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OWNERSHIP AND CONTROL OF THE MALAYSIAN ECONOMY REVISITED: A Review of Research in the 25 Years Since the Publication of J. J. Puthucheary's Classic

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In 1960, three years after the independence of Malaya and a year after Singapore became a self-governing colony, a remarkable book, analyzing the structure of ownership of the Malayan (both Malaya and Singapore) economy, was published by James Puthucheary. The book was remarkable, not only because of the questions raised and the quality of the research but also because it was written while the author was locked up in Changi Prison in Singapore (for a brief account of the context, see author's preface, pp. vii–ix). In 1960 the questions posed by Puthucheary — "Who owns the productive wealth of the country?" and "What are the consequences of the structure of ownership on economic development?" — were not high on the agenda of policy or academic research. The major economic analysis of Malaya of the 1950s, the World Bank's *The Economic Development of Malaya* (International Bank for Reconstruction and Development, 1955), did not even raise these issues. In his 1961 collection of readings on Malayan economics, Silcock (then emeritus professor of economics at the University of Malaya in Singapore) briefly noted that "James Puthucheary's *Ownership and Control in the Malayan Economy* throws light on some political or semipolitical factors that have inhibited [economic] growth, particularly in manufacturing" (Silcock 1961: 4). No selection from Puthucheary appears in Silcock's collection.

However, there has been a strong intellectual legacy of Puthucheary's book on subsequent generations of students of the Malaysian economy. His book was reprinted a number of years ago, and appears to be widely read by Malaysian students. There have also been a

number of subsequent studies of "ownership and control," which have attempted to update and extend Puthucheary's analysis (Yip 1968, Hirschman 1971, Lindenberg 1973, Edwards 1975, Lim 1981, Sieh 1982, Tan 1982: Chaps. 5 & 6, Khor 1983). It seems appropriate, after a quarter of a century, to take stock of Puthucheary's contribution and of the literature that has followed in its wake.

The Colonial Economy and Puthucheary's Analysis

At the time of independence, Malaya was a poor country. This was evident from economic indicators — per capita household income was about US$180 per year in 1957/58 and per capita gross national product (GNP) was about US$270 in 1960 (see Hirschman 1974: 36 & 39), as well as from any other objective or impressionistic data. The conventional explanations of underdevelopment — poor reserves, a lack of capital, overpopulation and an absence of entreprenuership — would appear to have limited applicability to the case of Malaya in 1957. A small country by international standards, both in size and population, Malaya had been the world's largest producer of natural rubber and tin for more than 50 years. In 1926, exports from British Malaya were worth more than the exports from all the other British dependencies combined and in the period from 1946/47 to 1951, Malayan rubber exports earned more US dollars for the United Kingdom than all the industries and trades of the metropolitan country (cited in Khor 1983: 54). From his jail cell and armed with only published materials from the library, Puthucheary set out to explain why the colonial economy had not brought prosperity to Malaya.

In Puthucheary's analysis, there are three major segments of the Malayan economy — the mass of subsistence workers, the trading network of middlemen, and the owners/managers of the plantation/mining/commerce sectors. Subsistence workers are not defined by their lack of contact with the market (Puthucheary observes that almost all Malayan farmers are part of the market economy) but that they live at the margin of subsistence. Therefore, the overwhelming majority of Malay peasants, Chinese workers and Indian labourers comprise the subsistence sector. Retailers, larger merchants, and other intermediaries

form a complex chain of exchange from the primary producers to the export firms who sell the goods on the world market. A parallel system, identical at the highest and lowest levels, serves to distribute imported goods back down the hierarchy. These middlemen, largely Chinese, serve as the most obvious link in an exploitative economic system, and tend to deflect attention and hostility away from more powerful and central actors.

The uppermost echelon of the economy appears to be fragmented into hundreds of estates, mines, export/import firms, and other commercial agencies. Moreover, these companies are not run by their capitalist owners. By and large, salaried managers are hired to direct the corporate sector of the economy. However, by detailed scrutiny of public records, commercial handbooks and statistical reports, Puthucheary is able to show a tightly knit web of European control over the economy. The focal point of control is the agency houses, which "control not only the commanding heights of the Malayan economy, but also much of the plains" (p. xiv). For example, eleven agencies managed over 300 European estates (p. 46). These few agency houses are further integrated by interlocking directorates among the rubber companies. The European mining sector is even more concentrated than the plantation industry (p. 91). Agency houses also play a central role as the representative of shipping and insurance companies in Malaya, as well as by handling most exports and imports of the country. Only in the still relatively small manufacturing sector does European participation and concentration appear less than dominant, although European manufacturing firms are among the largest.

Beyond Puthucheary's analysis of ownership and control of the economy, he presents an economic and sociological interpretation of the consequences of foreign oligopolistic control on economic development. Drawing upon the writings of Singer (1950) and Myrdal (1957) Puthucheary explains the deleterious effects of foreign ownership and an unbalanced economic structure on capital accumulation and industrialization. Profits tended to be repatriated to foreign stockholders or invested in the same lines of economic activity (plantations, mines) in the countries. Since industrialization would offer competition for the imports of the agency houses and also require new forms of

economic organization and technical expertise, there is little capital mobility to the secondary sector. In addition, the export economy created few backward or forward linkages that attracted capital. Puthucheary argued that the problem of the Malayan economy was not a shortage of capital, but the lack of effective demand for capital (p. 170).

In two chapters (6 and 9), Puthucheary addresses the "myths" about the role of Chinese in the economy and the poverty of the Malays. He notes that only 2 per cent of Chinese workers are employers, the balance (98 per cent) are employees, family helpers, or own-account workers (p. 124). The widespread "myth" of Chinese dominance of the economy is based upon the everyday, visibility of small scale Chinese hawkers, peddlers and stallholders. Even the larger and more successful Chinese merchants are dependent upon an economic structure dominated by European interests. Poverty or near poverty is the status of almost all Malayans — Malays, Chinese and Indians. Puthucheary saw little utility in a "communal explanation" of the problem of low incomes. In rather prophetic words, Puthucheary anticipates a central critique of the New Economic Policy:

> ...Chinese poverty in the midst of Chinese wealth in Singapore is worth emphasizing because it illustrates an important common fallacy to do with the economic position of the Malays. There is much talk about the need to create Malay capitalists. It is suggested that this will raise the economic status of the Malays. ...[this] would doubtless improve the conditions of the Malays who became traders; but it is difficult to see how that will help solve the problem of rural poverty. The presence of Chinese capitalists has not noticeably helped solve the poverty of ... Chinese households ... those who think that the economic position of the Malays can be improved by creating a few Malay capitalists, thus making a few Malays well-to-do, will have to think again (p. 179).

Subsequent research has tended to confirm and fill in Puthucheary's analysis of the colonial economy. As late as 1967, it appears that as much as one-fifth of the value of tin output and almost one-quarter of the value of rubber estate output were directed to foreign accounts (Thoburn 1975a: 15 & 17). These figures are for the post-World War II era, which witnessed the introduction of personal and company taxes and the growth of Malaysian stockholders. For the pre-World War II period of colonial rule, Khor (1982: 58) estimates that foreign profits comprised a third or more of the total income of Malaya. Of course, the colonial government did construct a modern road and rail transport system, and the export sector did stimulate the development of a light engineering industry (Thoburn 1975b). There was little sign, however, of a sustained process of socioeconomic development — as measured in terms of sectoral change in economic product or the labour force, or of continuous economic growth — until the 1960s and 1970s. Although Puthucheary's voice may have been a lonely and heretical one at its time, his critique of the colonial economy appears to be the conventional wisdom of present-day hindsight.

Recent Research on Ownership and Control in Malaysia

Subsequent research — especially by Lim (1981), Sieh (1982), Tan (1982) and Khor (1983) — has pursued the question of ownership and control for the post-independence period of the 1960s and 1970s. Drawing upon more detailed data sources (including the files of the Registrar of Companies) and more sophisticated analytical methods, Malaysian scholars have been able to provide a more comprehensive analysis of the ownership structure than was possible by Puthucheary. In this section, I review some of the major findings of this stream of work. There are, however, a couple of general points worth noting at the outset. First, the question of the consequences of the ownership structure has not really been followed-up by Puthucheary's intellectual successors. Tan (1982: ch. 6) does look at the effect of ownership on earnings and Sieh (1982: ch. 6) notes some implications for public policy, but the macro effects on the economy and society have not been a subject of continuing study. The other general problem is that the usual lag time between data analysis and publication means that most of the recently published research (in the 1980s) reports on the situation of ten years earlier (early to mid-1970s). There was a virtual revolutionary shift in the late 1970s and early 1980s with the Malaysian government taking control (via purchase of shares) of some of

the main pillars of the economy. Only Khor's (1983) book provides much information on these developments. Consequently, most of the following review is based upon conditions of 10 to 15 years ago. The final paragraph in this section briefly reviews some of the key events of the recent past.

Several major conclusions are amply documented in the recent stream of research: the dominance of large firms in every sector of the economy, the continued significant share of foreign ownership and control (albeit declining in the late 1970s), the concentration of ownership of stockholding in a very small number of hands, and the emergence of a few powerful Malaysian conglomerates or ownership cliques. These findings are based upon the analysis of published data from the Malaysian Department of Statistics (especially the *Financial Survey of Limited Companies*) and the share-registers of corporations listed with the Registrar of Companies. As in all areas of research, limitations of the available data and methodological problems are major obstacles to comprehensive analysis. Data from published sources provide only aggregate data by broad characteristics of establishments or companies. Moreover, in government statistics, foreign or local ownership is defined by which party owns more than 50 percent of shareholding. For example, a local branch of a multinational corporation (MNC), in which the MNC retains 49 per cent of the shares with the balance of 51 per cent dispersed among Malaysian stockholders, is classified in government statistics as a locally-owned firm. Even scrutiny of the share-registers does not always reveal the ultimate ownership of a company. Stockholding is often registered under the name of a nominee or another company that hides the true identity of the individuals or families who ultimately own the shares. By tracing the complex ownership links between companies, family networks, and interlocking directorates, it is sometimes possible to begin the study of the ultimate ownership of the corporate structure.

In the traditional estate sector, Tan (1982: 154) reports that "as of 1974, the agency houses taken as a whole have not only maintained their dominance of the rubber industry, but have also moved in a big way into a new and growing industry: oil palm." Tan notes, however, a flow of investment by local businessmen into the ownership of large

(but not the largest) rubber estates (pp. 154–155). More than half of rubber and oil palm land is in the smallholding sector, but the estate sector, especially the largest and most organized segment, continues to play a leading role.

Of the more than 1,500 tin mines in Malaysia in 1972, the largest 63 mines produced 40 per cent of the output (Lim 1981: 22). One tin mining group, London Tin Mining Ltd., controlled eleven tin mining companies that produced a quarter of the total output of tin from publicly listed corporations (Tan 1982: 155–156). In a series of moves, Pernas (a Malaysian state-owned corporation) joined together with the second largest tin mining group (Charter Consolidated Ltd.) to take over London Tin Mining Corporation in 1973 (Tan 1982: 156). The new company, Malaysia Mining Corporation Bhd., now controls about 42 per cent of the tin output of Malaysia. Although ownership has changed, concentration has not.

TABLE 1 Peninsular Malaysia: Ownership of Share Capital of Companies by Residence, 1970

Sector	Total (RM mil.)	Foreign* (RM mil.)	Foreign Share (%)
Agriculture, forestry and fisheries	1,432.4	1,079.7	75.3
Mining and quarrying	543.5	393.9	72.4
Manufacturing	1,348.2	804.3	59.6
Construction	58.4	19.9	24.1
Transport and communications	81.9	9.8	12.0
Commerce	605.2	384.5	63.5
Banking and insurance	636.9	332.8	52.2
Others	582.5	182.9	31.4
Total	5,289.0	3,207.9	60.7

Note: * Defined as shares of non-residents and foreign-controlled companies in Malaysia and net assets of West Malaysian branches of companies incorporated abroad.

Source: *Mid-term Review of the Second Malaysia Plan, 1971–1975*, p. 83, Table 4-7.

In manufacturing, dominance of the largest units is also the rule. Lim (1981: 23) reports that 5 per cent of manufacturing establishments (out of more than 9,000) produce more than three-quarters of all sales and value-added in the sector (as of 1968). Among the largest manufacturing corporations in Malaysia in 1974/75, Sieh (1982: 176) finds that foreigners controlled 55 companies compared to 27 by Malaysian interests.

Perhaps the most comprehensive account of foreign ownership of the Malaysian economy was presented in the *Mid-Term Review of the Second Malaysia Plan*. Given the government's access to all the necessary documents, we can assume that the tracing of intermediaries back to ultimate ownership was not such a problem. The extent of foreign ownership revealed in these data was a surprise, not only to the general public, but even to many scholars who were familiar with the work of Puthucheary. In spite of the rapid economic growth and developments of the 1960s, the economy of independent Malaysia remained in the hands of non-Malaysians.

Much less well known is the concentration of ownership within the corporate sector. Of the largest 62 corporations in Malaysia in 1974–76, there were 210,103 stockholders; however, just 797 stockholders held 69 per cent of all shares in these corporations (Lim 1991: 28). In fact, less than 100 stockholders held more than 50 per cent of the shares in these companies. Lim concludes, "In short, a few hundred families own the majority of stocks in Malaysia" (p. 30). Sieh (1982), who has a quite different theoretical perspective than Lim, comes to the same conclusion. In her study of the largest 98 manufacturing companies, Sieh (1982: 186) reports that the collective holdings of the largest 98 shareholders represented nearly half of the total capital in these companies. Although stockholding is fairly widely dispersed in Malaysia (as elsewhere), most stockholders own only a small amount of capital, while a few dominate.

Lim, Sieh, and Tan also traced the linkages among the largest Malaysian capitalists and their control of companies by direct ownership, indirect ownership (pyramiding), and interlocking directorships by family members and business colleagues. There is clear evidence of a half dozen or so groupings (cliques, interest groups, conglomerates) whose influence is evident throughout the Malaysian economy — in primary production, property development, manufacturing, and finance. These groupings show the overlap of foreign and local capital, and the growing role of the state in public sector ownership. Unfortunately, we know little of the consequence of this concentration of economic power in Malaysia.

The Malaysian corporate world began to shake in the late 1970s and early 1980s as the government began to use its growing financial resources (largely generated from the development of a petroleum industry) to buy up major segments of the foreign owned economy. Beginning with the largest foreign owned tin corporation in 1972 (note earlier), the government then acquired control of Sime Darby in 1977 (Khor 1983: 75). Sime Darby was the largest agency house in the country with holdings in both the traditional estate and modern sectors of the economy. The latest government investment company, Permodalan Nasional Berhad (PNB) bought up a majority of shares of the giant British owned Guthrie Corporation in 1981, and then took control of several other large estate companies and agency houses in 1982 (e.g. Harrison Malaysian Estates, Barlow Holdings). These activities have sparked other moves and acquisitions in the Malaysian corporate world (see Khor 1983: 72–77). Recent economic conditions in Malaysia have forced the government to slow down the process of capital acquisition. However, it is clear that the government (in the form of public corporations) has a major segment of the commanding heights of the Malaysian economy.

Concluding Discussion

Independence brought many significant changes to the Malayan economy. Support for the replanting of smallholding rubber, tariff barriers to stimulate industrialization and substantial investment in human capital (via education and health programmes) were products of a government responsive to popular aspirations for social and economic development. One thing that did not change, however, was the structure of foreign ownership of much of the corporate sector of the economy. In 1970, according to the Malaysian government, about

three-quarters of the corporate sector of agriculture and mining, almost 60 per cent of corporate manufacturing and commerce, and about half of banking and insurance were owned by foreigners. These facts became widely known and policies were formulated to modify the degree of foreign ownership because of the concern over the intra-Malaysian ethnic imbalance.

One of the goals of the New Economic Policy, formulated in the wake of the 1969 ethnic riots in Kuala Lumpur, was the increase of corporate ownership by Malay capitalists. From a negligible fraction in 1970, the Malay share of the corporate economy was to rise to 30 per cent by 1990. In the context of a growing economy, the foreign share was to grow in absolute terms, but be reduced in relative terms from a 60 per cent share in 1970 to 30 per cent in 1990. The non-Malay Malaysian share was to increase in relative terms to 40 per cent in 1990. Given the paucity of Malay capitalists and the limited private funds, it was assumed that government agencies, acting on behalf of the Malay community, would acquire the bulk of the share capital to reach the percentage target. Based upon the wave of government acquisition of banks, plantations, and mines in the 1970s and early 1980s, plus the fantastic development of the state-run Malaysian petroleum industry, it seems that there is little problem in achieving the 30 per cent target (Gerakan 1984: 184–187). But several questions remain about the links between ownership and control (Sieh 1982: 265–269), the real beneficiaries of the restructuring of ownership of the economy, and the consequences on equity and economic development.

A familiar topic in the literature is the distinction between ownership and control. The old debate centred on whether control of large corporations had passed from the capitalist owners to salaried management. Of major importance to the Malaysia situation is the degree of Malaysian control that has been acquired with growing Malaysian ownership. The battle for control of Sime Darby in the late 1970s reveals that substantial Malaysian ownership does not automatically bring corporate control (Lim 1981: 78–80, Khor 1983: 75). Malaysian interests did win that battle for a majority of seats on the board of directors and presumably will also insist on a controlling degree of influence in the other major giant companies recently acquired. But

the degree and content of Malaysian influence on the hundreds of recent cases of corporate restructuring and joint-ventures with foreign MNCs remains uncertain. The basic NEP objectives are a majority of local ownership and a significant share of Malay employment, especially at the higher rungs of the corporate administration. Nonetheless, I suspect that many MNCs will continue to control many significant decisions, such as the choice of technology, access to foreign markets, and pricing decisions.

The basic issue, raised 25 years ago by Puthucheary, is whether the growth of a class of Malay capitalists will do much for the situation of the majority of the Malay community. Studies of the composition of corporate boards of directors show that a few Malays, often of aristocratic background or of high rank in the political/administrative structure, often have seats on many boards (Lim 1991: 55–62, Tan 1982: 281–292). This problem is also evident in the distribution of shares in ASN (Amanah Saham Nasional) — the agency set up in 1981 to give investment opportunities to all Malays. Shares were set at a constant RM1 per unit and shareholding was restricted to 50,000 units per individual in order to spread the benefits widely. In addition to a guaranteed dividend of 10 per cent, bonuses usually add another 10 per cent return annually. Yet, only one-third of all eligible Malays have participated in ASN, and about three-quarters of those participating have 500 or less units. At the other extreme, a half of one per cent of participants own 25,000 or more units (Clad 1985: 72–73). Malaysian government leaders have reason to fear that an awareness of the skewed distribution of benefits could endanger the legitimacy of this programme.

It seems almost inevitable that an unrestrained capitalist economy leads to an increasing concentration of capital ownership, independently of whether it its foreign or local. The findings of Lim and Sieh that a hundred or so families or individuals own almost half the capital in Malaysian corporations is indicative of the strong tendency for concentration. It is against this current that the NEP goal of the redistribution of ownership to Malay capitalists must be evaluated. The links between capital and the exercise of political influence are well known. Typically, the direction of influence is from the economy to

the polity, with powerful economic interests seeking to shape political decision making. In Malaysia, the direction of influence is the reverse. Political power is being used to create a capitalist class.

The second thesis of Puthucheary on consequences of the ownership structure on economic growth and development remains a topic of intensive debate (Chee and Khoo 1974). There is a fair amount of evidence that foreign owned companies re-invest a smaller fraction of their profits than do local firms (Hirschman 1971, Khor 1983: 168). This is true in spite of the fact that foreign firms have higher rates of profitability than locally owned ones and also pay a lower level of taxation (Khor 1983: ch. 11, Tan 1982: 227–232). On the other hand, it is sometimes argued that foreign firms are able to make unique contributions by the transfer of technology, access to foreign markets and filling in niches of the local economy where domestic capital is not yet ready to invest. Most scholars remain uncertain of the net benefits of foreign investment.

The scholarly and political issues, raised by Puthucheary almost 30 years ago, continue to generate considerable interest. In some ways, the stock of knowledge has advanced considerably. But the recent dramatic changes in the structure of the Malaysian economy have upset all previous assumptions. Perhaps James Puthucheary ought to take another look at the question of ownership and control in the Malaysian economy.

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