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Abstract
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Malaysian Business Groups: The State and Capital Development in the Post-Currency Crisis Period

Edmund Terence Gomez

To study the development of corporate Malaysia, it is necessary to analyze how the Malaysian state has influenced its economy, especially in regard to the development of large firms. In particular, the state's control of the financial sector has helped it promote both the rise of big business groups and encourage more generally the development of domestic enterprises.[1] This pattern of enterprise development has been strongly influenced by East Asian corporate models, specifically the Korean chaebol and the Japanese keiretsu. The Malaysian government has used these models as templates because of its desire to promote the development of large, international conglomerates.

Applying the institutional framework adopted for this study (see Figure 6.1), this chapter indicates how, in response to the need to achieve equity in wealth distribution among the main ethnic communities in Malaysia, the state promoted the rise of ethnic Malay-owned business groups. In the late 1960s, among the three main ethnic groups—the Malays, the Chinese, and the Indians—the Chinese were the predominant domestic economic force, owning 22.8 percent of total corporate equity in the country; the Malays owned a mere 1.5 percent, and the Indians 0.9 percent. Foreign firms, then the largest owners of corporate equity in the Malaysian economy, owned 62.1 percent of share capital in private firms operating in the country. However, Chinese business ubiquity became the justification for the government's concerted attempt to redistribute wealth to achieve economic parity among the ethnic communities. In effect, this meant positive discrimination in favor of the Malays, implemented through the New Economic Policy (NEP) between 1971 and 1990.

The NEP entailed partial abandonment of laissez-faire economic management in favor of greater state intervention through public enterprises. This

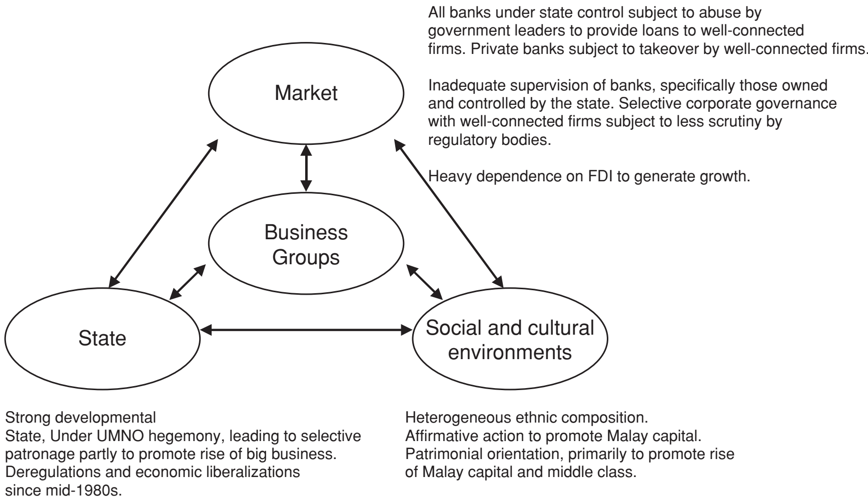

Figure 6.1. Malaysian institutional environments

intervention involved ethnic affirmative action, including the accelerated expansion of the Malay middle class and capital accumulation on behalf of the Malays. From the mid-1980s, the government began to selectively promote the interests of individual, usually well-connected, Malay businessmen, as a means to create a pool of new private capitalists. Politicians in power would selectively distribute state-created concessions, or rents, in the form of licenses, contracts, and privatized projects. Funds to acquire these rents were secured through favorable loans from banks owned or controlled by the state. Through this tripartite link between the state, private capital, and financial institutions, by the early 1990s a new group of well-connected business conglomerates had emerged in Malaysia.

Sustained government patronage has led, however, to large businesses depending on the state for support. Thus, despite phenomenal state support for big business, corporate Malaysia does not have dynamic, self-sustaining entrepreneurship, a point made obvious following the 1997 currency crisis.

Section 6.1 provides a brief history of corporate Malaysia, with a dual focus on the development of large business groups and of the role of the state in developing domestic enterprises and influencing ownership and control patterns. The Section 6.2 traces the impact of the currency crisis on corporate Malaysia. Section 6.3 reviews state policies introduced to deal with the crisis as well as their outcome, especially on property rights. The Conclusion discusses corporate Malaysia's future.

6.1. THE STATE, EQUITY DISTRIBUTION, AND ENTERPRISE DEVELOPMENT

Business groups have long been a part of corporate Malaysia. In the colonial and immediate postcolonial periods, foreign enterprises, especially British concerns, dominated the economy. Chinese capital was widespread, but the amount of it was small relative to the amount of foreign capital. By the 1970s, control of the economy was concentrated primarily in a few large British and Chinese corporations. Of the 100,000 shareholders in sixty-two large corporations, 797 owned 69 percent of the total RM1.4 billion of equity in these firms. The top 1 percent of these 797 shareholders owned 29 percent of this RM1.4 billion equity, while the top 50 percent owned 97 percent and the bottom 20 percent only 0.4 percent (Lim 1981: 114).

When the NEP was introduced in 1970, its stated objective was to achieve national unity by eradicating poverty, irrespective of race, and restructuring society so as to achieve interethnic economic parity between the predominantly Malay *bumiputera* 'sons of the soil' and the predominantly Chinese non-bumiputera.[2] The NEP goal was to be attained by increasing bumiputera corporate equity ownership to 30 percent and by reducing the poverty level to 15 percent by 1990. The measures used to achieve these goals included: (*a*) improving poor citizens' access to training, capital, and land; (*b*) changing the education and employment patterns among bumiputeras through ethnic quotas favoring their entry into tertiary institutions; (*c*) requiring companies to restructure their corporate holdings to ensure at least 30 percent Bumiputera ownership; and (*d*) by allotting publicly-listed shares at par value or with only nominal premiums to Bumiputeras.

Although the NEP sought to reduce ethnic inequality in wealth, income, and employment, 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 programs soon aroused non-Bumiputera dissatisfaction with the NEP, and such fears were exacerbated when public enterprises moved into sectors in which the Chinese had been prominent, particularly 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, were taken over by the state or Bumiputeras (see Gomez and Jomo 1999: 60–6). The management of several of these banks was investigated by the authorities 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 select Bumiputeras.

State control of these banking institutions facilitated the transfer of funds to well-connected businessmen, usually justified as positive discrimination in favor of Bumiputeras. Inevitably, NEP implementation fostered the emergence both of a large Bumiputera middle class and a well-connected Malay business elite, which owned large enterprises. Small and medium-sized firms were not neglected, but this elite had received the lion's share of state resources through the distribution of government concessions, including the privatization of government enterprises.

State policies like affirmative action and privatization have also profoundly affected enterprises held by non-Bumiputera, especially the Chinese. Privatization frequently involved the sale of government assets. Often, the government sold enterprises to well-connected businessmen without putting them up for public bidding. Chinese capitalists, especially those with equity in large business groups, continued to prosper despite the NEP, but they increasingly needed to accommodate the state (see Gomez 1999; Searle 1999). Most Chinese, however, were able to develop their enterprises because they were forced to compete more effectively in an environment in which they were discriminated against.[3]

Table 6.1 indicates that Chinese equity ownership increased from 27.2 to 45.5 percent from 1970–90, although it slipped throughout the 1990s. Equity held by Bumiputera individuals and government trust agencies increased from 2.4 percent in 1970 to 20.6 percent in 1995 before falling to 19.1 percent in 1999. It is questionable, however, whether the extent of equity ownership by Bumiputeras amounts to only 19.1 percent, since much of the equity held by nominee companies, which are used to shield owners' identities, likely belongs to well-connected businessmen and political parties.[4] The most significant change in corporate ownership patterns was the appreciable decline in foreign ownership of Malaysian corporate equity from 63.4 percent in 1970 to 25.4 percent in 1990, although this percentage increased during the 1990s.

Although these figures indicate profound changes in equity ownership patterns between 1970 and 1999, Table 6.1 does not reveal how much state control and influence over the corporate sector has increased as a result of the

Table 6.1. Ownership of share capital (at par value) of limited companies, 1969–99 (in percentages)

	1969	1970	1975	1980	1985	1990	1995	1999
Bumiputera Individuals and Trust Agencies	1.5	2.4	9.2	12.5	19.1	19.2	20.6	19.1
Chinese	22.8	27.2	n.a	n.a	33.4	45.5	40.9	37.9
Indians	0.9	1.1	n.a	n.a	1.2	1.0	1.5	1.5
Others	—	—	—	—	—	—	—	0.9
Nominee Companies	2.1	6.0	N/A	N/A	1.3	8.5	8.3	7.9
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

Sources: *Seventh Malaysia Plan, 1996–2000*; *Eighth Malaysia Plan, 2001–2005.*
Notes:
N/A: Not available.
*Locally-controlled firms refer to companies whose ownership could not be disaggregated further and assigned to specific ethnic groups.

NEP's implementation over three decades, especially after Mahathir Mohammad became prime minister in 1981.[5] Mahathir's long tenure as prime minister, which ended in October 2003, was characterized by his consolidation of power. Mahathir was also criticized for concentrating power in the office of the presidency of the party he led, the United Malays' National Organization (UMNO), which has hegemony over the ruling multiparty *Barisan Nasional* (National Front) coalition. Mahathir justified this concentration of power as a means to help Malaysia become fully developed by 2020 as well as create a new class of dynamic, entrepreneurial Malay capitalists who could compete in an international business environment.

To aid his vision of Malay capitalists, Mahathir appointed his close ally, businessman Daim Zainuddin, as finance minister in 1984. Both men were captivated with business and developing the Kuala Lumpur Stock Exchange (KLSE) as an avenue to help create large conglomerates. Between 1989 and 1993, equity market capitalization as a percentage of gross domestic product (GDP) increased from 105 to 342 percent. By the mid-1990s, the KLSE's market capitalization relative to GDP was the highest among Southeast Asian countries. The KLSE had also emerged as the fourth largest bourse in Asia and the fifteenth largest in the world in terms of market capitalization.

Mahathir's autonomy allowed him to selectively distribute government-created rents to a select group of businessmen who, by the mid-1990s, controlled many large conglomerates (see Appendix 6.1).[6] By 1997, the leading corporations included many individuals who were connected to one of the then three most powerful politicians—Mahathir, then deputy prime minister and finance minister Anwar Ibrahim, and then government economic advisor Daim Zainuddin (see Appendix 6.1). Almost all Malay and non-Malay businessmen who were among Malaysia's leading corporate figures before the Asian Crisis had enjoyed state patronage, specifically awards of privatized contracts (see Gomez 2002).

6.2. ENTERPRISE DEVELOPMENT AND OWNERSHIP AND CONTROL PATTERNS

Diversified growth has been a popular business strategy in Malaysia ever since the colonial period. Chinese immigrants diversified into any field that held out the prospect of high returns, and Bumiputeras who controlled quoted companies began doing the same in the 1980s. Malays differed from the Chinese, however, in using loans to diversify. They continued to do so from the 1980s until the onset of the Asian Crisis.[7]

Prior to the Asian Crisis, many Malaysian conglomerates used a holding company structure to own firms and grow the business group.[8] These groups also often used cross-shareholding and pyramids. Cross-shareholding allowed one person to secure control over many quoted companies with little or no personal equity in these firms. Through this mechanism, the majority shareholders of the holding company could appoint directors of the listed firms they controlled, usually to help them ensure that vested corporate ventures were implemented, even when these deals were not in the interest of minority shareholders. Since this pattern of control allowed one person to control board appointments, minority shareholders had little recourse to removing errant or irresponsible company directors even when these directors grossly violated their fiduciary duties.

There is little evidence, however, that well-connected Malays or Chinese businessmen have used this mechanism, although it is widely believed that the latter collaborate to protect their economic interests. Chinese capitalists have long cooperated with each other, most notably during the colonial period. By 2003, however, the shareholding patterns among Chinese-owned firms indicated they tended to function independently. Case studies of the largest quoted Chinese enterprises revealed that these firms had established interethnic ties, especially with influential Bumiputeras, to help them protect and expand their interests (see Gomez 1999).

Malaysian business groups also use interlocking directorships (see Appendix 6.2). There are two major types of interlocking directorate ties: (*a*) ownership ties, in which two or more organizations are jointly controlled by a single board of directors, and (*b*) direct interlock ties, in which two companies share one or more persons as members of their respective boards (Burt 1983: 3). The latter is common in Malaysia. Theoretically, such ties should help reduce competition and enhance monopolization of economic sectors. The large voting rights of these common directors allow for greater internal corporate control, leading to more intercompany transactions that are not necessarily beneficial to all shareholders of a company, particularly minority shareholders.

The most important interlocking directorate ties involve owner–directors, who hold directorships in a number of firms under the control of a holding company. One example of an owner–director is T.K. Lim, a director of Kamunting Corp and its associated firm, Bandar Raya Developments, both of which are part of the Multi-Purpose Holdings Group. Lim also sits on the board of Land & General, controlled by Wan Azmi Wan Hamzah, in which he also had an interest. Through such common directorships, the owners of the holding firm can ensure that the boards of their subsidiaries and associate companies will not oppose any intergroup transactions that they propose.

6.3. DAIM AND THE RISE AND FALL OF WELL-CONNECTED CAPITALISTS

Although Daim had little grassroots support and owed all his political appointments, as UMNO treasurer, government economic advisor, and as finance minister, to Mahathir, he has influenced the corporate sector more than anyone else has. During his appointment as finance minister between 1984 and 1991, Daim was widely criticized for abusing his position to develop his corporate base. When he was appointed to the Treasury in 1984, Daim announced that he had divested his vast business interests, including shares in firms involved in virtually all key sectors of the economy (banking, plantations, manufacturing, wholesaling and retailing, property development, and the media). Despite this claim, in 1992, one year after he had stepped down as finance minister, the total value of Daim's assets was reportedly RM 1 billion,[9] including assets in Australia, Britain, Mauritius, and the USA (see *The Star,* May 19, 1992). While holding public office, although he denied his active interest in business, he was seen as the most powerful entity in the corporate scene because his closest business associates had quickly emerged as major corporate figures because they ran enterprises ultimately owned or controlled by Daim or UMNO.[10] Daim's close ally, Halim Saad, for example, who had publicly acknowledged his role as trustee of UMNO's vast corporate assets, would eventually secure control of the party's most important companies through an ailing quoted firm, Renong.

Nevertheless, since the rise of well-connected businessmen was linked to the patronage of influential politicians, their fortunes depended on whether their patrons remained in power. After Anwar was removed from office in September 1998, thus allowing Mahathir to concentrate even more power in his office, most businessmen associated with the ex-deputy prime minister have struggled to protect their corporate interests; many of them are no longer prominent. More generally, most businesses owned by well-connected individuals are no longer among the top 100 Malaysian firms (see Appendix 6.3). Similarly, when Daim fell out of favor with Mahathir in 2001, the corporate assets owned by his business allies and proxies were taken over by the government.[11]

Notably, the Chinese appeared to have fared better in the Asian Crisis, as did government-owned listed firms. Mahathir has argued vehemently that the Asian Crisis was the primary reason for his lack of success in developing domestic capitalists, an argument that had some justification (see Jomo 2001). It was, however, questionable whether the prime minister had helped nurture entrepreneurial companies that could weather crises.

6.4. CURRENCY CRISIS AND CORPORATE DECLINE

One reason why these large-scale enterprises declined so rapidly following the crisis was their pattern of development. Many well-connected firms had secured favorable loans from state-owned financial institutions to acquire rents, in the form of licenses, contracts, and privatized projects. Most of these rent recipients had used numerous corporate maneuvers like shares-for-assets swaps and reverse takeovers to capture control of quoted firms. These companies were, in turn, used for other types of corporate maneuvers, including mergers, acquisitions, and takeovers, to develop their business interests. As share prices escalated, stock was used as security to secure more loans from banks for further acquisitions. These corporate strategies contributed appreciably to the increase in the KLSE's market capitalization in the 1990s (see Gomez 2002).

Publicly listing a firm had emerged as an effective means for raising funds for corporate expansion. Between 1980 and 1990, the number of publicly listed companies increased only slightly, from 250 to 305. By 1995, however, 529 companies were quoted on the KLSE, and 708 were listed before the onset of the currency crisis. In 1990, the total market capitalization of quoted firms was RM132 billion; by 1996, this figure had increased to RM807 billion (Low, C.K. 2000a: 44).

Public-listing also enabled an owner of a quoted firm to buy other listed and private enterprises, thus letting him control a diversified corporate empire, yet not holding stock in his own name. In this way, control facilitated cross-shareholding, along with all the abuses of this practice that were noted previously. Further, an increase in a quoted firm's market capitalization enabled that firm to secure more loans from foreign and local banks with equity as collateral.

The enormous inflow of foreign funds as portfolio investments (FPI) and loans during the 1990s also contributed appreciably to the increase in market capitalization of quoted stock. Most of these funds were channeled to well-connected firms, which were increasingly 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.

In Malaysia, the Asian Crisis first began with a fall in the ringgit's value, and continued with precipitous drops in the stock prices of listed firms. Between July 1997 and early 1998, the ringgit fell from around RM2.5 against the dollar to a record low of RM4.88. The Composite Index of the KLSE plunged from a high of 1,271 in February 1997 to 262 in August 1998. Between 1997 and 1998, private investment fell by 57.8 percent, private consumption by 12.4 percent, public consumption by 3.5 percent, and public investment by 10 percent. By the second quarter on 1998, the Malaysian economy was in a severe recession, registering an annualized GDP growth rate of –6.8 percent (Gomez and Jomo 1999: 188; Chin and Jomo 2001: 117–18). By contrast, in the decade before the crisis, the economy had registered almost double-digit growth rates, boosted to some extent by high savings and investment rates, factors which also helped offset an even more dire state of affairs following the crisis.

Foreign inflows of funds during the boom years also included heavy borrowing from abroad by some Malaysian banks and companies. The central bank, Bank Negara, noted that the net foreign liabilities of commercial banks had increased from RM10.3 billion at the end of 1995 to RM25.2 billion in June 1997, while their net external reserves position deteriorated from –RM5.3 billion to –RM17.7 billion over the same period.[12] Moreover, patronage involving the disbursement of loans to the well connected, including funds for the acquisition of shares rather than productive economic activities, was extremely rampant. Of the RM39 billion loaned by banks for share acquisition, almost 45 percent went to individuals. During the crisis, just fifteen corporate groups accounted for 20 percent of Malaysia's bank loans

(Chin and Jomo 2001: 113–15). One company, the highly diversified, publicly listed Renong, had accumulated debts totaling about 5 percent of all loans accumulated in the Malaysian banking sector. Inevitably, this situation meant that when stock prices plunged, defaults on bank loans increased significantly.

At the end of 1997, Malaysia's outstanding debt was equivalent to 160 percent of GDP. Fortunately for Malaysia, the bulk of this debt was in ringgit, not foreign currency. Most financial institutions in Thailand, Indonesia, and South Korea, the countries most badly affected by the crisis, had borrowed in foreign currencies, mainly US dollars, to re-lend in local currencies at higher interest rates. One International Monetary Fund (IMF) report comparing Malaysia and Thailand revealed that 'Malaysian financial institutions have not had as large a role in international intermediation as their Thai counterparts. Most of their international borrowing has taken place through head offices and branches or bilaterally with foreign institutions, and so Malaysian banks have accounted for only a small portion of international bond issues and syndicated borrowing. Although foreign liabilities or commercial banks expanded rapidly between 1989 and 1993, they fell subsequently' (Callen and Reynolds 1997: 169).

Between June 1997 and August 1998, nonperforming loans (NPLs) held by domestic banks rose from RM9.3 billion to RM42.2 billion. The banks with the most NPLs were all 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. Sime Bank, then controlled by Mahathir's former political secretary, also declared huge losses and was subsequently taken over by the well-connected Rashid Hussain group.

The crisis also affected firms owned by many well-connected businessmen, who now owned corporate stock that was worth far less, leaving them severely overleveraged. The government bailed out several of these companies, sometimes for exorbitant prices, and took over two major privatization projects. The reasoning behind much of this assistance was questionable. For instance, Petronas acquired Proton, the group's car-manufacturing concern, ostensibly to sustain Malaysia's automobile industry. Yet it would have been possible to involve Chinese firms that were well established in both automotive component-parts manufacturing and motor vehicle assembly and distribution. This move would have also greatly promoted interethnic relations. Mahathir recognized the dynamism of Chinese entrepreneurs, but seemed reluctant to capitalize on it, probably because Chinese automobile firms are either independent or are aligned with enterprises that are not beholden to the Malaysian government.

6.5. ENTERPRISE REFORM IN THE POSTCRISIS PERIOD

The government did introduce new policies and corporate governance measures to deal with the problems exposed in the corporate sector. The most controversial postcrisis measure was enforced bank consolidation, which was implemented in spite of strong public protest (see *Far Eastern Economic Review*, July 22, 2001). In addition, many private firms attempted to adopt a more focused approach to business.

6.5.1. Bank Consolidation

In mid-1999, a government proposal associated with Daim sought to merge Malaysia's fifty-eight financial institutions into six anchor banks. Under the original consolidation plan, banks owned by prominent Malays who were not closely associated with Daim did not receive anchor bank status even though their owners had much banking expertise and had developed their enterprises with relatively little government assistance. In addition, it appeared that Malaysia's most dynamic banks were being brought under Daim's indirect control. Inevitably, the Chinese were upset with the proposed consolidation exercise, as the merger of some of their most enterprising banks would diminish their presence in this sector. With a general election then impending, and since Mahathir was aware that his party needed non-Malay, especially Chinese, support to secure a strong presence in parliament, the number of anchor banks was increased from six to ten and included several better-run and/or thriving institutions (see Table 6.2). This decision reportedly sparked a rift between Mahathir and Daim (see *Far Eastern Economic Review*, July 5, 2001).

Table 6.2 provides two key insights. First, it reveals how power became increasingly centered in the office of the prime minister. Other arms of the government and public institutions have become subservient to the executive. Second, it exposes the impact that concentration of political power can have on property rights. Majority ownership of a company means nothing when a strong state is determined to push through corporate restructuring. Those most susceptible to a takeover have generally benefited greatly from state patronage, but were aligned with a political patron who has fallen out with the prime minister.

Table 6.2. Bank consolidation anchor banks and their partners

Anchor bank	Merger partners	New owner
Original Six		
Malayan Banking	Pacific Bank, EON Bank, EON Finance	Malaysian government
Maybank Finance Aseambankers	Malaysia International Merchant Bank, Delta Finance, KBB, Sime Finance	
Multipurpose Bank Multipurpose Finance	RHB Bank, RHB Sakura Sabah Bank, Oriental Bank, Oriental Finance, Sabah Finance, International Bank Malaysia, MBf Finance, Bumiputra Merchant Bank, Phileo Allied Bank, Bolton Finance	Daim's allies
Bumiputra-Commerce CIMB	Hong Leong Bank, Hong Leong Finance, CCM	Renong/NST (linked to Daim)
Perwira Affin Bank	Arab-Malaysian Bank, Bank Utama	Malaysian government
Perwira Affin Merchant Bank, Affin Finance	Utama Merchant Bank, BSN Bank, BSN Finance, Arab-Malaysian Finance	
Public Bank Public Finance	Wah Tat Bank, Hock Hua Bank, Inter Finance, Advance Finance, Sime Merchant Bank	Teh Hong Piow
Southern Bank	Ban Hin Lee Bank, Perdana Merchant Bank, Cempaka Finance	Tan Teong Hean
Subsequent Ten		
Malayan Banking	Mayban Finance, Aseambankers Malaysia, PhileoAllied Bank, Pacific Bank, Sime Finance Bank, Kewangan Bersatu	Malaysian government
Bumiputra-Commerce	Bumiputra-Commerce Finance	Malaysian government
Bank	Commerce International Merchant Bankers	
RHB Bank	RHB Sakura Merchant Bankers, Delta Finance, Interfinance	Rashid Hussain*
Public Bank	Public Finance, Hock Hua Bank, Advance Finance, Sime Merchant Bankers	Teh Hong Piow

Arab-Malaysian Bank	Arab-Malaysian Finance, Arab-Malaysian Merchant Bank, Bank Utama, Utama Merchant Bankers	Azman Hashim
Hong Leong Bank	Hong Leong Finance, Wah Tat Bank, Credit Corporation Malaysia	Quek Leng Chan
Perwira Affin Bank	Affin Finance, Perwira Affin Merchant Bankers, BSN Commercial Bank, BSN Finance, BSN Merchant Bank	Malaysian government
Multi-Purpose Bank	International Bank Malaysia, Sabah Bank, MBf Finance, Bolton Finance, Sabah Finance, Bumiputra Merchant Bankers, Amanah Merchant Bank	Daim's allies
Southern Bank	Ban Hin Lee Bank, Cempaka Finance, United Merchant Finance, Perdana Finance, Perdana Merchant Bankers	Tan Teong Hean
EON Bank	EON Finance, Oriental Bank, City Finance, Malaysian International Merchant Bankers, Perkasa Finance	Malaysian government

* In 2003, Rashid Hussain relinquished control of RHB Bank to family members of Taib Mahmud, the Chief Minister of the state of Sarawak.

6.5.2. Selective Corporate Governance

Issues of ownership and control are central to corporate governance. A firm's shareholders have the right to how an organization's assets are used to assure themselves a good return on their investment. Yet the separation of ownership from control, in which managers, along with a board of directors vested with power to run a firm on behalf of shareholders, is the norm in most corporations (Berle and Means 1967; Scott 1997). Good corporate governance stems from directors following their fiduciary duty to run a corporation with shareholders' interests in mind. Following the Asian Crisis, when new regulations and institutions were introduced to enforce governance of the corporate sector in Malaysia, there were two key areas of concern. First, how should directors be selected and remunerated? Second, should banks or institutional investors, like pension funds or mutual funds, be actively managing firms in which they have investments and able to have some control over corporate activities like mergers and takeovers?

In 1998, the government established the Finance Committee on Corporate Governance, which eventually proposed the Malaysian Code of Corporate Governance, mainly to deal with problems in the corporate sector that were exposed by the crisis. This Code has two primary objectives: to encourage disclosure to ensure that investors are aware of how their company is being managed, and to remind company directors of their responsibilities. The four principles of corporate governance set out in the Code refer to: (*a*) effective leadership by directors of companies, (*b*) transparency in determining the remuneration of directors, (*c*) ensuring accountability of directors through adequate internal controls and an independent external audit, and (*d*) the promotion of dialogue between a company's management and its investors (Low, C.K. 2000b: 436–51).

The new regulations did not, however, provide for enforcement of corporate practices common in Malaysia but not accepted in other countries. For example, a majority shareholder in Malaysia can inject a privately held asset into a quoted firm; this practice is not permitted in the USA, as it is seen as a 'self-serving deal' (*The Edge,* March 31, 2003). This practice had led to several controversies, specifically during the 1980s when the KLSE emerged as an avenue for businessmen to raise funds quickly.

Institutions in Malaysia responsible for governance of the corporate sector, like the Securities Commission, have the capacity to perform effectively, and have a good reputation for regulating the equity and financial markets. In view of the executive hegemony over the state, however, the relevance and effectiveness of these institutions depend on the will of government leaders to enforce corporate governance. Regulatory institutions usually act independently, but are also used as tools by powerful politicians for vested interests. These politicians can determine if regulatory institutions should act against businessmen, even when there is evidence of corruption. By ostensibly enforcing corporate governance provisions, politicians in control of the executive have transferred corporate assets into the hands of their allies, as demonstrated by the bank consolidation exercise. Thus, although selective imposition of rules and regulations has helped create the impression of an increasingly well-governed corporate sector, irregularities continue to occur.

6.5.3. Corporate Restructuring and Changing Ownership and Control Patterns

Among the companies that encountered the most problems following the Asian Crisis were the largest quoted firms that were controlled through holding companies. Many of the groups that owned these firms were burdened with enormous debts and were subject to takeover and/or were restructured. The problems of these groups, especially in regard to overleveraging, suggest the danger of cross-shareholding and pyramiding. Although new regulations were introduced to enhance corporate governance and transparency, no attempt was made to curb these practices.

To curb intercompany loans within a corporate group, the KLSE issued new guidelines in 2002. For example, if the volume of the new loans crosses 5 percent of the lender's equity, an extraordinary general meeting has to be convened to approve the transaction (*The Edge,* January 6, 2003). Since it was common for holding companies to secure loans from their subsidiaries, some of which the former found difficult to service, these transactions did not serve the interests of minority shareholders.

Although the government has made it difficult for holding companies to get loans from subsidiaries, subsidiaries can still declare dividends as a means to channel funds to the parent firm through the interlocking relationships. These dividends can be used to reduce loans of holding companies. This mechanism is acceptable because minority shareholders also benefit from dividends.

Other corporate groups, although diversified, gained credibility by focusing primarily on one or two industries.[13] This change to a more focused approach to business is important because the aftermath of the Asian Crisis suggests that selective intervention failed, though not because these big firms did not get enough support from the state. The strategy of diversifying extensively through acquisitions rather than through long-term growth plans based on product development and market penetration no longer appears wise. Short-term financial gains and growth through debt, rather than through equity and reinvestment of profits, was not a viable way to develop modern industry. Firms that did not depend considerably on bank loans to develop their corporate base tended to cope better with the crisis.

In mid-2003, a study of the top 100 companies quoted on the KLSE indicated that the largest business groups did not have overwhelming control of the corporate sector. In fact, there was evidence of fairly wide dispersal of ownership of corporate equity of the top 100 quoted firms. In 2001, a list compiled by *Malaysian Business* (January 2, 2001) of the country's twenty wealthiest business people indicated that their combined wealth amounted to RM41.7 billion, only about 10 percent of the KLSE's market capitalization. None of these individuals appears to hold corporate equity in trust for influential politicians.

A list of the top ten KLSE firms, in terms of market capitalization, indicates that the government has majority ownership in seven. These firms include the largest bank, a utility company, a shipping line, and a gas producer. The other three firms in the top ten are Chinese-owned. Notably, none of these firms is owned either by a foreign enterprise or by a Bumiputera, despite substantial state support for the development of Malay capital.

The state's failure to develop Bumiputera entrepreneurs was due to how it attempted to do so. The government selected so-called 'winners' in a non-transparent manner and accorded them numerous concessions, particularly privatized projects, to facilitate their rapid expansion (see Jomo 1995). Since political patronage involved easy access to loans and other privileges, individuals benefiting from it appeared to exercise little caution in how they developed their companies. The state's failure to discipline this style of growth contributed to the rapid collapse of these firms when the Asian Crisis occurred.

In addition, leading Bumiputera businessmen's links to, and dependence on, state leaders meant their corporate activities were often influenced by politicians and affected by political crises. Firms benefiting from such patronage have often been taken over by other government allies when their own patrons fell out of power. Malay capitalists who have remained relatively independent have fared better.

The crisis also affected economic sectors that Bumiputera capitalists were actively involved in. This point highlights a crucial fact: no Malay firm listed in the KLSE top fifty has shown the capacity to venture successfully into manufacturing. Most have focused on finance, construction, property development, and telecommunications. Shamsuddin Kadir is probably the only Bumiputera actively involved in manufacturing, though none of his companies appear in the KLSE top fifty.

Although businessmen, particularly the Chinese, who had few or no links to politicians, appear to have retained control over their companies, mainly by conforming to state policies, the government has been able to remove 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 not allied with state leaders. In spite of the rise of huge enterprises by 2003, capitalists remain very subservient to the state. This subordination brings into question the sustainability of corporate enterprises, given the vulnerability of these firms to government power struggles.

6.6. CONCLUSION: CONTEMPORARY FEATURES OF CORPORATE MALAYSIA

Since the Asian Crisis, and the subsequent political and economic crises, corporate Malaysia has changed in important ways. Although Mahathir's policies strongly influenced the development of corporate Malaysia, the concentration of political power during his administration did not contribute to concentration of corporate equity in an elite group, primarily because of conflicts among political elites. Between 1997, when the currency crisis occurred, and 2001, Mahathir marginalized two influential politicians, Anwar and Daim, who had considerable indirect control over corporate Malaysia. The vast corporate assets owned by their business allies were reallocated to government institutions or private individuals. In October 2003, Mahathir stepped down as Prime Minister, handing over power to Abdullah Ahmad Badawi. Since the new Prime Minister has never shown any particular interest in most of Mahathir's pet projects, specifically the promotion of heavy industry and the development of Malaysian capitalists in control of huge conglomerates, the pattern of enterprise development during his tenure may differ significantly from that of Mahathir.

There are already signs indicating policy changes involving enterprise development. The Abdullah government has begun to shift support from conglomerates to small and medium-sized enterprises (SMEs). The new model for enterprise development for the government is that of Taiwan, whose economy is dominated by SMEs; nearly 98 percent of firms there fall into this category. The Taiwanese economy had also apparently weathered the currency crisis far better than a number of other countries in East Asia did. The Malaysian government has also encouraged firms to reduce their dependence on loans to generate growth. Corporate debt in Taiwan was among the lowest in East Asia, at about 30 percent of equity. In contrast, the corporate debt of South Korean companies was sometimes four times the value of these firms' assets.

Within the banking sector, there is speculation of another round of mergers that might result in just five or six anchor banks. The key issue is whether the government will drive this merger or if the initiative will come from owners of the ten anchor banks. Meanwhile, between mid-1997 and 2002, the volume of NPLs declined from 27 percent of total gross loans to 17 percent, reflecting growing stability within the consolidated bank sector (*The Star*, December 28, 2002).

Nevertheless, other features of corporate Malaysia might not change. Although Abdullah Badawi has stated his intention to end corruption, the existence of politically linked firms will likely continue. Abdullah's family has corporate interests and has benefited from privatized contracts. Moreover, structural reforms to enhance transparency and accountability in government are not being implemented. The continued concentration of power in the executive and the lack of autonomy of regulatory institutions to act against corruption and corporate activities that are not in the interests of shareholders do not serve to inspire confidence that genuine reforms are imminent in corporate Malaysia.

Appendix 6.1. Reputed political connections of prominent business figures in the mid-1990s

Name	Publicly-listed company	Background
Halim Saad	Renong United Engineers (M) (UEM) Kinta Kellas Time Engineering Ho Hup Construction Faber Group FCW Holdings Park May Crest Petroleum	Daim protégé. Halim publicly admitted in 1988 that he held UMNO's vast corporate holdings in trust for the party. He worked for Daim when the latter was in charge of Peremba, then a government-owned company.
Tajudin Ramli	Malaysia Airlines Malaysian Helicopter Services Technology Resources Industries	Daim protégé; worked for him in Peremba.
Wan Azmi Wan Hamzah	Land & General Rohas-Euco Industries Bell & Order Systematic Education Group RJ Reynolds	Daim protégé; worked for him in Peremba.
Samsudin Abu Hassan	Granite Industries Austral Amalgamated Dataprep Holdings	Daim protégé; worked for him in Peremba.
Ahmad Sebi Abu Bakar	Advance Synergy Prime Utilities United Merchant Group Ban Hin Lee Bank	Daim protégé, though once also associated with Anwar. Anwar's contemporary at the University of Malaya.
Tunku Abdullah	Malaysian Assurance Alliance Melewar Corporation George Town Holdings Aokam Perdana Malayan Cement MBf Capital MBf Holdings	Former UMNO MP; Mahathir's long-term close associate.
Yahya Ahmad (died 1997)	HICOM Holdings Diversified Resources Gadek (M) Gadek Capital Edaran Otomobil Nasional (EON) Perusahaan Otomobil Nasional (Proton) Kedah Cement Holdings Cycle & Carriage Bintang Golden Pharos Uniphoenix Corporation	Mahathir protégé. Anwar's school contemporary.

Tengku Adnan Mansor	Star Publications Berjaya Group Berjaya Singer Berjaya Industrial EMC Logistics Minho Dunham-Bush (M)	Former UMNO Youth Treasurer and Supreme Council member. Linked to Mahthir through close association with Vincent Tan.
Rashid Hussain	Rashid Hussain DCB Bank Kwong Yik Bank	Daim associate; also connected with Anwar
A. Kadir Jasin Nazri Abdullah Mohd Noor Mutalib Khalid Ahmad	New Straits Times (NSTP) TV3 Malaysian Resources Corp Malakoff Commerce Asset Holdings	Anwar supported their take-over of NSTP and TV3 in 1993. Kadir remains a Daim associate.
Abdul Mulok Damit	Pengkalen Industrial Holdings Construction & Supplies House	UMNO MP; Daim associate. Jointly owns these companies with Joseph Ambrose Lee.
Ishak Ismail	KFC Holdings (M) Idris Hydraulic Golden Plus Holdings Ayamas Food Corporation Best World Land Promet Pintaras Jaya Scientex Incorporated Gemtech Resources	Former secretary of Anwar's UMNO division.
Mohd Sarit Yusoh	KFC Holdings (M) Ayamas Food Corporation Golden Plus Holdings Malayawata Steel Khee San Goh Ban Huat Syarikat Kurnia Setia	Former political secretary to Anwar.
Amin Shah Omar Shah	PSC Industries Setron (M) Atacorp Holdings Kedah Cement Holdings Daibochi Plastic & Packaging Industry	Active in UMNO. Daim protégé.
Basir Ismail	Cycle & Carriage Ltd Cycle & Carriage Bintang Cold Storage United Plantations Fima Corporation	Mahathir's close associate.

(*continued*)

Appendix 6.1. (*Continued*)

Name	Publicly-listed company	Background
Mohd Noor Yusof	Datuk Keramat Holdings George Town Holdings	Former political secretary to Mahathir. Had majority ownership of UMBC before divesting to state-controlled Sime Darby.
Kamaruddin Jaffar	Sabah Shipyard Wing Teik Holdings Westmont Industries Inch Kenneth Kajang Rubber plc Mercury Industries	Kelantan UMNO leader; old Anwar confidante.
Kamaruddin Mohd Nor	Eastern & Oriental Dialog Group	Kelantan UMNO leader; old Anwar confidante.
Shuaib Lazim	Ekran George Town Holdings	Close associate of Mahathir and Daim. Former UMNO state assemblyman.
Anuar Othman	Konsortium Perkapalan	Ex-Daim protégé at Peremba; now associated with Anwar. Former UMNO business trustee.
Shamsuddin Kadir	Sapura Holdings Uniphone Telecommunications	Mahathir associate.
Hassan Abas	Cycle & Carriage Bintang	Daim protégé at Peremba.
Azman Hashim	AAMB Holdings Arab-Malaysian Corporation Arab-Malaysian Finance Arab-Malaysian First Property Trust holding company Arab-Malaysian Development South Peninsular Industries	UMNO member. Founding director of Fleet Holdings, UMNO's main investment.
Ibrahim Mohamed	Uniphoenix Corporation Damansara Realty	Mahathir associate.
Ibrahim Abdul Rahman	Industrial Oxygen Inc.	Anwar's father. Former UMNO MP.
Mirzan Mahathir	Mamee-Double Decker Lion Corporation Dataprep Holdings Konsortium Holdings	Mahathir's first son.

	KIG Glass Industrial Sunway Building Technology Worldwide Holdings Artwright Holdings	
Mokhzani Mahathir	Tongkah Holdings Technology Resources Industries Parkway Holdings Pantai Hospital UCM Industrial Corporation	Mahathir's second son.
Mukhriz Mahathir	Reliance Pacific	Mahathir's third son.
Ahmad Zahid Hamidi	Kretam Holdings	Anwar associate; UMNO Youth Head until Anwar's expulsion; MP.
Ting Pek Khiing	Ekran PWE Industries Pacific Chemicals Granite Industries Wembley Industries	Close Daim and Mahathir associate.
Vincent C.Y. Tan	Berjaya Group Berjaya Sports Toto Berjaya Singer Berjaya Leisure Dunham-Bush Hospital Pantai Sun Media Group Unza Holdings	Usually associated with Daim, but also Mahathir and Anwar.
T.K. Lim	Multi-Purpose Holdings Kamunting Corp. Magnum Corp. Bandar Raya Developments	Formerly close Daim associate, then linked to Anwar.
Joseph C.A. Chong	Westmont Westmont Land Asia Samanda Holdings Wing Teik Holdings	Associated with Anwar through Kamaruddin Jaffar.
T. Ananda Krishnan	Tanjong Binariang Pan Malaysian Pools Powertek Seri Kuda	Associated with Mahathir and Razaleigh.

Source: *KLSE Annual Companies Handbook* 21(1–4), 1996.

Appendix 6.2. Interlocking directorates in the top 100 KLSE companies, 2001

Name	Companies
Nuraizah Abu Hamid	Tenaga Nasional, Telekom
Md Yusof Hussin	UMW Holdings, Malayan Banking
Mohd Hilmey Mohd Taib	Malayan Banking, Kuala Lumpur Kepong (KLK)
Lau Yin Pin @ Lau Yen Beng	YTL Power International, Tenaga Nasional
Kamariah Hussain	Edaran Otomobil Nasional (EON), Tenaga Nasional
Mohd Hassan Marican	Petronas Gas, Petronas Dagangan, Malaysia International Shipping Corp (MISC)
Lim Goh Tong	Resorts World, Genting
Lim Kok Thay	Resorts World, Genting
Mohammed Hanif Omar	Resorts World, Genting, AMMB Holdings, Arab-Malaysian Finance
Alwi Jantan	Guinness Anchor, Resorts World
Siew Nim Chee	Malaysian Oxygen, Resorts World
Mohd Ali Hj Yasin	MISC, Petronas Dagangan
Wan Ali Tuanku Yubi	Sarawak Enterprise Corp, Malaysian Airline System (MAS), Cahya Mata Sarawak (CMS), MISC
Nik Mohamed Nik Yaacob	Sime Darby, Sime UEP Properties
Mohd Desa Pachi	Commerce Asset-Holding, Malaysia Mining Corp (MMC)
Nik Hashim Nik Yusoff	Utama Banking Group, Genting, Malayan United Industries (MUI)
Yeoh Tiong Lay	YTL Corp, YTL Power International
Francis Yeoh Sock Ping	YTL Corp, YTL Power International
Yeoh Seok Kian	YTL Corp, YTL Power International
Yeoh Seok Hong	YTL Corp, YTL Power International
Yeoh Seok Kah	YTL Corp, YTL Power International
Yeoh Soo Keng	YTL Corp, YTL Power International
Yeoh Soo Min	YTL Corp, YTL Power International
Michael Yeoh Sock Siong	YTL Corp, YTL Power International
Haron Mohd Taib	YTL Corp, YTL Power International
Yahya Ismail	YTL Corp, YTL Power International, Shell, Southern Bank, United Engineers (M) (UEM)
Raja Tun Mohar Raja Badiozaman	YTL Corp, YTL Power International
Thong Yaw Hong	Public Bank, KLK, MMC, Public Finance, Batu Kawan, Berjaya Land
Teh Hong Piow	Public Finance, Public Bank

Tay Ah Lek	Public Finance, Public Bank
Tengku Abdul Rahman ibni Sultan Hj Ahmad	Public Finance, Public Bank
Yeoh Chin Kee	Public Finance, Public Bank
Oh Chong Peng	Rothmans of Pall Mall, RHB Capital, Star Publications, Rashid Hussain, Powertek
Abdul Rashid Hussain	Rashid Hussain, RHB Capital
Seah Fook Chin	Rashid Hussain, RHB Capital
Chong Kin Leong	Rashid Hussain, RHB Capital
Clifford Francis Herbert	RHB Capital, MAS
Halim Saad	UEM, Renong
Syed Md Amin Syed Jan Aljeffri	KUB Malaysia, UEM
Mohd Zakhir Siddiqy Sidek	Renong, UEM
Chan Chin Cheung	Renong, Multi-Purpose Holdings
Vincent Tan Chee Yioun	Berjaya Land, Berjaya Group, Berjaya Capital, Berjaya Sports Toto, Digi Swisscom
Tan Kok Ping	Berjaya Sports Toto, Berjaya Group
Ng Foo Leong	Berjaya Land, Berjaya Sports Toto
Robin Tan Yeong Ching	Berjaya Sports Toto, Berjaya Group, Digi Swisscom
Robert Yong Kuen Loke	Berjaya Capital, Berjaya Land, Berjaya Sports Toto, Berjaya Group
Chan Kien Sing	Berjaya Capital, Berjaya Land, Berjaya Sports Toto, Berjaya Group, Digi Swisscom
Freddie Pang Hock Cheng	Berjaya Capital, Berjaya Sports Toto
Md Khir Johari	MUI, Magnum Corp
Lim Sze Guan @ Lim Kim Wah	Magnum Corp, Bandar Raya Developments
Mohd Ghazali Seth	Magnum Corp, Nestle, Carlsberg
Pee Ban Hock	Magnum Corp, Multi-Purpose Holdings
Lim Chiew	Magnum Corp, Bandar Raya Developments
Mohd Saleh Sulong	HICOM Holdings, EON, Perusahaan Otomobil Nasional (Proton), Kedah Cement
Tik Mustaffa	Proton, HICOM Holdings, Kedah Cement
Maznah Abdul Jalil	EON, HICOM Holdings, Kedah Cement, Proton
Mohd Nadzmi Mohd Salleh	Proton, RJ Reynolds
Lee Oi Hian	KLK, Batu Kawan
Yeoh Chin Hin	Batu Kawan, KLK
Charles Letts	Batu Kawan, KLK
Tengku Robert Hamzah	KLK, Batu Kawan
R. M. Alias	MMC, KLK, Batu Kawan

(*continued*)

Appendix 6.2. (*Continued*)

Name	Companies
Lee Hau Hian	KLK, Batu Kawan
Lee Soon Hian	KLK, Batu Kawan
Yeoh Eng Khoon	KLK, Batu Kawan
Quek Leng Chan	Hong Leong Bank, Hong Leong Credit, Hong Leong Indusries, Malaysian Pacific Industries (MPI), OYL Industries
David Edward Comley	MPI, Hong Leong Industries
Kwek Leng San	MPI, Hong Leong Industries
Mohd Shamsuddin Hj Mohd Yaacob	MPI, Malaysian Oxygen
Tan Keok Yin	MPI, Hong Leong Bank
Azman Hashim	AMMB Holdings, Arab-Malaysian Finance
Azlan Hashim	Arab-Malaysian Finance, AMMB Holdings
Mohd Tahir Hj Abdul Rahim	Arab-Malaysian Finance, AMMB Holdings
Mohd Rashdan Hj Baba	Arab-Malaysian Finance, AMMB Holdings, Unisem
Cheah Tek Kuang	Arab-Malaysian Finance, AMMB Holdings
Azlan Mohd Zainol	AMMB Holdings, Arab-Malaysian Finance
Chan Hua Eng	Malayan Cement, Lingui Developments, Carlsberg
Zain Azahari Zainal Abidin	Golden Hope Plantations, MMC
Mohammad Abdullah	Golden Hope Plantations, Malaysian National Reinsurance
Leong Wai Hoong	Tanjong, RJ Reynolds
Faisal Siraj	Kedah Cement, HICOM Holdings, EON
James Lim Cheng Poh	Hong Leong Bank, Hong Leong Credit
Seow Lun Hoo	Hong Leong Bank, Hong Leong Credit, Malaysian Resources Corp (MRCB)
Kwek Leng Seng	Hong Leong Bank, Hong Leong Credit
Yong Ming Sang	MUI, Star Publications, MAS
Khalid Hj Ahmad	Rashid Hussain, New Straits Times Press (NSTP), MRCB, Malakoff
Mohd Noor Mutalib	MRCB, NSTP, Malakoff
Ahmad Nazri Abdullah	MRCB, NSTP
Abdul Kadir Jasin	MRCB, NSTP
Ahmad Jauhari Yahya	Malakoff, MRCB
Mohd Osman Samsudin Cassim	Southern Bank, Berjaya Land
Mohd Ghazali Hj Che Mat	Malakoff, Kumpulan Guthrie, NSTP
Lin Yun Ling	Gamuda, Lingkaran Trans Kota Holdings

Ng Kee Leen	Gamuda, Lingkaran Trans Kota Holdings
Saw Wah Theng	Gamuda, Lingkaran Trans Kota Holdings
Tong Keng Tatt	TA Enterprise, Pan Malaysia Cement Works
Mustafa Mohd Ali	Sime UEP Properties, Batu Kawan
Syed Fahkri Barakbah	Sime Darby, Sime UEP Properties
Abdul Khalid Ibrahim	Highlands & Lowlands, Kumpulan Guthrie
Wong Chong Wah	Highlands & Lowlands, Kumpulan Guthrie
Ghazali Awang	Highlands & Lowlands, Kumpulan Guthrie
Geh Cheng Hooi	Star Publications, Tan Chong Motor Holdings, Lingui Developments, Hap Seng Consolidated
Jamiah Abdul Hamid	UMW Holdings, MMC
Azzat Kamaludin	NSTP, Affin Holdings
Ang Guan Seng	MUI, Perlis Plantations
Lodin Wok Kamaruddin	Affin Holdings, Ramatex
Tsuneo Horita	AMMB Holdings, Arab-Malaysian Finance
Lee Shin Cheng	IOI Properties, IOI Corp
Lee Cheng Leang	IOI Corp, IOI Properties
Lee Yeow Chor	IOI Corp, IOI Properties
Yeo How	IOI Corp, IOI Properties
John Madsen	Hap Seng Consolidated, Carlsberg
Anuar Mohd Hassan	Malaysian National Reinsurance, Malaysian Oxygen
Tajudin Ramli	MAS, Technology Resources Industries (TRI)
Abdul Rahman Hj Ismail	HICOM Holdings, TRI, BIMB Holdings
Jeffrey Alan Hedberg	Digi Swisscom, TRI
Abdul Rahim Hj Din	Berjaya Group, Digi Swisscom
Wan Abdul Rahman Wan Yaacob	Powertek, IJM Corp, MMC, Lingkaran Trans Kota Holdings
Khor Chin Poey	Perlis Plantations, PPB Oil Palms
Liang Kim Bang	Perlis Plantations, PPB Oil Palms, CMS
Ahmad Abdullah	Phileo Allied, Tan Chong Motor Holdings
Mohd Noor Yusof	Commerce Asset-Holding, KUB Malaysia
Anuar Hamdan	Multi-Purpose Holdings, Kamunting Corp, Bandar Raya Developments
Abdul Khalid Sahan	MMC, PSC Industries
Amin Shah Omar Shah	Kedah Cement, PSC Industries
Saw Huat Lye	Shell, Guinness Anchor
Jaffar Ahmad Indot	Guinness Anchor, Shell
Siti Ramelah Yahya	Kumpulan Guthrie, Highlands & Lowlands

(*continued*)

Appendix 6.2. (*Continued*)

Name	Companies
Danny Tan Chee Sing	Berjaya Capital, Berjaya Land, Berjaya Group
Mohammed Adnan Shuiab	Multi-Purpose Holdings, Berjaya Land
Mansor Salleh @ Md Salleh	Ban Hin Lee Bank, Berjaya Capital
Abdul Manap Ibrahim	WTK Holdings, Amsteel Corp
Omar Yoke Lin Ong	OYL Industries, Malaysian Oxygen
Abdul Rahman Sulaiman	Pan Malaysian Cement Works, MRCB
Nasruddin Mohamed	Amsteel Corp, IOI Properties, Hong Leong Industries
Wan Azmi Wan Hamzah	Amway Holdings, Land & General
Lim Ah Tam @ Lim Bok Yeng	Kamunting Corp, Bandar Raya Developments
Lim Thian Kiat	Kamunting Corp, Bandar Raya Developments, Land & General

Appendix 6.3. 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 Corporation (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 Corporation (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 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 under the state)
16. YTL Corp (Yeoh family)	16. Renong (Halim Saad – now under the state)
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 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 family)	25. Golden Hope Plantations (Government)
26. Guthrie (Governemnt)	26. Tanjong (T. Ananda Krishnan)
27. Faber (Halim Saad, through Renong)	27. Edaran Otomobil Nasional (EON) (Government)
28. Hong Leong Bank (Quek Leng Chan)	28. Hong Leong Bank (Quek Leng Chan)
29. Berjaya Toto (Vincent Tan)	29. Sarawak Enterprise Corporation (Sarawak state government)
30. Commerce-Asset Holdings (Halim Saad, through Renong)	30. Malaysian Airline System (Tajudin Ramli – now government)
31. Hume Industries (Quek Leng Chan)	31. Malaysian Resources Corporation (Government)
32. Multi-Purpose Holdings (MPHB) (T.K. Lim)	32. Oriental Holdings (Loh family)
33. Tanjong (T. Anada Krishnan)	33. Southern Bank (Tan Teong Hean)
34. Malayan United Industries (MUI) (Khoo Kay Peng)	34. HICOM Holdings (De-listed)
35. Rashid Hussain (RHB) (Rashid Hussain)	35. Malakoff (Government, through MRCB)
36. Affin Holdings (Government)	36. Gamuda (Lin Yun Ling)
37. Leader Universal (H'ng family)	37. Unisem (Foreign)
38. Higlands & Lowlands (Government)	38. Hong Leong Credit (Quek Leng Chan)
39. Land & General (L&G) (Wan Azmi Wan Hamzah)	39. TA Enterprise (Tiah Thee Kian)
40. OYL (Quek Leng Chan)	40. Sime UEP Properties (Government, through Sime Darby)
41. AMCORP (William Cheng)	41. Jaya Tiasa Holdings (Tiong Hiew King)
42. AMSTEEL (William Cheng)	42. Kumpulan Guthrie (Government)
43. Perlis Plantations (Robert Kuok)	43. Lingui Developments (Yaw Chee Ming)
44. Lingui Developments (Yaw Chee Ming)	44. Petronas Dagangan (Government)
45. Malaysian Helicopter Services (MHS) (Tajudin Ramli)	45. UMW Holdings (Government)
46. Jaya Tiasa Holdings (Tiong Hiew King)	46. New Straits Times Press (Government, through MRCB)
47. Petronas Dagangan (Government)	47. Affin Holdings (Government)
48. Shell (Foreign)	48. Arab-Malaysian Finance (Azman Hashim)
49. Sri Hartamas (Loy Hean Heong)	49. Malayan United Industries (Khoo Kay Peng)
50. IOI Corporation (Lee Shin Cheng)	50. IOI Corporation (Lee Shin Cheng)

Sources: KLSE Annual Companies Handbook 1996, 2001.

NOTES

1. See Gomez (2002) for a detailed assessment of the tripartite linkage between state, business groups, and the financial sector in Malaysia, and East Asia more generally.
2. In 2002, the ethnic breakdown of the Malaysian population was 66.1 percent Bumiputera, 25.3 percent Chinese, 7.4 percent Indian, and 1.2 percent others (Malaysia, 2001: 89).
3. See Gomez (1999) for an in-depth study of the impact of the NEP on Chinese-owned businesses. This study provides detailed case analyses of Chinese enterprises to reveal the different methods used by their owners to develop their firms during the NEP's implementation.
4. See, for example, Gomez (1990), whose study of UMNO's corporate investment indicates the extensive use of nominee companies to hold equity acquired by the party.
5. 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).
6. Gomez and Jomo (1999) study the rise of these politically well-connected businessmen.
7. By early 1996, the switch from a conglomerate pattern of growth to a more focused approach was noted among well-connected firms (see Gomez 2002). This switch was in response to Mahathir's call for companies to develop expertise and a reputation in a particular industry.
8. The holding company structure exists when a parent firm 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. The holding company uses the system of pyramiding, which allows the owner to maintain control over corporations with a relatively small investment (Sieh 1982; Lim 1981).
9. The exchange rate then between the Malaysian ringgit (RM) and the US dollar was RM2.4 = US$1. Presently, the exchange rate is RM3.8 = US$1.
10. Between the early 1970s and late 1980s, UMNO had acquired a huge interest in firms involved in most sectors of the economy (see Gomez 1990). UMNO's prominent role in the corporate sector led to allegations of conflicts of interest and corruption when its companies secured major government contracts. When a UMNO faction formed a new party and claimed these corporate assets in 1990, Mahathir permitted the transfer of party-owned enterprises to private individuals closely aligned to Daim.
11. For details on the takeover of assets controlled by Anwar allies and Daim protégés, see Gomez (2001).
12. Quoted in Gomez and Jomo (1999: 188).
13. See Gomez (1999) for case studies on the Yeoh Tiong Lay (YTL) Corp, Kuala Lumpur Kepong Berhad (KLK), and Oriental groups, which profile the growth of these enterprises from the time of their incorporation. These studies indicate that their standing as leading Malaysian firms is due to their adoption of a predominantly vertical or horizontal pattern of growth.