

THE RIDDLE OF MALAYSIAN CAPITALISM

Rent-seekers or real capitalists?

PETER SEARLE



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In memory of Tan Chee Khoon

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Abbreviations

AIA	American International Assurance
AmCorp	Arab–Malaysia Corporation
AMD	Arab–Malaysia Development Bhd
AMDB	Arab–Malaysia Development Bank
AMI	American Malaysian Insurance Sdn Bhd
AMMB	Arab–Malaysia Merchant Bank
API	Associated Plastics Industries
ASB	Amanah Saham Bumiputra
ASEAN	Association of Southeast Asian Nations
ASN	Amanah Saham Nasional
BAFIA	Banking and Financial Institutions Act
BBMB	Bank Bumiputra Malaysia Bhd
BCIC	Bumiputra Commerical and Industrial Community
BMF	Bumiputra Malaysia Finance
BMBB	Bumiputra Merchant Bankers Bhd
BPMB	Development Bank of Malaysia
CCB	Co-operative Central Bank
CIC	Capital Issues Committee
CICU	Central Information Collection Unit
CIMA	Cement Industries of Malaysia Bhd
CIMB	Commerce International Merchant Bankers Bhd
CSM	Cold Storage (Malaysia) Bhd
D & C Bank	Development and Commercial Bank
DAP	Democratic Action Party
DEB	Dunlop Estates Bhd
DMIB	Dunlop Malaysian Industries Bhd

DTCs	Deposit-Taking Co-operatives
EEC	European Economic Community
EDB	Economic Development Board
EPF	Employees Provident Fund
EPU	Economic Planning Unit
EPZ	Export-Processing Zone
Felda	Federal Land Development Authority
FIC	Foreign Investment Committee
GIL	Genting International Limited
GUH	Grand United Holdings
HICOM	Heavy Industries Corporation of Malaysia
ICA	Industrial Co-ordination Act
IGB	Ipoh Gardens Bhd
Inter-Pac	Inter-Pacific Industrial Group Bhd
ISA	Internal Security Act
ISS	Innovest Systems and Services Sdn Bhd
JPC	Juara Perkasa Corporation
JTM	Jabatan Telekom Malaysia
KFC	Kentucky Fried Chicken
KLCE	Kuala Lumpur Commodity Exchange
KLK	Kuala Lumpur Kepong
KLOFFE	Kuala Lumpur Options and Financial Futures Exchange
KLSE	Kuala Lumpur Stock Exchange
Kojadi	Koperasi Jayadiri (Malaysia) Bhd
Komuda	Koperasi Pembangunan Ekonomi Pemuda Malaysia
KSM	Koperatif Serbaguna Malaysia
KUBB	Koperasi Usaha Bersatu Bhd
LDC	less developed country
LME	London Metal Exchange
LTAT	Lembaga Tabung Angkatan Tentera
LUTH	Lembaga Urusan dan Tabung Haji
MAA	Malaysian Assurance Alliance
MARA	Majlis Amanah Rakyat (Council of Trust for Indigenous People)
MARDI	Malaysian Agricultural Research and Development Institute
MAS	Malayan Administrative Service
MCA	Malaysian Chinese Association
MCP	Malayan Communist Party
MIC	Malaysian Indian Congress
MIDF	Malaysian Industrial Development Finance Bhd
MISC	Malaysian International Shipping Corporation
MMC	Malaysia Mining Corporation

MNI	Malaysia National Insurance
MoF Inc.	Ministry of Finance Inc.
MOIC	Malaysian Overseas Investment Corporation
MPHB	Multi-Purpose Holdings Bhd
MSM	Malaya Sugar Manufacturing Company
MTD	Malayan Tin Dredging
MTI	Ministry of Trade and Industry
MTR3MP	Mid-Term Review of the Third Malaysia Plan
(MTR4MP etc.)	(and Fourth Malaysia Plan, etc.)
MUF	Malayan United Finance
MUI	Malayan United Industries Bhd
MUM	Malayan United Manufacturing
NEB	National Electricity Board
NEP	New Economic Policy
NIC	newly industrialized country
NOC	National Operations Council
NPC	National Productivity Centre
NSTP	New Straits Times Press (Malaysia) Bhd
OCBC	Overseas-Chinese Banking Corporation
OPP	Outline Prospective Plan
OPP2	Second Outline Prospective Plan
Pan El	Pan Electric
PAS	Parti Islam Se-Malaysia
PBB	Permodalan Bersatu Bhd
PDA	Petroleum Development Act
Pernas	Perbadanan Nasional Bhd (National Corporation)
PETRONAS	National Oil Corporation
PLUS	Projek Lebuhraya Utara Selatan
PNB	Permodalan Nasional Bhd (National Equity Corporation)
PWD	Public Works Department
RIDA	Rural & Industrial Development Authority
RRI	Rubber Research Institute
SEDC	State Economic Development Corporation
Semangat '46	Spirit of '46
SISW	Southern Iron and Steel Works Sdn Bhd
SKB	Shapadu Kontena Bhd
SKI	Sucden Kerry International
SLDB	Sabah Land Development Board
SPTI	South Pacific Textile Industries Bhd
STM	Syarikat Telekom Malaysia
STMB	Sistem Televisyen Malaysia Bhd (TV3)
Tan Sri	Malaysian title (below Tun)
TDC	Tourist Development Corporation
Tengku	prince

Tun	highest nonhereditary Malaysian title
Tunku	prince
TV3	Sistem Televisyen Malaysia Bhd
UAB	United Asian Bank
UDA	Urban Development Authority
UEP	United Estates Projects Bhd
UEM	United Engineers (Malaysia) Sdn Bhd
UMBC	United Malayan Banking Corporation
UMNO	United Malays National Organisation
UMW	United Motor Works
UMWI	United Motor Works Industries
UPHB	Union Paper Holdings Bhd
USNO	United Sabah National Organisation
YPB	Yayasan Pelaburan Bumiputra
1MP	First Malaysia Plan (1966–70)
2MP	Second Malaysia Plan (1971–75)
3MP	Third Malaysia Plan (1976–80)
4MP	Fourth Malaysia Plan (1981–85)
5MP	Fifth Malaysia Plan (1986–90)
6MP	Sixth Malaysia Plan (1991–95)

NEWSPAPERS AND MAGAZINES

<i>AWSJ</i>	<i>Asian Wall Street Journal</i>
<i>BT</i>	<i>Business Times</i>
<i>BT(S)</i>	<i>Business Times, Singapore</i>
<i>FEER</i>	<i>Far East Economic Review</i>
<i>FT</i>	<i>Financial Times</i>
<i>MB</i>	<i>Malaysian Business</i>
<i>NST</i>	<i>New Straits Times</i>
<i>SCMP</i>	<i>South China Morning Post</i>
<i>ST(S)</i>	<i>Straits Times, Singapore</i>
<i>ST</i>	<i>Straits Times</i>

CURRENCY

All currency values are in Malaysian dollars (ringgit). In June 1988, the approximate mid-date for much of the material in this book, the exchange rates were approximately US\$1 = M\$2.60 and A\$1 = M\$2.10.

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 Khoon 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

