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# Adapt or Divest? The New Economic Policy and Foreign Businesses in Malaysia (1970-2000)

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Pages 459-482 | Published online: 18 Sep 2012

🗨 Cite this article   🔗 <https://doi.org/10.1080/03086534.2012.712413>

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Abstract

This study

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As for the other foreign firms, they were nonetheless prepared to share assets,

expertise and human resources with Malaysian enterprises through joint ventures. Such a varied response demonstrated the agility of foreign businesses in responding to state policies.

## Acknowledgements

The authors wish to acknowledge the generous funding received from the University of Malaya and the hospitality provided by the Louisiana State University where earlier drafts of the paper were written. Many thanks go to John V. Lombardi, Geoffrey Jones, Nick White, Greg Sibley, Jason Loh Seong Wei and the anonymous reviewers for their valuable suggestions and comments.

## Notes

Gomez, Chinese Business; Gomez and Jomo, Malaysia's Political Economy.

Low Kam Yoke in her thesis differentiated between the two stages of acquisitions: the Malaysianisation stage involving the transfer of control and the relocation of headquarter functions to Malaysia and the localisation stage which involved the incorporation of local management and labour. See Low, 1994, 94-95.

'Bumitisation' refers to the process by which foreign firms are given preferential treatment in the form of subsidies, tax breaks, etc. This may take the form of a 'Bumitisation' scheme.

Malaysia's economic policy of 'Bumitisation' is a form of capital flight at the decision-making level.

Jones, M. (1998) 'The Bumitisation of the Malaysian Economy'; Jesudasan, R. (1998) 'The Bumitisation of the Malaysian Economy'; White, N. (1998) 'The Bumitisation of the Malaysian Economy'; P. Saga; Davenport, P. (1998) 'The Bumitisation of the Malaysian Economy'.

Yacob, 'The New Economic Policy; see also the epilogue in Yacob, The United States and the Malaysian Economy.

Dunning and Lundan, 'Institutions and the OLI Paradigm'; Jones, Multinationals and Global Capitalism; Dunning, 'The New Geography'; Stopford and Turner, Britain and the Multinationals.

The 'old' firms refer to foreign businesses which had been established in the Malay Peninsula (many of them headquartered in Singapore) since the nineteenth century.

This study has benefited from various business articles published in the now defunct Far Eastern Economic Review (hereafter FEER), The Financial Times, The Straits Times, The New Straits Times and The Wall Street Journal.

The series of articles by Japanese scholars in The Developing Economies, for example, focuses on the historical background, objectives and policy issues, and a number of case studies of British businesses. Horii, 'Disintegration of the Colonial Economic Legacies', 281-313; see also Chan, The New Economic Policy.

The Malaysian government began to shift public accounts into local banks in the 1960s when previously it had been the monopoly of British banks. In addition, from 1965 foreign banks were restricted from setting up further branches in Malaysia. Jones, British Multinational Banking, 284-295. Another example of the banking restriction in

Malay(a) Hong Kong and Sha particular, Chee Peng Lin ng, do not provide very briefly on the com by British banks in ssion and evaluation

British Competi

Perry, M

The curr to New Business morphosis up to the height of its marginalisation programme.

The convening of the First and subsequently Second Bumiputera Economic Congress, in 1965 and 1968 respectively, enabled the nationalists to draw upon and demonstrate political support from the Malay business community itself for urgent government action. Many of the policies of the NEP, a pivotal epoch in Malaysian economic history and marking a drastic shift in direction towards state-sponsored capitalism, were actually inspired by and derived from the proposals and resolutions of the Bumiputera Economic Congresses. Baharuddin, *From British to Bumiputera Rule*, 190.

Jomo, A Question of Class and Growth and Structural Change; Lim Mah Hui, Ownership and Control; Hua Wu Yin, 'Class and Communalism in Malaysia'.

White, 'Beginnings of Crony Capitalism', 409; British Business, 65.

In fact, after the Second World War, UMNO grassroots members had voiced their concerns about the influx of Chinese capital amounting to USD50 million from mainland

White, in

Abdul Razak was involved in communal clashes in his capacity as a government minister

democracy communalism or Razak in de facto

The National Malaysian 0/30/1, .



Ibid.

London Metropolitan Archives [hereafter LMA], CLC/B/112/MS37394/003, Address delivered to the Malaysia and Singapore Commercial Association by Tan Sri Sir Claude Fenner, RGA representative in Kuala Lumpur, London, 2 June 1977.

LMA, CLC/B/112/MS37394/003, papers collected in 1989 by Guy Nickalls for Great Enterprise: A History of Harrisons and Crosfield Ltd, including some original documents, c. 1948–80, copies of press cuttings and notes from company employees.

TNA, FCO 15/2075, note prepared by Henry Barlow and given to Mr Squire in a meeting on 2 June 1975.

Pernas was formed in 1969 through the Companies Act (1965), with a paid-up capital amounting to RM11.25 million, comprising the contribution of the Ministry of Finance (MoF), Bank Negara Malaysia and Bank Bumiputera Malaysia Berhad (BBMB). See, US National Archives & Records Administration (hereafter NARA), American Embassy, Kuala Lumpur to Secretary of State, Washington DC, 'GOM unveils plans to buy control of London Tin', April 1976 in electronic telegrams, 1 Jan.1976–31 Dec. 1976, RG 39, Central Foreign Policy Files, State Department Cables.

The objectives of Pernas were to invest in sectors which were capable of generating lucrative returns to participants in joint collaboration with international firms in which it is the main shareholder. The board of directors was appointed in all levels.

Khadijah

Ibid., 13

Heng Pe, *Malaysian Society*, 209; Gill,



Hugh Pe

TNA, FCO 15/2075, note prepared by Henry Barlow and given to Mr Squire in a meeting on 2 June 1975. British High Commission

Martin, 'A

‘Malaysia's Mahathir: The Man and His New Election Mandate’, 4 Jan. 1982, iv. CIA, Washington, DC; Wain, Malaysian Maverick.

Alain Cass, ‘Britain Tries to Clear the Air: Carrington in Malaysia’, Financial Times, 8 Feb. 1982, 15.

‘The British came back but not as the Malays had cast them. They came back not as protectors of the Malaysia they used to be, but showed instead every intention to wrest everything away from the Malays.’ Mohamad, The Malay Dilemma, 30.

‘Malaysia's Mahathir’,, 4 Jan. 1982, 5–6. CIA, Washington, DC.

For an impact of the raid on the Indian plantation worker, see Sivachandralingam Sundara Raja, ‘The London Dawn Raid’, 74–93.

Cass, ‘Britain Tries to Clear the Air’, Financial Times, 8 Feb. 1982, 15..

For a detailed explanation of the issues involved in the tense relations between Malaysia and Britain, see Jacob and White, “‘Unfinished Business’”, 17–22.

Kershaw, ‘Anglo-Malaysian Relations’, 640–41; Chew Huat Hock, ‘Changing Direction’, 351–53; Khoo Boo Teik, Paradoxes of Mahathirism, 54–57.

New Straits Times. 9 Feb. 1982.

TNA, FCO (Smith, MP)’, 6–7.

Cass, ‘Unfinished Business’, Financial Times, 8 Feb. 1983, 3.

Chin, ‘The British Tries to Clear the Air’, Financial Times, 8 Feb. 1982, 15.

Esmar, ‘The British Tries to Clear the Air’, Financial Times, 8 Feb. 1982, 15.

This case study is part of the course on the British Empire in the 19th century, which is available on the British Library website.

Gale, Political and Social Change in the Malay Peninsula, 1900–1950, 1900–1950.

Policy’, 3.

‘Malaysia's Mahathir’,, 4 Jan. 1982, 5–6. CIA, Washington, DC.



The company, newly named Zemex in 1985, relinquished all its interests in Malaysia in 1993. Pacific Tin Annual Report 1976-93.

White, 'Beginnings of Crony Capitalism', 389-417.

For a detailed view on the Sime Darby board struggle, see Drabble and Drake, 'British Agency Houses', 324-45.

'Battle for Sime Darby', FEER, 3 December 1976, p. 38. The US viewed the Sime-Pernas struggle as a battle between plantation interests and 'old' British firms and the Malaysian government which did not involve other sectors and as such had no impact on future foreign investments in Malaysia. NARA, American Embassy, Kuala Lumpur to Secretary of State, Washington DC, 'Battle for Sime Darby', Nov. 1976 in electronic telegrams, 1 Jan. 1976-31 Dec. 1976, RG 39, Central Foreign Policy Files, State Department Cables.

This was the view of the American Ambassador in Kuala Lumpur pertaining to US investments in Malaysia. NARA, American Embassy, Kuala Lumpur to Secretary of State, Washington DC, 'Fight between GOM and Sime Darby', Dec. 1976 in electronic telegrams, 1 Jan. 1976-31, Dec. 1976, RG 39, Central Foreign Policy Files, State Department Cables.

Yacob and White, 'The Finished Business', 2. See also Drabble and Jones, 'British Business in Malaysia', FEER, 19 Dec. 1980, p. 10.

'Malaysian Business', FEER, 8 Sept. 1981.

Mahathir's takeover of Guthrie's Unfinished Business

The major owned since the Asian region, including

Hugh Per 'Guthrie only the first in Sime's New Shopping List', The Straits Times, 11 Jan. 1974, 17.

Ray Maughan, 'End of an Era in Malaysia: Harrisons & Crosfield Loses "Jewel in its Crown"', *Financial Times*, 3 June 1982.

This firm then invested in the logging or timber sector and, in 1920, a joint venture was formed with the British North Borneo Company in Sabah. This firm was also one of the British companies to be involved in manufacturing related to rubber investment in the production of latex. Subsequently, Linatex, the latex product, was introduced by the firm. See Jones and Wale, 'Merchants as Business Groups', 375.

'Estate Sectors Makes News with Mergers', *New Straits Times*, 31 Dec. 1982.

LMA, CLC/B/112/MS37394/003.

Ibid.

Jeffrey Segal, 'Sunset on British Estates', *FEER*, 11 June 1982, 120-22.

Rogayah Haji Mat Zin, 'Malaysians Reverse Investments', 491-92.

Jeffrey Segal, 'Home to Hard Times', *FEER*, 1 Oct. 1982, 92-33.

Jones and Wale, 'Diversification Strategies', 96-97.

Gerald Colverd, 'Harrisons' "Easy Compass"', *Investor's Review*, 12-25 May 1978, 10.

Anthony [redacted] at the  
Price', *Financial Times*, [redacted] 1982,  
121.

'Malaysian [redacted]

Chew Hu [redacted]

Jesud [redacted] nationals,  
346-4[redacted]

White, B [redacted]

Kershaw [redacted] Agency  
Houses', [redacted]

Tunku Az [redacted] with  
Guthrie. Tunku Aziz, of the Kedah royalty, was considered as 'one of them' and always

received the best of treatment from Guthrie's management. Due to his upper-class upbringing and his British education as well as his acceptance of British culture, he was looked upon as somewhat of an Anglophile. Interview with Tunku Abdul Aziz Ibrahim, 16 Aug. 2008.

White, *British Business*, 16–18, 216–17.

Shell demonstrated remarkable flexibility in their strategic directions when faced with ultra-nationalistic policies in the Middle East and the Venezuelan oil sector. See, Sluyterman, *Keeping Competitive in Turbulent Markets*.

TNA, DO 189/588, File No. AED 110/30/1, Malaysia: employment of expatriates in business (1964–1966).

Jones, *Renewing Unilever*, 155.

*Ibid.*, 167–69.

Wong Sulong, 'Companies and Markets: International Companies and Finance—United Plantations Lays a Path', *Financial Times*, 13 May 1982, 26.

The late Basir Ismail also held the posts of chairman of Petronas, National Padi and Rice Authority, London Rubber Growers Association, Malaysian Rubber Growers Association, Association of Rubber Planters and Growers, and the Rubber Research Institute of Malaya. Obituary:

'Basir Di

Chris Sherriff, 'Basir Di', *Financial Times*, 1

Martin, 'Basir Di

Sherwell

For a more detailed account of the company, see the two volumes. To follow the development of the company, see the two volumes. Merchants .

Interview with Tunku Abdul Aziz Ibrahim, 16 Aug. 2008. Consultant (1989 to 1997)

*Ibid.*



‘String of Success, Now Another “First”’, The Straits Times, 7 Sept. 1972, 18.

Behn Meyer Memorandum, 1976; Behn Meyer Group in Singapore & Malaysia since 1840, Company Brochure, 1995.

The support of the Tunku for the multinationals indirectly led to the downfall of the minister for agriculture and cooperatives, Abdul Aziz Ishak, who wanted small cooperatives to manage the urea fertiliser project. Had this project been given the approval of the Cabinet and financially backed by the government, it would have been inimical to the interests of ICI. See White, *British Business*, Chapter 2.

To learn more about the strategies of this German family firm in Malaysia, see, Yacob, ‘Trans-Generational Renewal’.

Behn Meyer Holding AG Company Announcement, Hamburg, June 2000. Courtesy of Juergen Friele.

White, *British Business*, 176–77.

For the history of Wearne Brothers, see Fyfe, *Wheels in Malaya*; for the cooperation between Wearne and Ford Malaya, see Yacob, ‘Keeping the Wheels Moving’.

Martin, ‘Globalization and the End of Empire’.

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