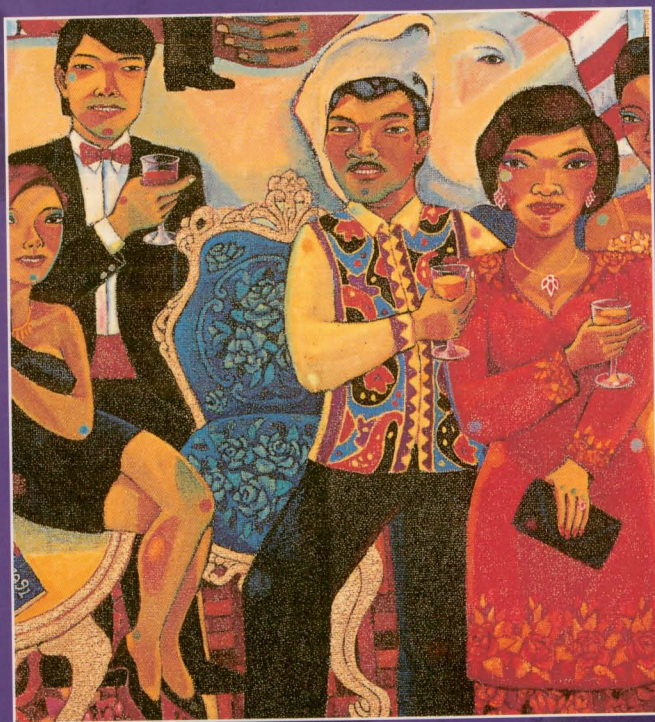


THE RIDDLE OF MALAYSIAN CAPITALISM

Rent-seekers or real capitalists?

PETER SEARLE



ASAA SOUTHEAST ASIA PUBLICATIONS SERIES

The Riddle of Malaysian Capitalism

Rent-seekers or real capitalists?

PETER SEARLE

Asian Studies Association of Australia
in association with

ALLEN & UNWIN

and

UNIVERSITY OF HAWAII PRESS
HONOLULU

PUSTAKA PERDANA



1001405



Contents

Tables	vii
Figures	ix
Abbreviations	x
Preface	xv
1 Introduction	1
Part I—The historical context: state and capital to 1990	
2 Malaysian political economy: an overview	27
3 The state and the expansion of Malay ownership	58
Part II—Malay capitalists: state, party, political and private	
4 The new Malay state: catalyst for capitalism or cronyism?	81
5 The party: UMNO's role in the development of Malay capitalism	103
6 Political capitalists: relations between party capital and private Malay capital	127
7 Private Malay capital: rentiers, transitional groups and entrepreneurs	154
Part III—Chinese capitalists: pariahs or entrepreneurs?	
8 MPHB: the failure of the Chinese 'institutional' approach	177

9 Chinese business groups: new wealth	189
10 Chinese business groups: old wealth	222
11 Conclusion	241
Selected interviews	250
Notes	252
Bibliography	294
Index	303

Tables

2.1	Malaya: distribution of ethnic groups in major industries, 1947	30
2.2	Mean income and shares in income growth, by ethnic group, 1957/58–1970 (Malays, Chinese and Indians only)	34
2.3	Employment by sector and race, Peninsular Malaysia, 1957 and 1970	39
2.4	Employment by occupation and ethnic group, 1970 (% of ethnic representation in occupation)	39
2.5	Parliamentary election results, Peninsular Malaysia, 1959–69	40
2.6	State election results, Peninsular Malaysia, 1959–69	41
2.7	Peninsular Malaysia: ethnic structure of population, 1911–57 (% of population)	56
2.8	Foreign ownership in the Malaysian economy, 1970	56
2.9	Peninsular Malaysia: size distribution of household income by ethnic group, 1957/58–73	57
3.1	Estimated Malay ownership of share capital in the corporate sector by industry, 1983	68
3.2	Commercial banks (locally incorporated): top ten in terms of assets as at 31 December 1990	75

- 3.3 Malaysia: participants in entrepreneurial training,
1981 and 1985 76
- 4.1 Executive-trustee directors: interlocking and multiple
directorships 87

Preface

During the past decade one of the most controversial debates among political scientists has been about the character, strength and durability of Southeast Asia's capitalist transformation. Even before the onset of the Asian currency crisis, in late 1997, some analysts questioned whether capitalism in Southeast Asia was 'real' or a 'chimera'; that is, some Southeast Asian derivative of capitalism which ultimately would not be sustainable. Malaysia presents an interesting and illuminating case where the debate about the character and durability of Southeast Asian capitalism are concerned. In Malaysia socio-economic disparities associated with a plural society gave rise to the government-sponsored New Economic Policy (NEP) through which an intimate relationship was forged between the state and business in an effort to create Malay capitalists.

This book argues that the nexus between business, politics and the state that has been central to the capitalist upsurge in Southeast Asia has also been central to the rise of Malay capitalism and the transformation of Chinese business in Malaysia. A concern throughout is to provide a sense of the dynamics between these elements in the development of Malaysian business. The study shows how, just as a core of increasingly robust and resilient Malay capitalists have emerged from within a cocoon of primitive accumulation and rent-seeking, important changes are also occurring among Chinese capitalists, which prompt a revision of a common view that the two are completely different. There are differences, but increasingly there are important points of similarity in the manner of their growth, their relations with the state and their credentials as capitalists. So in the Malaysian context, as indeed elsewhere in Southeast Asia, it is no longer easy in many cases to

distinguish between 'rent-seeking' and true 'productive' capitalism, between pariahs and entrepreneurs or between patrons and clients. Yet from this amalgam the study concludes that a form of capitalism is emerging in Malaysia that is nonetheless remarkably dynamic, vibrant and resilient, despite its unorthodox origins.

My interest in government-business relations in Malaysia began during a diplomatic posting to Kuala Lumpur from 1976 to 1979. Although the Malaysian Government's efforts to create, via the NEP, a Malay business class were then in their infancy, it was already apparent that the growing intimacy between the state and business would have profound implications for the character and development of Malaysian capitalism.

This book is based on a dissertation for a PhD degree submitted to the Australian National University (ANU) in December 1994. The interviews for the analysis were carried out in Malaysia from May to November 1987. Subsequent visits in 1993 and 1996 enabled me to update some material for publication, though this has necessarily been somewhat limited given the pace and complexity of corporate developments in Malaysia. In that regard, it should be emphasized that this book was completed before the onset of the Asian currency crisis of which the full implications, where Malaysia was concerned, were only becoming apparent in late 1997 and early 1998. Clearly that crisis will have a major impact on the debate about the character and durability of capitalism in Southeast Asia. But, as that crisis continues to unfold (circa mid-1998), it will be some time yet before considered analyses of the 'Asian meltdown' can be made or of its implications for Southeast Asia's capitalist transformation. In that context, while the principal contribution of this study is to provide a detailed account of the dynamics of government-business relations in Malaysia (particularly from the 1980s to the mid 1990s), such a study may nevertheless also assist future research concerned to identify which aspects of the financial crisis were unique to Malaysia and their longer term consequences for Malaysian capitalism. But that, of course, must be the subject of another book.

The study has drawn on the ideas and encouragement of many people. My largest debt is to my supervisors, Harold Crouch and Jamie Mackie, for their intellectual guidance, strong encouragement and great patience. No student could wish for more inspirational teachers. I am also very grateful to Rick Doner, Jomo Kwame Sundaram and Dick Robison for their valuable criticisms and advice. My friends and colleagues in the Department of Political and Social Change at the ANU have also played an important role in the study. In that regard I appreciated the support of Ben Kerkvliet, Ron May, John Maxwell, Derry Habir, Bill Case, Claire Smith and, particularly, Bev Fraser for her help in the final stages of the saga. Others at the ANU and beyond

who have helped in various ways include (alphabetically) Lee Kam Hing, Lee Poh Ping, Stephen Henningham, Michael Leigh, Michael Ong and, more recently, my colleagues in the School of Politics, University College at the Australian Defence Force Academy. I should also like to thank all those officers in the Department of Foreign Affairs and Trade who so generously approved the necessary periods of leave without pay to enable me to research and complete the study, though, it should be stressed, responsibility for all interpretations, errors or omissions remains my own.

In Malaysia I was very grateful for the warmth, hospitality and friendship of the late Tan Sri Tan Chee Khoo and his family at 4 Pesiaran Madge. This book is dedicated to his memory. I am also grateful to Lee Kam Hing and Celine for their hospitality during later visits. I must also record my gratitude to the librarian and staff at *The Star* newspaper in Kuala Lumpur for allowing me access to their files and for all their kindness and help and, more broadly, to the many Malaysian politicians, businessmen, lawyers, bankers and journalists—many of whom would prefer anonymity here—for so generously assisting my research with their knowledge and frankness about the dynamics of politics and business in Malaysia. Finally, I owe a debt of gratitude to the people at Allen & Unwin and the University of Hawai'i Press (particularly Christa Munns in the case of the former) who so meticulously edited this volume.

To my wife Lena and daughters Jane and Emma, thanks will never be enough for your terrific support and good cheer throughout the course of this enterprise.

*Peter Searle
Canberra*