia in general, and in Malaysia in particular.

A defining characteristic of the developmental state is the high degree of state intervention in the economy, exemplified through terms such as "governed markets",[5] "governed interdependence"[6] and "embedded autonomy".[7] One of the core concerns of the developmental state is state-business collusion, with the government playing an important role in steering resources to private firms in order to attain its development goals. Chalmers Johnson, the original proponent of the concept of the developmental state, points out that while all governments intervene in their economies, there are fundamental differences in the manner in which the East Asian states have done so.[8] The unique features of the East Asian development state economies include an autonomous political-bureaucratic elite, public-private cooperation for a common goal determined by a state planning agency and a strong emphasis on investing in education to ensure a supply of well-trained labour.[9] Scholars of this school point out other mechanisms deployed by the government, such as its "market-leading

1 See, for example, Johnson (1982), Deyo (1987), Amsden (1989), Evans (1995), Wade (1990) and Woo-Cumings (1999).

2 See Chang (2006) for a review of the reforms required of business groups and in the corporate sector in East Asia following this crisis.

3 Among his most important works are Chandler (1962, 1977, 1990) and Chandler, Amatori and Hikino (1997).

4 An exception to this rule in the case of Malaysia is the doctoral dissertation by Shakila Yacob (1995), who employs a Chandlerian perspective in her historical assessment of American investments from the colonial period.

5 Wade (1990).

6 Weiss and Hobson (1995)

7 Evans (1995).

8 Johnson (1982).

9 Johnson (1982), Amsden (1989), Wade (1990) and Woo-Cumings (1999).

strategy"[10] and its allowing of firms to "get the prices wrong",[11] to encourage profit-concerned entrepreneurs to venture into specific economic sectors deemed important for industrialization.

While the analytical focus of the developmental state school is principally on economic sectors and the state, Chandler's stress on business history involves an exhaustive assessment of the organizational and managerial structure and development of a firm, dating back to its moment of incorporation. Chandler's fundamental concern was with how and when change occurred within a firm, and he adopted the concept of "organizational capabilities" to help us understand why cumulative learning within an enterprise had or had not taken place.[12] His work drew attention to the need for the firm to focus on vertical integration in its production process, but also noted periods when diversification of its business activities might become necessary, as such factors could determine its progress or demise. In *Scale and Scope: The Dynamics of Industrial Capitalism*, Chandler emphasized this issue when he attributed the decline of big business to its failure to invest sufficiently in three key areas: manufacturing, marketing and management.[13]

In *The Visible Hand: The Managerial Revolution in American Business*,[14] Chandler employed the concept of "administrative coordination" to indicate the growing professionalization of a company's management to avoid institutional failure, a crucial factor that explains the dynamism of firms, but an issue inadequately emphasized in the developmental state literature. Here, he noted how as managerial hierarchies got more embedded into an enterprise, professional control structures became separate from ownership. Other theoretical literature on enterprise development, in the Chandlerian tradition, emphasize in greater depth how transitions in business ownership and control patterns can have a monumental bearing on the development of a company.[15] Briefly, the stages of enterprise evolution in this literature are: Stage 1: partnerships; Stage 2: single owner / family business; and Stage 3: managerial control. In most cases, the transition period from Stage 1 to 2, that is from a partnership to a family-owned enterprise or single ownership, is quite rapid, usually occurring within a number of years after the creation of a company. The transition from Stage 2 to 3, from a family firm to managerial control, would normally involve generational change, sometimes over two generations.[16] While there is a focus on ownership and control patterns within the developmental state literature, there has been little attempt to determine the effect of these changes over a protracted period.

Chandler's form of analysis in *The Visible Hand*, through a review of the evolution of managerial form, from a family-owned enterprise to a professionally-managed firm, draws attention to another major point. His study revealed that the growth of modern industry was not primarily due to the quality of a company's management and its access to capital, but to its capacity to upgrade its technology for mass production and to enhance its ability to distribute its products widely. To achieve both objectives, managers inevitably had to look internally, at a firm's organizational structure, to rectify or introduce new mechanisms to augment innovation and increase market share of its products.[17]

In a subsequent study on the scale and scope of a firm, Chandler would further develop this argument in comparative perspective, by assessing different forms of managerial capitalism in the industrialized West, that is in Britain (personal), the US (competitive) and Germany (cooperative), to determine how resources secured by a large, hierarchical, multi-divisional enterprise are developed.[18]

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10 Wade (1990).
11 Amsden (1989).
12 Chandler (1990)
13 Chandler (1990). In this study, Chandler examines the decline of capital-intensive British industries between 1880 and 1940.
14 Chandler (1977).
15 See, for example, Penrose (1980). See also Berle and Means (1967), the primary proponents of the concept of ownership and control.
16 Chandler (1962, 1977); Penrose (1980).
17 Chandler (1977).
18 Chandler (1990).

Chandler noted that firms and markets evolve together, though arguing that business organization can shape markets in the industrial sector.[19]

Thus, while the Chandlerian perspective allows for insights into how economic and enterprise expansion is determined by internal organization, the developmental state literature provides few tools for this form of analysis. And while the latter does impart valuable insights into how state-generated concessions, or rents, can transform markets and advance the development of new technologies, it does not demonstrate sufficiently well why some firms have been able to exploit these privileges more productively than others.

There are, however, aspects of Chandler's work that if employed in isolation would not be helpful in analysing economic and enterprise development in East Asia. While Chandler's aim was to assess the reasons for the rise of big business and its competitive advantage, which he attributed to its capacity to learn and develop technology, other studies have applied this perspective to argue that small firms can similarly shape the form of the industrial sector. In the mid-1980s, a number of major studies critiqued the necessity for the state to encourage the growth of large-size industrial firms. S.J. Prias argued that in the case of Britain, economies of scale were not dependent on firm size, but on plant size.[20] Prias further contended that although the number of companies controlled by some companies had grown significantly, the average plant size in these firms had decreased, by half in some cases, leading to massive unemployment. Put differently, industrial concentration was not a prerequisite for productive efficiency, nor would it necessarily generate employment.[21] Michael Piore and Charles Sable provided further evidence to substantiate this point, based on the example of small-scale industries developed in continental Europe, arguing that small firms were capable of being more responsive to market needs as they were far more flexible and better equipped for engendering and adopting innovations.[22] In this regard, one criticism of Chandler's work was that he did not focus enough on developments "on the shop floor".[23] As Louis Galambos notes, "economies of scale and scope did not enable U.S. firms to hold their market shares when they failed to achieve innovation from the bottom up as well as the top down."[24]

In the developmental state literature, some East Asian governments have recognized the importance of the small firm in terms of promoting innovation and generating employment, a point particularly well noted in studies of Taiwan's industrial capacity.[25] In Singapore, after a long cultivation of state-owned companies, there has been much emphasis on supporting small- and medium-scale enterprises (SMEs) as a means to promote entrepreneurial capacity.[26]

Another area where Chandler's mode of analysis fundamentally differs from the organizing ideas within the developmental state literature is that his assessment of the conduct of business does not offer an appraisal of the politics of a government or of the role of the state in encouraging enterprise development, a decision intentionally taken to focus attention only on managerial forms among the various large companies. In the developmental state model, decisions determining how state-generated resources are distributed are not always made with the aim of promoting an economic sector or developing domestic enterprise. Literature on the political economy of East Asia is replete with studies revealing that rents distributed by the state have often been determined by factors such as political expediency.[27] Furthermore, the historical relationship between the state and capital in East

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19 See Teece (1993) for a perceptive review of Chandler's *Scale and Scope*.

20 Prias (1976).

21 Prias (1976).

22 Piore and Sable (1984). As questions were raised about the efficacy of large firms, the growing argument in the 1980s was for the need for greater decentralization of such companies, a point that will be referred to here in an analysis of the more entrepreneurial firms in Malaysia.

23 Galambos (2003: 24).

24 Galambos (2003: 24). See also Amatori and Jones (2003) for an extensive critique of Chandler's work.

25 See Wade (1990) and Fields (1995).

26 Chew (1988).

27 Pempel (1999). See also Gomez (2002) for studies on "political business" in East and Southeast Asia.

Asia is one that has been fraught with friction.[28] This hostility between state and capital was, in part, rooted in the fact that political and economic power was held by different groups.[29] The pattern of power distribution and the consequence of power shifts, due to political power struggles, can have serious repercussions on ownership and control of domestic firms. What is therefore required is an analysis of the political and economic context in which the firm exists, to help offer insights into the conditions which it has to operate in and adapt to in order to continue to accumulate and ascend in the corporate sector.

In the case of Malaysia, for a comprehensive understanding of enterprise development, there are several reasons for this need to avail ourselves of both bodies of literature. First, although the focus of this study is on large-scale enterprises, there is a need to note the varieties of capital that exist, that is of small- and medium-scale industries, state-owned companies, multi-national corporations and micro enterprises, specifically those operating informally in the economy. An assessment of large-scale enterprises, as well as of other forms of capital, from merely the perspective of one body of literature would provide insufficient insights into their organizational and technological development. Second, and very importantly, development of the Malaysian economy and domestic capital was profoundly influenced by a number of vastly different policies.

The government's subscription to policies under the developmental state model, particularly during the more than two decade long premiership of Mahathir Mohamad, from 1981 till 2003, can be said to have contributed to Malaysia's fairly rapid economic development. State-led development, replicating post-war Japan's form of economic growth, was imperative for Mahathir in order to support domestic enterprises and encourage the rise of large business groups. His desire to develop huge conglomerates was strongly influenced by East Asian corporate models, specifically the South Korean *chaebol* and the Japanese *zaibatsu*,[30] with their emphasis on the close links between the financial and industrial sectors to advance industrialization. Mahathir had used these East Asian corporate development models as templates while promoting the creation of large, internationally-recognized Malaysian conglomerates that would also help rapidly industrialize the economy.

Where Chandler's ideas become important, is when one notes that Mahathir's vision of economic and enterprise development for Malaysia was just as inspired by another model of development vastly different from the developmental state, that is the American liberal, free market system, with its strong emphasis on wealth accumulation and the promotion of the private sector as the primary engine of growth. The US model encouraged private over public enterprise, exposure to competition, universal-type policies that would privilege the fittest and most equipped, and an open economy with minimal state intervention in the belief that these factors would engender efficient employment of resources.[31] Mahathir was particularly influenced by neoliberalism whose espoused economic doctrines included limiting state intervention in the economy and the endorsement of privatization, liberalization and deregulation.[32] Essentially, neoliberalism, based on ideas developed by Friedrich von Hayek and Milton Friedman and actively pursued through influential politicians such as Margaret Thatcher and Ronald Reagan with strong backing from big business, advocated the need for a "small government" and the virtues of allowing the private sector to drive economic growth.[33]

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28 For a discussion on this point in the case of South Korea and Singapore, see Amsden (1989) and Chan and Ng (2004) respectively. For the case of Malaysia, see Gomez (1999).

29 For a good account on the historical relationship between politics and business in Southeast Asia, see Yoshihara (1988).

30 Mahathir appeared more enthusiastic about the family-controlled zaibatsu system than the inter-locking stock ownership *keiretsu* pattern of corporate development, where corporate equity was very widely disbursed. The zaibatsu system would evolve into the keiretsu mode of corporate holding after World War II. See Morck and Masao (2003).

31 In this model, the government's principal role is to ensure law and order and macroeconomic stability (e.g. low inflation, stable exchange rate, etc.) and offer incentives to facilitate local and foreign investments. The government has to create a well-developed infrastructure and ensure proper transportation systems, such as roads, port facilities and communications systems. The government was not to try to influence relative prices or the allocation of resources.

32 See Harvey (2005 and 2006: 7-68) for an incisive discussion of the history of neoliberalism.

33 Harvey (2005: 19-31).

By subscribing to the main tenets of neoliberalism, the Malaysian government actively encouraged the aggressive participation of foreign companies in its economy, which were to become one of the key drivers of industrial growth. Moreover, as much as Mahathir was inspired by the role of Japan's developmental state, which included control of the banking industry to expedite industrialization and to advance domestic enterprise, he appeared above all enamoured with the stock market, an instrument which he felt had been effectively fostered by businesspeople in the US to rapidly create huge firms. Mahathir was also probably aware that Japan, unlike the US, had not been a stock-market centred economy. The active deployment of privatization and the stock market, pivotal features of a neoliberal state, to cultivate big business had an immense impact on the pattern of development of publicly-listed companies in Malaysia, necessitating the tools provided by Chandler to assess why some of them functioned well in this system while others fell away, sometimes quite rapidly.

The implementation of both the developmental state and neoliberal models was profoundly influenced by another major policy introduced by the government in 1970, the New Economic Policy (NEP). One aspect of the NEP, involving affirmative action, was the need to target an elite group within the business community as recipients of state-created rents to promote the rise of Malay-owned conglomerates. This form of targeting, which was to have a major bearing on the shape of capital formation and development, was introduced to rectify inequities in corporate ownership and control patterns that had emerged during British colonial rule. The NEP entailed partial abandonment of *laissez-faire* economic management in favour of greater state intervention. During the first decade of the NEP, this form of intervention was characterized by the active participation of state-owned enterprises in the corporate sector. From the early 1980s, however, the government began to selectively promote the interests of private individuals, usually well-connected Malays, as a means to create a new breed of capitalists. This style of selective patronage involved privatization of state-owned enterprises created or developed during the early NEP years. While this form of selective patronage was very much within the mode advocated by a developmental state, where Chandler becomes important is when the need arises to assess the pattern of growth of these preferentially-treated firms. One important outcome of selective patronage was that while Malay capitalists who had received rents from the state floundered, Chinese businesspeople similarly privy to government concessions have thrived, with some emerging as owners of conglomerates. This outcome has been used by some scholars to argue that Chinese culture and intra-ethnic cohesion were factors that have contributed to the continued ubiquitous presence of their businesses in the Malaysian economy and their apparent economic influence in East Asia.[34]

There is another basis for considering these two schools of thought together in a study of corporate Malaysia. The operations of large-scale quoted enterprises, on the one hand, have been deeply influenced and conditioned by government developmental models, as well as the politics of the state. On the other hand, the rise and fall of large firms was attributable to their ownership structure, that is if they were partnerships, family-owned firms or under single ownership, style of management and pattern of enterprise growth, that is if they had adopted a diversified, horizontal or vertical style of development. These factors had a major bearing on the sustainability of different types of large business groups that had emerged in the corporate sector, including those owned or controlled by the state, well-connected businessmen and families. An assessment of the evolution of these companies requires different forms of analysis, as they reflect different ownership and control patterns. Moreover, these large enterprises were affected differently by government policies and not all of them were privy to state patronage.

A final issue to consider is that although the ideas on which the developmental state and neoliberalism are built appear on opposite ends of the policy spectrum, both models have deeply influenced policy-planning in Malaysia. The tenets of the developmental state and of neoliberalism were not, however, applied in their full form, showing how selective the state has been when planning and implementing policy.[35] Importantly in the Malaysian context, one common feature in both models

[34] Lever-Tracy, Ip and Tracy (1996) and Yeung and Olds (2000).

[35] While the government supported privatization, there was no support for the creation of independent regulatory institutions (with the retreat of the state); the labour market was not liberalized, with trade unions subjected to even more suppression under Mahathir, ostensibly to ensure investor-friendly market conditions;

was the close nexus between state and capital, ostensibly to promote domestic enterprise, even though neoliberalism involved reducing or even removing government intervention in the economy. This common feature offers insights into the conduct of political power in the development of corporate Malaysia. One reason the Malaysian government, which was intent on promoting Malay capital through state intervention, was comfortable with neoliberal ideas was that policies under this model allowed the government to distribute rents to the well-connected, including firms controlled by the United Malays' National Organization (UMNO), the hegemonic partner in the ruling coalition, the *Barisan Nasional* (National Front). Although it appeared that through privatization and liberalization of the economy, the state was removing itself from the economy, UMNO leaders were still able to retain much control over the corporate sector by selectively distributing rents. UMNO, with its apparently arms-length relationship with the corporate sector, could now deny being a major actor in corporate manoeuvres that benefited the party and businessmen aligned to the state. UMNO's need to be seen to have an impartial relationship with capital was imperative because, by the mid-1980s, the party had to deal with serious public criticisms for being privy to corporate activities that smacked of conflict-of-interest, patronage and corruption. Such criticisms, hurled primarily at members of a kitchen cabinet created by Mahathir, would eventually come to be made by senior party leaders, contributing to serious factional disputes that culminated twice, in 1988 and 1998, in the rise of new opposition parties led by major UMNO stalwarts.

An analysis of the development of large enterprises in Malaysia, involving privatization, industrialization and the promotion of Malay-owned conglomerates, would reveal the fierce opposition and antagonism within the state (and UMNO) to these policies, as well as the reasons for the symbioses between these very different policies. One feature of Malaysia's political economy under Mahathir was the growing concentration of power in the office of the executive, which came to be known as "Mahathirism".[36] Mahathir was willing to experiment with different economic models as he saw value in neoliberalism, the developmental state and affirmative action, which he adopted and adapted to pursue his vision of development for Malaysia. The conduct of the business of firms, specifically of big business, provides insights into the outcome of the government's mix of policies from these different development models.

To explain the outcomes of the varieties of policies adopted by the Malaysian state to promote economic and enterprise development, this study will deal with two major questions: (a) what has been the impact of this mix of development and redistribution policies on the corporate sector, specifically big business?; and (b) why have large publicly-listed firms not been able to sustain their presence in the corporate sector over a protracted period?

To assess the impact of these policies on corporate Malaysia, this study will evaluate the nature and quality of capital during key periods in history: between Independence and that epochal moment when racial riots occurred in 1969, which led to a major change in economic development policy orientation with the introduction of the NEP; between 1970 and 1981, when the NEP, involving extensive state intervention in the economy, was implemented; between 1982 and 2003, when the Malaysian economy under Mahathir was subjected to three major and contradictory policies working in tandem, that is the developmental state, neoliberalism and affirmative action; and finally, from 2003 to the present period, when a transition in premiership occurred and when several new corporate development initiatives were introduced. To assess the impact of these policies on publicly-listed companies over the past half century, an evaluation will be provided of the top 20 enterprises during these defining moments in the history of corporate Malaysia. This study will conclude with a discussion on the impact of simultaneously-implemented but different policies on the corporate sector.

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nor was there much support for social safety nets for the very poor, even with increasing support for the privatization of health and education.

[36] See Khoo (1995).

1957-1969: From Independence to Race Riots

Business groups have long been an important feature of corporate Malaysia's history. Two features stand out about these business groups. First, Malaysia's corporate history abounds with cases of partnerships from which these groups have emerged.[37] And second, the diversified pattern of growth of their firms has been a popular corporate strategy since the colonial period. Chinese immigrants diversified into any field of business that held out the prospect of high returns. Businesspeople from other ethnic groups would replicate this style of enterprise development well into the present period.

When the Chinese migrated to Malaya during the pre-colonial and colonial periods, they formed intra-ethnic business partnerships. New migrants saw common ethnicity as a tool they could exploit to help them cope with their new environment. Once acclimatized, however, they no longer had the same need as studies indicate.[38] By the end of the 1960s, the most prominent companies were controlled by families or individuals, almost entirely from the Chinese community, including Kuala Lumpur-Kepong (Lee Loy Seng), Federal Flour (Robert Kuok), Asia Motor Co. (Phang family), Cycle & Carriage (Chua family), Lee Rubber Selangor (Lee family), Tan Chong Motors (Tan family), Empat Nombor Ekor (Lim family) and Hock Heng Co. (Ng family).[39] Selangor Dredging, Joo Seng Rubber Co. and Tasek Cement, were partnerships, involving the Teh and Chan families, the Loh and Khor families and the Tan and Kwek families respectively. Loy Seng and Lee Kong Chian had joint ownership of large firms with other major enterprises, such as the Oversea-Chinese Banking Corporation (OCBC) and London Tin Corp.[40] Among the leading companies in Malaya by the end of the 1960s, only one, Manilal & Sons, was Indian owned, by the Patel family.[41]

During British colonial rule, Malay involvement in the emerging capitalist economy was not encouraged. The British preferred that the Malays remained in food production, primarily fish and rice. When Malay peasants tried to venture into modern commercial sectors of the economy, such as rubber production, the British blocked their efforts by imposing restrictive cultivation conditions on land.[42] These early discriminatory policies in favour of British plantation interests severely limited the potential development of indigenous capital and shackled Malays to low income economic activities. Since the British had hindered the development of Malay capital in the colonial period, this reason was used to justify the post-1969 policies that positively discriminated in favour of this ethnic group.

Research on Chinese enterprise has indicated convincingly that in family firms, kinship ties were crucial in raising funds to get these enterprises incorporated and functioning.[43] The original characteristics of the firm, that is when the company was first established, suggest that kinship ties were an important consideration when people were hired and when funds were required to get the enterprise into operation, though control remained in the hands of the founder and key family members. In terms of management style, the role of family members in the enterprise was crucial. These contentions support stereotype arguments about the weight of kinship ties within Chinese family firms,[44] but other studies contend that these links were vital only during the incorporation of the enterprise.[45] When up and running, and as these firms established themselves in the economy, the reliance of the owners on kinship ties to support their enterprises diminished appreciably.

Moreover, the succession, division, dismantling or takeover of major family firms are topics that have drawn little notice in studies of Chinese enterprise. Yet, examples of the disintegration of

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37 See Hara (1993); Searle (1999); Gomez (1999).

38 Chan and Chiang (1994).

39 See Appendix 1.

40 See Tan (1982) for a discussion on the vast ownership of corporate equity by the OCBC group in the Singaporean and Malaysian economies. See also Table 1.

41 Another prominent Indian with enormous interest in the plantation sector during the immediate post-colonial period was Arumugam Pillai, though his firms no longer command a presence in the economy (Tan 1982: 144,155).

42 Lim (1977).

43 See Gomez (1999, 2007).

44 See for example, Redding (1990) and Whitley (1992).

45 See Gomez (1999), Gomez and Hsiao (2004).

family firms and of feuds among descendants of leading Chinese entrepreneurs are legion. These feuds encompass reputable firms including the Aw family's Haw Par group and the Yeo family's Yeo Hap Seng (YHS) group.[46] This brings into question the sustainability of family firms, particularly when linked to the issue of generational change. Among such firms, the descendants of their founders, commencing from the second generation, may not join the enterprise, resulting in the company's closure. In other cases, feuds have emerged among members of the second or third generation.[47]

What is obvious is that the companies established by a number of the foremost businessmen of the colonial period were not sustained into the modern period. Eu Tong Sen, Lau Pak Kuan, Loke Yew, Tan Kah Kee and Lee Kong Chian all secured considerable interests in banking, tin mining and rubber plantation sectors during colonial rule. Loke Yew helped found Kwong Yik Banking Corp, the first Chinese bank to be incorporated in Malaya in 1903. By the early 1900s, he was reputed to be the richest man in Malaya. Eu Tong Sen, a tin miner, founded the Lee Wah Bank. Lau Pak Khuan, also a tin miner, helped establish Chung Khiaw Bank, the Overseas Union Bank (OUB), Public Insurance Company and the Oriental Smelting Company. Tan Kah Kee, who founded an empire and lost it, was involved in the pineapple and rice business, the rubber industry and the shipping sector. Tan helped establish a Chinese newspaper, *Nanyang Siang Pau*, and a bank, Chinese Commercial Bank. During the depression in the early 1930s, Tan's ventures floundered, necessitating a bailout by his son-in-law Lee Kong Chian, who remained the only prominent business figure by the end of the 1960s.[48] Henry H.S. Lee, a tin miner, helped establish two banks, the Overseas Union Bank (OUB) and the Development & Commercial (D&C) Bank, the latter of which he passed on to his children, who later lost control of it.[49] Many of these businessmen had forged partnerships to form banks to help protect and promote their interests. None of these partnerships has been sustained.

When these partnerships broke up, the companies came under the control of one individual or family. Partners went on to become competitors in the same sector. The best example of this is the OCBC, a merger of three banks owned by prominent businessmen that occurred in 1932 following the great depression. Shareholders and employers of OCBC would eventually breakaway, and the new enterprises to have emerged from these splits include Malayan Banking, founded by Khoo Teck Puat, Public Bank, established by Teh Hong Piow, and MUI Bank (now the Hong Leong Bank), set up by Khoo Kay Peng, all at present among Malaysia's leading banks.[50]

Among the major firms that were incorporated during the colonial period that remain influential are the enterprises closely associated with Lee Kong Chian, that is Lee Rubber and OCBC. Even though the Lee family retains ownership of these companies, they are professionally managed. Companies owned by the rubber magnate, Tan Cheng Lock, who was associated with the Pacific Bank and United Malacca Rubber Estates, are similarly professionally managed. Recent studies indicate that when a new generation takes over an enterprise, there is evidence of the professionalization of the management and the creation of inter-ethnic business ties. Among those cited as examples of companies displaying these characteristics are publicly-listed YTL Corp and the Hong Leong group.[51]

In the colonial and immediate post-colonial periods, foreign enterprises, especially British concerns, dominated the economy.[52] While Chinese capital appeared present everywhere in the economy, the extent of its ownership and control of the corporate equity was small relative to that of

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[46] Major companies have been taken over because of differences among family members over their ownership and management. These cases include, apart from the YHS group, the Teo family's Malayan Credit and the Cycle & Carriage group, controlled by the Chua family.

[47] The best examples of major Chinese family firms where disagreements or problems have occurred among the second generation are the Yeo family's YHS Group and the Kwek family's Hong Leong Group.

[48] See Appendix 1. Among these important business figures, Tan Kah Kee's history remains the only one that is well researched (see Yong 1987). It is still unclear why other large enterprises in the colonial era have fallen away.

[49] Gomez (1991: 31-43) reviews the Lee family's development and loss of the D&C Bank.

[50] See Gomez (1999: 75-83).

[51] A more comprehensive discussion of these firms is provided later in this study. See also Gomez (1999).

[52] See Appendix 1. Puthucheary (1960) provides a pioneering study of ownership and control patterns of large foreign-owned enterprises during this period.

foreign capital. James Puthucheary noted that one sector in which the Chinese had a dominant presence was in manufacturing, in an assortment of activities ranging from food production to saw-milling. Most of the Chinese companies operating in this sector were small-scale enterprises.[53] Foreign participation in manufacturing was limited due to the small size of the Malayan market.[54]

British capital's continued command over the Malayan economy after Independence was mainly due to political factors. The leaders of UMNO, the dominant party in the then ruling tripartite coalition, the Alliance, did not want to limit the influence of foreign firms for fear that the Chinese would secure control over the economy with the retreat of the British. Even though Chinese capitalists such as Tan Cheng Lock, Lau Pak Khuan and H.S. Lee, later to become Malaya's first Finance Minister, managed to secure a strong presence in the post-colonial government through their control of the Malayan Chinese Association (MCA),[55] UMNO's partner in the Alliance, the Malay party had an unwritten accord with the colonialist to allow British companies to retain their ownership and control over large segments of the economy after Independence.[56] The Alliance was plainly a marriage of convenience, with little trust between its members.[57] The basis of the UMNO-MCA union was that the Chinese party generously funded the Alliance's electoral campaigns in return for greater presence in federal, state and municipal governments. The important federal cabinet portfolios of Finance and Trade & Industry came under the control of ministers from the MCA. These capitalists had hoped that effective political representation in government would allow them to protect their economic interests. The MCA, however, only retained these cabinet portfolios until UMNO had consolidated its hegemony in the government, after the formation of an enlarged coalition, the Barisan Nasional, created in response to the May 1969 riots.

Following Independence, the government attempted to increase Malay participation in the economy, especially after the mid-1960s. The Rural and Industrial Development Authority (RIDA), established in 1950,[58] was reconstituted as Majlis Amanah Rakyat (MARA, or Council of Trust for Indigenous People) in 1966 to establish and manage new industrial enterprises for later transfer to the Malays. In 1965, Bank Bumiputra was established to provide Malays with an avenue for obtaining credit to develop new enterprises. In 1969, a trust agency, Perbadanan Nasional (Pernas, or National Corporation), was established to promote Malay capital.[59] But little was achieved by 1970, in terms of equitable distribution of corporate wealth among all communities.

Lim Mah Hui's analysis of the top 100 quoted firms in the early 1970s revealed significant interlocking stock ownership among a small number of prominent corporate groupings, indicating concentration of control over the economy.[60] By the early 1970s, control of the economy was concentrated in a few large British and Chinese corporations.[61] Of the 100,000 shareholders in 62 large corporations, 797 owned 69 per cent of the total RM1.4 billion of equity in these firms. The top 1 per cent of these 797 shareholders owned 29 per cent of this RM1.4 billion equity, while the top 50

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53 Puthucheary (1960: 131). Sieh (1982: 31) argues that Puthucheary had given far too much weight to the extent of Chinese presence in this sector as he did not take adequate account of the activities of major foreign manufacturing concerns such as Bata, Ford Motors and Unilever. By 1970, Low (1985: 26) notes that Chinese ownership of manufacturing companies amounted to 22.5 per cent, with foreign enterprises accounting for nearly 75 per cent of the remaining equity.

54 Tan (1982: 170).

55 Heng's (1988) study traces the formation and early growth of this party incorporated and led by some of Malaya's leading Chinese capitalists.

56 A well-connected Chinese elite continued, however, to secure rents from the state. Robert Kuok secured incentives to enter into flour and sugar production, Lim Goh Tong received a monopoly licence to run a casino and H.S. Lee, Khoo Teck Puat and Teh Hong Piow obtained approval to establish banks.

57 The third member of the Alliance was another race-based party, the Malayan Indian Congress (MIC), led by professionals and land-owners.

58 RIDA's objective was to promote the rural Malay economy, through loans for projects and self-help schemes. Its projects included cooperative rice mills, processing plants for rubber smallholders and boat-building and repair yards for fishermen.

59 Gale (1981).

60 Lim (1981). For a further discussion on interlocking directorate ties, see Burt (1983).

61 See Appendix 1.

per cent owned 97 per cent and the bottom 20 per cent only 0.4 per cent.[62] Lim noted extensive interlocking directorships, identifying three important types of directorates: owner directors, executive-professional directors and functional directors.[63] Owner directors were equity owners who served as directors. Executive-professional directors were high-ranking employees who did not own a substantial stake in the firm. Functional directors were those appointed to perform "extra-economic functions"; these directors were typically former senior bureaucrats who could perform "advisory and brokerage functions."[64]

Appendix 1 provides a list of the top 100 firms at the end of the 1960s, in terms of assets owned. What is noteworthy about these companies is that most of them are not owned by leading Chinese businessmen who had emerged during the colonial period, including prominent figures such as Eu Tong Sen, Lau Pak Khuan and Loke Yew, who had all come to own a significant stake in tin mining and rubber plantations. One company that had emerged in the colonial period that retained a formidable presence in the Malayan economy was the OCBC group, a Singapore-based enterprise that was by then professionally managed. Though a partnership when formed, the OCBC group was then under the control of Lee Kong Chian and his family. Other prominent Chinese who had developed a large enterprise during colonial rule and retained control of these firms during the 1960s were Robert Kuok and Lee Loy Seng, though both businessmen were then fairly new business figures compared to Eu, Lau and Loke. Although the government had attempted to develop domestic Malay capital, more than a decade after Independence, no ethnic Malay had emerged with a significant presence in the corporate sector. In 1970, the Malay share of corporate wealth (by individuals and government trust agencies) amounted to a mere 2.4 per cent. Chinese equity ownership stood at 27.2 per cent, while the bulk of the remaining equity was under foreign ownership.[65]

1970-1981: Implementing Affirmative Action

Growing Malay discontent with the inequitable distribution of wealth among ethnic communities partly contributed to the 1969 race riots. In response to the riots, UMNO enlarged its tripartite alliance into a multi-party coalition, the Barisan Nasional, comprising more than a dozen parties. Since a number of the new parties in the ruling coalition had much Chinese support, the MCA's influence in government was reduced appreciably. In the economic domain, the government introduced the NEP, with its stated objective of promoting national unity by eradicating poverty and achieving inter-ethnic economic parity between the predominantly Malay *Bumiputera* (or "sons of the soil") and the other ethnic communities. The government's target of Malay ownership of corporate equity amounting to 30 per cent by 1990 was, however, the NEP's primary objective.

The NEP originally entailed government intervention in the economy through public enterprises and trust agencies to accumulate capital on behalf of the Malays, a process Ozay Mehmet would describe as "trusteeship".[66] Between 1971 and 1981, the presence of the state in the corporate sector increased appreciably as trust agencies and public enterprises went on an acquisition drive, aided by increased public expenditure as well as a 1975 government ruling that each quoted firm had to ensure a minimum 30 per cent of its equity was allocated to Bumiputera agencies or individuals. Government-linked organizations usually acquired about 20 to 50 per cent of equity in companies for investment purposes. A number of these organizations, including Khazanah Nasional, Permodalan Nasional (PNB), the Ministry of Finance Inc., Petroliam Nasional Bhd (Petronas), the Employees Provident Fund (EPF), Lembaga Tabung Haji and Kumpulan Wang Amanah Pencen,[67] have become major equity shareholders of what is now referred to as government-linked companies (GLCs). The

[62] Lim (1981: 114).
[63] Lim (1981: 52-70).
[64] Lim (1981: 69).
[65] See Appendix 2.
[66] Mehmet (1986).
[67] Mehmet would refer to the rise of these institutions as "distributional coalitions", that is cartel-like networks acting in collusion to concentrate wealth. See Mehmet (1986).

various state governments, through their respective State Economic Development Corporations (SEDCs), also own corporate equity. Some state governments, such as those in Johor and Sarawak, are shareholders of major quoted firms through their investment arms.

Chinese capital continued to grow during the NEP period, but there was an increasing need for these businesses to accommodate the state in order to continue to expand.[68] Following implementation of affirmative action, inter-ethnic relationships became common at three levels. First, among leading Chinese-owned companies, prominent Malays were appointed to boards of directors, mainly to serve as avenues for these firms to secure access to the state or bypass bureaucratic red-tape in government. These directors had equity ownership but were not actively involved in the management and development of these companies.[69] Second, at the level of the SMEs, "Ali-Baba" relationships were forged, but there was an unequal relationship here between the partners, where the Malays provided the contracts and the Chinese implemented them.[70] Third, among Malaysian elites, business partnerships were forged on a more equal basis. Notable examples include the partnership between Ibrahim Mohamad and Brian Chang in Promet, which eventually fell apart. Eric Chia worked with Mokhzani Abdul Rahim and Shamsuddin Kadir in UMW. Mokhzani and Shamsuddin moved on to develop their own enterprises.[71] Rashid Hussain and Chua Ma Yu established Rashid Hussain Bhd (RHB), before the latter went on to develop his own business interests.

Although the NEP sought to reduce ethnic inequities in wealth, income and employment through affirmative action, the government declared that no particular group would experience loss or feel any sense of deprivation due to the policy. According to the government, "restructuring" was to be achieved primarily through economic growth. Asset redistribution was to be undertaken through various forms: taxation, funding public enterprises and the banking system, which would provide Bumiputeras with preferential credit access and funding for the acquisition of corporate equities.

These programmes, however, soon aroused non-Bumiputera dissatisfaction with the NEP, and such reservations about this policy were exacerbated when public enterprises moved into sectors in which the Chinese had a major presence, particularly in banking, property and construction. The Urban Development Authority (UDA), established in 1971, ventured into construction and property development. By 1976, two Chinese-controlled banks, Malayan Banking and the United Malayan Banking Corporation (UMBC), had fallen under state control following runs on them. During the next decade, several other financial institutions established by the Chinese, along with one Indian-controlled bank, the United Asian Bank (UAB), were taken over by the state or by Malays.[72] The authorities had investigated these banks' management for alleged malpractices or violation of banking regulations, which contributed to their eventual takeover by the government, before they were divested to state agencies or to select Malays.

By the late 1970s, public enterprises had acquired controlling interests in a number of major foreign-owned firms. In 1975, Pernas acquired British-owned London Tin (now the Malaysian Mining Corporation), the country's leading tin mining group. The following year, Pernas secured control of the OCBC-controlled Southeast Asian-based multinational Sime Darby. In 1981, British-controlled Guthrie Corporation, the largest plantation company in Malaysia, was taken over by the trust agency PNB, which was soon to emerge as the country's largest institutional investor. Other major enterprises that came under state or Malay control included the leading shipping firm, Malaysian International Shipping Corp (MISC), the auto-motor giant, United Motor Works (UMW), and the largest newspaper company, New Straits Times Press (NSTP). With the state now actively acquiring corporate assets on behalf of the Malays, by the end of the 1970s, Bumiputera share of corporate wealth, by individuals and government trust agencies, had increased appreciably to 12.5 per cent. Foreign ownership of corporate equity had fallen appreciably, by over 20 percentage points, from 63.4 per cent in 1970 to 42.9 per cent in 1980.[73]

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68 See Gomez (1999).

69 Jesudason (1989).

70 See Chin (2001) for a discussion on the phenomenon of Ali-Baba business relationships in Malaysia.

71 Searle (1999).

72 See Gomez and Jomo (1999: 60-66).

73 See Appendix 2.

1982-2003: Corporate Development under Mahathir

In 1981, after Mahathir was appointed prime minister, he expressed his grand vision for Malaysia to achieve fully-developed nation status by 2020, with the country's industrialization driven by a new class of internationally recognized Malay-owned enterprises, known in policy terms as the "Bumiputera Commercial and Industrial Community" (BCIC). To achieve these goals, Mahathir moved to change the nature of Malaysia's interventionist state, reshaping it as a developmental state based on the Japanese experience, a point encapsulated well in his "Look East" policy. His government would intervene in the market to alter the incentives open to businesses, targeting for development the industries it considered imperative to achieve industrialized nation status. Within the bureaucracy, Mahathir stressed the importance of the Ministry of Trade and Industry (MITI), modelled on Japan's MITI, as a key institution that would drive Malaysia's industrialization. As in Japan, where the MITI's "administrative guidance" was a means to determine the industrial sectors that private firms should venture into,[74] Mahathir's government would decide the direction of the economy, determining the ways the state would intervene to promote domestic industry. Since the private sector had a crucial role in this new pattern of development, Mahathir promoted his concept of "Malaysia Inc.", modelled on "Japan Inc.", to draw attention to his desire to enhance public-private cooperation.[75]

In spite of his overt focus on Japan, Mahathir appeared to be more influenced by the entrepreneurial form of the South Korean chaebols than by the innovative organizational capabilities of Japanese enterprises.[76] And, while Mahathir's government shared many of the characteristics of the industrialized East Asian states, it was with South Korea that Malaysia shared the most similarities that facilitated the promotion of the sorts of intervention he subscribed to, that is strong political authority, a clear national consensus for economic growth (though there was no consensus on the form of economic development) and a competent but (increasingly) subservient bureaucracy. Mahathir's growing hegemony over the state helped ensure that bureaucrats adopted, structured and pursued a developmentalist model of his conception.

Mahathir's heavy industrialization policy was implemented through state-owned Heavy Industries Corporation of Malaysia (HICOM), partially modelled on South Korea's Heavy and Chemical Industries. HICOM collaborated primarily with Japanese companies to develop a variety of industries, ranging from steel, iron and cement production to the manufacture of the national car, the Proton Saga.[77] For Mahathir, heavy industrialization would help diversify the industrial sector and replace declining private investments with public investments. Claiming that private businesses would be reluctant to participate in heavy industries given the huge capital investments required and their limited technological expertise, he bypassed the domestic, predominantly Chinese, manufacturing sector. The government soon came under much criticism for this "ethnic bypass".[78]

Businesses owned by William Cheng, Khoo Kay Peng and Quek Leng Chan had acquired much expertise in the steel and cement manufacturing sectors and most motor vehicle assembly and distribution firms were Chinese-owned.[79] Among the most prominent motor vehicle assemblers and distributors were Loh Boon Siew's Oriental Holdings, William Cheng's Lion Group, the Tan brothers' Tan Chong Motors and UMW, then controlled by Eric Chia. The government, instead of encouraging

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74 Johnson (1982).

75 For an assessment of Mahathir's view on the need to develop huge business enterprises, specifically by emulating the Japanese *sogoshosha* model, see Chee and Gomez (1994).

76 See Chandler, Amatori and Hikino (1997) for a discussion on these two different managerial and organizational forms.

77 Apart from diversifying its manufacturing activity, HICOM was required to increase local linkages, promote small and medium enterprises and generate local technological capacity, primarily with Malay-owned firms.

78 See Jomo (1997: 250).

79 Cheng had come to earn a reputation as Malaysia's "steel king" by the late 1970s, developed through his firm Amsteel Corp. See Gomez (1999: 93-101).

Chinese participation in its heavy industrialization endeavour, entered into negotiations with the Japanese firm Mitsubishi to establish the joint-venture Perusahaan Otomobil Nasional (Proton), with HICOM holding a controlling interest. Edaran Otomobil Nasional (EON) was established by HICOM in 1985 to handle the sale of the Proton Saga.[80] The government turned to Nippon Steel to develop its steel industry, which was fairly quickly discarded by the Japanese firm. Control of this state-owned steel firm, Perwaja Steel, came under the management of Mahathir's close ally, Eric Chia, but it would eventually come to be mired in allegations of mismanagement.

As for Proton, the government undermined its bargaining capacity in its negotiations with Mitsubishi by ignoring the contribution the Chinese could have made to the car project, allowing the Japanese firm to obtain better terms for itself. Mahathir would later acknowledge that Malaysia's interests had not been well served by this joint-venture. He complained that Mitsubishi had not transferred much new technology, while continued dependence on the Japanese for parts and materials was increasing trade deficits. Subsequently, another joint-venture was formed, involving Japan's Daihatsu, when Malaysia's second national car project was introduced. This joint-venture, Perusahaan Otomobil Kedua (Perodua), included Mitsui and one local firm, UMW, by then under state control.[81]

Mahathir would later encourage Malaysian firms to establish joint-ventures with European manufacturers to produce new models of the national car. One project was established with France's Automobile Citroen, involving publicly-listed Diversified Resources (DRB), controlled by the late Yahya Ahmad. This venture was successful enough to justify the privatization of HICOM to Yahya in 1993, then giving him near monopoly over the production and sale of national car models. Following a major restructuring exercise, EON and Proton came under the control of DRB-Hicom.

As for Malay capital, Mahathir argued that more than ten years after NEP implementation, although the government had managed to increase the volume of corporate equity held in the name of Bumiputeras to 12.5 per cent, very few Malays had control of large firms which was after all, to his mind, the primary objective of affirmative action. His method to create an ensemble of dynamic, entrepreneurial Malay businesses was to be through a process of targeting and preferential treatment.[82] Mahathir argued for the need to pick potential entrepreneurs and confer on them – without open tender – rents such as licences, contracts and privatized projects, acquired with loans from banks owned by the government. This tripartite link between the government, private capital and financial institutions would aid the rapid rise of well-diversified conglomerates.

Mahathir was of the opinion that the stock market was another avenue to help create domestic enterprises as well as transfer wealth, even though he was probably well aware that Japan, unlike the US and the UK, has not been a stock-market-centred economy.[83] Mahathir's government would create rents for selective distribution to private companies owned by a small group of businessmen who would be involved in corporate manoeuvres such as shares-for-assets swaps and reverse takeovers to capture control of quoted firms. These firms would, in turn, be used for other corporate manoeuvres, including mergers, acquisitions and takeovers, to develop the size of their enterprise. As share prices escalated, their stock would be used as security to obtain more loans from banks for further acquisitions. The injection of these rents into the stock market, Bursa Malaysia, would help these businessmen swiftly develop the value of their firms as well as the size of the local bourse.

Through privatization, state assets would be sold to private individuals and GLCs which would be listed on the stock exchange. A number of privatizations that were publicly-listed were sizeable,

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80 A subsidiary of UMW was given a 35 per cent stake in EON. Mahathir had been a long-standing associate of then UMW chairman, Chia. Both men had served as directors of a leading public enterprise, Food Industries of Malaysia (FIMA). Mahathir had resigned as director of FIMA in 1981 when he took office as prime minister (Gomez and Jomo 1999: 102). Chia lost control of UMW in the mid-1980s when the company was badly affected by the recession. The trust agency, PNB, secured majority ownership of UMW.

81 Perodua had numerous shareholders: UMW (38 per cent), MBM Resources (20 per cent), Mitsui (7 per cent), Daihatsu Malaysia (5 per cent), Daihatsu Japan (20 per cent), and PNB Equity Resource Corporation (10 per cent). Toyota of Japan owns a 51.1 per cent stake in Daihatsu Japan and has an interest in UMW, giving the company a significant interest in the Perodua project (*Malaysian Business* 1/2/01).

82 Sloane (1999) provides a perceptive analysis of the government's promotion of Malay entrepreneurship.

83 Dore (2000: 175); Morck and Masao (2003).

such as the gaming firm, Sports Toto, the national airline, Malaysia Airlines (MAS), MISC and HICOM.[84] By the mid-1980s, 24 enterprises owned by the government had been listed on the local bourse, and by 1995, all privatized agencies accounted for 22 per cent of the local bourse's total market capitalization.[85] Between 1989 and 1993, equity market capitalization as a percentage of GDP increased from 105 per cent to 342 per cent. By the mid-1990s, Bursa Malaysia's market capitalization relative to GDP was the highest among Southeast Asian countries. The Bursa had also emerged as the fourth largest bourse in Asia and the 15th largest in the world in terms of market capitalization.

The enormous inflow of foreign funds as portfolio investments (FPI) and loans during the 1990s contributed further to appreciably enlarging market capitalization of quoted stock. Most of these funds were channelled to well-connected firms, which were progressively laden with debts but were expanding rapidly through their access to numerous state-generated rents. The attraction of FPI by well-connected firms suggested foreign investors wanted to secure quick capital gains from their investments. Foreign inflows of funds during the boom years included heavy borrowing by some Malaysian banks and firms. Moreover, patronage involving the disbursement of loans to the well-connected, including funds for the acquisition of shares rather than productive economic activities, was becoming extremely rampant as other influential UMNO leaders began cultivating their own select group of businesspeople. Among these influential politicians were Anwar Ibrahim, deputy prime minister between 1993 and 1998, and Mahathir's close ally, businessman Daim Zainuddin.

Mahathir depended heavily on Daim, who he had appointed as finance minister in 1984, to create privately-owned Malay conglomerates. Daim clearly approved of Mahathir's promotion of Malay capital, but did not appear supportive of Mahathir's use of state enterprises to develop heavy industries, an opinion shared by many of his cabinet colleagues. Daim soon came to be seen as the most powerful figure in the corporate scene as his business associates rapidly secured leading privatizations. Daim's protégé, Halim Saad, for example, obtained in 1990 control of a multi-billion ringgit privatized North-South highway project,[86] and swapped it for majority ownership of Renong, a moribund but quoted firm. Within less than half a decade, Renong would emerge as the leading Malay-owned conglomerate, with a place among the top ten publicly-listed companies.[87] Although just one of many well-connected quoted firms, Renong became the symbol of Mahathir's success in creating a class of Malay "new rich" through selective government patronage.

Other Malays closely associated with UMNO leaders received extensive political patronage, contributing to their meteoric rise as owners of a substantial portion of corporate stock. This group included, apart from Halim Saad, Tunku Abdullah, Azman Hashim, Wan Azmi Wan Hamzah, Tajudin Ramli, Rashid Hussain, Samsudin Abu Hassan, Hassan Abas, Yahya Ahmad, Ahmad Sebi Abu Bakar, Ishak Ismail, Mohamad Sarit Yusoh, Kamaruddin Jaafar, Kamaruddin Mohd Nor, Mirzan Mahathir, Mokhzani Mahathir, Amin Shah Omar Shah and Syed Mokhtar Syed Nor.[88] A select group of non-Malays would similarly receive numerous rents from the state during the 1980s, including Vincent Tan Chee Yioun, Ting Pek Khiing, Joseph Chong and T. Ananda Krishnan.[89]

Mahathir would subsequently voice his intolerance of rentiers who had wasted the rents they had obtained. By the early 1990s, Mahathir began favouring non-Bumiputeras whom he believed could productively develop state-generated rents. He also stated that those businesses that performed industriously would stand to benefit from further state patronage. Among those who benefited from

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84 For a critical review of privatization in its various forms under Mahathir, see Jomo (1995).

85 Callen and Reynolds (1997: 15).

86 This contract had originally been awarded to a company controlled by UMNO. Following numerous embarrassing exposes about the government's award of this lucrative contract as well as other rents to firms owned by the ruling party, ownership of these companies was passed on to private individuals closely associated with government leaders, such as Halim Saad and Tajudin Ramli. See Gomez (1990, 1991 and 1994).

87 See Appendix 3.

88 See Appendix 3 for a list of the leading publicly-listed companies controlled by these well-connected businessmen by the mid-1990s.

89 See Gomez and Jomo (1997) for a review of the use of the rents distributed by the state to these well-connected non-Bumiputeras.

state patronage were non-Malay firms such as Genting, YTL Corp and Tanjong,[90] one reason why a new set of non-Bumiputera firms emerged as prominent corporate players in spite of the strong emphasis on affirmative action and Malay enterprise development under Mahathir.

Mahathir and Daim did not remain mere benign patrons after dispensing state rents. They took an active part in directing the development of firms that were privy to state rents. In some cases, it was difficult to ascertain if these firms were acting in the interests of their ostensible owners, UMNO or their patrons, specifically the business interests of Daim. Inevitably, it was widely alleged that UMNO had found through affirmative action a mechanism to implement policies, regulate markets and distribute rents to serve vested interests. Even UMNO members began to vociferously criticize Daim for abusing his position as finance minister to develop his own corporate base. Daim's influence in government and business was a major reason for a deeply fractious UMNO election in 1987 that almost led to Mahathir's fall from power. UMNO subsequently splintered into two groups, with the losing faction allying itself with opposition parties to forge coalitions that were to seriously threaten to unseat the Barisan Nasional during the 1990 general election. In 1992, a year after he had stepped down as finance minister and Mahathir had consolidated his position in UMNO and the government, Daim's total wealth reportedly amounted to RM1 billion,[91] including assets in a number of foreign countries. No major firm has, however, emerged as Daim's flagship enterprise in Malaysia.

As most people who received rents from the state were well-connected and had emerged remarkably swiftly in the corporate sector through takeovers and asset-for-share swaps, critics argued that Mahathir's practice of selective patronage had hardly generated entrepreneurial dynamism among local firms. These companies had allegedly been imbued with the pursuit of profit over the cultivation of an entrepreneurial spirit. Yoshihara had such businesspeople in mind when he referred to them as "rentier capitalists" practicing a form of "ersatz capitalism".[92]

Mahathir, however, clearly expected rent recipients to follow the example of firms under the industrializing development model of South Korea, that is to grow by exploiting existing technological knowledge and to develop the capacity to innovate. He encouraged rent recipients to adopt a long-term view to enterprise development, not to see these concessions as a mechanism for quick returns that would help propel them into the league of the "new rich". Businessmen privy to government rents had to face competition. This was most obvious in the telecommunications, financial, power, construction and property development sectors, suggesting an attempt by Mahathir to encourage entrepreneurship.

Among Malay-owned firms, very few appeared to follow Mahathir's directive to develop technological expertise. One that did build on its founder's experience in the telecommunications industry was Sapura Holdings. This enterprise, led by Shamsuddin Kadir, who had long been in the employ of the government utility, Telecoms, rapidly emerged with a reputation for producing telecommunication units based on new technology developed through research.[93] Sapura would, however, divest its interests in this sector, probably due to the rise in the use of mobile phones, a highly competitive sector developed by a group of other well-connected people that included Tajudin Ramli, Vincent Tan and Ananda Krishnan.[94]

Among non-Malay firms, there were two examples of those that had productively developed rents secured from the state. The first was YTL Corp, which had no experience in power generation when it secured a lucrative independent power producer (IPP) licence, but learnt the technology by working with a German company, Siemens, before going on to develop a reputation on its own in this sector, even expanding its operations abroad.[95] The second were the companies owned by Ananda Krishnan who had secured a number of rents from the state, in the telecommunications and power supply sectors as well approval to launch a TV satellite. All these enterprises were developed in

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90 Companies within the Genting, YTL and Tanjung groups, owned by Lim Goh Tong, the Yeoh family and Ananda Krishnan respectively, were privy to highly-lucrative independent power producer (IPP) licences.

91 The exchange rate then between the Malaysian ringgit (RM) and the US dollar was RM2.4 = US$1.

92 Yoshihara (1988).

93 See Gomez and Jomo (1999: 72-75). See also Salazar (2007: 170-71).

94 See Salazar (2007) for an in-depth study of the development of the telecommunications sector under Mahathir.

95 Gomez (1999: 163-70).

collaboration with foreign firms and by employing professionals with expertise in these sectors.[96] By the end of the 1990s, Ananda would emerge among Malaysia's wealthiest businesspeople, second only to octogenarian Robert Kuok who could be said to represent "old capital".

Mahathir had come to realize the importance of Chinese – and foreign – capital for sustaining growth and promoting industrialization following a severe recession in the mid-1980s. He subsequently liberalized the economy and included Chinese capital in his development plans, albeit on his terms. In the early 1990s, Mahathir also saw the opening up of China's economy as potentially lucrative for Malaysian capital, and this led to his call for greater business cooperation between Chinese and Malays.[97] Mahathir urged Bumiputera businesses to work with the Chinese to enter the market in China, partly also as a means to promote the development of Malay capital.

During the 1990s, the government had found it necessary to accommodate Chinese capital for political reasons. As UMNO factionalism became serious and as intra-ethnic divisions among Malays escalated – evidenced in the 1995 and 1999 general elections[98] – the BN found it imperative to court non-Bumiputera support. One avenue to secure Chinese support was to award rents to non-Malays, though the recipients were usually required to apportion some of these concessions to well-connected Bumiputeras. Inevitably, Mahathir's objective of creating a class of Bumiputera capitalists seemed to determine how Chinese businesses sought to cultivate Malay leaders. Eventually, even Chinese businesses that had operated independently of the state began to recognize the necessity for working with well-connected Malays. Medium-scale Chinese firms also began incorporating influential Malays as directors. This meant a growing number of Chinese companies began to depend less on institutions such as the MCA and the Chinese Chamber of Commerce to secure access to state rents.

It was following the 1997 Asian currency crisis that Mahathir's plans to develop Malaysian entrepreneurs quickly unravelled. The crisis adversely affected companies owned by many of the well-connected who now held corporate stock worth far less then their acquired value, leaving them severely over-leveraged. Between June 1997 and August 1998, non-performing loans (NPLs) held by domestic banks rose from RM9.3 billion to RM42.2 billion. The banks holding the most NPLs were government-owned: Sime Bank, Bank Bumiputra and Malayan Banking. Bank Bumiputra needed a capital injection of RM1.1 billion and the government bought its NPLs.[99] Sime Bank, then controlled by Mahathir's former political secretary, declared huge losses and was subsequently taken over by the well-connected Rashid Hussain group. Interestingly, government-controlled quoted companies fared much better in the currency crisis.

In spite of Mahathir's scrutiny of these preferentially-selected and treated firms, there was little or no disciplining of them, probably because in some cases the ostensible owners did his bidding. The government bailed out several of these companies, sometimes at exorbitant prices, and took over major privatization projects. The re-nationalization of the controversial multi-billion ringgit Bakun Dam and national sewerage projects, and the government's decision to acquire control of major privatized enterprises such as the national airline, MAS, the telecommunications firm, Celcom, and the North-South Highway toll operator and construction firm, United Engineers (M) (UEM), were outstanding examples of costly mistakes.

The reasoning behind much of this state assistance was dubious. When DRB-Hicom encountered serious financial problems following the currency crisis, its interests in Proton were bought over by Petronas, the government's cash-rich oil agency, on the grounds that Malaysia's car industry had to be sustained. Yet it would have been possible to involve Chinese firms with a presence in this sector in the restructuring of DRB-Hicom. Mahathir seemed reluctant to capitalize on this, probably because Chinese auto firms had continued to remain unbeholden to the Malaysian government for their presence in the corporate sector.

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96 Gomez and Jomo (1999: 159-65).

97 At the 1996 Second Fujianese World Chinese Entrepreneurs Convention, Mahathir was quoted as saying, "Malaysian Fujianese's close connections with their fellow-provincials in different corners of the world will help promote the business and investment opportunities in Malaysia" (quoted in Liu 1998).

98 Welsh (2004: 130-156).

99 Gomez and Jomo (1999: 192-99).

Another factor contributed to the fall of a number of well-connected enterprises following the currency crisis. Since the rise of these businessmen was linked to the patronage of influential politicians, their fortunes depended on whether their patrons remained in power. After a serious political fall-out between Mahathir and his deputy, Anwar, the latter was removed from office in September 1998, allowing the prime minister to further concentrate power in his office. Most businessmen associated with Anwar subsequently had to struggle to protect their corporate interests; many of them are no longer prominent business figures. Similarly, when Daim fell out of favour with Mahathir in 2001, the corporate assets owned by his business allies and proxies were taken over by the GLCs.[100] It is Malay capitalists who have remained relatively independent of ties with influential politicians who appear to have fared better in the crisis.

Although businesspeople who had few or no links to politicians appear to have retained control over their firms, mainly by conforming to state policies, the government has been able to take over corporate assets at will. Prominent businessmen such as Rashid Hussain, T.K. Lim and Tong Kooi Ong have lost control of large, even thriving, enterprises, because they were allied with ousted politicians or had lost favour with Mahathir.[101] By 2003, in spite of the rise of huge firms, capitalists remained very subservient to the state. This subordination of capital brought into question the sustainability of corporate enterprises, given the vulnerability of these companies to political power struggles.

However, among smaller quoted companies, in terms of market capitalization, crucial changes had transpired by the end of the last century. During the 1990s, among the smaller firms that were being quoted on the Bursa Malaysia, there was growing evidence of inter-ethnic business ties. A study of ownership of firms listed on the bourse in 2000 indicates that only about 18 (or 2.5 per cent) of them were inter-ethnic partnerships.[102] This low 2.5 per cent figure drew attention to the issue of the sustainability of partnerships. These firms, however, share some interesting features. All 18 were quoted on the stock exchange in the 1990s. Nearly 50 per cent of these companies were incorporated or began operating as inter-ethnically-owned firms during the 1980s and 1990s. 12 (or 67 per cent) of these 18 companies were involved in manufacturing, indicating a productive economic dimension to their business activities and the possible emergence of a new breed of entrepreneurs. Five (or 18 per cent) of these enterprises were involved in the construction sector which suggests that some elements of an “Ali-Baba” relationship still prevailed among these newly-listed enterprises.

This growing evidence of inter-ethnic business ties demonstrates a transition in society that in turn suggests two things about affirmative action. First, NEP implementation has led to the creation of an independent, dynamic Bumiputera middle class.[103] Second, important changes were transpiring in the way businesspeople developed their firms, probably as a consequence of generational change. Changes in business strategies, organizational structure and management style within these firms suggest that new generations of Chinese and Malays, unlike their forebears, appeared more inclined to forge inter-ethnic corporate ties. These developments implied that there was a greater openness to inter-ethnic business cooperation for mutual benefit among this new generation. These ties allude to the possibility that non-Bumiputeras born and bred in Malaysia were comfortable about cultivating inter-ethnic relationships. Among middle-class Bumiputeras, it reflected a confidence and ability to hold their own in business, due to the skills they had acquired through the promotion of affirmative action. This growing evidence of inter-ethnic business ties among quoted companies, without state intervention, raises important questions about the need to remove ethnicity as a social marker when assigning ownership and control of resources.

Before he retired, Mahathir provided a candid assessment of his failed policy endeavours, as well as of the lessons he had learnt. NEP patronage, he admitted, had led to a “crutch mentality” and he felt that the only way to promote Bumiputera entrepreneurship was to expose these businesses to

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[100] For details on the takeover of assets controlled by Anwar allies and Daim protégés, see Gomez (2006).
[101] Gomez (2006).
[102] Wazir (2002).
[103] See Abdul Rahman (2001).

competition.[104] The Chinese, he added, had managed to increase their ownership of corporate equity because they had been forced to compete especially hard during the implementation of affirmative action.[105] What Mahathir did not mention was that the Chinese, for all their ostensible entrepreneurship, had not managed to develop brand names or move up the technological ladder. This stalled technological ascendancy on the part of non-Bumiputera firms was mainly because they had received inadequate support from his government.

By 2001, no Bumiputera had ownership of a top ten-quoted firm.[106] Well-connected Malays, such as Halim Saad and Tajudin Ramli, whose companies had secured a high ranking on the Bursa Malaysia before the currency crisis were no longer listed. Another significant point about the top ten enterprises in 2001 was that the government had majority ownership of six of them, due to the partial nature of some privatizations. These firms included the former public utilities Telekom Malaysia and Tenaga Nasional, the leading bank, Malayan Banking, Petronas' gas producer, Petronas Gas, the national shipping line MISC, and the well-diversified Sime Darby.[107] The government had a stake in Commerce Asset-Holding, which owns the second largest bank, Bumiputra Commerce Bank, a merger between state-owned Bank Bumiputra and Bank of Commerce, owned by UMNO. Two well-connected groups, Renong and New Straits Times Press (NSTP), similarly own a huge interest in Commerce Asset-Holding. In July 2001, the government announced a takeover of Renong.

The other three firms in the top ten – Resorts World, Genting and YTL Corporation – are Chinese-owned. Genting and Resorts World, involved in the casino and leisure industries, are part of the same group owned by Lim Goh Tong. The YTL group, involved in the construction, property development and power industries, is owned by Yeoh Tiong Lay and his family.[108] The other conspicuous point about this top ten was that none of them was owned by a foreign enterprise.

Of the companies ranked from 11 to 20, five were Chinese-owned: Public Bank owned by Teh Hong Piow, YTL Power International, which is part of the YTL Group, the gaming firms, Berjaya Sports Toto, controlled by Vincent Tan, and Magnum Corporation, which is part of the Multi-Purpose Holdings (MPHB) group, and Kuala Lumpur-Kepong (KLK), owned by the Lee family. Only one government-owned firm and one foreign-owned company figured in the 11-20 bracket, that is the motor vehicle producer, Proton, and the cigarette producer Rothmans of Pall Mall, respectively. Three Malays stood as owners of firms listed in the 11-20 bracket – RHB Capital, part of the financial-based RHB Group and once controlled by Rashid Hussain, United Engineers (UEM) and Renong. Renong and UEM have cross-holdings, with the former functioning as the main holding company of this highly-diversified group. This meant that by mid-2001, of the top 20 companies, only one, RHB Capital, was owned by a Bumiputera. In 2002, Rashid divested control of RHB Bank following a merger of this enterprise with Bank Utama, an institution wholly-owned by the Utama Banking group. This group is controlled by publicly-quoted Cahya Mata Sarawak, an enterprise in which family members of Taib Mahmud, the chief minister of the state of Sarawak, have a major interest.

The top 20 firms reflect a number of important features. First, the considerable decline of foreign ownership of corporate Malaysia between 1970 and 2000; only one of the top 20 firms was owned by a foreign enterprise. Second, in spite of active privatization since the mid-1980s, the government still had majority ownership of half of the top 20 firms. Of these ten companies, two were formerly part of the Renong group, a major recipient of privatized rents, while Proton was re-nationalized. Third, eight of the top 20 firms were Chinese-owned, indicating that members of this community had managed to maintain a strong presence in the economy in spite of the NEP. Fourth,

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[104] See Mahathir's speech entitled "The New Malay Dilemma", delivered at the Harvard Club of Malaysia dinner on 27 July 2002.

[105] See Mahathir's speech "The New Malay Dilemma".

[106] See Appendix 3.

[107] The main government enterprises that own a stake in Telekom Malaysia and Tenaga Nasional include Khazanah Nasional and the Minister of Finance Inc., while the controlling shareholder of Malayan Banking and Sime Darby is the national trust agency PNB. MISC is majority-owned by Petronas, which also owns Petronas Gas.

[108] For case studies on the development of the Genting and YTL groups, see Gomez (1999).

just prior to Mahathir's departure from office, only one major company was owned by a (well-connected) Bumiputera family.

By 2001, there were no Malay-owned quoted firms in the industrial sector. No Bumiputera company listed in the Bursa Malaysia top 50 in 2001 had shown the capacity to venture successfully into manufacturing, in spite of substantial state support and even though Malays owned 2.5 per of share capital in this sector in 1970. Most Malays were involved in finance, telecommunications construction and property development. Shamsuddin Kadir is probably the only Bumiputera actively involved in manufacturing, though none of his companies appear in the Bursa Malaysia top 50. It appeared that foreign firms had emerged as beneficiaries of Malaysia's costly industrialization drive. Kedah Cement, also part of the DRB-Hicom group, was taken over by a foreign firm. HICOM was de-listed in August 2001, following a restructuring of the DRB-Hicom group.

One key sector where the influence of non-Bumputeras had diminished and the role of GLCs and Bumiputera individuals had increased was in banking. The decline in non-Malay participation in this sector was a result of the government's enforced bank consolidation exercise, in spite of the public outcry. In 1999, the government proposed to merge Malaysia's 58 financial institutions into ten – originally it was six – anchor banks. One key criticism about this consolidation exercise was that the most dynamic banks were being brought under the control of less entrepreneurial institutions.[109] When the original proposal of just six anchor banks was presented, there was open discontent among non-Bumiputera bankers about this consolidation exercise as the merger of some of their most enterprising banks would diminish their presence in this sector. The number of Chinese-owned banks was subsequently increased from a mere two (Public Bank and Southern Bank) to three, when Hong Leong Bank was also given anchor bank status. The government has majority ownership of four of these ten anchor banks. Another two are owned by Bumiputeras. The non-Malays' prominent – even arguably entrepreneurial – presence in banking and finance was considerably diminished through government directive.[110] The government's dominant control and ownership of the banking sector can be detrimental to the rise of industrial capital as businesses will be extremely dependent on the state for long-term investment, a situation that is of concern given the way policy recommendations tend to be determined along ethnic lines.

A number of other interesting points should be noted about the top firms in 2001. The level of concentration of political power would suggest concomitant concentration of corporate equity in the hands of an elite group. In mid-2001, there was evidence not of wealth concentration but of wide dispersal of ownership of the top 50 quoted companies. No group of companies under the control of one family or individual dominated the top 20 listed corporations. In early 2001, *Malaysian Business* provided further evidence of this dispersal of wealth.[111] The combined wealth of the wealthiest 20 businesspeople amounted to RM41.7 billion in 2001, about 10 per cent of the local bourse's market capitalization.[112] It did not appear that any of these 20 wealthiest businesspeople held corporate equity in trust for influential politicians. One reason for this limited wealth concentration was that some of the dominant listed groups that had emerged by the mid-1990s, such as the Renong/UEM, HICOM Holdings, MAS-Celcom and Rashid Hussain groups, had been badly affected by the currency crisis.

While the studies by Lim,[113] Tan Tat Wai,[114] Sieh-Lee Mei Ling[115] and Mehmet[116] had revealed that interlocking ownership and directorships were important in ownership and control patterns of the corporate sector during the 1970s and 1980s, this was not the case by the end of the century. An analysis of interlocking stock ownership patterns revealed no links between the top 100 firms that suggested monopolization of economic sectors. A number of these quoted firms did,

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[109] See Gomez (2006).

[110] See Gomez (2006: 119-146) for a discussion on the government's bank consolidation exercise. For a review of the financial sector as a whole, see Rubi and Sieh (235-64).

[111] *Malaysian Business* (1/2/2001).

[112] *Malaysian Business* (2/1/2001).

[113] Lim (1981).

[114] Tan (1982).

[115] Sieh (1982).

[116] Mehmet (1986).

however, come under the umbrella of one holding company or were controlled by one businessman.[117] This form of grouping, involving the use of a holding company – and, in some cases, cross-holdings and pyramiding – reflects the most important form of corporate control. This corporate grouping pattern also indicates the conglomerate-style growth adopted by a number of Malaysian business people.

Interlocking directorship is at present a concept of as little importance as interlocking stock ownership. Two major types of interlocking directorate ties characterize such links: ownership ties, in which two or more organizations are jointly controlled by a single board of directors, and direct interlocking ties, in which two companies share one or more persons as members of their respective boards.[118] While the direct interlocking directorates are common, the interlocking directorate tie of most importance involves owner directors.[119] Owners hold directorships in a number of firms under the control of a holding company.

One important feature of corporate Malaysia in 2001 was the prominence of family firms.[120] Families were reputed to control about 40 per cent of publicly-listed firms, with the top ten families owning a quarter of market capitalization. As noted, among the top 10 Bursa Malaysia firms, three are family-controlled (Genting/Resorts World and YTL Corp), though other major family firms include Perlis Plantations (Kuok family), KLK (Lee family) and Tan Chong (Tan family).[121] The founders of most of these family firms retain control of these companies. Among the quoted firms still led by their founders are Public Bank (Teh Hong Piow), Lion Group (William Cheng), Berjaya Group (Vincent Tan), IOI (Lee Shin Cheng), AMMB Holdings (Azman Hashim); Tanjong/Maxis (Ananda Krishnan), Jaya Tiasa (Tiong Hiew King); MUI (Khoo Kay Peng) and Country Heights (Lee Kim Yew).

A review of the activities of the top companies in 2001 draws attention to a key point: none of Malaysia's leading domestic firms is involved in new technologies or in chemicals, pharmaceuticals, electronics and computers, a common feature of industrialized countries. This is a point of much concern given Chandler's contention that an economy's growth is dependent not merely on its natural resources, labour and managerial skills, available capital and size of internal markets, but more on how its technologies are organized and developed.[122]

2003-2007: The State in Transition

On his appointment as prime minister in November 2003, Abdullah Ahmad Badawi declared his intent to reform the economy and eliminate poverty. He would persist with a developmentalist model, but his government would intervene in different economic sectors. Abdullah's new vision for the economy was most coherently expressed in the *9th Malaysia Plan* (9MP), his first blueprint for moulding a new Malaysia, characterized by a "developed and united nation…confident in its own capabilities".[123] The 9MP revealed two crucial points about his economic orientation. The first was

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117 The holding company structure exists whenever one parent or holding company controls the composition of the board of directors, or controls more than half the voting power, or holds more than half of the issued share capital of another subsidiary company. This definition is extended to include a company which is a subsidiary of a subsidiary. The holding company uses the system of pyramiding, which allows the owner to maintain control over corporations with a relatively small investment. See Sieh (1982: 45) and Lim (1981: 6) for a more in-depth discussion of the merits and de-merits of the holding company structure.

118 Burt (1983: 3).

119 See Gomez (2004).

120 See Appendix 3.

121 There remains little research on the volume and contribution of family firms to the Malaysian economy, an important issue as research on family firms worldwide indicates that almost 70 per cent fail to survive into the second generation. Of those that do, almost 50 per cent do not make the transition from the second to the third generation.

122 Chandler (1997: 63). There is, however, evidence of emerging new firms involved in new technologies, though these enterprises remain small- or medium-sized firms, in terms of market capitalization. See, for example, Jomo, Felker and Rasiah (1999).

123 *9th Malaysia Plan, 2006-2010*.

that Abdullah remained convinced by a couple of ideas which have long characterized policy planning by the UMNO-led government, that is that sustained economic growth is fundamental to resolving social inequities; and that through its policies, the government could achieve different goals, with few trade-offs. For example, the government continued to believe that it could simultaneously promote social cohesion and Bumiputera capital without jeopardizing either endeavour.

The second issue about Abdullah's economic views was that while Mahathir was obviously fixated with the idea that the solution to sustained economic growth was liberalization of the private sector and the promotion of privatization, Abdullah's major policy recommendations appeared to be of a somewhat different bent, although he later conformed with this view. While Mahathir stressed the promotion of Bumiputera capital and Malaysian conglomerates, Abdullah voiced little interest in big business though he persisted with the BCIC policy. He would continue to champion Bumiputera capital in its original form but with one substantial change: there would now be a new emphasis on SMEs, a sector largely ignored by Mahathir.

Abdullah would insist that the creation of dynamic Bumiputera entrepreneurs would aid his endeavour to restructure society and eradicate poverty. To achieve these objectives, his government's methods included the promotion of Malaysian-type textile goods, such as the production of *batik* and *songket*, presumably to support potentially lucrative cottage industries dominated by poor rural Bumiputeras. Abdullah would encourage competitive advantage in the economy by focussing on Islamic-type products, for example, by developing a niche market in halal food. Enterprises in this sector, he felt, would be able to create export capacity if developed well.

Although these new industries promoted by the government to encourage Malay capital and eradicate poverty were novel, the BCIC, now nearly three decades into its implementation, had failed to advance the rise of a large pool of independent Bumiputera businesses. The poor state of Malay capital reflected the inability of state institutions, such as the Ministry of Entrepreneur Development, to cultivate new entrepreneurs, a lesson that had not yet been learnt by the government. This was evident in the government's own figures on the number of businesses in key sectors of the economy owned by Bumiputeras. Abdullah's solution to this problem was the establishment of the *Institut Keusahawanan Negara* (National Entrepreneurs' Institute), as a means to help train the young as well as to cultivate entrepreneurs. It is, however, extremely doubtful if entrepreneurship can be nurtured through the sort of training provided by such institutes.

By persisting with the promotion of Bumiputera capital, the government was reinforcing an old problem – evading potentially lucrative entrepreneurial ventures, merely because these did not involve Bumiputeras. Abdullah should have been aware, based on the outcomes of the NEP and the rise of Ali-Baba firms, that inter-ethnic business partnerships, forced or coerced into being by the dictates of policy, were simply not going to be sustainable.

To help nurture and develop small firms, Abdullah's major proposal was to establish the SME Bank. However, the reason SMEs have not been able to develop in a manner that equips them with export capacity is not their inadequate access to loans. These deficiencies prevail among SMEs primarily because they have not invested adequately in research and development. Chinese-owned SMEs are reputedly reluctant to approach banks for loans for fear of the need to divulge information that they feel can be used against them. Furthermore, cash flow-based funding by the SME Bank, as recommended by the government, is in itself inadequate to help cultivate a vibrant SME sector.

Another policy mechanism that had long been implemented with little success but emphasized by Abdullah was the use of the vendor system. The government planned to tie SMEs to large-scale enterprises and the GLCs, to help small firms gain greater access to the market. The vendor system was a core component of the national car project, Proton. To promote Bumiputera enterprise, their firms were chosen to supply Proton with locally-produced goods for the national car. This vendor system was, however, unsuccessful in developing the rise of Bumiputera firms in the automobile industry nor did it help ensure that Proton model cars were equipped with quality material produced at affordable rates, ultimately undermining the national car project.[124] The case of the Proton vendor

[124] For an in-depth study of this vendor system involving Proton, see Leutert and Sudhoff (1999).

system suggests that an attempt to anchor fledgling firms on to established enterprises would end up only weakening the prospects of the latter.

Apart from the promotion of SMEs, Abdullah's other major departure from Mahathir's policies was his attempt to utilize the GLCs more efficiently to generate growth. Reform of the GLCs was imperative as they were now among the major shareholders of Malaysia's leading publicly-listed firms. In 2005, 57 companies quoted on the Bursa Malaysia were GLCs, with a market capitalization of RM260 billion, constituting 36 per cent of the stock exchange's total capitalization.[125] Abdullah's proposed reform of the GLCs through the mere introduction of key performance indexes (KPIs) was, however, probably not sufficient to get them to perform efficiently and resourcefully in the economy.

Implementation of affirmative action would continue to address the issue of wealth disparities, because of the state's concern that the Chinese had twice the volume of equity owned by Bumiputeras, though there was no review why this was the case even though this policy had been instituted for over three decades. As noted, a number of reasons can be cited for this disparity in wealth between these two communities, including the decline of Bumiputera capital following the currency crisis, the failure of privatization to promote Malay-owned enterprises and the re-nationalization of companies controlled by Bumiputeras. The government also failed to note Mahathir's belated acknowledgement that the Chinese had continued to thrive in business in spite of the NEP because they had persistently been exposed to the rigours of competition. Crucially, too, while Abdullah strongly espoused his desire to unify the nation, he continued to perpetuate a discourse on equitable wealth distribution along racial lines. Another point he did not acknowledge about affirmative action was that its implementation had evidently contributed to serious wealth and income disparities among Bumiputeras.

Although Abdullah maintained that the Bumiputeras were still a long way off from attaining the NEP goal of 30 per cent ownership of Malaysia's corporate equity, the government's figures on wealth distribution can be disputed.[126] For example, individual Bumiputeras and the government were said to own 51.7 per cent and 31.2 per cent respectively of privatized entities at the end of 2005, while non-Bumiputeras owned only 8.9 per cent of such equity, which would presumably include firms such as Telekom, Tenaga Nasional and MISC.[127] Since the government holds this equity on behalf of Bumiputeras, the total volume of privatized firms attributable to this community would amount to a colossal 82.9 per cent. Yet, the government insisted that the volume of corporate assets owned by Bumiputeras had not increased from 19 per cent between 2000 and 2004.

Oddly, too, even though the GLCs are majority shareholders of the largest quoted firms, government figures indicate that the non-Bumiputeras own more equity than the Bumiputeras.[128] Government figures further indicate that nominee companies own a massive 8 per cent of corporate equity, even more than that owned by Bumiputera institutions, which hold only 2.2 per cent of such wealth.[129] Numerous studies have noted that well-connected businessmen, politicians and political parties use nominee firms to shield from the public their ownership of corporate equity.[130]

Abdullah also underscored the need to create an "efficient public service delivery system", a clear admission of the declining quality of the bureaucracy. While the government acknowledged the problems it faced in terms of its institutional capacity to enforce policies, it appeared that the mechanism to deal with this issue was greater oversight over the performance of public servants. However, the pledge to wield the "big stick" if the civil service did not perform cannot be the solution. The actual reasons why the quality of public service had appreciably and visibly declined over the past two decades were apparently not reviewed during the government's assessment of the mechanisms that had to be introduced to improve its delivery system.

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125 See the report entitled 'Overview of the 9th Malaysia Plan' by the Center for Public Policy Studies at the website: http://www.cpps.org.my

126 See Appendix 2.

127 9MP.

128 See Appendix 2.

129 See Appendix 2.

130 See, for example, Gomez (1990).

Developmental State, Enterprise Development and Affirmative Action

The Malaysian state's attempt to selectively cultivate firms to drive industrialization and promote domestic enterprise is not unique. In the US, the government adhered to the argument by Alexander Hamilton that during the economy's catching-up phase, it had to nurture and protect infant industries, which led to the emergence of a vast industrial base comprising large, medium and small-sized firms, many with the capacity to compete internationally. In Germany, the government, building on the thoughts of political economist Friedrich List during the late nineteenth century, created and nurtured a strong domestic business sector that had a symbiotic relationship with the state. List laid emphasis on the importance of industry and advocated systematic, but temporary, protection for Germany's infant industries. A similar pattern of state-business collusion occurred in late nineteenth century Japan where the Meiji government built its own factories in key industries in an attempt to catch up with the advanced nations of the West. These factories were subsequently sold by the state to favoured private businesses at low rates. Mitsui and Mitsubishi, among Japan's leading firms, were developed through such state patronage. This system of patronage was promoted in the immediate post-World War II period to rebuild the economy.[131] Similar state-capital linkages involving a focus on priority sectors that would drive industrialization, promote domestic capital and bring about structural change, including reducing poverty, have also occurred in South Korea and Taiwan.[132]

While the US, German and East Asian economies now have a thriving industrial base, in Malaysia, the state's desire to be developmentalist as well as apply neoliberal policies has had serious repercussions on the economy, while its attempt to create Bumiputera-controlled entrepreneurial firms with a strong presence in the industrial sector has failed. A number of reasons account for these failures. First, selective patronage was not exercised in a transparent manner with the primary criteria being the need to "pick winners" with entrepreneurial capacity and experience in a particular sector. The state provided a variety of reasons for not exercising transparency during the disbursement of rents, including the need to expedite industrialization, advance domestic capital and ensure ethnic coexistence through fairly equitable distribution of the wealth generated. However, the state's stress on targeting firms for selective patronage along ethnic lines tempered its choice of the "winners", while the other criteria was the need to channel these rents to businesspeople aligned to government leaders, suggesting an abuse of affirmative action. Meanwhile, the emphasis on according preferential treatment to one community, at least during the early years when the state began its pursuit of heavy industrialization, had undermined the development of domestic firms in this sector.

And unlike Japan, South Korea and Taiwan, but similar to other more developed Southeast Asian economies, Malaysia heavily cultivated foreign capital to drive its industrialization endeavour. In Malaysia's case, one reason for this was to ensure that Chinese-owned capital did not secure ascendancy in the economy, in terms of ownership and control of capital, as well as to provide the state with time to cultivate Malay entrepreneurs. The form of governance, specifically the repercussions of executive hegemony in government as well as UMNO's dominance over other parties in the Barisan Nasional, which led to unproductive political-business ties, was another factor contributing to the state's failure to develop large, Malay-owned entrepreneurial firms.

For all Mahathir's emphasis on Japan, it was the Korean model that he most adhered to, along with his belief that ideas within this model could be mixed with the tenets of neoliberalism. A comparison of the outcomes of the Korean and Malaysian states' developmentalist drive is thus instructive. In South Korea, economic and corporate development from the early 1960s had three primary features: a strong authoritarian state with centralized agencies in charge of economic and industrial policy formulation, implementation and supervision; a state-controlled financial system providing "policy loans" at highly favourable rates, together with policy guidance to selected sectors, industries and companies; and big privately-owned industrial chaebols, with aggressive and diversified investment policies, developed through state concessions.[133] There eventually evolved several hundred

131 Johnson (1982).
132 See Amsden (1989) and Wade (1990).
133 Amsden (1989).

chaebols and, by 1997, before the currency crisis, almost 80 per cent of South Korea's GNP was generated by about 30 family-owned chaebols. Family ownership remains important among the chaebols, usually through a holding company. Most chaebols continue to be dominated by authoritarian entrepreneurial figures and family members hold managerial positions in the group's companies, although salaried managers are a growing presence. Capital has come predominantly from bank borrowings, much of it from state-owned banks, granted on the condition that the chaebol was expanding into industrial and export-based industries sanctioned by the government. The chaebols' principal goal appears to have been rapid growth, as size, measured by volume of sales, has been the crucial factor as far as influence with the state and competition with other chaebols was concerned. Management and decision-making tend to be centralized. Since competition between the chaebols is intense, there is little inter-industry cooperation.[134]

A common feature among the leading privately-owned large enterprises in South Korea and Malaysia is that they are under the control of one authoritarian founder or family. In Korea, diversification would take the form of the creation of new firms, often partly owned by and linked to the original parent, but separate from a legal point of view and themselves specialized in whatever they do. In Malaysia, some large companies similarly attempted to do both, that is master expertise in technology and still remain quite diversified. The operations of firms in the Hong Leong group best reflect this – each sector the conglomerate is involved in is under a holding company that is independently and professionally run. Professional managers in charge of these different holding companies report to the chairman, Quek. Another businessman exercising this pattern of corporate holding and management is Ananda Krishnan, who runs a well-diversified enterprise. A semblance of this form of management is also prevalent in YTL Corp. The organizational capabilities and administrative coordination, involving decentralization of decision-making to a professional management, demonstrated by these Malaysian firms explain their capacity to run and develop a diversified enterprise, where a number of others have failed to do so.

What is obvious among a number of well-connected and preferentially-treated Malaysian firms is that their business strategies was heavily influenced by their access to finance, from banks as well as the stock market, a factor that eventually worked to their detriment. In Japan, companies developed with banks an interlocking ownership relationship that aided the implementation of long-term business strategies.[135] This pattern of industrial-financial capital ties, which drove industrial growth in Japan, was not replicated in Malaysia even though a great deal of these loans came from state-owned banks. The state, moreover, did not monitor use of these loans, nor was there sufficient regulation to ensure that banks disbursed loans in a fashion that conformed with the dictates of government policies.

While the firms selectively patronized in South Korea have developed export capacity reflecting enormous entrepreneurial ability, Malaysian companies preferentially selected and groomed have not. And unlike the case of Korea and Japan, Malaysian firms incorporated to develop heavy industries have failed miserably, with only the car industry still under local (state) control, though a joint-venture with a foreign enterprise has long been on the drawing board. Interestingly, there is still no government review of involving Chinese-owned motor vehicle assemblers and distributors in the national car project, as their inclusion from the outset could have led to the development of an entrepreneurial firm with export capacity.[136] While the development of the motor vehicle sector was linked to the BCIC, using the vendor system to promote the rise of Bumiputera-owned SMEs in the

[134] Wad (2002: 182-215).

[135] Dore (2000).

[136] Chinese firms in the motor assembly and distribution sector appear, however, to be losing out to foreign companies. Oriental Holdings lost its sole distributor rights of Honda model vehicles in 2001. A new joint-venture, DRB-Oriental-Honda, was formed in which Oriental Holdings has only a 15 per cent stake. Honda holds a 49 per cent stake in this joint-venture and DRB-Hicom the remaining 36 per cent equity. Oriental Holdings has linked up with Korea's Hyundai Motor Co to distribute Hyundai model vehicles in Malaysia. Tan Chong Motor remains the sole distributor of Nissan model motor vehicles in Malaysia, though it is uncertain for how long since Nissan Motor Co has increased its equity in Thailand's franchise holder to 75 per cent, up from 25 per cent.

manufacturing sector, this too has failed to achieve its objective.[137] The government's inability to develop large-sized firms and SMEs in manufacturing brings into question the effectiveness of this sort of "targeting", though it is quite probable that the reason for this failure was the state's desire not to incorporate firms or people who already had some expertise in the industry. Furthermore, compared to industrialized East Asia, Malaysian firms have fared relatively poorly in terms of their investment in research and development.[138]

While the state-business linkages created in Korea and Japan to develop entrepreneurial firms have unquestionably facilitated the rise of a number of internationally recognized companies, such ties have not been as successful in Malaysia. Some companies privy to state patronage have emerged as enterprises with foreign business ventures, including the gaming firm, Genting, financial services provider, Public Bank, the well-diversified Malayan United Industries (MUI), as well as the business groups owned by Kuok, Quek, Ananda, Yeoh, Tan and Cheng. The poor quality of the local enterprises supported by the Malaysian state can be attributed to a host of problems including lax supervision of the financial sector and an unsustainable form of corporate growth through debt, while there is also evidence of cronyism, corruption and nepotism.[139]

The leading Bumiputera firms are the GLCs, in spite of privatization and affirmative action, an indication of the parlous state of privately-owned Malay capital. The presence of Bumiputeras in manufacturing is non-existent among quoted firms, raising serious questions about the BCIC's capacity to cultivate large competitive enterprises. It is doubtful that the GLCs possess entrepreneurial capacity, a sentiment expressed only because of their size and presence in the economy, with little analysis of their pattern of growth. Growth through acquisition, mergers and takeovers is hardly entrepreneurial. GLCs can, however, be placed under the control of competent managers, leading to their rise as professionally-managed firms with expertise in particular sectors.[140] Although government leaders had long felt that GLCs could have entrepreneurial capacity, these firms have not shown the ability to deal with the MNCs with whom joint ventures in heavy industries were created. One lesson from the involvement of these GLCs in joint ventures was that they appeared concerned only with advancing industrialization, not developing entrepreneurial capacity, which is not surprising.

Another factor contributing to the limited number of large industrial firms in Malaysia includes the pattern of growth of these enterprises, involving conglomerate-style acquisitions and an over-dependence on the loans to expand in size. The emergence of this diversified pattern of growth through loans can be attributed to state policies, specifically those dealing with the control and use of the financial sector to promote corporate expansion. This growth pattern became a popular corporate strategy among large firms mainly due to the desire of businesspeople to venture into any field that promised quick profits or had a strong potential for consumer demand. One major problem with firms adopting this pattern of growth was the considerable over-diversification of their corporate base. The core businesses of a number of people who had adopted this style of growth, including Halim Saad, Tajudin Ramli, Wan Azmi Wan Hamzah, Mirzan Mahathir, Vincent Tan and William Cheng, were severely impaired by the currency crisis, due also to their dependence on short-term loans and foreign portfolio investments to fund their diversification drive. This suggests the business style of many of these large-scale firms and the manner of their growth – whether a vertical, horizontal or diversified pattern was employed – appear to be factors determining their capacity to deal with economic crises.

In the presence of a strong state, it appears to have been imperative for capitalists to link up with influential politicians. The leading non-GLC businesses in 2001, Genting, YTL Corp, Hong Leong and Berjaya, are Chinese-owned and have been privy to state patronage. Two other companies among the top 20, Public Bank and KLK, probably have some semblance of independence from ruling

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137 See Leutert and Sudhoff (1999).

138 While industrialized East Asian countries spent between 2-3 per cent of their gross national income on research and development, the total expenditure in Malaysia for this was a mere 0.4 per cent.

139 See, for example, Gomez (1990, 1991, 1994, 2002), Searle (1999), Yoshihara (1988).

140 This attempt to promote managerial capitalism, in the Chandlerian tradition, would enhance the capacity of the GLCs to function far more productively in the economy. See Chandler (1977) for a discussion on the evolution from entrepreneurial to managerial capitalism among large enterprises.

politicians, but men with proven entrepreneurial skills have led both groups. Public Bank has also always conformed to government policies and has been very prudently managed.

Apart from ownership patterns, an important feature of the top 100 publicly-listed firms in 2001 was that barely 20 of them list manufacturing as their primary activity. A majority of them are foreign-owned – Rothmans, Nestle, Malayan Cement, Carlsberg, Guiness Anchor, RJ Reynolds, Malaysian Oxygen, Kedah Cement and Shell Refining Company,[141] an indication that manufacturing companies of the colonial period had not managed to grow in size,[142] with one possible exception. Three of these 20-odd firms belong to the Hong Leong group – Malaysian Pacific Industries (MPI), which is involved in the electronics sector, OYL Industries, producer of air-conditioning products, and Hong Leong Industries, a tiles manufacturer. Most of the domestic manufacturing firms in the top 100 are Chinese-owned, a feature of this sector since Independence. A comparison of Lim's compilation of the top 100 companies in 1970 with that of the leading quoted firms in 2001 indicates that only one enterprise has managed to retain its position as a leading manufacturer, foreign-owned Rothmans.[143] Pan Malaysian Cement Works appears in both lists, but it divested its cement manufacturing business to a foreign enterprise. This suggests that manufacturing firms of old have fallen behind in terms of investing in new plant and equipment, introducing new products or pursuing new markets.

Other reasons can be identified for the rise of a mere handful of large entrepreneurial firms in Malaysia. In his study of the decline of big British firms between 1880 and 1940 in a number of capital-intensive industries, Chandler attributed it to a failure to invest sufficiently in production, distribution and organization.[144] This trend of limited investments in these key areas would similarly account for the demise of some Malayan enterprises that had emerged during the colonial period, though more research is required in this area.

The limited presence of large firms manufacturing can also be attributed to the implementation of the NEP. Since the policies introduced as part of the NEP discouraged Chinese businesses in this sector,[145] the SMEs which had the capacity to develop new technology have been constrained from emerging with the technological know-how to foster domestically-driven industrialization.

Targeting Malays to promote Bumiputera capital has in large measure been unsuccessful. The decline of a number of large Malay firms in the post-currency crisis period suggests that selective intervention to promote Bumiputera capital has failed, though not because of inadequate state support. The issue of property rights is also important, because of the emergence of a strong state. The politics of the state, specifically that involving UMNO, has overwhelmed and undermined the independent functioning of the corporate sector. State policies and legislation can easily be used to remove assets owned by businessmen who appear to not conform with the interests of government leaders.

One major reason why large industrial firms failed to evolve was that, during policy planning, UMNO's primary concern had been to ensure that the Chinese did not enhance their ownership and control of the corporate sector. The government need not have feared Chinese dominance over the economy. Studies now well reveal that common ethnic identity has not served to unify members of this community nor was it the crucial factor that contributed to the sustained presence of Chinese-owned capital.[146] Common Malay identity did not similarly serve to unify their businesses, including those owned by people who shared the same political patron.[147] Studies have shown that in spite of the long promotion of affirmative action that discriminates against Chinese enterprises, this has generated intense intra-ethnic business competition, not cooperation.[148] The diversity of their business styles, in terms of size, type of ownership and management and areas of business, explains why Chinese firms

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141 For a profile of the top 100 publicly-listed firms in 2001, see Gomez (2006).

142 See Puthucheary (1960) and Sieh (1982).

143 Lim (1981). See Table 3.

144 Chandler (1990).

145 One major example is the Industrial Coordination Act (ICA), introduced in 1975 and subsequently amended several times. See Jesudason (1989) for a discussion on the reaction of Chinese-owned firms in this sector to the ICA.

146 Jesudason (1989); Searle (1999); Gomez (1999, 2004).

147 Sloane (1999).

148 Gomez (1999, 2004).

seldom cooperate with each other. The Chinese who have made the foray into joint ownership have ended up at loggerheads, an issue not uncommon in most partnerships. Most Chinese owners of companies are reluctant to merge with other firms, for to do so would mean sharing control of the enlarged enterprise, when the desire is to go it alone.

Conclusion: What History Shows

A key point of this review of corporate Malaysia's history is that no firm in the top 20 in 1957, or in 1970, has managed to retain its position in 2007, raising questions about the sustainability of big business and drawing attention to three crucial issues: first, the impact of state intervention and policies on local enterprise. Second, the strategies adopted by businesses, which have been heavily conditioned by state policies, though the pattern of growth and form of management of an enterprise do matter in determining its longevity and sustainability. Third, the state's conduct of power in its different manifestations and its effect on economic and enterprise development. The state has operated at multiple levels in the economy – through GLCs, UMNO, a hegemonic executive and influential politicians – each attempting to promote the interests of particular companies. These different manifestations of the state have, in most instances, undermined the neutrality of policy implementation and influenced patterns of enterprise development, frequently to the detriment of private firms.

While the state under Mahathir cannot be faulted for not attempting to formulate effective, even visionary, macro- and micro-economic policies, its "mix-and-match" approach to enterprise development has had serious repercussions on the corporate sector and the economy. The industrial sector has failed to flourish in spite of phenomenal state support; SMEs have not thrived for lack of attention; the economy remains dependent on foreign firms to drive industries, seen in the latter's control of the country's leading industrial firms; domestic Malay entrepreneurship in the form of large firms is negligible, with many of the so-called captains of industry of the 1990s having fallen away; and none of the Malays actively groomed by Mahathir, Anwar and Daim retain control of any major enterprise.

The impact of these different policies on capital, provided in a political context where the state had bypassed a thriving domestic entrepreneurial group in favour of cultivating a new group of businesspeople from one particular ethnic group, has not served to help develop independent domestic enterprise. Much of Malaysia's corporate equity is under state control, through its GLCs, though these firms have come to occupy this prominent position in the corporate sector by default, not by design of government policy. The GLCs' important role in the corporate sector can, ironically enough, be partly attributed to the state's failure to develop large Malay-owned firms. Given the executive's hegemony over the state, corporate power is now centred in the hands of the prime minister, via his control of the GLCs.[149] Interestingly, or even paradoxically, most companies that have long remained under the state control have emerged as fairly professionally-managed firms, with a sense of stability not evident ain well-connected enterprises. In this regard, state intervention in the market through the active promotion of the GLCs should be handled with care as it can further undermine capital development.

These outcomes suggest the need for policies based on merit, with a review of preferential support for Bumiputeras and reinforcement of the BCIC. This history shows that domestic firms had garnered manufacturing experience before the end of colonial rule, though this entrepreneurial capacity appears to have stalled. While the government has failed to nurture this entrepreneurial capacity, its policies have severely undermined these enterprises. Even though non-Malay companies retain a prominent presence in the economy in spite of affirmative action, most of them have not managed to develop the capacity to move up the technological ladder. Inadequate state support of entrepreneurial industry will only serve to further constrain the rise of a domestic capital that could help reduce Malaysia's dependence on foreign companies to industrialize the economy.

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[149] UMNO still retains ownership and control of a number of companies, though the volume of such corporate equity, both publicly-listed and private firms, remains extremely unclear.

A pertinent point the government needs to heed is that ethnicity is unimportant when it comes to enterprise development. UMNO remains convinced that Chinese culture and ethnicity are factors that have contributed to the rise of firms owned by members of this community, explaining also why they remain a major economic force. Common Chinese ethnicity has not led to cooperative intra-ethnic corporate ties for mutual benefit. There is no evidence of concentration of capital among these capitalists,[150] nor do they consider the plight of the community before making commercial decisions. The government should similarly be aware that when, for a short period, it managed to create prominent Malay-owned businesses, decision-making within these enterprises was not conditioned by what would serve the welfare of the Bumiputeras, unless they were dictated to do so by the state.[151]

This study confirms that no one single model of enterprise development can be seen as the ideal type that should be replicated by entrepreneurs. A variety of reasons have contributed to a firm's rise, including entrepreneurial ability, management and organizational capabilities, ownership and control patterns (as well as the outcome of its changing forms) and manner of enterprise development. Some important lessons learnt include the need to develop expertise and to grow organically rather than to rely too extensively on loans to expand in size. The reasons for the fall of large firms are varied, comprising factors not pertaining to entrepreneurial failure. The capture of state-created rents by the well-connected without the requisite entrepreneurial skills or know-how was obviously a reason for the rapid rise and fall of large firms. In other cases, succession problems and feuds within a family firm have contributed to loss of control of an enterprise, or even its demise. The overwhelming presence of UMNO leaders in the corporate sector, and rivalries between them, have led to the departure of prominent, even entrepreneurial, businessmen, as well as the fall of leading firms.

While this study has managed to synthesize much of the history of big business, more research is required of the varieties of capital that exist in Malaysia, that is of SMEs, GLCs and foreign firms. When identifying mechanisms to encourage domestic firms in the industrial sector, the government should be aware of the diversity of production systems that exists, the stages of growth that a firm would require (or could bypass) to develop technological skills and of the support these companies would benefit from during these points of development to enhance the quality of products produced. This would encourage cumulative learning that could contribute to the entrepreneurial dynamism that characterizes the economies of industrialized East Asia, but is yet to be found in Malaysia.

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150 Puthucheary (1960: xix) noted a similar situation among Chinese firms during the colonial period.

151 See Sloane (1999).

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Appendix 1

Alphabetical Listing of the Top 100 Companies in Malaysia, 1971

1. Aokam Tin Bhd. (Foreign)
2. Asia Motor Co. (KL) Sdn. Bhd. (Phang family)
3. Associated Pan Malaysia Cement Sdn. Bhd. (Foreign)
4. Austral Amalgamated Tin Bhd. (Foreign, Lee Loy Seng family, OCBC)
5. Ayer Hitam Tin Dredging Ltd. (Foreign)
6. B.P. Malaysia Sdn. Bhd. (Foreign)
7. Bank Bumiputra (Government)
8. Batu Kawan Bhd. (Lee Loy Seng family)
9. Benta Plantations Bhd. (Foreign)
10. Berjuntai Tin Dredging Bhd. (Foreign)
11. Borneo Co. (M'sia) Sdn. Bhd. (Foreign)
12. Boustead Trading Sdn. Bhd. (Foreign)
13. Bovis South East Asia Bhd. (Foreign)
14. Caltex Oil Malaysia Ltd. (Foreign)
15. Central Sugars Bhd. (Foreign)
16. Champion Motor (M) Bhd. (Foreign)
17. Chartered Bank (Foreign)
18. Chemical Company of Malaysia Bhd. (Foreign)
19. Chung Khiaw Bank Ltd. (UOB-Singapore)
20. Cold Storage Holdings Ltd. (Foreign)
21. Consolidated Plantations (Foreign)
22. Cycle & Carriage Ltd. (Chua family)
23. Cycle & Carriage (M) Sdn. Bhd. (Chua family)
24. Dunlop Estates Bhd. (Foreign)
25. Dunlop Malaysian Ind. Sdn. Bhd. (Foreign)
26. East Asiatic Co. Ltd. (no information available)
27. Syarikat Eastern Smelting Bhd. (OCBC group-Singapore)
28. Empat Nombor Ekor Bhd. (Lim Chooi Seng and family)
29. Esso Standard Malaya Bhd. (Foreign)
30. Federal Flour Mills Bhd. (Kuok family)
31. Firestone Malaya Sdn. Bhd. (Foreign)
32. Folex Industries Bhd. (Chan and Tan families)
33. Fraser & Neave Ltd. (OCBC group-Singapore)
34. Golden Hope Plantations Ltd. (Foreign)
35. Guinness Malaysia Bhd. (Foreign)
36. Gula Perak Bhd. (Government)
37. Guthrie Ropel Bhd. (Foreign)
38. Guthrie Waugh Malaysia Sdn. Bhd. (Foreign)
39. Harrisons & Crosfield (M'sia) Sdn. Bhd. (Foreign)
40. Haw Par Brothers International Ltd. (Foreign)
41. Highlands and Lowlands Para Rubber Co. Ltd. (Foreign)
42. Highlands Malaya Plantations Ltd. (Foreign)
43. Hock Heng Co. Sdn. Bhd. (Ng Quee Lam family)
44. Hongkong & Shanghai Bank (no information available)
45. Hume Industries (Far East) Ltd. (Kwek (Quek) family and OCBC group-Singapore)
46. Inchcape Bhd. (Foreign)
47. Joo Seng Rubber Co. Sdn. Bhd. (Low Beow Seng and Khor Siew Tong families)
48. Kempas (M) Bhd. (OCBC group-Singapore)
49. Kepong Plantations Bhd. (Lee Loy Seng family)
50. Kulim Group Estate Ltd. (Government)
51. Lee Rubber (Selangor) Sdn. Bhd. (Lee Kong Chian family)
52. Lee Rubber Co. (Pte.) Ltd. (Lee Kong Chian family)
53. Lever Brothers (M'sia) Sdn. Bhd. (Foreign)
54. London Asiatic Rubber and Produce Co. Ltd. (Foreign)
55. Malayan Banking (Government)
56. Malayan Breweries Ltd. (OCBC group-Singapore)
57. Malayan Cement Bhd. (Foreign)
58. Malayan Containers Bhd. (Foreign)

59. Malayan Flour Mills Bhd. (Jerry Sung family)
60. Malayan Sugar Manufacturing Co. Sdn. Bhd. (Kuok family)
61. Malayan Tin Dredging (Foreign)
62. Malayan Tobacco Co. Bhd. (Foreign)
63. Malayan Weaving Mills Sdn. Bhd. (Foreign)
64. Malayawata Steel Bhd. (Foreign)
65. Manilal & Sons (M) Sdn. Bhd. (Patel family)
66. Metal Box Company of Malaysia Ltd. (Foreign)
67. Mobil Oil Malaysia Sdn. Bhd. (Foreign)
68. North Borneo Timber Products Bhd. (no information available)
69. Oversea-Chinese Banking Corporation (OCBC) (Lee family and numerous others – Singapore-based)
70. Pan Malaysia Cement Works Bhd. (Nominee shareholder)
71. Perak River Hydro Electric Power Co. Ltd. (no complete information available)
72. Pataling Rubber Estate Ltd. (Foreign)
73. Petaling Tin Bhd. (OCBC group-Singapore)
74. Rothmans of Pall Mall (M'sia) Bhd. (Foreign)
75. Selangor Dredging Bhd. (Teh Kien Toh family)
76. Shell Malaysia Trading Sdn. Bhd. (Foreign)
77. Shell Refining Co. (F. of M.) Bhd. (Foreign)
78. Short Deposits Malaysia Bhd. (Foreign)
79. Sime Darby Holdings Ltd. (OCBC group-Singapore)
80. Sime Darby Malaysia Bhd. (OCBC group-Singapore)
81. Société Des Matières Premières Tropicales (no information available)
82. Southern Kinta Consolidated Ltd. (Foreign)
83. Southern Malayan Tin Dredging Ltd. (Foreign)
84. Straits Steamship Co. Ltd. (Foreign)
85. Straits Trading Co. Ltd. (OCBC group-Singapore)
86. Taiping Textiles Bhd. (Foreign)
87. Tan Chong & Sons Motor Sdn. Bhd. (Tan family)
88. Tan Chong Motor Holdings Bhd. (Tan family)
89. Tasek Cement Bhd. (Tan Lark Sye family and Kwek Hong P'ng family)
90. Textile Corporation of Malaya Bhd. (Foreign)
91. Tractors Malaysia Bhd. (OCBC group-Singapore)
92. Tronoh Mines Ltd. (Foreign)
93. United Engineers Ltd. (OCBC group-Singapore)
94. United Engineers (M'sia) Sdn. Bhd. (OCBC group-Singapore)
95. United Malayan Banking Corporation (Chang Min Thein)
96. United Motor Works (M'sia) Holdings Bhd. (Chia Cheng Guan family)
97. United Motor Works (M) Sdn. Bhd. (Chia Cheng Guan family)
98. United Plantations Bhd. (Foreign)
99. Wearne Brothers Ltd. (OCBC group-Singapore)
100. Wearne Brothers Malaysia Sdn. Bhd. (OCBC group-Singapore)

Source: Lim (1981: 126-28, 141-60)

Appendix 2

Ownership of Share Capital (at par value) of Limited Companies, 1969-2004 (in percentages)

	1969	1970	1975	1980	1985	1990	1995	1999	2004
Bumiputera Individuals and Trust Agencies	1.5	2.4	9.2	12.5	19.1	19.2	20.6	19.1	18.7
Chinese	22.8	27.2	n.a	n.a	33.4	45.5	40.9	37.9	40.9
Indians	0.9	1.1	n.a	n.a	1.2	1.0	1.5	1.5	1.5
Others	-	-	-	-	-	-	-	0.9	0.8
Nominee Companies	2.1	6.0	n.a	n.a	1.3	8.5	8.3	7.9	9.2
Locally-Controlled Firms	10.1	-	-	-	7.2	0.3	1.0	-	-
Foreigners	62.1	63.4	53.3	42.9	26.0	25.4	27.7	32.7	28.8

n.a.: Not available

Sources: Seventh Malaysia Plan, 1996-2000; Eighth Malaysia Plan, 2001-2005

Appendix 3

Ownership of the 50 Largest Companies in Malaysia, 1997 and 2001

Name of Corporation (1997) (Owner)	Name of Corporation (2001) (Owner)
1. Telekom (Government)	1. Telekom (Government)
2. Tenaga Nasional (Government)	2. Malayan Banking (Government)
3. Malayan Banking (Government)	3. Tenaga Nasional (Government)
4. Petronas Gas (Government)	4. Petronas Gas (Government)
5. Genting (Lim Goh Tong)	5. Resorts World (Lim Goh Tong)
6. Resorts World (Lim Goh Tong)	6. Malaysia International Shipping Corp (MISC) (Government)
7. Sime Darby (Government)	7. Sime Darby (Government)
8. United Engineers (Malaysia) (UEM) (Halim Saad)	8. Commerce Asset-Holding (Government)
9. Malaysia International Shipping Corp (MISC) (Government)	9. Genting (Lim Goh Tong)
10. Renong (Halim Saad)	10. YTL Corp (Yeoh family)
11. Rothmans of Pall Mall (Foreign)	11. Public Bank (Teh Hong Piow)
12. Development & Commercial (D&C) Bank (Rashid Hussain)	12. Rothmans of Pall Mall (Foreign)
13. Malaysian Airlines (Tajudin Ramli)	13. YTL Power International (Yeoh family)
14. AMMB Holdings (Azman Hashim)	14. RHB Capital (Rashid Hussain)
15. Public Bank (Teh Hong Piow)	15. United Engineers (Malaysia) (UEM) (Halim Saad – now government-owned)
16. YTL Corp (Yeoh family)	16. Renong (Halim Saad – now government-owned)
17. TR Industries (TRI) (Tajudin Ramli)	17. Berjaya Sports Toto (Vincent Tan)
18. Magnum Corp (T.K. Lim)	18. Magnum Corp (T.K. Lim – now controlled by Daim's allies)
19. Perusahaan Otomobil Nasional (Proton) (Yahya Ahmad)	19. Perusahaan Otomobil Nasional (Proton) (Government)
20. Nestle (Foreign)	20. Kuala Lumpur-Kepong (KLK) (Lee Loy Seng family)
21. Edaran Otomobil Nasional (EON) (Yahya Ahmad)	21. Malaysian Pacific Industries (Quek Leng Chan)
22. Heavy Industries Corp of Malaysia (HICOM) (Yahya Ahmad)	22. Nestle (Foreign)
23. Golden Hope Plantations (Government)	23. AMMB Holdings (Azman Hashim)
24. Hong Leong Credit (Quek Leng Chan)	24. Malayan Cement (Foreign)
25. Kuala Lumpur-Kepong (KLK) (Lee Loy Seng family)	25. Golden Hope Plantations (Government)
26. Guthrie (Government)	26. Tanjong (T. Ananda Krishnan)
27. Faber	

(Halim Saad, through Renong)
28. Hong Leong Bank
(Quek Leng Chan)
29. Berjaya Toto
(Vincent Tan)
30. Commerce-Asset Holdings
(Halim Saad, through Renong)
31. Hume Industries
(Quek Leng Chan)
32. Multi-Purpose Holdings (MPHB)
(T.K. Lim)
33. Tanjong
(T. Anada Krishnan)
34. Malayan United Industries (MUI)
(Khoo Kay Peng)
35. Rashid Hussain (RHB)
(Rashid Hussain)
36. Affin Holdings
(Government)
37. Leader Universal
(H'ng family)
38. Higlands & Lowlands
(Government)
39. Land & Gebneral (L&G)
(Wan Azmi Wan Hamzah)
40. OYL
(Quek Leng Chan)
41. Amcorp
(William Cheng)
42. Amsteel
(William Cheng)
43. Perlis Plantations
(Robert Kuok)
44. Lingui Developments
(Yaw Chee Ming)
45. Malaysian Helicopter Services (MHS)
(Tajudin Ramli)
46. Jaya Tiasa Holdings
(Tiong Hiew King)
47. Petronas Dagangan
(Government)
48. Shell
(Foreign)
49. Sri Hartamas
(Loy Hean Heong)
50. IOI Corp
(Lee Shin Cheng)

27. Edaran Otomobil Nasional (EON)
(Government)
28. Hong Leong Bank
(Quek Leng Chan)
29. Sarawak Enterprise Corporation
(Sarawak state government)
30. Malaysian Airline System (MAS)
(Tajudin Ramli – now government)
31. Malaysian Resources Corporation (MRCB)
(Government)
32. Oriental Holdings
(Loh family)
33. Southern Bank
(Tan Teong Hean)
34. HICOM Holdings
(De-listed)
35. Malakoff
(Government, through MRCB)
36. Gamuda
(Lin Yun Ling)
37. Unisem
(Foreign)
38. Hong Leong Credit
(Quek Leng Chan)
39. TA Enterprise
(Tiah Thee Kian)
40. Sime UEP Properties
(Government, through Sime Darby)
41. Jaya Tiasa Holdings
(Tiong Hiew King)
42. Kumpulan Guthrie
(Government)
43. Lingui Developments
(Yaw Chee Ming)
44. Petronas Dagangan
(Government)
45. UMW Holdings
(Government)
46. New Straits Times Press (NSTP)
(Government, through MRCB)
47. Affin Holdings
(Government)
48. Arab-Malaysian Finance
(Azman Hashim)
49. Malayan United Industries
(Khoo Kay Peng)
50. IOI Corporation
(Lee Shin Cheng)

Source: Gomez (2006)