

**OWNERSHIP
AND
CONTROL
IN THE
MALAYAN
ECONOMY**

J.J. PUTHUCHEARY



PERDANA



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OWNERSHIP AND CONTROL
IN THE
MALAYAN ECONOMY

A study of the structure of ownership
and control and its effects on the develop-
ment of secondary industries and economic
growth in Malaya and Singapore

by

J.J. PUTHUCHEARY

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Author's Preface

As this book was written in prison I have many debts of gratitude to the people who have assisted me. The book would probably not have been written had I not been locked up, but the constraint which provided the leisure also deprived me of access to libraries, consultants, typists, and so on. These handicaps were made good by the efforts of a number of friends. Thus the book was written thanks mainly to my friends and my imprisonment.

The book had a modest beginning. My friends Dr. Rajakumar and Dr. Poh Soo Kai, then undergraduates and President and Secretary of the University Socialist Club, asked me to write a paper on the distribution of wealth in Malaya. I failed to get it done in time for the discussion it was intended for, so it was decided that *Fajar*—the journal of the Club—should bring out a pamphlet, 'Who Owns the Wealth of Malaya?'

At the time I was an official of the Singapore Factory and Shopworkers Union. My colleagues in the Union were most cooperative and agreed to my spending many office hours in the University library. So a fair amount of the work was done before I was arrested and detained.

Just before I was arrested in 1956 I completed a draft. But it was anything but a pamphlet for general reading. Nor was it any use as a piece of academic work because it was too full of politics.

The book in its present form was conceived in jail, mainly because my fiancée was markedly unenthusiastic over the first effort. Because of her attitude I accepted the advice of my friend Anthony Schooling of Radio Singapore and my teacher and friend Charles Gamba of the University of Malaya to attempt an economic study and leave any political implications to the reader.

This meant a great deal more research. My fiancée and friends had to seek out the books and other things and bring them to me. My fiancée never allowed her feelings towards me to cloud her critical judgement and she made me

work on various aspects of the study which I would not otherwise have done. Often my weekly letter, which at one time could not exceed the sheet of paper I was supplied with, was used to discuss points in the book. Large parts of her precious weekly half-hour visits were often given to economics. But she never complained.

I owe a debt of gratitude to my friends Nalini and Anthony Schooling. It is impossible for me to express what I owe to their generosity and affection. Much of the information in this book is the result of their enthusiastic and ungrudging assistance. Tony said he would polish up the grammar a bit and simplify the language and he proceeded to do all but re-write the book. For this, believe me, the reader has as much reason to be thankful as I.

Many parts of the book owe a lot to my friend and party colleague Dr. Goh Keng Swee, who put his brilliant analytical mind at my disposal during the many visits he paid me in jail. I have picked his brain quite shamelessly.

Many friends—ranging from government servants to directors of companies—have helped but I cannot name them for fear of their possible embarrassment if it were made known that they had assisted the researches of a subversive even for a study so soberly titled and purged of polemics as this.

Of these persons who have to remain nameless there is one to whom I owe a special debt. His experience as an agency house director was particularly valuable in putting some of my ideas into perspective. Needless to say there are many views expressed here with which he has disagreed. I am grateful to him for the many hours he spent discussing problems with me in jail.

A fellow detainee, Mr. Chan Chiow Thor, spent long hours at the typewriter deciphering my handwriting. His labour was ungrudging because of his deep interest in the problems of the Malayan economy.

I want to thank the Commissioner of Prisons, Major P.L. James, for much kindness and I am grateful for the consideration shown by the Prison Officers, especially Mr. D.S. Dutton, who have had me on their hands. It would be churlish not to¹ acknowledge the consideration shown by officers of the Special Branch. They could have put hopeless

obstacles in my way. No restrictions were put on books or the passage back and forth of manuscripts. Some of the officers have had to sit through long discussions which must have bored them severely.

Finally, as without books I could have done nothing, I must express deep gratitude to Mr. Ernest Clark and the Library Committee for giving me special permission to have books brought to me from the University library.

J. J. P.

Changi Prison Camp,
January 1959.
Singapore.



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Introductory Summary

This is a study of the ownership and control of wealth in Malaya.

The main year of study is 1953. There is no special reason for choosing this year except that the first copy of Zorn and Leigh-Hunt's *Manual of Rubber Companies* that I saw was for 1953. It was however impossible to keep the study strictly to the situation in 1953. Some of the data I was able to collect were for different years. I don't think that these variations in time make any important difference. Changes in the structure of ownership and control from year to year are very small. Therefore the study remains substantially a study of the situation in 1953, though not all the figures are for that year.

I have done little primary research for this study. For the most part I have collected and re-arranged published information. Published information generally deals with the larger units in the economy, so I have been able to go into more detail over the larger units than the small.

It is usual in a work of this kind to express the size of ownership and area of control in money terms, i.e. the capital of certain units in relation to the total capital employed in an industry; another way to express it would be to show the capital of certain units in terms of the total investment in the country. I could not do this because there is not enough published information.

So I have to measure different industries in different ways. I have made no attempt to assess in precise terms the relative importance of the different groups of ownership and control in the economy as a whole. Such assessment, if any, exists only by implication.

The distribution of ownership and control in agriculture is examined in terms of acreage; manufacturing by the number of workers; trade by the number of agencies and export-import annual values; and mining by annual output.

Subsistence Activities

Because I have to use different methods of measuring different activities, I felt it very necessary to make a distinction between those areas of the economy where output requires wage labour and those areas where wage labour is not used. If one does not make this distinction for the very many producers who are 'own account workers' one is in danger of understating the positions held by the larger units in the different industries.

Separating these 'own account workers' from the rest of the economy posed peculiar problems. The important thing about these people is that they are very small producers. They are producers who exist at the subsistence level. For this reason I have called this whole area of the economy, made up as it is of parts of the different industries, *subsistence activities*.

It has been suggested to me that this is a misleading use of the term. Subsistence activities usually means those activities that lie outside the market economy. But the value of 'subsistence' for me is that it shows very sharply that there are a large number of producers in all sectors whose output is so small that they live at subsistence level. If we do not separate them from the large producers when evaluating the importance of the various classes of owners, we will get a distorted picture.

Therefore, to mark out the area of the economy which is composed of small producers, I have collected together all those who are unlikely to use wage labour and called them *subsistence producers*. They are subsistence producers in the sense that they exist at subsistence level; not in the sense that they are outside the market economy. So I have kept to this term and use it in this special sense because it expresses the essential character of this part of the economy.

Medium-Scale Producers

Between the subsistence producer and the large-scale capitalist there is a big group of medium-scale producers. They are least important in agriculture; agriculture appears to be divided between small producers and big capitalists. The big estates cover some two million acres, the small producers two and three-quarter million acres, and medium

holdings only about half a million acres. Medium-sized operators are most important in commerce; they are important, though to a lesser extent, in manufacturing and mining. There is almost no information to be had about the part the medium-sized operators—mainly Chinese—play in the economy; therefore I have not tried to discuss the part they play in the general structure of ownership and control. I would have to do considerable research before I could describe with any precision the part played in Malaya's economy by Chinese capital.

The Agency Houses

Of the various institutions of ownership and control, the most important are the agency houses. Their activities are spread throughout the economy. There are about a dozen of them; they are active throughout the country and they participate in most of the industries. Their commanding position is most obvious in agriculture. They control about 75% of the nearly two million acres under plantations. Their control is further strengthened by an intricate interlocking of directorships of the various rubber companies they manage. A simplified picture of this interlocking pattern is given in Chart II.

The next most important activity of the agency houses is commerce. Because they own and control the production of so much of Malaya's most important exports, they have a dominant position in the country's export trade. The agency houses also control part of the export of small-holder's produce; they export about half of Malaya's agricultural produce, and between a quarter and third of all Malaya's export of domestic produce.

The agency houses also have a share in the import trade, though this is more difficult to assess. Of the 3,500 agencies held by firms in Malaya, 900 are held by twelve agency houses. In money terms the proportion may be even larger, as far as the import of 'branded' goods is concerned. It is safe to assume that the agency houses, who have been in the import trade for such a long time, would have the agencies for a large number of popular lines.

But the proportion of total imports controlled by agency houses may not be as large as the proportion shown by

a study of agencies, because a considerable part of imports are of non-branded goods and these have not been taken into account.

Associated with their interests in the export-import trade, the agency houses hold a number of shipping and insurance agencies. They have a very large, probably predominant, part of the agencies for cargo insurance. Some hold important agencies for passenger lines.

A few agency houses have a significant share in manufacture and tin-mining, but generally their participation in these industries is slight. In tin, six agency houses are associated with about 10% of the country's output. Only three of them are engaged in the management of mines and account for less than 5% of the output. In manufacture only one, the Borneo Co. is important, though Sime Darby and some others have some interests.

A few of the agency houses are associated with some of the very large European-owned banks in Malaya.

It is obvious that the agency houses control not only the commanding heights of Malaya's economy, but also much of the plains.

The part of the capitalist economy which is outside the control of agency houses is discussed separately. But I have not discussed agriculture separately because it comes within the discussion of subsistence activities and agency houses.

Commerce

There is a very large part of Malaya's commerce which lies outside the control of agency houses. There are many firms which specialise in import or export or both. Commerce involves the long and intricate chain which links the producer to the exporter, and which links the importer to the consumer. This chain cannot be adequately discussed in terms of the activity of the agency houses. So I have discussed the organisation and control of trade separately.

There is a popular view, widely held, that 'the Chinese' control commerce. This is false. The estimates in the study show that European-owned firms controlled 65-75% of the export trade in 1953 and 60-70% of the import trade in 1955. European-owned firms held about 75% of the import

agencies against some 10% held by Chinese firms.

The popular misconception that commerce is controlled by the Chinese is due to the ubiquitous activity of the Chinese middleman. Certainly a very large number of Chinese traders are engaged in buying and selling. But it is quite wrong to think that in their buying and selling these traders in any way *control* trade. In fact, the misconception is an 'optical illusion' due to the very large numbers of traders. The control of commerce is in fact in the hands of the exporter-importer; and the import and the export firms are very largely European.

Mining Agencies

Second in importance after the agency house in the control of Malaya's economy is the mining agency. These are firms which specialise in the management of tin mines. There are three large mining agencies which control about 45% of the country's output. Like the agency houses in the plantation industry these mining agencies are linked by interlocking directorships. Many of these interlocking directorships are the result of the dispersed interests of holding companies. These holding companies are parts of an international tin organisation which owns mines and smelters.

Some 55% of the country's production is not controlled by the mining agencies. 40% is produced by 600 Chinese-owned mines. Many of them, probably a majority, are small and depend on the two smelting companies for part of their working capital.

About 60% of Malaya's tin is produced by European-owned mining companies. There are 76 European companies; all the dredges are owned by European companies.

Most of the European-owned mining companies are public limited companies but very few of the Chinese ones are. Chinese-owned companies are mainly privately owned and many are only *kongsis*.

Manufacturing

In manufacturing, the European-owned companies do not control so large a part as in other industries. Information about the ownership and size of companies engaged in manufacture is limited to Singapore. It is unlikely that the

information about the industry in Singapore applies to Malaya as a whole.

In Singapore, of the 651 firms employing ten or more workers, 577 were Chinese-owned and 74 were European-owned. 1,750 Chinese manufacturing firms employed fewer than ten workers. No European firm employed less than ten.

In terms of the number of workers, Chinese firms employed more than 24,000 workers; European firms employed 11,000 workers. Chinese owned 97% of the firms but employed only 69% of the workers.

The World Bank Report says that small units dominate the manufacturing industry. This is not true. More workers are employed in firms with more than 100 workers than in firms with fewer than 50 workers. If workers in 'manufacture' employed by public authorities are included, about 60% of Singapore workers in manufacture are employed in units of more than 100 workers.

Control by Large-Scale Units

The most important conclusion, I think, of this study is that much of Malaya's economy is controlled by large-scale units. Of these, the agency houses and the mining agencies are the most important. The belief that small-scale producers and traders dominate the economy is caused by an incomplete understanding of the position of Chinese-owned capital. Another cause of this mistaken belief is the lack of understanding of the extent of control that agency houses, mining agencies and import agencies have over the economy of the country.

A corollary of this is the importance of public limited companies. People who assume that Chinese capitalists control the economy assume too that public limited companies play a part subsidiary to that played by private companies and family or clan organisations. The second assumption is false because the first is false.

The main finding of this study is the overwhelming evidence that European-owned firms are predominant in almost all industries. Almost all European-owned firms are public limited companies or subsidiaries of public limited companies. Some of the large Chinese-owned firms are also public limited companies. I do not think there can be any

doubt that the most important type of business organisation—though not the most common—is the public limited company.

Ownership and Control by Communities

In this study I have also noted the distribution of resources and control among the various communities.

Malays generally own only padi-land and small-holdings of rubber and coconut. Very few Malays are engaged in trade and probably none in mining and manufacture.

Malaya's 5.2 million acres under cultivation is distributed among the communities as follows:—

	Malays	Euro-peans*	Chinese	Indians	Total
Smallholdings	1.85	–	0.80	0.10	2.75
Med. holdings	0.01	0.03	0.35	0.13	0.52
Estates	–	1.60	0.27	0.05	1.92
TOTAL:	1.86	1.63	1.42	0.28	5.19

* The term European includes inhabitants of America, Australia, New Zealand, and South Africa.

The concentration of ownership and control of the land by Europeans I have noted in my discussion of the agency houses.

Land cultivated by Chinese falls into two groups. Much of the land is cultivated under Temporary Occupation Licences. Where land is actually owned, the ownership is probably very widely dispersed.

It used to be a common belief that in Malaya we have a very large land-owning peasantry. But surveys have shown that about half the Malay peasantry are tenants. Further, it is not generally recognised that there is a high concentration of ownership of the land worked by peasants in fragmented lots. A survey of 102 estates of deceased persons has shown that three estates accounted for 53% of the land. It is estimated that not more than 2,000 families own not less than two-thirds of the padi land of North Malaya.¹ The high degree of concentration of ownership is

1. T. B. Wilson: *Economics of Padi Production in North Malaya*, (Kuala Lumpur, Dept. of Agriculture 1958) pp. 66-67.

not apparent because the land titles are for small plots.

What is true of padi land may not be true of rubber land. But a survey similar to that of padi land might show that beneath the numerous land titles there is a very high concentration of ownership.

Indian-owned land is probably very highly concentrated. About 75% of the Indian-owned rubber smallholdings are worked by tenants. This is probably because the land is owned mainly by Chettiers who have taken it in default of debts.

—Tenant-farming and concentration of ownership of peasant-land connect with the problem of rural indebtedness. Indebtedness is in turn the result of low incomes and crop failures. No discussion of these problems can exclude the hold of Chinese traders over the produce of the peasants. Exploitation and resulting indebtedness lead to loss of land by peasants who remain as tenants. Between the landlord and the trader the Malay peasant is being proletarianised.

Rubber trees grow old but the peasant has difficulty in replanting because of the seven-year loss of income while the new trees are growing. He will become further impoverished and lose his land to petty capitalists. There will be a sharp collapse of peasant-owned rubber in the near future unless government-financed new planting is undertaken immediately.

In other sectors of the economy European ownership and control predominate. Only in manufacture do Chinese capitalists have a bigger share than Europeans. My discussion of institutions and industries has been largely a discussion of the position of European capital; therefore I have examined the position of Chinese capitalists in Chapter VI.

The position of the Chinese in the economy cannot be given in detail because there is so little information. Chinese-owned firms are numerous and generally small. Most of them are privately owned and no information is published. Therefore it is impossible to make any estimate of the part of the economy they control. The method I have used is to delineate, in as much detail as I can, the areas of ownership and control by European companies. What is left I have assumed to be in the hands of Chinese capitalists.

Though I cannot make quantitative statements there seem to be two safe conclusions. One, Chinese capital is not concentrated in any way comparable to European capital. Two, Chinese capital is largely used in co-operation with European capital. This is particularly true in commerce. Most of the Chinese capital in commerce is the capital of distributors, wholesalers and retailers, while import is in the hands of European companies. Undoubtedly there are important independent Chinese capitalists. Of these the most important is Lee Kong Chian.

Chinese capital often participates in a subsidiary role to European capital; though there is also an increasing trend for Chinese capital to go into partnership. There is evidence that Chinese capital is buying into firms owned by Europeans. There are more Chinese directors nowadays in these firms. Share registers show large increases in Chinese shareholdings.

Another important conclusion is that Chinese capital entering public limited companies seems to be used mainly for buying shares of existing companies and not for floating new ones. Again, these trends and features cannot be expressed in quantitative terms for lack of data. The whole field of Chinese capital has yet to be explored. No statement about the structure of ownership and control in Malaya's economy can be complete without a much more detailed examination of the share held by Chinese capital. Much more research needs to be done.

We can, however, say with confidence that *the commonly held view that Chinese dominate the economy is false*. As yet, the Chinese are mainly middle-men and compradores of European capital. Some have become partners and a few are independent. The capital that dominates Malaya's economy is European.

Capital for Development

In Part II of this study I have examined the problems of capital supply for development in the light of what was noted about ownership and control in Part I. There are various factors which influence capital formation in under-developed areas which I have not touched on. I have examined only one aspect of the problem of capital formation.

I believe that the structure of ownership and control of the resources that have been developed, and the nature of such resources have a very important influence on the capital formation in a country. It is far more important than is generally assumed in economic literature.

For my ideas on this subject I am in debt to H.W. Singer (*Distribution of Gain between Investing and Borrowing Countries*—American Economic Review 1950) and Gunnar Myrdal (*Economic Theory and the Under-developed Regions*—Duckworth, London 1957). To summarise my argument: very often people explain the lack of development in under-developed regions by pointing to the lack of natural resources and the smallness of the market. These two factors are important. But there has been very little attempt to see whether the development that has taken, or is taking place is the greatest possible within the limits set by natural resources, size of market and the state of technology.

Very often the greatest possible development is not taking place. Often, long before the limits set by the more intractable factors, like natural resources, the size of market and technology, are reached, other limits operate. So the rate of development is much slower than it would otherwise be. *The most important of these inner limits is that created by the capital development which has already taken place.* In countries where development has been one of primary production by foreign capital, industrial development—from both internal capital formation and new foreign capital—may be much more difficult than is generally assumed.

Primary industries developed by foreign capital are part of the economy of under-developed countries only in a 'purely geographical and physical sense'. They are in fact *outposts of the economy of the industrial countries.* The secondary multiplier effects accrue mainly to the investing countries and to those countries using the raw materials to feed their industries. These points have been made most forcibly by Singer in his article.

A very large part of the domestic capital formation takes place in foreign-owned companies that specialise in primary production. These companies are generally specialists and unable to move into new industries even if opportunities

exist. But opportunities may not exist because of the development that has taken place. Consequently, the capital that is formed flows out of the country for investment in other areas; or it is distributed among shareholders.

Thus the nature of development of primary products by foreign capital inhibits the reinvestment of profits, inhibits the inflow of new capital; and causes a very large net outflow.

Liquid capital itself may be immobile and not flow easily from industry to industry. The ability and enterprise of those who own or control liquid funds impose limits on the investment of these funds. There is a *heterogeneity of liquid capital*² determined by the industry in which it has been accumulated, due to the organisation of the industry and the capabilities of those who control it. This heterogeneity makes for structural immobility.

If the capital were indigenous, the distribution of profits would give these funds more mobility. But distribution of foreign-owned profits means outflow of funds. So capital accumulated by foreign investors in primary production is structurally immobile, but spatially mobile.

The lack of opportunities and the inability of foreign-owned firms to re-invest their profits in the country in which they are made has led to a very large net outflow of capital each year. The outflow figures for 1949-53 have ranged between 3.7 and 17.5% of the gross national income. This means that for Malaya to get an annual investment of 12% of the net national income 'which is what we mean by industrial revolution' Malaya must save between 25% and 35% of her gross national income. As things are—an impossible task!

Large scale industrialisation through supply of foreign private capital (whether from profits by foreign firms in Malaya or inflow of new capital) is unlikely. Locally owned capital follows the example set by foreign capital and moves into existing industries by buying the foreign capital out. This increases the outflow.

Industrialisation will only be possible if the outflow is checked and if the government invests in strategic indus-

2. This term is explained on p. 155.

