

PERSATUAN EKONOMI MALAYSIA  
(Malaysian Economic Association)

FOURTH MALAYSIAN ECONOMIC CONVENTION  
AGENDA FOR THE NATION: PUBLIC POLICIES FOR  
RESTRUCTURING OF SOCIETY

'Changes in Ownership and Control in Malaysia'

By

James Puthucheary

COPYRIGHT by  
Author and PEM

19-21 May 1977  
Kuala Lumpur



'Significant Changes in Ownership and Control in  
the Malaysian Economy'

The most significant change in recent years in relation to ownership has been the change in Government's policy toward ownership. In the past the Government's policy towards ownership was a part and parcel of the general free trade laissez faire economic theory that dominated the British Empire. To put it in a nutshell, ideally the area of individual ownership would expand to the point of the individuals in efficiency. This is really an application of 'Peter's Principle' to the theory of the firm.

This official neutrality did not prevent the Government showing adequate preference for British companies and individuals. Under the protective umbrella of the British Raj British capital and knowhow with the aid of Chinese, Indian and Javanese labour opened up estates and mines. The saga of their initial failures and ultimate successes has been told many times in many books that I shall not beguile you with stories of this long march to millions. This neutrality resulted in about 2/3rd of capitalist segment of the economy being owned by non Malaysians.

There are no detailed figures about ownership before 1970 for the whole economy. But there are some indicators that help us to evaluate to extent of ownership.

Mamajiwalla's<sup>(1)</sup> figures only deal with 'dollar rubber' companies. In those days economists and others include Singapore in concept of Malaya and only those who did not come from the two territories were foreigners. According to Mamajiwalla in 1948 Chinese ownership of 'dollar rubber' companies amounted to \$1.8 millions out of total share capital of \$22.2 million or 8.1% and Indian ownership 5.4%. Europeans and Investment companies registered in the United Kingdom accounted for almost all of the rest. By 1953 the Chinese ownership had become 20% and Indian share remained at 5.4% and 1958 Chinese share had gone up to 34% and the Indian share had fallen to 5%. About half of the Chinese investment came from Singapore.

The tin industry was studied in great detail by Yip Yat Hong<sup>(2)</sup> and he has some interesting figures of ownership of tin companies registered in Malaya. In 1954 77.7% of

- 
- (1) R. Mamajiwalla: 'Ownership and Control of Public Limited Rubber Companies incorporated in the Federation of Malaya 1948-58' unpublished MA Thesis University of Malaya p. 460, 466 and 472.
- (2) Yip Yat Hong: 'Development of the Tin Mining Industry of Malaya' Kuala Lumpur University of Malaya Press 1969

local registered tin dredging companies was owned foreign interests and the rest mainly held by Chinese shareholders. By 1965 the situation had reversed and foreign ownership had declined to 35.9% and 58.7% by Malaysian Chinese.

It is sufficient for the purpose of this paper to state that in 1948 much of the capitalist segment of Malaya's economy was in hands of European enterprise. In the post-war years the process of transfer had begun. Two factors aided in this process of dispossession. One was the Korean War boom. Commodity merchants and others made large profits and these windfall gains were available for investment. Rubber price soared and price of shares of rubber companies began to rise after many years. The other factor was the Emergency and insecurity of investments in Malaya. They had the money to purchase and reasonably attractive prices were offered and most of all there were reasons to sell. Considerable Malayanization of Ownership took place. In 1957 Independence was achieved leading a period of insecurity and doubt among foreign investors. Again in 1963 there was the confrontation with Indonesia and this period was also one large scale sale of investments.

In first decade or so after Independence there was no change in the official policy. In 1970 there was very radical change in the policy. The Government laid down what

can be called an 'ownership policy'. They stated in Second Malaysia Plan that they shall work towards a more equitable ethnic distribution of the ownership of the means of production in the country. A more equitable ethnic distribution would be 30:30:40 of the capitalist segment of the economy. This segment is more or less coterminous with the segment owned by limited companies and Malays should by 1990 own 30% foreigners 30% and other Malaysians 40%.

The implementation of this policy gathered momentum as politicians administrators and entrepreneurs saw more clearly the way to achieve the objectives. One of the instruments the administrators had was the 'Investment Incentives Act 1968'. The main benefit given by this Act was a period of tax exemption. Applicants for 'pioneer status' were increasingly required to have some Malaysian participation and later specifically required to reserve 30% of the shares for Bumiputra purchasers. In 1968 Malaysian shares in pioneer companies was about 27% and in 1969 33% in terms of the gross sales of these companies<sup>(3)</sup>.

Similarly enterprises that sought locational incentives under the same Act found increasing demand for

---

(3) Marc Lindenberg 'Foreign and Domestic Investment in the Pioneer Industry' unpublished Ph.D. Thesis University of South California 1973

Malaysian control and Bumiputra participation. Where the shares were not taken up they were required to be reserved until such time that these groups could take up the shares. In 1977 the 'Industrial Coordination Act' was passed which makes it possible to induce changes in the ownership of manufacturing companies that were not required to restructure its capital in order to get the benefits of the Industrial Incentives Act. Industries that provide services to the manufacturing industry would not be directly affected but could be forced to restructure their ownership by administrative directives.

The administrative tools which are necessary for applying pressure on entrepreneurs to bring ownership in line with Government ownership policy has been fashioned at least for the manufacturing industry.

Plantation agriculture was by and large divided between foreign owners and ethnic Chinese Malaysians. The Malaysian investors continued their take over which had begun in the flush of the Korean War boom and the blues of the Emergency. If the process had continued uninterfered with and with the devaluation of the sterling a very large part of the shareholdings of sterling rubber companies would have fallen to the ethnic Chinese Malaysians as they

were the only persons who had the resources to take advantage of the favourable conjunction of circumstances. Lee Loy Seng's takeover of Kuala Lumpur-Kepong and Cheah Thean Swee's takeover of Selangor Coconuts/Bekok Holdings were signs of the times.

This threat of Chinese ownership was sometimes met by amalgamations. The time-honoured 'united we stand divided we fall' was implemented by agency houses in an attempt to prevent 'takeovers'. It led to the formation of Guthrie Estates, Consolidated Plantations and recently the Harrisons Plantations. These plantation groups are about 150,000 acres each. These amalgamations increased not only the acreage but also the capital, thereby requiring much greater funds to carry out a takeover operation.

After 1970 the process of free booting takeovers was stopped and an administrative machinery to examine the takeover of foreign owned Malaysian assets was devised and that was Foreign Investment Committee (F.I.C.). All takeover, amalgamations mergers of assets of more than \$1 m: had to have the approval of this Committee. Even the transfer of registration to Malaysia i.e. that takeover of the assets of a foreign company by a company registered in Malaysia for that purpose and without any change in the beneficial



ownership of the shares had to have the approval of the F.I.C. This committee has been implementing the New Economic Policy and has been an instrument in restructuring the capital of many rubber and palm oil companies.

Tabong Tentera owns a substantial part of Boustead Estates. Tabong Haji had among its many investments considerable holding in plantations. Pernas has sizable holding in Sime Darby and therefore in Consolidated Plantations and in Highlands & Lowlands. The massive effort by FELDA has made it probably the biggest single rubber and oil palm producer in the world.

In the tin mining industry the takeover of London Tin by Pernas Securities and the collaboration with Chartered Consolidated in the New Tradeswinds has resulted in Pernas controlling if not owning a very large number of tin producers who own most of the dredges in the country. Pernas controls London Tin the world's largest tin investment company.

Other forms of mining make a very small part of the industry. In value of output tin mining produced \$631 millions output \$667 millions in 1971<sup>(4)</sup> Limited companies produced

---

(4) Census of Mining Industries in Peninsular Malaysia 1971'

\$474 millions worth of which Pernas now controls a very large chunk. Malaysian Government owns Pernas.

In the shipping industry Government's participation is more direct. Minister of Finance Incorporated, some statutory bodies and State Government together own more than 50% of the shares of Malaysian International Shipping Corporation. There is some foreign ownership but most of the remaining shares are owned by Malaysians. Similarly in shipbuilding the Minister of Finance Incorporated owns 50% in Malaysian Shipbuilding & Engineering and of the remaining shares Malaysian own 12.5% and 37.5% is foreign owned. In the other major shipyard the Hong Leong-Lursen Pernas owns 12.5%.

In banking though foreign banks probably still dominated the financial scene Malaysian and Government have made considerable inroads. The Indian banks have been amalgamated and Malaysians have majority interests. The Bumiputra interests in United Asian as the Indian banks are now called is considerable. Perwira-Habib was a Pakistani bank into which Tabong Tentera bought in and is a major shareholder. The Police Cooperative Society has bought Cho Jock Kim's controlling interest in the Oriental Bank. Government's efforts again in this field has been

considerable. It sets up banks - Bank Bumiputra, Bank Pertanian, Bank Pembangunan and has bought controlling interest in Malayan Banking. Pernas has bought up 30% of United Malayan Banking Corporation.

In addition to the Governmental effort Malays have increased their shareholding in limited companies from 1.8% in 1970 to 2.3% in 1975 while other Malaysian have more or less maintained their share ie. 34.3% in 1970 and 37.3% in 1975. Foreign ownership has fallen from 63.3% in 1970 to 54.9% in 1975.<sup>(4)</sup> As simplification for this paper I have assumed limited companies to be coterminous with the capitalist segment of the economy. But these figures are just some details of the general proposition that Government's attitude to the ownership of the economy has changed and has become concerned not only foreign ownership but also ownership among the major ethnic groups in the country.

It is a truism to state that one cannot become a capitalist without capital. Therefore it is unrealistic to expect capital accumulation among owners of 1.6% of the limited companies in 1970 to reach 30% in 1990 given a positive rate of growth. From 1970 to 1975 ownership by

---

(4) Table 1 - Source: Third Malaysia Plan 1976-80 Government Press, Kuala Lumpur 1976 pg. 86

Malay interests that is MARA, Pernas, UDA, SEDC's Bank Bumiputra and Bank Pembangunan have grown much faster than Malay ownership. In 1970 they owned about half of what Malays owned. In 1975 they owned about twice. It seems to me that a great part of the 30% target for Malay ownership when achieved is likely to be owned by Malay interests which to all intents and purposes amounts to Government ownership.

This is almost inevitable given the rate of savings among Malays. In 1975 it was roughly estimated that Malay savings in institutions amounted to \$2000 ms. of which nearly 80% was with the Employees Provident Fund and National Savings Bank. The total savings with private financial institutions amounted \$430 millions of nearly \$5,500 m. for all ethnic groups or 7.96%. It would take an immense amount of loans to convert 8% of the savings into 30% of the total investments by 1990. Therefore state agencies not limited by personal savings - loan ratios would have to fill the gap and thereby at least in the first instance becoming a major participant in the economy of the country.

TABLE 4-16

PENINSULAR MALAYSIA: OWNERSHIP OF SHARE CAPITAL IN  
LIMITED COMPANIES, 1970-75

	1970 <sup>25</sup>		1975 <sup>26</sup>		Average annual growth rate (%) 1971-75
	\$ million <sup>28</sup>	%	\$ million	%	
Malays and Malay interests ..	125.6	2.4	768.1	7.8	43.6
Malay individuals <sup>29</sup> ..	84.4	1.6	227.1	2.3	21.9
Malay interests <sup>30</sup> ..	41.2	0.8	541.0	5.5	67.4
Other Malaysians <sup>31</sup> ..	1,826.5	34.3	3,687.3	37.3	15.1
Foreign <sup>32</sup> ..	3,377.1	63.3	5,434.7	54.9	10.0
Total private sector <sup>33</sup> ..	5,392.2	100.0	9,890.1	100.0	13.2
Gross domestic product (in 1970 prices) ..	9,038.0		12,914.0		7.4

<sup>25</sup> Actual.

<sup>26</sup> Estimated.

<sup>27</sup> Targets.

<sup>28</sup> Totals for 1970 differ from those presented in the SMP and its Mid-Term Review because of the exclusion of the Government, the re-classification of the trust agencies as Malay interests and the re-allocation of most of the shares previously categorized as "held by other companies" to the shareholders of these companies.

<sup>29</sup> Includes institutions channelling private Malay funds such as Amanah Saham MARA and Lembaga Urusan dan Tabung Haji.

<sup>30</sup> Shares considered to be held in trust by agencies such as MARA (excluding Amanah Saham MARA), PERNAS, UDA, SEDCS, Bank Bumiputra and Bank Pembangunan.

<sup>31</sup> Includes nominee companies and third-company minority holdings.

<sup>32</sup> Non-residents.

<sup>33</sup> Excludes the Government and its agencies except trust agencies.

PENINSULAR MALAYSIA: OWNERSHIP OF SHARE CAPITAL IN  
LIMITED COMPANIES, 1976-90

	1980 <sup>27</sup>		1990 <sup>27</sup>		Average annual growth rate (%) 1976-90
	\$ million	%	\$ million	%	
Malays and Malay interests	3,284.3	16.0	24,009.7	30.0	25.8
Malay individuals <sup>29</sup>	695.4	3.4	5,914.2	7.4	24.3
Malay interests <sup>30</sup>	2,588.9	12.6	18,095.5	22.6	26.4
Other Malaysians <sup>31</sup>	8,290.5	40.4	32,012.9	40.0	15.5
Foreign <sup>32</sup>	8,952.2	43.6	24,009.7	30.0	10.4
Total private sector <sup>33</sup>	20,527.0	100.0	80,032.3	100.0	15.0
Gross domestic product (in 1970 prices)	19,487.0		42,462.0		8.3

25 Actual.

26 Estimated.

27 Targets.

28 Totals for 1970 differ from those presented in the SMP and its Mid-Term Review because of the exclusion of the Government, the re-classification of the trust agencies as Malay interests and the re-allocation of most of the shares previously categorized as "held by other companies" to the shareholders of these companies.

29 Includes institution channelling private Malay funds such as Amanah Saham MARA and Lembaga Urusan dan Tabung Haji.

30 Shares considered to be held in trust by agencies such as MARA (excluding Amanah Saham MARA), PERNAS, UDA, SEDCS, Bank Bumiputra and Bank Pembangunan.

31 Includes nominee companies and third-company minority holdings.

32 Non-residents.

33 Excludes the Government and its agencies except trust agencies.