The Journal of Imperial and Commonwealth History ›

Volume 40, 2012 - Issue 3

652 Views | 5 CrossRef citations to date | 3 Altmetric

Articles

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

Shakila Yacob & Khadijah Md Khalid

Pages 459-482 | Published online: 18 Sep 2012

Cite this article https://doi.org/10.1080/03086534.2012.712413

Sample our Humanities Journals

>> Sign in here to start your access to the latest two volumes for 14 days

Full Article Figures & data References Citations Metrics

Reprints & Permissions Read this article Share

Abstract

This study explores the interplay between state policies and business strategies of foreign firms in Malaysia during and in the aftermath of decolonisation. Drawing from newly released British and US sources, this study demonstrates that distrust of state enterprises as well as antagonism towards Chinese speculators were significant factors in shaping the business strategies of targeted British firms under the New Economic Policy (NEP) in Malaysia. In addition, the business culture of some British firms served only to harden misperceptions and strengthen the resolve of the government to implement the NEP fully. Finally, in cushioning external shocks, firms embarked on a diversification strategy not only to multiply, but also to acquire differing portfolios in developed economies. Despite this familiar framework of mistrust and tension, this paper goes on to address the real firm-specific differences in the response to the NEP.

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 headquarters from London to Kuala Lumpur of target companies and the bumitisation stage which necessitated conforming to the requirement of equity ownership and corporate control as outlined by the NEP. Low Kam Yoke, ‘Political Economy’, 94–95. ‘Bumitisation’ refers to the process whereby bumiputeras (sons of the soil) are given preference in the control and participation of the Malaysian economy. This may take the form of equity ownership or employment opportunities at the managerial level.

Malaysianisation involved and entailed two vital aspects: first, the accumulation of capital on behalf of bumiputeras; second, the appointment of bumiputeras at the decision-making and managerial levels.

Jones, Merchants to Multinationals; Jones and Wale, ‘Diversification Strategies’; Jesudason, Ethnicity and the Economy; Lim Mah Hui, Ownership and Control; White, Business, Government and ‘Gentlemanly Capitalism and Empire’; Martin, UP Saga; Davenport- Hines and Jones, eds, British Business in Asia.

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, 294–95. Another work on the banking sector in Malay(a)sia that goes beyond the colonial period but focuses mainly on the Hong Kong and Shanghai Banking Corporation is King, ed., Eastern Banking. See in particular, Chee Peng Lim et al., ‘History and Development’. These works, in need of updating, do not provide a detailed study on the Malaysian banking sector and touch only very briefly on the competition between domestic and foreign banks and challenges faced by British banks in Malaysia, but nonetheless could provide the basis for further discussion and evaluation of the impact on NEP in the Malaysian banking sector.

British economic decline in the 1970s and 1980s was well noted. See Porter, Competitive Advantage, 482–507.

Perry, Myanmar (Burma), 25, 79.

The current publication on decolonisation in Indonesia is Lindblad, Bridges to New Business, which contains extensive analysis of Indonesia's economic metamorphosis up to the height of its indigenisation programme.

Hart, ‘The New Economic Policy and Redistribution’, 47.

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.

See Puthucheary, Ownership and Control; Drabble, An Economic History of Malaysia .

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, British Business, Chapter 2.

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

Yacob and White, ‘“Unfinished Business”’, 919–60; Gomez, Chinese Business, 157–59.

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 China to the Malay Peninsula, which gave a comparative edge to local Chinese businesses to enhance their economic dominance. ‘Submission by Abdul Majid Haji Mohamed in O/C Economic Affairs, Penang UMNO to Tuan Haji Abdul Wahab, Dato Panglima Bukit Gantang, Ipoh, 19 September 1946’. UMNO Papers, UMNO/SG, 82/1946, Arkib Negara Malaysia (hereafter ANM).

White, introductory chapter in British Business.

Abdul Razak became Malaysia's second prime minister after parliamentary democracy was restored to the country in 1970. From 1969 to 1970, due to the 13 May communal clashes in Kuala Lumpur, Malaysia came under a state of ‘Emergency’ under Razak in his capacity as the chairman of the National Operations Council (NOC)—the de facto government of the day. Reid, ‘Kuala Lumpur Riots’, 258–78.

The National Archives, London (hereafter TNA) DO 189/588, File No. AED 110/30/1, Malayanisation (including employment of expatriates in business), 1964–66.

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 participate in joint collaboration or joint ventures in which it is the main shareholder, to control operations and to ensure that bumiputeras are appointed in all levels of managerial positions.

Khadijah Md. Khalid, ‘Malaysia-Japan Relations’, 131, fn. 156.

Ibid., 130.

Heng Pek Koon, ‘The New Economic Policy’, 275; Crouch, Government and Society, 209; Gill, Razaleigh, 60.

Hugh Peyman, ‘A Dividend for the People’, FEER, 23 Jan. 1981, 52.

TNA, FCO 15/2506, ‘Malaysia's NEP’, report by the Sir Donald Hawley, the British High Commissioner at Kuala Lumpur, 3 Aug. 1979.

Martin, ‘Globalization’.

‘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 Yacob 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 15/2497, ‘Visit to Malaysia by the Secretary of State for Trade (John Smith MP)’, 6–7 Jan. 1979,

Cass, ‘UK Seeks to Improve Malaysian Relations’, Financial Times, 20 Jan. 1983, 3.

Chin, ‘The State of the “State”’, 1044.

Esman, ‘Ethnic Politics’, 404.

This company was then appointed to be adviser to PNB and became involved in the takeover offer to British companies by public agencies.

Gale, Politics and Public Enterprises, 116–26; Saruwatari, ‘Malaysia's Localization Policy’, 377.

‘Malaysia Tilting at Foreign Economic Interests’, 3 Jan. 1982, 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, ‘“Unfinished Business”’, 2; see also Davenport Hines and Jones, British Business in Asia, 186; James Bartholomew, ‘A New Chapter for Sime’, FEER, 19 Dec. 1980, 61.

‘Malaysian State Firm Buys Control of Guthrie Corp’, The Wall Street Journal, 8 Sept. 1981.

Mahathir also mentioned that Ismail Ali was the main player in securing the takeover of Guthrie. Interview with Mahathir, 27 July 2007. See also Yacob and White, ‘“Unfinished Business”’.

The major asset of Uniroyal (Kumpulan Jerai) comprised five rubber estates owned since the 1920s. For the history of company investments in the Southeast Asian region, including Malaysia, see Yacob, ‘Model of Welfare Capitalism?’.

Hugh Peyman, ‘Who Buys Barlow and Why?’, FEER, 20 Jan. 1981, 60–62.

‘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 Rowley, ‘Malaysian Government Buys into Plantation Group: Cheap at the Price’, FEER, 16 March 1989; Segal, ‘Sunset on British Estates’, FEER, 11 June 1982, 121.

‘Malaysia: Socking it to Swine Bobby’, The Times, 24 Jan. 1974.

Chew Huat Hock, ‘Changing Directions’, 352.

Jesudason, Ethnicity and the Economy, Chapter 4; Jones, Merchants to Multinationals, 346–47.

White, British Business, 215–16.

Kershaw, ‘Anglo-Malaysian Relations’, 636; Drabble and Drake, ‘The British Agency Houses’, 324; Junid, British Industrial Investment, 134–45.

Tunku Aziz was among the first Malays to be appointed as trainee executive 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 Banks in Malaysia and the University Malaya Council and so on. Obituary: ‘Basir Dies of Heart Attack at 79’, The Star, 20 Jan. 2007.

Chris Sherwell, ‘United Plantations—Anatomy of a Painless Political Takeover’, Financial Times, 14 Nov. 1983.

Martin, ‘European Plantation Firms’.

Sherwell, ‘United Plantations’, Financial Times, 14 Nov. 1983.

For a comprehensive reading of the formation and development of this company, see the two volumes by Helfferich, Behn, Meyer & Co., Founded in Singapore. To follow the developments of the German firm in Penang, see, Nasution, More than Merchants .

Interview with Juergen Friele, former executive director (1984–89) and consultant (1989 to 1997) for Behn Meyer, 16 Aug. 2010.

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’.

Related research

People also read | Recommended articles | Cited by 5

ECONOMIC GROWTH AND INCOME INEQUALITY IN MALAYSIA, 1971–95 >

Ishak Shari
Journal of the Asia Pacific Economy
Published online: 10 Jan 2008

Dynamics of Policy-Making in Malaysia: The Formulation of the New Economic Policy and the National Development Policy >

Ho Khai Leong
Asian Journal of Public Administration
Published online: 25 Feb 2014

Information for

- Authors
- R&D professionals
- Editors
- Librarians
- Societies

Open access

- Overview
- Open journals
- Open Select
- Dove Medical Press
- F1000Research

Opportunities

- Reprints and e-prints
- Advertising solutions
- Accelerated publication
- Corporate access solutions

Help and information

- Help and contact
- Newsroom
- All journals
- Books

Keep up to date

Register to receive personalised research and resources by email

Sign me up

Copyright © 2026 Informa UK Limited Privacy policy

Cookies Terms & conditions Accessibility

Registered in England & Wales No. 01072954
5 Howick Place | London | SW1P 1WG