

Recalling the Guthrie Dawn Raid

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THE Malayan economy at the time of independence was a commodity producing one. It had a duality — one part made up of plantation and mining companies owned and managed by corporations listed on the London Stock Exchange, while the domestic agricultural sector was made up of smallholders.

Retail trades were largely owned by Chinese family businesses. In the immediate post-independence period, the government adopted policies that were friendly to Foreign Direct Investment (FDI) for import-substituting industries.

These economic patterns were re-examined in the context of the New Economic Policy that was adopted in 1971. The two-pronged policy, namely that of eradicating poverty irrespective of race and restructuring ownership of corporate shareholdings, represented a major policy initiative.

Affirmative action programmes came to be pursued vigorously. However, progress towards the attainment of the 30 per cent target for Bumiputera ownership of corporate shares remained slow.

The large foreign ownership of the plantation and mining sectors remained intact. The government faced a serious challenge. It turned its back on the option of nationalisation of foreign-owned assets as this would have impacted adversely on its ability to attract FDI flows to support its policy of diversification of the

economy through industrialisation. It was also mindful of the negative consequences experienced by other newly independent countries that had taken the path of nationalisation of foreign and domestic businesses.

The Guthrie “Dawn Raid” by Permodalan Nasional Bhd (PNB), 38 years ago, on Sept 7, 1981, needs to be seen against this background. The raid was a fine-tuned and balanced initiative. The following is a brief account of now almost forgotten events, but a vital chapter in our nation’s history.

CHRONICLING A VITAL CHAPTER

I have been privileged to research and record a major milestone in our nation’s history. It was a long journey of almost four years that took me (together with co-researcher Nick White) to a small English town of Sherborne, Dorset, to interview the former Guthrie chairman, Mark Gent. And again, to Salisbury to talk to the late Sir Donald Hawley, the former British high commissioner to Malaysia when the raid took place.

The next journey took me to Chelsea — the affluent area of southwest London — to interview Sir Evelyn de Rothschild. And more recently, a series of email interviews with Jock Armitage, the key player for Rothschilds’ Asian operations.

On the domestic front, I was privileged to speak to Tun Dr Mahathir Mohamad, then the adviser of Petronas, Tengku Razaleigh Hamzah (the longest serving member of parliament), Tan Sri Abdul Khalid Ibrahim, before his appointment as Selangor menteri besar, and Tan Sri Desa Pachi (former PNB chief executive and general manager).

I was motivated to research the events surrounding the so-called Dawn Raid as it represented a rather unique approach adopted by a developing country to gain control of a foreign-owned entity. The approach avoided nationalisation, or in the

extreme forfeiture of privately owned assets. Malaysia had adopted an approach that used market tools that were based on the rule of law and commercial practices.

Nevertheless, British media and observers were shocked at the swift takeover which smacked of backdoor nationalisation.

SWOOPING IN FOR THE KILL

According to Gent, the role played by Rothschild was somewhat of a surprise — the assumption was that Rothschild ought to have acted on behalf of the British. They were deemed to have played a role as “vultures” driven by a profit motive. The fees imposed by Rothschild on their Malaysian clients were indeed substantial.

The Dawn Raid mounted on the stock exchange secured 51 per cent of the shares in Guthrie in just 10 minutes. PNB had successfully acquired control of the company and was in a position to relocate the prestigious plantation group back to Malaysia.

Guthrie was the second largest plantation company after Harrisons and Crosfield — it owned large land banks in Malaysia, more than 100,000ha in plantations and was listed number 68 on the London Stock Exchange.

This momentous event of the Guthrie Dawn Raid was not overrated. It was indeed tough to take over a closely guarded British firm. It was bought at slightly above the market price, inevitably according to Khalid, PNB got Guthrie for free.

VISIONARY KEY PLAYERS

The profit from the sale of the UK Guthrie Corporation was substantial and the gain was greater than the original cost to PNB of buying Guthrie. The credit for the planning of this coup can be attributed to the far-sighted vision of a number of key personalities who shaped the policies for gaining economic independence.

The personalities included Tun Ismail Ali (first governor of Bank Negara Malaysia), Tun Abdul Razak Hussein (then deputy prime minister), Dr Mahathir (then trade and industry minister), Tun Dr Ismail Abdul Rahman, Razaleigh (as Perbadanan Nasional Bhd chairman), Tun Tan Siew Sin (then finance minister) and Thong Yaw Hong (then director-general of the Economic Planning Unit).

The project fitted into the broader framework of the New Economic Policy. In the words of Armitage, “The great triumph of the NEP was that it used the market to transfer Malaysian assets into Malaysian hands”.

In the case of the Guthrie Dawn Raid, the two key players were Ismail and Khalid — who by then were serving as chairman and PNB chief investment officer respectively. Ismail must have had the blessings of his brother-in-law, Dr Mahathir, who was by then the country’s fourth prime minister.

THE FALLOUT

There were several fallouts from the successful completion of the Dawn Raid. British corporate interests were aghast.

There were allegations that political interests had driven the Dawn Raid. Anglo-Malaysian relations were affected. Flight rights for the supersonic Concorde became an acrimonious issue, the UK government’s sudden hike in student fees became an issue, which was viewed by Malaysia as being against the Commonwealth spirit.

The Malaysian government adopted a policy of “Buy British Last”. British shareholders had suffered a humiliation as Guthrie was a great source of pride and prestige.

Loss of ownership control represented a cutting of links to the former colony.

To them, the end of the empire had not led to the severance of ties.

MENDING BILATERAL TIES

The British government took immediate steps to enact new legislation to prevent future corporate raids. The amended Substantial Acquisition of Shares Rules were a response. Anglo-Malaysian relationships evolved in the aftermath of the Guthrie Dawn Raid.

A significant outcome was an agreement under which some 600 to 700 Malay students were able to enter top UK educational institutions. This was realised through the intercession of the British-Malaysia and Malaysian British societies, which were under the chairmanship of Hawley and Ismail respectively.

Yet another effort to mend and stabilise bilateral relationships between the two countries involved the establishment of a technical assistance programme; a sum of £4,000 was launched by the then British foreign secretary, Francis Pym.

The two societies referred to above were instrumental in paving the way for Margaret Thatcher to host a reception at 10, Downing Street two years later (1983) for Dr Mahathir. Malaysia, in turn, rescinded its policy of “Buy British Last”.

The Guthrie Dawn Raid is an amazing story of success that should be shared with governments in emerging economies worldwide.

Malaysia demonstrated that market-based approaches could be successfully applied by newly emerging nations in the pursuit of achieving economic independence.

The writer, an executive director of International Institute of Public Policy and Management and a professor of international and business history at History Department, Universiti Malaya, is attempting to write a book on the origins of economic nationalism in Malaysia with a detailed study on the Guthrie dawn raid

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