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A SURVEY ON THE EFFECTS OF
FOREIGN INVESTMENT
IN
WEST MALAYSIA
(SOME REFERENCE TO U.S. INVESTMENTS)

BY

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1. V. Manopathy: "Foreign Investment in Malaysia: Experience and Prospects", in UNEC Economic Review, Vol. VI No.2 1970 p.3

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INTRODUCTION

Foreign investment has been a long debated topic among the public in this country. Individuals and interested parties have often asked questions such as whether foreign investment helps in the development of Malaysia, who benefit from foreign investment? What are the various social, political and economic effects of foreign investment and a host of other related questions.

Putting aside the pros and cons of foreign investment, some begin to wonder whether investment in the third world countries could be considered as a new form of colonialism i.e. imperialism.

- ✓ In Malaysia there is always the belief that ownership and control of investment in this country are in the hands of a particular local community. This is a fallacy.¹

more than 50% of the stock of capital
(After 1957) is either owned or controlled by foreigners and about 70% of the profits its growth is not earned by all companies in Malaysia are of the wealth in the hands of a small percentage of the total

1. V. Kanapathy: "Foreign Investment in Malaysia; Experience and Prospects", in UMBC Economic Review. Vol. VI No.2 1970 p.3

2 about \$678 million profit before tax was made in 1968 by all companies of this, \$453 million were netted by foreign companies. Source: Cf. V. Kanapathy. op cit. p.3

3 Malaysia Industrial Digest. FIDA Vol.7 No.1 1st Quarterly 1974 p.10

netted by foreign companies ² |

again, Tun Razak stressed the importance and significance of foreign control and ownership in this country when he says

The government is also mindful of the pattern and extent of ownership and control of the Malaysian economy by foreign enterprise.

Foreign ownership and control of Malaysian economy is already very dominant. In 1970 about 60% of the share capital of limited companies was owned by foreigners. In agriculture and fishery it was as high as 75% and about 72% in mining and quarrying. In commerce and manufacturing, foreign ownership amounted to about 63% and 59% of total share capital respectively.³

During the colonial times, the western powers conquered our land, now they have come to dominate the economy of the country.

| After sixteen years of independence granted to Malaysia in 1957, the state of economy is unbalanced and its growth is not as rapid as it could have been. With most of the wealth in the hands of a small percentage of the total population and also in the hands of the foreigners, the majority of the people lived in poverty and misery. |

2 about \$678 million profit before tax was made in 1968 by all companies of this, \$455 million were netted by foreign companies. Source : Cf. V.Kanapathy. op cit. p.3

3 Malaysia Industrial Digest. FIDA Vol.7 No.1 1st Quarterly 1974 p.10

The economy left behind by the colonial government was established and shaped by them to serve their own interest creating in the process many problems familiar in the long history of participation of developed countries in dependent economies.⁴ Investments were not directed towards diversifying the raw material based economy.

[No doubt a certain degree of economic growth⁵ was registered during pre-independence times but development which is much broader in scope and concept involving a host of social cultural and psychological factors was neglected. Not enough room was created in Malaysian society for the many thousands who lack education and training and even basic necessities of life.)

The inflow of direct foreign investment which historically was the more important kind of movement of capital rather than loans or grants, continued to be quite significant even in the post independence period. When the strategy was to pursue a policy which emphasised that progress lies in the expansion of private sector industry.

4 Cf. Samitro Djojohadikusaro : Trade and Aid in South East Asia - Malaysia and Singapore. University of Malaya Co-op Bookshop. K.L.1969, p.24.

5 Economic growth is an economic phenomenon, a process of expansion of the factors of production. Poverty, unemployment and inequality are not automatically eliminated with economic growth. For a definition of Development see Dudley Seers : The Meaning of Development, paper presented at the 11th World Conference of the Society for International Development. Nov. 14-17, 1969 New Dehli.

(Despite the fact that foreign investment plays a major role in the Malaysian economy, yet not enough research has been done on the impact of foreign companies on the Malaysian society. ⁶) (There is limited statistical material on the operations of foreign - owned companies in Malaysia.) Questions such as what factors influence the decision of the foreign corporation to invest in Malaysia and whether some of them charge too high a price for the capital and technology they bring with them have not been answered. Is the existing Tax Incentives really necessary? What technology do they transmit, and what changes has Malaysia undergone as a result of this transmission of technology? What policies do they take for recruiting, educating and general upgrading of the workforce? Are the workers satisfied with the present wage system, are the source of domestic finance increasingly controlled by foreign financial institutions? The answer to these and several other social political implication and the national economic interest have yet to be answered. It is thus the purpose of the present study to make a survey of the various aspects of foreign investment in Malaysia and try to find the answers to some of the questions asked.

6 One of the few pioneers in this field is. J.J.Puthuchery : Ownership and Control in Malayan Economy. Eastern University Press Singapore. 1960 also see Sumitro Djojohadikusumo. op cit.

Concept and Hypothesis

Direct foreign investment, as defined by the U.S.

Department of Commerce, refers to investment business enterprise in which a U.S. resident or organisation owned 25% interest. In turn the purchase of foreign obligation excluded from this category is classified as portfolio investment.

[The investment made to create or expand some kind of permanent interest in an enterprise is thus referred to as direct investment. It implies a degree of control over its management.]

Foreign companies are identified as firms with foreign entrepreneurship and control by foreigners. Thus any firm run by foreign nationals are regarded as foreign enterprise operating in Malaysia and their capital components regarded as foreign capital. There are basically two general types of investment

- i) Direct investment and
- ii) Portfolio investment.

Direct investment takes place through the financing of subsidiaries of parent firms and also considers the direct transfer of capital with the provision of machinery and other equipments to branches on credit by parent plants.

Direct investment earned its income out of the profit it creates. The amount of income that is transferred to the investing country varies directly with the earnings of such

investment in the capital recipient country. Thus of foreign control of this nature does not impose a fixed burden of net payment on the borrowing country in times of declining economic activity and trade unlike that of foreign loan.

Direct investment also brings with them their capital and skills with the sole motive of maximization of profits.

The method employed is essentially library research.

The financing of portfolio investment is done through the stock exchange. In general practice, portfolio investment has in the past often been taken to refer to investment through the medium of securities traded on the stock exchange as a result of such trading, several parties would normally share the ownership of the undertaking in which the capital was invested and thus control would be dispersed. Direct investment on the other hand implies the extension of a business through overseas branches or concern and the investment would naturally involved effective control of the overseas undertaking by the parent.

Problems of Methodology

The following hypothesis are put forward in the study.

In Malaysia, foreign investment tended to exploit the natural resources and the man power. The coming of the foreign capital led to the control of a large portion of the economy of the country.

But these data have been classified as 'confidential'. They are reluctant to release the information.

Foreign investors are interested in the maximization of profits and this had detrimental social and political effects.

The exploitative nature of foreign investment is related to Frank's thesis of the nature of under-development.

Methodology

The method employed is essentially library research.

Library research proved very helpful where literary sources are the only means of obtaining information regarding the statistical and historical aspects of the subject. Besides using the main library to obtain information, the following places were also visited, FIDA office, Registrar of Companies, U S Embassy, Ministry of Trade and Commerce, United States Information Service, Lincoln Centre etc. Informal discussions were also held with FIDA officers, Ministry of trade and commerce officers and the workers and those who are known to have connection on the subject of foreign investment.

Problems of Methodology

The first problem that was encountered in the course of undertaking of the study is that of obtaining information from individual companies. Besides getting information from the Registrar of Companies, company reports, more specific data were required from the particular firms concerned. But these data have been classified as 'confidential'. They are reluctant to release the information.

The second problem is more of a practical one. There seems to be a lack of studies on foreign investment in Malaysia especially on U. S. investments. The only systematic book would be the one by J.J. Puthuchery on "Ownership and Control in Malayan Economy". There are of course some other related books but are found to be unsatisfactory and mainly look from economic viewpoint. Nonetheless, they still serve as a secondary source of information.

Not only was the economy of this country influenced by them, we also find that the political and social institutions were under the domination and influence. Although Malaya was not under the administration of the United States, but the latter could have to dominate the economy. Whether the foreign policy was or not dominated by economic motives, they are still under the nose of imperialism. The substance of imperialism is essentially economic exploitation of other peoples buttressed by political and military domination.

As far as United States foreign economic policy is concerned, the war in Vietnam marked a turning point. Hoggaff¹ in his book, "The Age of Imperialism: The Emergence of U.S. Foreign Policy", has given a good analysis.

1. Hoggaff H : "The Age of Imperialism: The Emergence of U.S. Foreign Policy"
Monthly Review Press, London 1959, p.42

CHAPTER II

UNITED STATES FOREIGN ECONOMIC POLICY AND U. S. CONTROL IN MALAYSIA

The coming of the foreign investors to Malaysia is largely influenced by the historical factors in the past. Prior to independence, the Portuguese, the Dutch and later the British came to conquer Malaya. Malaya being under the administration of the colonialists, was left with an economy which was shaped to serve their own interests. Not only was the economy of this country dependent and influenced by them, we also find that our political and social institutions were under their domination and influence.

Although Malaya was not under the administration of the United States, but they have come here to dominate the economy. Whether the Western powers came as colonialists or economic exploiters, they are still under the name of imperialism. The substance of imperialism is essentially economic exploitation of other peoples buttressed by political and military domination.¹

As far as United States foreign economic policy is concerned, the war in Vietnam marked a turning point. Magdoff² in his book, "The Age of Imperialism: The economics of U.S. Foreign Policy", has given a good analysis.

1 Magdoff H : "The Age of Imperialism: The Economics of U.S. Foreign Policy"
Monthly Review Press, London 1969, p.42

2 ibid. pg.48

He saw three elements in the more general U. S. strategy of the war in Vietnam. The first element was the U. S. drive to control and influence all of South East Asia, an area containing over 200 million people and covering one and a half million square miles. Hence the potential market and raw material source is of considerable significance. The second consideration is of a military nature. The decision to establish a strong and reliable base in South Vietnam where huge stores of equipment and supplies could be accumulated and military man power stationed. The third element is related to the second one. The stationing of such a military base on or near the coast to North Vietnam will act as a source of power. It not only controls and exerts the influence over all of South East Asia but also forms part of the "iron ring" around the People's Republic of China, and the Decocratic Republic of Vietnam. This would also serve as a threat as well as a staging area in case of land war against Asian Communist countries.

Thus, the basic reasons for U. S. involvement in Vietnam are the retention and expansion of U. S. power in Asia and the containment of China. Added to this was the urge to control the source of raw materials and potential market.

Even as early as 1953, President Eisenhower justified the military help that the U. S. was giving to France for the wars in Vietnam. He says on the 4th August:

- 3 Felix Green: The Enemy. The Trinity Press London 1970 p.1
- 4 Ibid pg.103
- 5 Ibid pg.103

We are voting for the cheapest way that we can to prevent the occurrence of something that would be of a most terrible significance to the United States of America, our security, our power and ability to get certain things we need from the riches of Indo-Chinese territory and from South East Asia.³

Welles, who was then secretary of state made the stand clearly when he spoke on March 29th 1954:

It is rich in many raw materials such as tin, oil, rubber and iron ore ... This area has great strategic value ... it has major naval and air bases.⁴

U S News and World Report had an article on April 4th 1954.

It had the title : 'Why U.S. Risks War for Indo-China: It's the Key to Control of All Asia.'

One of the World's richest area is open to the winner of the war is really about. The U.S. sees it as a place to hold - at any cost.⁵

This type of official report is not rare. In fact in 1965, Henry Cabot Lodge (formerly U.S. Ambassador to South Vietnam and head of

3 Felix Green: The Enemy. The Trinity Press London 1970 p.103

4 ibid pg.103

5 ibid pg.103

the U. S. delegation at the Paris talks in 1969) was quoted as saying:

Geographically, Vietnam stands at the hub

of a vast area of the world - south east

asia - an area with a vast population of

249 million persons ... he who holds or has

influence in Vietnam can affect the future

of Philippines and Formosa to the East,

Thailand and Burma with their huge rice

surpluses to the West, and Malaysia and

Indonesia with their rubber, ore and tin

to the south ... Vietnam thus does not

exist in a geographical vacuum, from it

large storehouse of wealth and population

can be influenced and undermined.⁶

Thus, it could be seen that the foreign policy of the U. S. is one where it takes into consideration the economic benefits. In other words, economic consideration have to a large extent shaped the foreign policy of the United States. The question of Vietnam is of crucial importance to the people of United States. Vietnam is not only a good place for the Americans to invest but it is also the gateway for the American people to further their investment in other south east asian countries.

6 Boston Sunday Globe (Feb 28th 1965)
Quoted by Felix Green op cit pg. 103

7 ibid pg. 102

8 Paul A. Dixon The Political Economy of Growth,
Pelican, 1973, London P. 342

United States action in Vietnam whether politically or economically motivated are the actions of their foreign policy which aims to upkeep the status quo so as to provide a stable and safe place for American investments. The gearing of such a policy and opinion to the support of big business in its concerted effort to preserve its position in the South East Asian region reflects itself in official pronouncement no less than its economic writing. Leo D Welch, the treasurer of Standard Oil Company (New Jersey) said:

our foreign policy will be more concern with the safety and stability of our foreign investment than ever before. The proper respect for our capital abroad is just as important as respect for our political principles, and as much care and skill must be demonstrated in obtaining the one as the other.⁷

President Eisenhower more or less said the same thing when he defined the aims of American foreign policy as:

doing whatever our government can properly do to encourage the flow of private investment abroad. This involves as a serious and explicit purpose of our foreign policy, the encouragement of a hospitable climate for such investment in foreign countries.⁸

7 ibid pg.102

8 Paul A Baran The Political Economy of Growth, Pelican, 1973, London P.342

This view was echoed by C B Randell, the Chairman of the commission on Foreign Economic policy who insists that

a new and better climate for american investment must be created.

rejoicing at the same time over the fact that the efforts of private investors to obtain concessions happily this is being recognized and such countries as Turkey Greece and Panama have led the way in modernizing their corporate lanes and creating the right sort of atmosphere for our investment.⁹

The business position of the Americans was expressed by August Maffry. Vice-President of the Irving Trust Company who was also one of Wall Street's most influential economist. He called for 'total diplomacy' in the services of the American foreign investment drive.

The improvement in investment climate in friendly countries by more direct measures should be the objective of a total and sustained diplomatic effort by the United States ... all agencies of the U.S.

Government. concerned with foreign economic

development should exercise constant vigilance for discriminatory or other actions by foreign governments adversely affecting the interests of American investors and employ all possible diplomatic pressures to forestall or remedy them.¹⁰

9 ibid pg.343

10 ibid pg.343

13 Felix Green Op cit p.199

By employing all "possible diplomatic pressures" the U.S. investors overseas could perhaps feel safe to carry on their business. He further suggests that:

There is still another and a very promising way in which the U.S. Government can assist in achieving better conditions for investment in foreign countries. This is by aiding and abetting by all available means the efforts of private investors to obtain concessions from foreign countries in connection with specific proposed investments ... once concessions have been won through combined private and official efforts in a particular case then the way is open to generalize them for the benefit of all other private investors.¹¹

One of the ways of "possible diplomatic pressure" undertaken by U.S. is the stationing of American troops throughout the world to protect the american businessmen. The figure below shows the presence of American armed forces in various countries.

Number of countries in which
U. S. arm forces are represented.

| | |
|--------------------------------|-----------|
| Latin America | 19 |
| East Asia(including Australia) | 10 |
| Africa | 11 |
| Europe | 13 |
| Near East and South East | 11 |
| Total | <u>64</u> |

According to New York Times dispatch from Washington dated April 9th 1969, the number of oversea bases operated by the U. S. was 3401.¹³

11. ibid p.343 (quoted by Basan)

12. Magdoff op cit (source fr.data in agency for international development, U.S. overseas loan and grants obligation and loan authorization July 1/9/45-June 30 1967. Washington DC 1968.

13. Felix Green Op cit p.199, 201

Earlier, Felix Green had estimated it to be 3328 military bases. But it was proved wrong because it was lower than the official one. It is a fact that a large portion of the U.S. budget was spent on defence. The financial cost of keeping the U.S. military establishment going was estimated to be \$80 billion in 1968 - something like over \$9 million an hour.¹⁴

To a nation like the United States where a political change in an underdeveloped country posed a 'threat' to the American investors, the U.S. government will logically take steps to defend the status quo. The continuation of free enterprise system is an important foothold for the American business to be carried out. W. W. Rostow, one of President Johnson's advisors has this to say:

The locations, natural resources and populations of the under-developed areas are such that should they become effectively attached to the communist bloc, the United States would become the second power in the world ... if the underdeveloped areas fall under communist domination or if they moved to fix hostility to the West, the economic and military strength of Western Europe and Japan will be diminished, the British Commonwealth as it is now recognised will disintegrate, and the Atlantic world will become, at best, an awkward allaince, incapable of exercising effective influence outside a

limited orbit, with the balance of the world's power lost to it. In short, our military security and our way of life as well as the fate of Western Europe and Japan are at stake.¹⁵

President Nixon was once quoted as saying that he considers the Department of Defence as a department of Peace.¹⁶

We must remind ourselves of the formidable military power that the United States has developed to prevent any calamities which may be detrimental to the "peace" of the business world.

Economic invasion is silent and largely invisible, undramatic and unnewsworthy. It is often accomplished so gradually that the ordinary of the invaded country are not even conscious that it has taken place. They even accept the word of the invader that he has come as a benevolent friend to do them good.

The fact that U.S. firms invest in overseas because the returns they get is higher in overseas especially the underdeveloped countries than if they were to invest in their own country is a fact which cannot be refuted.

The figure shows the difference on the earnings of U.S. enterprise in underdeveloped countries and in United States.¹⁷

15 Quoted by Felix Green, a testimony given to the sub-committee on Foreign Economic policy of the Joint Economic Committee 10th, 12th, 13th 1956. opcit p.198

16 as quoted in Felix Green op cit p.196

17 P.A. Baran op cit. p.379

Earnings of U. S. enterprise

| Year | Ratio of earnings to Book Value in Underdeveloped Countries) (%) | Ratio of earnings to Book Value in the U. S. (%) |
|------|---|--|
| 1945 | 11.5 | 7.7 |
| 1946 | 14.3 | 9.1 |
| 1947 | 18.1 | 12.0 |
| 1948 | 19.8 | 13.8 |

This point can again be seen clearly if we take into account the flow of capital and profit.

The conservative estimates of the United States Department of Commerce show that between 1950 and 1965, the total flow of capital on investment account from the United States to the rest of the world was \$23.9 billion. While the corresponding capital inflow from profits was \$37.0 million, for a net inflow into the United States of \$13.1 million. Of these totals \$14.9 billion flowed from the United States to Europe and Canada while \$11.4 billion flowed in the opposite direction for a net outflow from the United States of \$3.5 billion. Yet, between the United States and all other countries - that is mainly the poor, underdeveloped ones - the situation is reversed; \$9.0 billion of investment flowed to these countries while \$25.6 billion in profit flowed out of them, for a net inflow from the poor to the rich of \$16.6 billion.

Another area of interest which is favoured by foreign investors as a whole and particularly is to get special treatment and concessions from the authorities concerned. The policy of the Government has been very lenient as far as granting of pioneer status and tax incentives are concerned. This aspect will be dealt with in greater detail in the next chapter. [In a report by UNCIAD published in the Malaysia Business,¹⁹ it urges the government to be more watchful and *Pers Laizzer-Faire* in its attitude towards the foreign investors. The report continued to say that FIDA approval has not been sufficiently selective. In fact one often come across in the many official articles of the authority spelling out their policy, as was reported in the Malaysia Industrial Digest in 1974 :

The Prime Minister of Malaysia Tun Abdul Razak emphasised in February that Malaysia welcomes Private Investment ... In fact the government had actively sought, through various investment missions to encourage a greater inflow of foreign capital into various sectors of the economy.²⁰

The sending of investment promotion mission overseas form the principle means of wooing investors from foreign countries in another report it says:

✓ 19 Malaysian Business Jan K.L.1974. Article by Dick Wilson : "A UN Study cautions against a too lenient attitude."

20 Malaysian Industrial Digest Publish by FIDA Vol.7 No.1 1974

The quantifiable success of investment promotion mission to capital exporting countries has been an increasingly important aspect of Malaysia's promotional programme overseas, and in March this year, an eleven member delegation led by Deputy Prime Minister of Trade and Commerce Datuk Musa Hitam will conduct investment seminars and have face to face meeting with leading industrialist in San Francisco, Los Angeles, Houston, New York, Chicago, Charlotte and Honolulu.²¹

From the historical point of view, as Malaysia was once under the influence of the Western powers they have somehow shaped a social structure in line with their own. The coming of the Western powers in the early days were to exploit the raw materials of our country. They took the advantage of disorder in the Malay States and successfully intervened and dominated the country. The so called free enterprise system and Laissez-Faire attitude is widely propagated and accepted by the people. Adam Smith wrote in the Wealth of Nations :

All systems either of preference or restraint therefore being completely taken away, the obvious and simple system of natural liberty establishes itself of its own accord. Every man as long as he does not violate the laws of justice is left, perfectly to pursue his own interest in his own way, and to bring

his industry and capital into competition

with those of any other or order of man.²²

This book was soon to become the Bible of the business circle. Government exists to see that there is no interference in this free-enterprise system. With the encouragement of the government, American investment in Malaysia have been increasing tremendously over the years. Initially, they were mainly concerned with the import substitution industries catering mainly for the domestic market. In recent years however, they are strongly seering in favour of export oriented industries especially the electronic industry.

One of the pioneers in this field was NS electronics which has set up two operations in the country, one in Bayan Lepas Free Trade Zone in Penang and the other in Batu Berendam in Malacca. This was closely followed by companies like Monsanto, Hewlett Packard, Advanced Micro Device, Motorola Intel, Texas Instruments, Mostek, Harris Semiconductors, Sprague Electronics and a host of others.²³

Not only was the United States having a large share of the electronic industry, they also had a role to play in other sectors of the economy. Among the early American companies which come to Malaysia in the early sixties were Colgate Palmolive, Union Carbide, Singer and Standard Oil of New Jersey.

²⁴ Ibid p.12

22 Quoted in Felix Green op cit. p.70

23 Malaysia Industrial Digest FIDA publication, Vol.6 No.3 1973 p.10

According to FIDA report, by the end of 1973, there were more than 60 U. S. companies in operation. Several projects are in the pipeline and are expected to be in operation soon. U.S. investment at the end of last year ranked third in Malaysia's list of leading foreign investment in the pioneer industries, according to the level of capital investment. The total called up capital from the U.S. stood at \$56.7 million²⁴. At the end of 1973, a significant development in the growth of U.S. investment in Malaysia has been the accelerated expansion plans of several major companies - Monsanto, Texas Instruments, NS Electronics and Motorola for example have all submitted plans to establish additional factories to make additional products.

on, the British economic interest continued to expand and after hundred years, the share of British interest The significance of the U.S. investment in the various industries in Malaysia cannot be overlooked. The next chapter will attempt to deal into this in detail.

✓ The subjugation of the indigenous economy by the Europeans in Malaya as described by Gullick:
(Up to 1941) there was no such thing as a Malayan economy since Malaya was merely a geographical region where capital and labour belonging to other countries found it convenient to carry on certain specialised operations, within the British monetary and

CHAPTER III

THE GROWTH AND THE EFFECTS OF FOREIGN INVESTMENT IN MALAYSIA

As in most countries in this region, the pattern of regime under the guise of British advisory system. penetration and ownership in the Malaysian economy

prior to the second world war by foreign investments. Various institutions were set up by the Europeans to reflect the influence of historical factors.

After the British had successfully introduced the agency houses. Their activities spread throughout the Residential system in 1874, the Malay Peninsular was country and their influence extended into all the sectors under the hands of the British. The traditional ruling of the economy. There are about a dozen of them, they are class was placed under the advice of the British Residents.

From then on, the British economic interest continued to most of the industries. Their commanding position is most expand and after hundred years, the share of British interest obvious in agriculture. They control about 75% of the as well as of the U.S. and other foreigners in the Malaysian nearly 2 million acres of rubber plantation. Their control economy was considerable and they play a major part in the is further strengthened by an intricate interlocking of economy.

Directorships of the various rubber companies they manage.

✓ The subjugation of the indigenous economy by the Table I shows the distribution of the interest of the Europeans in Malaya as described by Gullick:

agency houses and of other sections of the European estate (Up to 1941) there was no such thing as industries. It can be noted that the twelve British a Malayan economy since Malaya was merely agency houses controlled 1,309,300 acres of land which is a geographical region where capital and about 77% of the total land under agency houses and other labour belonging to other countries found interests.

it convenient to carry on certain specialised 1. Gullick, operations, within the British monetary and

Malaysia. London 1958 p.64

2. Pathakachari J.J.: Ownership and Control in the Malayan Economy Eastern University Press, Singapore 1958, p. xii.

political framework.¹

Land concessions to Europeans, mainly British nationals were facilitated when the traditional Malay ruling elites were made subordinate the British colonial regime under the guise of British advisory system.

[Various institutions were set up by the Europeans to facilitate investment and control in the indigenous economy of the various institutions, the most important are the agency houses. Their activities spread throughout the country and their influence extended into all the sectors of the economy. There are about a dozen of them, they are active throughout the country and they participate in most of the industries. Their commanding position is most obvious in agriculture. They control about 75% of the nearly 2 million acres under plantation.² Their control is further strengthened by an intricate interlocking of directorships of the various rubber companies they manage.]

Table I shows the distribution of the interest of the agency houses and of other sections of the European estate industries. It can be noted that the twelve British agency houses controlled 1,309,300 acres of land which is about 77% of the total land under agency houses and other interests.

1 Gullick, J.M. : Indigenous Political Systems of West Malaysia. London 1958 p.64

2 Puthucheary J.J.: Ownership and Control in the Malayan Economy Eastern University Press, Singapore 1960, p. xii.

TABLE I

AGENCY HOUSE AND OTHER INTERESTS IN MALAYSIAN ESTATE INDUSTRIES

| Agency/Interest | Number of Companies | Number of Estates | Planted Rubber | Area (Acres) Oil Palm | Coconuts | Others * | Total | Total Area (Acres) |
|-----------------------|---------------------|-------------------|----------------|--------------------------|----------|----------|---------|--------------------|
| BRITISH HOUSES: | | | | | | | | |
| Harrisons & Crosfield | 42 | 111 | 180,540 | 19,800 | 22,310 | 8,530 | 231,180 | 360,430 |
| Guthrie | 22 | 39 | 152,680 | 27,210 | - | 2,910 | 182,800 | 213,980 |
| Boustead-Buttery | 37 | 58 | 118,490 | 1,630 | 1,750 | - | 121,870 | 149,250 |
| REA-Cumberbatch | 37 | 55 | 93,200 | 2,530 | 1,830 | - | 97,560 | 120,310 |
| T Barlow | 19 | 42 | 86,190 | 6,100 | 10,050 | 100 | 102,440 | 111,600 |
| Sime Darby | 23 | 30 | 73,470 | 250 | 110 | 70 | 73,900 | 81,400 |
| Oriental Estates | 14 | 19 | 55,140 | - | - | - | 55,140 | 69,210 |
| Plantation Agencies | 10 | 29 | 48,040 | - | - | - | 48,040 | 55,030 |
| Whittall | 22 | 28 | 34,480 | 2,340 | 9,390 | - | 46,210 | 47,410 |
| Harper, Gilfillan | 16 | 18 | 34,130 | 1,430 | - | - | 35,560 | 39,790 |
| Ethelburga Agencies | 1 | 9 | 27,860 | - | - | - | 27,860 | 30,660 |
| J Warren | 16 | 21 | 24,370 | 1,290 | - | 410 | 26,070 | 30,230 |
| Other Agencies ** | 5 | 7 | 21,040 | - | - | - | 21,040 | 23,450 |
| NON BRITISH HOUSES | | | | | | | | |
| Socfin | 6 | 10 | 34,400 | 28,100 | - | - | 62,510 | 75,060 |
| East Asiatic | 4 | 4 | 21,100 | - | - | - | 21,100 | 23,360 |

Table 29 reproduced.

TABLE I

| Agency/Interest | Number of Companies | Number of Estates | Planted Area (Acres) | | | | Others * | Total | Total Area (Acres) |
|--------------------------|---------------------|-------------------|----------------------|----------|---------|--------|-----------|-----------|--------------------|
| | | | Rubber | Oil Palm | Coconut | | | | |
| MANUFACTURERS | | | | | | | | | |
| Dunlop | 1 | 12 | 68,190 | - | - | - | 68,190 | 74,780 | |
| US Rubber | 1 | 9 | 27,900 | - | - | - | 27,900 | 30,070 | |
| Unilever | 2 | 2 | - | 11,000 | - | - | 11,000 | 21,000 | |
| Other EUROPEAN INTERESTS | | | | | | | | | |
| United Plantations | 2 | 4 | 940 | 13,620 | 6,590 | 390 | 21,540 | 23,660 | |
| Independent | 18 | 25 | 40,840 | - | - | - | 40,840 | 65,000 | |
| TOTAL | 305 | 544 | 1,163,260 | 115,310 | 51,980 | 12,410 | 1,343,010 | 1,685,850 | |

* Tea, cocoa, abaca.

** Grummit, Reid, Paterson Simons, Osborne & Chappell.

Source : Zorn & Leigh-Hunt, Manual of Rubber Planting Companies 1960. Straits Times Directory 1962

Source : FRYER, DW. "The Plantation Industries - The Estates" in Malaysia, Op cit, p.238, Table 24 reproduced

From : Mohd Dahlan Hj.Aman Theories and Policies of Modernisation Monash University, Australia 1973
Table 29 reproduced.

The agency houses had 1,163,260 acres of land planted with rubber, 115,310 acres under oil-palm and 51,980 under coconuts. The total acres under the agency houses stand at 1.7 million acres. Before 1957, the oil palm estates were under the monopoly of the Europeans. Oil palm small holding were undertaken by FLDA. But these government estates could not operate independently as they are being managed with the help of the Europeans concerned. British interest dominate this industry. Harrisons and Crosfield owned 19,800 acres whereas Guthrie owned 27,210 acres of oil-palm (See Table 1).

Large European interests and agency tend to be originally concerned with rubber, but they have lately diverted their interests to other crops, especially oil palm. Not only have they diverted their attention to oil-palm, the manufacturing agency houses is another by product of the institutions of control in the Malaysian economy. These manufacturing agency were able to secure for themselves large estates known as the 'captive estate'.³ The purpose of these 'captive estate' was to ensure a constant supply of raw materials for the manufacturers. It also insulates them from fluctuation in prices. Of the manufacturers, Dunlop is reported to have 12 estates with a planted area of 68,190 acres in rubber. The US rubber had 9 estates with a planted area of 28,000 acres of rubber. Unilever had 11,000 acres of oil palm (see table 1).

3 See Mohd Dahlan Hj. Aman: Theories and Policies of Modernization (unpublished M.A. thesis) Monash University Australia, 1973. p. 249.

In 1970, there were about 4.8 million acres under rubber, out of which about 1.6 million acres are estate managed and the rest 3.2 million acres under small holding.⁴ In 1961, there were 2244 estates in West Malaysia of which 482 were European estates, and 1762 were Asian estates (Fryer notes that not all these asians are malaysians) (Refer Table II). The estate acreage under rubber by European estates by far exceeds the total estate acreage under asian estates. Although the Asian owned 1762 estates in 1961, the total acreage planted was only 778,360 acres as compared to 1,166,496 acres under the European estates numbering 482. European estates are mostly concentrated in the states of Selangor (117 estates). Johore (84 estates) Perak (100 estates) and Negri Sembilan (60 estates).

Table III shows the estate acreage under rubber by size group and ownership. Note that of the 63 estates with a planted area above 5,000 acres in 1961, 51 were owned by the Europeans and possessed 78% of the total planted area in this category. The interesting feature of Malaysian rubber estate is that the rise of estates varies considerably with the type of ownership. Compare this development in size with the changes in small holding rubber acreage from 1952 - 1961 as shown in Table IV.

4 Second Malaysian Plan 1971 - 1975 Government Printers Kuala Lumpur 1971 pg. 122.

TABLE II

TOTAL ACREAGE UNDER RUBBER - WEST MALAYSIA AND SINGAPORE 1961

| STATE | EUROPEAN | | ASIAN | | EUROPEAN & ASIAN | | |
|-----------------------------|----------|-----------|-------|---------|------------------|-----------|-----|
| | (A) | (B) | (A) | (B) | (A) | (B) | (B) |
| Johore | 84 | 277,864 | 406 | 272,771 | 490 | 550,635 | |
| Kedah & Perlis | 51 | 129,367 | 233 | 83,241 | 284 | 212,608 | |
| Kelantan | 10 | 28,100 | 53 | 15,669 | 63 | 43,769 | |
| Malacca | 22 | 65,453 | 110 | 48,585 | 132 | 114,038 | |
| N. S. | 60 | 180,400 | 204 | 92,984 | 264 | 273,384 | |
| Pahang | 25 | 45,521 | 158 | 72,132 | 183 | 117,653 | |
| Penang & Province Wellesley | 6 | 11,975 | 52 | 15,007 | 58 | 26,982 | |
| Perak | 100 | 166,610 | 291 | 33,501 | 391 | 260,111 | |
| Selangor | 117 | 249,474 | 196 | 71,465 | 313 | 320,939 | |
| Trengganu | 3 | 8,840 | 37 | 8,473 | 40 | 17,313 | |
| Singapore | 4 | 2,892 | 22 | 4,532 | 26 | 7,424 | |
| TOTAL | 482 | 1,166,496 | 1,762 | 778,360 | 2,244 | 1,944,856 | |

- (A) No. of estates
(B) Total acreage planted.

Source : Fryer "The Plantation Industries - The Estates"

In Malaysia : A Survey (ed) Wang Yang Wu Melbourne 1964.p.234

ESTATE ACREAGE UNDER RUBBER BY SIZE GROUP AND OWNERSHIP
WEST MALAYSIA AND SINGAPORE 1961

Source : ibid p.234 from Mohd Dahlan Hj. Anan op.cit p.249

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TABLE IV

CHANGES IN SMALL HOLDING RUBBER ACREAGE
WEST MALAYSIA 1952-61

| STATE | 1952 ACREAGE | 1961 ACREAGE | ACTUAL INCREASE | % INCREASE |
|----------------|--------------|--------------|-----------------|------------|
| Johore | 541,240 | 656,236 | 114,996 | 21.22 |
| Kedah & Perlis | 146,278 | 189,508 | 43,230 | 29.5 |
| Kelantan | 65,108 | 94,244 | 29,136 | 44.7 |
| Malacca | 87,144 | 110,117 | 22,973 | 26.3 |
| Negri Sembilan | 128,211 | 176,682 | 48,471 | 37.8 |
| Pahang | 98,453 | 156,302 | 57,849 | 58.7 |
| Penang | 29,030 | 32,196 | 3,116 | 10.9 |
| Perak | 310,119 | 358,604 | 48,485 | 15.6 |
| Selangor | 163,731 | 203,319 | 39,588 | 24.2 |
| Trengganu | 46,779 | 59,136 | 12,357 | 26.4 |
| TOTAL | 1,616,093 | 2,036,344 | 420,251 | 26.0 |

Source : adapted from Mohd Dahlan Hj.Aman op.cit p.249

In 1960 Malayan Census of agriculture recorded 90,000 acres of coconut land about half of which was under European control. 55% of the total estate area was accounted for by 14 coconut estates exceeding 200 acres each.

It is a common feature that these European estates are run by Agency Houses. It has been observed that these large corporations prefer to concentrate their resources in the specialised and profitable fields and to spread out their investment.

Up to 1970, foreigners owned 21% of the total rubber acreage of 4.8 million acres and 75% of oil-palm and coconut acreage in Malaysia.⁵

As Fryer points out:-

"Though a complex of holding companies, cross company investment and interlocking interests, the agency houses have maintained a strong grasp on the estate industries."⁶

[A reference to Table I will confirm this view. The fact that agriculture dominates the economic life of the people and in terms of contribution to G.D.P., it is of major significance, the domination of foreigners in the estate industries of rubber, oil palm, coconut and other crops naturally place the economy of the country in the hands of foreigners.]

[Talking about the estate industries, reference must be made to the many padi farmers in this country. Of the total 4.2 million acres of land under padi as reported in the Second Malaysian Plan, most of them are owned by the Malays.]

5 Second Malaysian Plan 1971 - 1975 Government Printer, Kuala Lumpur p.45.

6 Fryer, D.W. "The Plantation Industries - The Estates" In Malaysia: A Survey ed. Wang Gang Wu Melbourne 1964 p.237

7. Tan Chee Khoo : Colonial Relations in the Socio Economic Structure of Malaysia in Intisari Vol III No.2 p.39

But many of the padi farmers are tenant farmers. In other words not all the padi planters own their own piece of land. On the question of land reform and absentee landlordism, Tan Chee Khoon was quoted as saying:

"It is a well known fact that the Malay peasantry is exploited by absentee landlords ..but the government has not legislated further compulsory acquisition of the land of absentee landlords that it might then sell to those who till the soil. Such a bold land reform would certainly uplift the standard of living of the malay peasantry. But the Government is afraid to take this bold measure because a large number of the absentee landlords are in the Dewan Raayat (Parliament) itself and these people are unlikely to legislate away their own wealth. 7

(It can be seen that as far as export crops are concerned, they are mainly in the hands of the foreigners.) [Padi cultivation being the traditional activity of the Malay peasants is still the main cultivation carried out in the rural areas.] Since the Europeans own and control the production of so much of Malaysia's most important exports, they have a dominant position in the country's export trade. Thus, the next important activity of the agency houses is commerce. The agency house also control part of the export of the small holders produce.

According to Puthucheary, they export about half of Malaya's agricultural produce, and between a quarter and third of all exports of domestic produce.⁸ Associated with their interests in the export import trade, the agency house hold a number of shipping and insurance agencies. They have a very large probably predominant part of the agency for cargo insurance, some hold important agencies for passenger lines. Commerce involves the long and intricate chain which links the producer to the exporter and which links the importer to the consumers. The popular view widely held is that the Chinese control commerce. This is not true. The estimate in the study by Puthucheary shows that European owned firms controlled 65-75% of the export trade in 1953 and 60-70% of the import trade in 1955. European owned firms held about 75% of the import agencies against some 10% held by the Chinese. Although it is nearly two decades since the estimate was made then, but the percentage could not have varied to a great extent.⁹ The popular misconception that commerce is controlled by the Chinese is probably due to the ubiquitous activity of the Chinese middlemen.

8 Puthucheary J.J. op cit. p.24

9 cf. ibid p.40

Certainly a very large number of Chinese traders are engaged in buying and selling. But it is quite incorrect to think that in their buying and selling, these traders control trade. The misconception is an 'illusion' due to the large number of traders. The control of commerce in fact lies in the hands of the exporter-importer and the import and export firm are very largely European.

Table V shows the main import agency and the various imports that they handle. The number of manufacturer whose products that the import agencies import is represented. It can be seen Sime Darby and Company is an importer of 52 manufacturers of food products. The number of manufacturers represented is of course no indication of the volume of import trade done by any of the agency houses a firm with a smaller number of agencies may in fact do a large volume of business because of the high value of goods and demand. In 1953, the total number of agencies held by the same 10 companies amount to more than a fourth of the manufacturers listed in the Directory. In the import of building material these companies represent nearly 60% of the manufacturers and in foodstuff about a third.¹⁰ As shown in Table V, Sime Darby and Company had a total of 160 manufacturers where goods are imported, whereas in 1953, they only had 117. This shows that with the increase in trade and commerce, the item of goods that they import have also increased.

10 ibid p.51

TABLE V

IMPORT AGENCIES OF AGENCY HOUSES

| | (1) | (2) | (3) | (4) | (5) | <u>TOTAL</u> |
|-------------------------|-----|-----|-----|-----|-----|--------------|
| Sime Darby & Co | 52 | 60 | 40 | 5 | 2 | 160 |
| Guthrie and Co | 34 | 46 | 31 | 9 | - | 120 |
| Borneo Co. & subsidiary | 17 | 28 | 19 | 9 | 31 | 104 |
| Sandilands Buttery & Co | 13 | 11 | 12 | 1 | 10 | 47 |
| James Warren | 5 | 35 | 50 | 10 | - | 100 |
| Jardine Waugh | - | 90 | 45 | - | - | 135 |
| East Asiatic Co | 15 | 30 | 21 | 4 | 4 | 74 |
| Harper, Gilfillan & Co | 10 | 35 | 12 | 3 | 9 | 69 |
| Harrison & Crosfield | 24 | 15 | 15 | 5 | - | 59 |
| Paterson, Simon & Co | 15 | 37 | 12 | 4 | 1 | 69 |

- Note :
- 1 foodstuff
 - 2 machine and engineering products
 - 3 building material and construction
 - 4 chemical and drugs
 - 5 other- include these categories which do not fit into 1, 2, 3 and 4.

Source : Straits Time Directory of Malaysia and Singapore 1967

The agency houses are important sources of foreign investment in this country. These European firms are the great merchant and managing agency firms. Several of them were originally merchant houses which in the later years of 19th century dominated the commercial life of Singapore and later nursed the rubber industry of Malaya. Others started their career as merchants in Great Britain or Europe. A few started as planters and went into trade later on. These houses of which about a dozen of them, link together the agricultural and mining activities of the mainland with the commerce of Singapore, the technical expertise of the midlands and North Britain, and the finance of London. They are distinguished by a wide range of function and an immense diversity of interests, although they differ from one another in their actual scope.¹¹

Most of the agency House have long standing association with Malaya or Eastern trade. In the early days, operating from Singapore and Penang they provided the major link between native producers and western markets on the one hand, and between western manufacturers and local consumers on the other. These functions were made possible by the growth of a large class of Chinese traders.

As far as rubber industry is concerned, dominance of agency houses may be due to a number of factors. European firms had definite advantage over the asians (mainly Chinese)

11 cf. G.C. Allen and Dounithorne, Western Enterprise In Indonesia and Malaya, Allen and Unwin, London 1957 pg. 205.

Europeans were in a far better position to wrest large acreages in concession from a predominantly European Civil Service who directly or indirectly were in control of the whole country. Furthermore, slave labour had been a traditional part of British Colonial enterprise for almost 200 years before rubber planting began in Malaya. Large plantations existed and slave labour was available. The whole commercial system was geared at the turn of the century to the development of rubber industry. The main element in the development of the rubber industry is the plentiful supply of capital. Europe was the only source of such large capital supply and European firms had the organization to tap this supply. The agency house had the advantage in channeling funds into the industry and this advantage gave them control of the industry. Agency house with their large capital resources, were able to survive where smaller firms went under.

We have seen that even after the independence, the pattern of foreign investment in estate industries, commerce have not decreases in importance. Tin industry is still mainly in the hands of the foreigners. About 60% of the tin production are in the hands of foreign owned or controlled companies. In spite of the continued high export price in tin, the gradual depletion of good ore reserves has limited increases in investment in new mines. Off shore mining which are financed by foreign sources are in the advances stage of planning, some have even started their production.

In a survey carried out in 1967, it was found that foreign investment accounted for one half to three quarters of the share capital of limited companies in estate agriculture, mining, manufacturing, wholesale trade, banking and finance. They accounted for more than a third of the share capital of limited companies in construction, retail trade and other industries (see Table VI). This post colonial foreign dependence may even exceed that of the colonial days.¹² Table VII shows the ownership of share capital. 62.1% of capital shares being in the hands of foreigners, 22.8% in the hands of Chinese, 1.5% Malay and 0.9% by Indians.

The manufacturing industry attracted the foreigners especially in the early 1960s. Rubber and tin enjoyed very favourable prices and considerable export surpluses were generated. During this period of comparative boom, the cost of living was practically static and even inflation has not reared its head in this country then. For the past 10 years or so, inflation was about 0.7% per annum. This attracted the foreign investors.¹³

The fair treatment given to them the setting up of FIDA, various incentives and concessions given to the foreign investors explain the comparative large flow of overseas investment in Malaysia. In 1972, the total foreign

12 Foreign ownership in the manufacturing industry is predominant, it more than compensates for the decline in agricultural and commercial interest.

13 Kanapathy V Foreign Investment In Malaysia: Experience and Prospects in UMBC Economic Review Vol VI No.2 1970

TABLE VI

INVESTMENT IN FIXED ASSETS IN MALAYSIA - 1968
(Value in million Malaysian Dollars)

| <u>ITEMS</u> | <u>INDUSTRY</u> | | | | | | | | | |
|--|-----------------|-----|-----|-----|-----|-----|-----|------|-----|---------|
| | I | II | III | IX | V | VI | VII | VIII | IX | X |
| A. Limited companies incorporated in Malaysia (locally controlled) | 265 | 107 | 119 | 23 | 489 | 32 | 120 | 45 | 428 | 1,628 |
| B. Limited cos. incorp. in Malaysia (foreign controlled) | 203 | 54 | 70 | 105 | 426 | 455 | 75 | 20 | 84 | 1,041.5 |
| C. Malaysian branches of foreign cos. | 575 | 70 | 114 | 20 | 47 | 8.5 | 155 | 1 | 83 | 1,073.5 |

Note :

I Rubber

VII wholesale trade

II Other agriculture

VIII Retail trade

III Tin mining

IX Other Industry

IV Other mining

X All industries.

V Manufacturing

VI Construction

Source : Second Malaysian Plan 1971 - 1975

Source : Report on the Financial Survey of limited companies in Malaysia 1967.

TABLE VII

OWNERSHIP OF SHARE CAPITAL OF LIMITED COMPANIES
IN WEST MALAYSIA 1969

| Companies incorporated in West Malaysia | | <u>All Industries</u> | |
|--|--|-----------------------|-------|
| | | (\$ 000) | (%) |
| Residents | | | |
| Malays | | 49,294 | 1.0 |
| Malay interests | | 21,339 | 0.5 |
| Chinese | | 1,064,795 | 22.8 |
| Indians | | 40,983 | 0.9 |
| Federal & State Governments | | 21,430 | 0.5 |
| Nominee companies | | 98,885 | 2.1 |
| Others individual and locally controlled cos. | | 470,969 | 10.1 |
| Foreign controlled companies in Malaysia | | 282,311 | 6.0* |
| Non Residents | | 1,235,927 | 26.4* |
| West Malaysian branches of companies incorporated abroad | | 1,391,607 | 29.7* |
| Net Investment by Head Office | | | |
| TOTAL | | 4,677,540 | 100.0 |

Source : Second Malaysian Plan 1971 - 1975
Government Printer, 1971, Kuala Lumpur.
Table 3-1 reproduced (pg. 40)

* These items show foreign ownership totalling 62.1%

TABLE VIII

WEST MALAYSIA - FOREIGN INVESTMENT IN PIONEER
COMPANIES BY SELECTED COUNTRIES AS AT 31ST DEC 1972

| | <u>Country of Origin</u> | <u>Capital Investment (\$)</u> |
|-----------------------|--------------------------|--------------------------------|
| 1 | Singapore | 125,668,241 |
| 2 | U.S. | 87,975,024 |
| 3 | United Kingdom | 84,430,958 |
| 4 | Japan | 42,443,215 |
| 5 | Hong Kong | 36,802,264 |
| 6 | Bahamas | 22,444,300 |
| 7 | Puerto Rico | 13,000,000 |
| 8 | Australia | 6,648,132 |
| 9 | Canada | 6,146,364 |
| 10 | Holland | 4,458,009 |
| 11 | Taiwan | 1,820,848 |
| 12 | India | 1,704,554 |
| 13 | Pakistan | 1,443,858 |
| TOTAL OF 32 countries | | 439,692,895 |

Source : FIDA 1972 Annual Report compiled from Table XII p. 89

investment in Pioneer companies come to \$439,692,895.

The total investment by the four countries of Singapore, U.S., United Kingdom and Japan had a total share of 77% (see Table VIII) in the Pioneer companies, and here again it shows that only a handful of the foreign countries had a major share in the pioneer industry. Taking the manufacturing industry as a whole foreigners owned 46% of the fixed assets in the sector of land and land improvement, 54% in the sector of building and other construction, 53% in the sector of machinery (see Table IX) in the year 1970.

In the early stages, it was easier to attract foreigners to invest in manufacturing industries than domestic entrepreneurs. [The local investors were accustomed to the safer investment in the retail trade, extractive industries and properly development.] The first opportunity were therefore seized by foreigners. There was an influx of foreign venture capital with the British moving in quickly. It is a long standing British tradition to invest abroad, and the attraction of such investment are obvious. Operation of British exchange control "have normally made it easier for British companies to invest in Sterling area countries than elsewhere."¹⁴ Added to this is the policy of the government which says that "foreign investors enjoy the freedom to transfer capital and profits to Sterling area countries while transfer to other countries are subjected only to nominal control.

14. Reddaway, W.B. Effects of UK Direct Investment Overseas Final Report Cambridge University Press 1968 p.218

TABLE IX

VALUE OF FIXED ASSETS BY OWNERSHIP BY CITIZENSHIP
IN THE MANUFACTURING SECTOR AS AT 31ST DECEMBER 1970

| OWNERSHIP | LAND & LAND IMPROVEMENT | | BUILDING & OTHER CONSTRUCTION | | TRANSPORT EQUIPMENT | | MACHINERY | | TOTAL | |
|-------------------|----------------------------|--------|----------------------------------|---------|------------------------|---------|-----------|---------|-----------|---------|
| | \$'000 | %Total | \$'000 | % Total | \$'000 | % Total | \$'000 | % Total | \$'000 | % Total |
| Wholly Private | | | | | | | | | | |
| Malaysian | 59,647 | 52.9 | 138,259 | 43.6 | 36,577 | 71.7 | 296,498 | 45.8 | 530,981 | 47.1 |
| Singaporean | 17,645 | 15.7 | 44,238 | 14.0 | 5,504 | 10.8 | 53,378 | 8.2 | 120,765 | 10.7 |
| British | 12,974 | 11.5 | 58,255 | 18.4 | 4,464 | 8.8 | 133,198 | 20.6 | 208,891 | 18.5 |
| American | 2,406 | 2.1 | 8,396 | 2.6 | 487 | 1.0 | 65,779 | 10.2 | 77,068 | 6.8 |
| Japanese | 2,427 | 2.2 | 2,962 | 0.9 | 1,304 | 2.6 | 7,732 | 1.2 | 14,425 | 1.3 |
| Indian | 35 | * | 516 | 0.2 | 43 | * | 836 | 0.1 | 1,430 | 0.1 |
| Other foreign | 16,250 | 14.4 | 53,959 | 17.0 | 2,192 | 4.3 | 81,062 | 12.5 | 153,463 | 13.6 |
| Jointly Owned | 193 | 0.2 | 1,309 | 0.4 | 81 | 0.2 | 646 | 0.1 | 2,229 | 0.2 |
| Wholly Government | 1,142 | 1.0 | 9,042 | 2.9 | 331 | 0.6 | 8,688 | 1.3 | 19,203 | 1.7 |
| TOTAL | 112,719 | 100.0 | 316,936 | 100.0 | 50,983 | 100.0 | 647,817 | 100.0 | 1,128,455 | 100.0 |

* less than 0.1%

Source : Department of Statistics

adapted from FIDA annual report 1972. K.L.

This policy will continue¹⁵ and this along with the long historical connections explain for their lead. ✓

Foreign owned companies supply in value terms well over 70% of the manufactured goods in Malaysia in 1970.¹⁶

Foreign companies not only dominate important areas of manufacturing but they also earn a higher return on their capital and their productivity is high. On the whole these companies are not labour intensive but capital intensive (see Table X). The average of the capital/labour ratio for 21 industries in 1970 was only 7.4. The total capital was \$1,128,452,000 and the number of employment was only 153,225.

On the whole these companies are not labour intensive and pay more emphasis to marketing and demand a higher academic and technical qualification from their middle and top managers.

During the early stages of the post independence period, no attempt was made to determine the conditions regulated in the national interest, under which foreign capital could participate in Malaysian industry. The dominant attitude to foreign investors had been 'welcome invaders'. A key factor which influenced the decision of investors was their keenness to retain markets opened up by exports and which were in danger of being lost to foreign or more particularly local competitors

15 Second Malaysian Plan 1971-1975 Government Printer, Kuala Lumpur 1971 p.156

16 Kanapathy V Foreign Investment in Malaysia: Experience and Prospects in UMBC Economic review Vol.VI no.2 1970

and partly to satisfy governmental aspiration.¹⁷

Industrial policies and strategies were not well conceived and implemented, resulting in the establishment of import substituting industries mainly of the assembly or packaging type geared to the existing market size.

(Policies were not designed to encourage the establishment of labour intensive or export oriented industries (See Table XI) nor was there any machinery to decide the number and size of plants for each product to ensure viability and growth - to generate a 'snow ball' effect by increasing the number of back-up industries.)

Because of absence of a well-defined policy even after ten years of industrialization, Malaysia has few industries which are neither export-oriented nor labour intensive.

"It is highly unlikely that (foreign-owned companies) are committed enough to establish research and development units to look into the factor endowment situation."¹⁸

This, inspite of the comparatively high growth rate of the gross domestic product during the period 1960 - 1967 (more than the average of 4.8% for most developing countries) the rate of increase in employment was only 2.4% a year i.e. at a rate of 0.2% lower than that of the labour force.

17 This explains for the high annual growth rates registered by the manufacturing sectors - an average of 10.2% for the period 1960-70 and 12% in 1971. In 1968, only 41 industrial projects were approved, in 1972, 355 industrial projects were approved. c.f. Malaysian Industrial Digest FIDA publication Vol.7 No.1 p.2

18 David Lim, Industrialization and Employment in West Malaysia in Ekonomi Journal Vol.11 No.1 1970 p.113

TABLE X

WEST MALAYSIA - CAPITAL/LABOUR RATIO BY INDUSTRY 1970

Source: Department of Statistics

| INDUSTRY | CAPITAL (\$'000) | EMPLOYMENT (NO) | CAPITAL/LABOUR RATIO |
|-----------------------------------|---------------------|--------------------|-------------------------|
| 1. Off Estate Processing | \$ 49,860 | 13,336 | 3.7 |
| 2. Food | 150,548 | 19,466 | 7.7 |
| 3. Beverages | 42,727 | 2,788 | 15.3 |
| 4. Tobacco | 35,405 | 4,181 | 8.5 |
| 5. Textile | 48,446 | 8,050 | 6.0 |
| 6. Footwear | 8,554 | 5,838 | 1.5 |
| 7. Wood Products | 123,485 | 26,542 | 4.7 |
| 8. Furniture & Fixtures | 5,573 | 2,609 | 2.1 |
| 9. Paper & Paper Products | 14,818 | 1,905 | 7.8 |
| 10. Printing & Publishing | 53,868 | 11,389 | 4.7 |
| 11. Leather Products | 2,898 | 530 | 5.5 |
| 12. Rubber Products | 45,998 | 8,501 | 5.4 |
| 13. Chemicals & Chemical Products | 120,698 | 7,118 | 17.0 |
| 14. Petroleum & Coal | 75,164 | 466 | 161.3 |
| 15. Non-Metallic Products | 100,867 | 8,397 | 12.0 |
| 16. Basic Metal | 90,841 | 3,322 | 27.3 |
| 17. Metal Products | 42,701 | 8,069 | 5.3 |
| 18. Machinery Except Electrical | 13,495 | 7,011 | 1.9 |
| 19. Electrical Machinery | 33,941 | 3,208 | 10.6 |
| 20. Transport Equipment | 39,081 | 4,824 | 8.1 |
| 21. Miscellaneous | 29,484 | 5,675 | 5.2 |
| TOTAL | 1,128,452 | 153,225 | 7.4 |

TABLE XI

WEST MALAYSIA - EXPORTS OF PIONEER ESTABLISHMENTS
BY INDUSTRY 1971

| INDUSTRY | | EXPORT AS % OF GROSS SALES | % OF TOTAL EXPORTS |
|----------|---------------------------|----------------------------|--------------------|
| 1. | Food & Beverages | 40.0 | 50.3 |
| 2. | Textile | 27.0 | 8.8 |
| 3. | Wood & wood product | 81.0 | 14.1 |
| 4. | Furniture | - | - |
| 5. | Paper and paper products | 0.4 | 0.2 |
| 6. | Leather & rubber products | 8.8 | 1.4 |
| 7. | Chemicals | 9.9 | 5.5 |
| 8. | Petroleum & coal | 18.9 | 12.0 |
| 9. | Basic metal | 5.7 | 1.2 |
| 10. | Metal products | 8.1 | 1.2 |
| 11. | Machinery & transport | 17.6 | 1.4 |
| 12. | Electrical machinery | 6.8 | 1.8 |
| 13. | Plastics | 19.3 | 0.7 |
| 14. | Miscellaneous | 17.3 | 0.3 |

Source : adapted from Table XI pg. 88
FIDA Annual Report 1972

Note : The only industry which was highly export-oriented was wood and wood products with 80% of their gross sales directed towards the export market. Most of the industries are not export oriented.

This implies on overall increase in labour productivity of about the same percentage as the growth in employment as a result, unemployment in West Malaysia increased from about 6.0% of the labour force in 1962 to 6.7% in 1967 and 8% in 1970 - equivalent to 250,000 persons.¹⁹ Total labour force employed by manufacturing industries in 1970 amount to about 200,000 and of this number only about 32,000 are employed by foreign manufacturing institutions.²⁰

In banking and finance, foreigners held the dominant position, they owned more than half the share capital in banking and finance.²¹ This type of investment has drawn considerable attention in the post independence period. A large number of establishments were set up representing American, Japanese, German and Indian interests. Before independence, the British dominated the banking scene. Besides the British there were also Singapore, Dutch, French and Indian banks in operation. There were now 38 commercial banks, of which 22 are foreign.²²

The main purpose of establishment of foreign bank is primarily to service the bank's respective nationals' industries, and to partake in the profitable deposal banking and international banking business of this area. To take the pioneer industry as an example, of the total investment in 1972, \$382.5 million were from local sources while

19 Kanapathy V op cit p.6 also see Second Malaysian Plan op cit p.95.

20 FIDA Annual Report 1972 op cit p.57

21 Second Malaysia Plan 1971-75 op cit p.164

22 UMBC economic review, UMBC K.L. p.68

\$439.7 million or 53.5% were from foreign sources. In terms of individual country investment, Singapore had a total investment of \$125.7 million, United States took the second place with \$88 million and United Kingdom with \$84.4 million.²³ Thus, the respective banks of the countries concerned are the main sources whereby the foreign capital could be borrowed and channeled into the industry. (See Table XII for the local/foreign sources of capital in pioneer industry) of the 89 insurance companies registered in Malaysia in 1970, 81 are foreign.

This is another area of economic activity which is predominated by foreign enterprise. During 1968, premium income received was \$127 million and claims and other payments amount to \$46 million which to some extent is indicative of the profitability of the industry. In 1968, two leading companies both of which are incorporated abroad, accounted for \$700 million sum insured or 59.7% of the 'life' market. In the same year, the six leading companies, all of which are incorporated abroad had \$34 million or 37% of the market.²⁴

Foreign companies also play a major role in the nation's wholesale trade as we have mentioned earlier, shipping (an annual sum of about \$600 million flows out of the country by way of freight payments)²⁵, consultancy and audit business. There is also a small amount of portfolio investment. Thus it can be concluded that foreign owned or controlled enterprise play a major role in Malaysian economy.

23 FIDA annual report 1972 op cit p.60

24 cf. Chang Sow Khong, The Insurance Industry in Malaysia Malaysia Management Review, Vol 3 No.2 Dec.1968

25 Kanapathy V. op cit p.9

TABLE XII

WEST MALAYSIA
PAID UP AND LOAN CAPITAL OF PIONEER INDUSTRIES
BY LOCAL/FOREIGN SOURCES AND BY INDUSTRY 1970-72

| INDUSTRY | NO.OF ESTAB. | PAID UP CAPITAL | | LOAN CAPITAL | | TOTAL PAID UP & LOAN | |
|-------------------------|-----------------|-----------------|---------|--------------|---------|-------------------------|---------|
| | | LOCAL | FOREIGN | LOCAL | FOREIGN | LOCAL | FOREIGN |
| 1. Food & Beverages | | | | | | | |
| 1970 | 24 | 40,683 | 65,028 | 2,370 | 13,244 | 43,053 | 78,272 |
| 1971 | 25 | 41,794 | 71,503 | 2,065 | 8,229 | 43,859 | 79,732 |
| 1972 | 26 | 44,446 | 83,828 | 4,491 | 1,498 | 48,937 | 85,326 |
| 2. Textile Mfg. | | | | | | | |
| 1970 | 15 | 28,233 | 19,962 | 6,359 | 2,112 | 34,592 | 22,074 |
| 1971 | 19 | 37,336 | 24,967 | 16,863 | 1,672 | 54,199 | 26,639 |
| 1972 | 19 | 31,735 | 24,727 | 10,837 | 606 | 42,572 | 25,333 |
| 3. Wood Industry | | | | | | | |
| 1970 | 12 | 28,937 | 3,486 | 4,285 | 447 | 33,221 | 3,933 |
| 1971 | 19 | 43,757 | 7,719 | 8,704 | 3,479 | 52,461 | 11,198 |
| 1972 | 23 | 55,407 | 12,141 | 22,352 | 2,038 | 77,759 | 14,179 |
| 4. Furniture & Fixtures | | | | | | | |
| 1970 | 4 | 456 | 1,225 | 194 | 362 | 649 | 1,587 |
| 1971 | 4 | 985 | 1,821 | 70 | - | 1,055 | 1,821 |
| 1972 | 4 | 1,381 | 3,424 | - | 644 | 1,381 | 4,068 |

TABLE XII

(Cont'd)

(Cont'd)

| INDUSTRY | NO. OF ESTAB. | PAID UP CAPITAL | | LOAN CAPITAL | | TOTAL PAID UP & LOAN | |
|------------------------------|------------------|-----------------|---------|--------------|---------|-------------------------|---------|
| | | LOCAL | FOREIGN | LOAN | FOREIGN | LOAN | FOREIGN |
| 5. Paper & Printing | | | | | | | |
| 1970 | 3 | 4,856 | 1,282 | - | - | 4,856 | 1,282 |
| 1971 | 3 | 2,837 | 3,300 | - | - | 2,837 | 3,300 |
| 1972 | 4 | 4,964 | 1,374 | 120 | 1,003 | 5,084 | 1,374 |
| 6. Leather & Rubber Products | | | | | | | |
| 1970 | 3 | 6,026 | 15,974 | 6,341 | 20 | 12,366 | 15,994 |
| 1971 | 4 | 8,763 | 17,862 | 5,149 | - | 13,912 | 17,862 |
| 1972 | 5 | 9,481 | 24,829 | 5,147 | - | 14,628 | 24,829 |
| 7. Chemicals | | | | | | | |
| 1970 | 33 | 19,940 | 43,800 | 9,204 | 2,476 | 29,144 | 46,276 |
| 1971 | 33 | 18,312 | 50,631 | 6,670 | 1,364 | 24,982 | 51,995 |
| 1972 | 34 | 20,464 | 54,015 | 3,806 | 495 | 24,270 | 54,510 |
| 8. Petroleum & Coal | | | | | | | |
| 1970 | 4 | 17,913 | 74,935 | 10,168 | 18,364 | 28,081 | 93,299 |
| 1971 | 6 | 17,425 | 75,699 | 3,968 | 19,009 | 21,393 | 94,708 |
| 1972 | 5 | 17,222 | 75,589 | 7,000 | 13,000 | 24,222 | 88,589 |

TABLE XII
(Cont'd)

| INDUSTRY | NO. OF ESTAB. | PAID UP CAPITAL | | LOAN CAPITAL | | TOTAL PAID UP & LOAN | |
|---------------------------|------------------|-----------------|---------|--------------|---------|-------------------------|---------|
| | | LOCAL | FOREIGN | LOCAL | FOREIGN | LOCAL | FOREIGN |
| 9. Non-Metallic Products | | | | | | | |
| 1970 | 8 | 8,086 | 15,640 | 2,977 | 1,286 | 11,064 | 16,925 |
| 1971 | 9 | 12,623 | 19,603 | 2,687 | 1,003 | 15,310 | 20,606 |
| 1972 | 10 | 17,451 | 20,507 | 1,869 | 848 | 19,320 | 21,355 |
| 10. Basic Metal Industry | | | | | | | |
| 1970 | 8 | 31,298 | 26,508 | 11,672 | 8,320 | 42,970 | 34,828 |
| 1971 | 9 | 28,598 | 32,114 | 16,390 | 6,541 | 44,988 | 38,655 |
| 1972 | 9 | 28,370 | 33,821 | 15,829 | 35,770 | 44,199 | 69,591 |
| 11. Metal Products | | | | | | | |
| 1970 | 15 | 4,417 | 9,437 | 35 | 255 | 4,452 | 9,692 |
| 1971 | 18 | 11,272 | 14,213 | 7,901 | 380 | 19,173 | 14,593 |
| 1972 | 22 | 14,774 | 16,332 | 9,198 | 41 | 23,972 | 16,373 |
| 12. Machinery & Transport | | | | | | | |
| 1970 | 7 | 4,271 | 4,589 | 500 | 2,000 | 4,771 | 6,589 |
| 1971 | 7 | 3,683 | 4,677 | - | 800 | 3,683 | 5,477 |
| 1972 | 7 | 3,976 | 4,714 | 1,000 | - | 4,976 | 4,714 |

TABLE XII

(Cont'd)

Source : FIDA Annual Report 1972 KL

| INDUSTRY | NO.OF ESTAB. | PAID UP CAPITAL | | LOAN CAPITAL | | TOTAL PAID UP & LOAN | |
|--------------------------|-----------------|-----------------|---------|--------------|---------|-------------------------|---------|
| | | LOCAL | FOREIGN | LOCAL | FOREIGN | LOCAL | FOREIGN |
| 13. Electrical Machinery | | | | | | | |
| 1970 | 13 | 7,257 | 15,049 | 1,043 | 1,592 | 8,300 | 16,641 |
| 1971 | 14 | 8,218 | 19,553 | 2,083 | 3,000 | 10,310 | 22,553 |
| 1972 | 15 | 9,105 | 21,390 | 2,253 | 2,000 | 11,358 | 23,390 |
| 14. Plastic Industry | | | | | | | |
| 1970 | 8 | 3,552 | 743 | 1,132 | 36 | 4,684 | 779 |
| 1971 | 9 | 4,610 | 1,731 | 2,512 | - | 7,122 | 1,731 |
| 1972 | 9 | 6,257 | 1,838 | 2,686 | - | 8,943 | 1,838 |
| 15. Hotel Industry | | | | | | | |
| 1970 | - | - | - | - | - | - | - |
| 1971 | 1 | 7,900 | 2,100 | 1,000 | - | 8,900 | 2,100 |
| 1972 | 6 | 21,845 | 616 | 1,190 | 30 | 23,035 | 645 |
| 16. Others | | | | | | | |
| 1970 | 4 | 800 | 1,813 | 90 | - | 890 | 1,813 |
| 1971 | 5 | 3,408 | 2,205 | 62 | - | 3,470 | 2,205 |
| 1972 | 6 | 7,694 | 3,578 | 158 | - | 7,852 | 3,578 |
| TOTAL | | | | | | | |
| 1970 | 161 | 206,725 | 299,471 | 56,370 | 50,514 | 263,096 | 349,985 |

We have seen that much of the historical factors determine and influence the growth of foreign investment in this country. Between 1874 and 1914, Britain intervened and acquired control of the Malay States. The direct intervention paved the way for manipulating as freely as possible to ensure the control and extraction of Malaya's wealth. This can readily be seen by official material and reasons then advanced to rationalise this intervention. Thus the British Secretary of State Lord Kimberley in authorizing Andrew Clark, the Governor of the Straits Settlement to intervene in Perak in 1874 stated in this dispatch :

The rubber ..Her Majesty's government find it incumbent the profit to employ such influence as they possess with it were start the native princes to rescue if possible these An Economic fertile and productive countries from the ruin which must befall them if the present disorders continued unchecked.²⁶

The fertile land was certainly seized: the countries resources were inevitably taken over. The tin industry is a classic example. Gold and tin were mined in Malaya even before 1511. In 1649, the tin export from Malacca was 5775 pikuls. Perak was producing an annual tin export of 9000 pikuls. The tin in Perak was actually worked by a Malay Chief Che Long Jaafar, in the mid 19th century.

26 Chan Hou Chan The Development of British Malaya 1869-1909 K L Oxford University Press 1964 p.45

27 cf. Chai Hon Chan Ibid p.134

28 Second Malaysia Plan 1971-1975 pp. xii. p.173

29 Dan J. Li British Malaya - An Economic Analysis Oxford University Press 1957.

But by 1912, Britain was firmly in control of the tin industry. After the Federation of the four tin producing states (Perak, Selangor, Negri Sembilan and Pahang) into the Federated Malay States in 1876 and the discovery of hydraulic mining technique British capital flowed more freely. In 1937 Britain having introduced dredge mining was producing 68% of the tin output.²⁷ Even up to today, the pattern did not change much. Of the share capital in limited companies in tin mining in 1969, the foreigners had 64.1%. In other mining, more than 70% of the share capital was owned by foreign interests.²⁸

The rubber industry too was similarly brought to serve the profit hungry appetites of the foreigners. The profit were startlingly as high as Dun J. Li in his *British Malaya - An Economic Analysis* says:-

"Each acre of rubber land according to official report of 1911 yields 100 lbs and each lb was worth 5 shillings. The profit to the producer after he had paid the government tax which amounted to £3 an acre, was £60 an acre. In 1910 some of the British rubber company paid dividends of as much as over 300%. In 1912, there were 60 companies in the FMS which paid dividends ranging from 20% to 275% and the average dividends for those 60 companies was 68.8%²⁹

27 cf. Chai Hon Chan *ibid* p.124

28 Second Malaysia Plan 1971-1975 *op cit.* p.173

29 Dun J. Li *British Malaya - An Economic Analysis* Oxford University Press 1957.

Britain felt it politically and economically advantageous to maintain the feudal structure and bring in bond labour as cheap labour to enhance their already high level of profits. The Malay peasantry was in fact forced by law to stick to rice cultivation; hence the enactment of such laws as the Malay Reservation Act 1913, the Rice lands enactment of 1917 the Land Enactment 1911.

To eliminate or minimise Malay opposition to their direct control of Malaya (as evidenced by the Murder of Birch and Bahaman Rebellion in Pahang) Britain felt it prudent to secure the co-operation of the traditional elite.

✓ "at times when European officials were a handful, practical advantage in cost tact of using established Malay leadership in local administration were obvious enough and become at an early stage a stated principle of British administrative control. This policy was designed unashamedly to create from the traditional elite a new class of colonial civil servants whose association with the British might on the one hand satisfy the myth of continued Malay sovereignty and on the other serve as a bulwark against possible political encroachments for the resident non-Malay population in the future."³⁰.

✓ 30 Roff : The Origin of Malay Nationalism
KL University of Malaya Press 1967 p.140

Thus too the Penghulu system was encouraged "by no class of officers is the government better served" commented a satisfied British official (cited in Roff's Book).

With the subordination of the traditional feudal/sultan ruling class to the British colonial regime, investment in the extractive and planting industries by the British and the Europeans increased. The foreign concerns as a rule started with little investment in capital relatively.

"For the control over the necessary natural resources - primarily land for plantations or for mining was secured either by forcible expropriation of the native population or by acquiring it at a more or less nominal price from the rulers, feudal lords or tribal chiefs dominating the respective areas.³¹

Thus, the accrual of capital to the underdeveloped countries that resulted from the initiation of foreign exploitation of their natural resources was negligible. Speaking of the British experience, Sir Arthur Salter observes that 'it was only in an earlier period which terminated soon after 1870, that the resources for foreign investment came from an excess of current exports over imports. In the whole period for 1870-1913, when total

32 cited in Baran. *Ibid* p.319

31 Paul Baran : The Political Economy of Growth

33 *Ibid* p.319 Penguin Australia 1973 p.318

foreign investment increased from about £1,000 million to nearly £4,000 million the total new investment made were only about 40% of the income from past investments during the same period."³² With reference to post war American investments abroad, a government publication states that 'much of these consisted of reinvested foreign branch earnings, rather than new capital raised in the U.S.' ³³

is concerned, the figure is 18.8% and it is only next to Germany. Industrialists During the early years of the post independence period, an important motivating force for foreign investment was defensive in character - to protect their share of market by firms which had been exporting to Malaysia. Advantage was taken of the tariffs that were introduced and by trying to come first they hope to prevent a competitor from setting up a firm. The tyre, fertilizer, chemical and petroleum industries come within this category. It is generally assumed that the underlying force for the companies to go abroad is to maximize profit. But in the case of multinational firms growth and efficiency are also given equal importance.

the various incentives given to encourage foreign investment in In a brand conscious country like Malaysia where everything foreign is considered superior, and local people are not motivated to patronize local things, the foreign companies

32 cited in Baran. ibid p.319 FIDA KL 1970

33 ibid p.319

enjoy the advantages and are therefore able to continue expanding. This explains partly the profitability of foreign investments. [In analysing the pre-tax profitability of UK companies operating abroad (See Table XIII) it was revealed in the Reddaway Report that the figures for Malaysia is 28.7% which is the third most attractive place for British foreign investment. As far as post-tax profitability is concerned, the figure is 18.8% and it is only next to Germany. Industrialists who have invested in Malaysia are now reaping profits and expanding their manufacturing activities in the country. The success of firms like Guinness, Pacific Milk, British American Tobacco and several others have prompted them to accumulate even more assets in Malaysia. Since it started operation in 1962, for example, Dunlop Malayan Industries Ltd., has more than doubled its initial investment of \$12 million. The company intends to reinvest another \$20 million in the country. Meanwhile increasing sales turnover have resulted in substantial profits for firms like Bata and Unilever which are producing consumer products in the country.³⁴]

Perhaps, it would be appropriate at this juncture to review the various incentives given to encourage foreign investment in Malaysia. The pioneer industries ordinance of 1958 was the first one to be introduced. It was then superceded by the investment incentives act of 1960. A summary of the

TABLE XIII

OVERSEA DIRECT TAXES AND PROFITABILITY OF
BRITISH INVESTMENT

| COUNTRY | PRE-TAX PROFITS (£'000) | OVERSEA DIRECT (£'000) | SHARE OF TAX IN PROFITS (%) | PRE-TAX PROFITA- BILITY(%) | POST-TAX PROFITA- BILITY(%) | TAXATION AS % OF CAPITAL(%) |
|--------------------|-------------------------------|------------------------------|-----------------------------------|----------------------------------|-----------------------------------|-----------------------------------|
| DENMARK | 359 | 93 | 25.9 | 6.5 | 4.8 | 1.7 |
| SOUTH AFRICA | 13,785 | 4,243 | 30.8 | 14.8 | 10.3 | 4.6 |
| MALAYSIA | 15,595 | 5,370 | 34.4 | 28.7 | 18.8 | 9.9 |
| JAMAICA | 937 | 326 | 34.8 | 13.3 | 8.7 | 4.6 |
| NEGERIA | 3,858 | 1,601 | 41.5 | 7.7 | 4.5 | 3.2 |
| AUSTRALIA | 28,284 | 11,716 | 41.6 | 15.6 | 9.1 | 6.5 |
| ITALY | 2,150 | 971 | 45.2 | 32.8 | 18.0 | 4.8 |
| CANADA | 22,915 | 10,474 | 45.7 | 10.8 | 5.9 | 4.9 |
| U S A | 36,178 | 17,111 | 47.3 | 16.1 | 8.5 | 7.6 |
| GHANA | 6,464 | 3,244 | 50.2 | 26.0 | 12.9 | 13.0 |
| GERMANY | 14,064 | 7,461 | 53.1 | 50.4 | 23.7 | 26.7 |
| INDIA | 26,955 | 14,910 | 55.3 | 18.3 | 8.2 | 10.1 |
| BRAZIL | 4,591 | 2,933 | 63.9 | 16.9 | 6.1 | 10.8 |
| FRANCE | 1,473 | 1,018 | 69.1 | 7.5 | 2.3 | 5.2 |
| ARGENTINA | 1,076 | 789 | 73.1 | 7.5 | 2.0 | 5.5 |
| TOTAL 15 COUNTRIES | 178,684 | 82,308 | 46.1 | 16.3 | 8.8 | 7.5 |

Investment Incentives Act was given in Appendix I. The principle inducement of investment under the 1958 ordinance was the exemption from the 40% company tax, a fixed capital expenditure of \$100,000 or less was entitled to a 2 year relief, one between \$100,000 and \$250,000 to a 3 year relief and one greater than \$250,000 to a 5 year relief. Infrastructure facilities such as water supply, electric power and transport services were provided cheaply in industrial estates and training facilities were provided through bodies such as National Productivity Centre. The Malaysian Industrial Development Finance Berhad was set up in 1960 to provide loans. In 1965, the FIDA was established with the primary responsibility of promoting and co-ordinating industrial development. Foreign firm were given assurance on the freedom to repatriate capital and to remit profits. Arrangement against double taxation was also made available.

One of the weakness of fixed capital expenditure and tax exemption is that the short period given for this tended to encourage the establishment of firms of a speculative nature.³⁵

The former provision made qualification for pioneer status relatively easy, while the latter acted against enterprise with a long gestation period. Firms that are established deliberately to take advantage of

35 David Lim Economic Growth and Development in West Malaysia 1947 - 1970 Oxford University Press
K L p.255

37 Sumitro Djojohadikusumo : Trade and Aid in South East Asia Melbourne. P.V. Cheshire 1968 p. 217 also see Wheelwright E. Industrialization in Malaysia Melbourne University Press 1968

such temporary concessions can only be of limited value to the long term development of the industrial sector.

The government at the same time lack policy and co-ordination for promoting the development of 'pioneer industries'. One example is the vagueness of the criteria for 'pioneer status'. The Minister of Trade and Commerce could give a pioneer certificate in terms of the application subject to such conditions thereof and to such conditions to be imposed on that certificate as he may think fit.³⁶ The conditions actually depended on the whims and fancies of the Minister. One manifestation of lack of co-ordination was the rather tortuous procedure to obtain 'pioneer status'. They had to refer to various bodies and must go through all the intricate administrative labyrinth of state government and await discussion by state assemblies and their executive committee.³⁷

Another manifestation of the lack of co-ordination and ineffective policy was the multiplicity of firms in areas which could have been adequately served by a smaller number of producing units. Wheelwright commented that the domestic market of Malaysia does not justify the establishment of 3 diary products firms, six paint and vanishes firms, 6 plastic firms and three match firms and 5 pharmaceutical firms. In most cases, one firm would produce sufficient for the entire internal market, working on the three shift basis, so

36 Minister of Commerce & Industry : Pioneer Industries Ordinance 1958.

37 Sumitro Djojohadikusumo : Trade and Aid in South East Asia Melbourne. F.W. Cheshire 1968 p. 217 also see Wheelwright E.L. Industrialization in Malaysia Melbourne University Press 1965

maximising the productivity of expensive capital equipment and minimizing the unit cost of production.³⁸ Kanapathy has quoted the case of the car assembly plant where there are 6 assembly plants associated with 21 brands of car, assembling 80 models for an annual market of about 18,000

cars. Such a proliferation of plants does not enable the industry to obtain the economies of large scale production.³⁹

Besides the multiplicity of firms, capital intensive nature of plants, there is a concentration of firms in few areas only (refer table XIV). For example in 1969, of a total of 147 companies given 'pioneer status', 51 were located in Selangor. In 1972, out of 355 companies approved, 129 were to be found in Selangor also the concentration of industries in urban centres will only lead to the underdevelopment of the rural areas.

It seems clear that the provision of the Pioneer Industries Ordinance of 1958 and the Investment Incentives Act of 1968

that the government has place a great deal of importance on the role of direct foreign investment. The usual arguments in favour of foreign investment are that it brings with it the latest technological advances and management technique and that double taxation agreements in effect mean a redistribution of income from the countries of the investors to Malaysia.

The measures aim at promoting investment are unfortunately

inadequate in two areas. In the first place, the government

has failed to understand the motivation or rationale of those

38 Wheelwright E.L. Industrialization in Malaya. Meblurne

39 Kanapathy V op cit p.10

international corporations wanting to invest in under developed countries. In the second place, it has failed to safeguard the national interest against the unscrupulous firm/which are out to make quick profits. the local management and the exploitation of deficiencies that exists in the

In a study undertaken by our foreign investment in Singapore, the surprising finding of the survey was that direct financial incentive to foreign investors were unnecessary.⁴⁰ The government has also failed to provide effective preventive measures againsts the actions of some foreign firms whose aim is to make as high a level of profit in as short time as possible. To achieve this aim, there have been instances where foreign investors here made immense profit by charging exorbitant prices for capital and technology and by passing reconditioned second hand and technological obsolete machinery as new. In the first case profits have been made even before the commencement of operation. In the second case, investment costs have been partly recovered even before the production has started.⁴¹

There have also been instances where workers have been recruited and retrenched in response to business condition without due considerations been given to them. The repatriation and remission of profits of most foreign firms have been conducted without any regard for the interest of Malaysia. Every year about \$350 million are recorded as being remitted overseas though the actual amount must be considerably greater

40 David Lin op cit p.255

41 ibid p.256

It should be mentioned that such malpractice are not unusual and are not confined to Malaysia only. However it is certainly up to the government to examine the application for 'pioneer status' and other incentives against foreign investors who are out for quick profits.

TABLE XIV

MALAYSIA

LOCATION OF ALL APPROVED COMPANIES 1969-72

| LOCATION | 1 9 6 9 | | | | 1 9 7 0 | | | | 1 9 7 1 | | | | 1 9 7 2 | | | |
|---------------------|----------------------|------------------------|-----|-------|----------------------|------------------------|-----|-------|----------------------|-------------------------|-----|-------|----------------------|-------------------------|-----|-------|
| | PION EER & LUR | OTHER INCEN TIVE | WTI | TOTAL | PION EER & LUR | OTHER INCEN TIVE | WTI | TOTAL | PION EER & LUR | OTHER INCEN TIVES | WTI | TOTAL | PION EER & LUR | OTHER INCEN TIVES | WTI | TOTAL |
| SELANGOR | | | | | | | | | | | | | | | | |
| Kuala Lumpur | 2 | - | - | 2 | 5 | - | 9 | 14 | 15 | 1 | 10 | 26 | 8 | 2 | 18 | 28 |
| Petaling Jaya | 10 | - | 2 | 12 | 17 | 3 | 18 | 38 | 6 | 1 | 15 | 22 | 2 | - | 19 | 21 |
| Sungei Way FTZ | - | - | - | - | - | - | - | - | - | - | - | - | 10 | - | - | 10 |
| Batu Tiga | 18 | - | 4 | 22 | 21 | 3 | 13 | 37 | 30 | 4 | 8 | 42 | 15 | 2 | 14 | 31 |
| Klang | 3 | - | 2 | 5 | 7 | - | 7 | 14 | 9 | 1 | 5 | 15 | 3 | 1 | 10 | 14 |
| Other Areas | 8 | - | 2 | 10 | 14 | 5 | 17 | 36 | 12 | 1 | 8 | 21 | 10 | 3 | 12 | 25 |
| | 41 | - | 10 | 51 | 64 | 11 | 64 | 139 | 72 | 8 | 46 | 126 | 48 | 8 | 73 | 129 |
| NEANG | | | | | | | | | | | | | | | | |
| Georgetown | - | - | - | - | - | - | - | - | 1 | 2 | 2 | 5 | 1 | 1 | 3 | 5 |
| Prai & Mak Mandin | 9 | - | 2 | 11 | 15 | 1 | 12 | 28 | 16 | - | 16 | 32 | 13 | - | 18 | 31 |
| Bayan Lepas FTZ | - | - | - | - | 2 | 1 | - | 3 | 2 | - | 1 | 3 | 17 | - | - | 17 |
| Other Areas | 4 | - | 2 | 6 | 4 | 1 | 7 | 12 | 7 | - | 6 | 13 | 4 | - | 11 | 15 |
| | 13 | - | 4 | 17 | 21 | 3 | 19 | 43 | 26 | 2 | 25 | 53 | 35 | 1 | 32 | 68 |
| PERAK | | | | | | | | | | | | | | | | |
| Ipoh & Tasek | 7 | - | - | 7 | 10 | 2 | 6 | 18 | 6 | 2 | 3 | 11 | 3 | - | 7 | 10 |
| Taiping & Kamunting | 6 | - | 1 | 7 | 2 | 1 | 3 | 6 | 1 | 1 | 1 | 3 | 4 | - | 1 | 5 |
| Other Areas | 10 | 1 | 1 | 12 | 8 | 3 | 2 | 13 | 5 | 1 | 1 | 7 | 4 | - | 5 | 9 |
| | 23 | 1 | 2 | 26 | 20 | 6 | 11 | 37 | 12 | 4 | 5 | 21 | 11 | - | 13 | 24 |

WTI - Without Tax Incentive
 Other Incen - Include Investment Tax Credit, Industrial Building Allowance, Increased Capital Allowance,
 tives Abatement of Chargeable Income, and Accelerated Depreciation Allowance.

CHAPTER IV

A SURVEY OF MAJOR U.S. INDUSTRIES IN MALAYSIA

Next to the United Kingdoms, United States probably has a major share in the various sectors of the Malaysian economy. The capital investment of the U.S. in pioneer companies was given in Table VIII(Chapter III). (It was found that by the end of December 1973, the U.S. had a total of \$88 million of capital investment in pioneer companies. By January 74, U.S. invest totalled \$1,000 million with 155 companies (Sun.Times 7/7/74 p.15).)

In the manufacturing sector, the American investment was mainly concerned with the import substitution industries catering mainly for the domestic market. However, in recent years, they are strongly veering in favour of export oriented industries for example, the electronic industry. But it does not mean that import substitution industries have diminished in its importance.

It was stated in FIDA publication¹ that by the end of 1973, there were approximately 60 American companies in operation in the pioneer industry, several projects are in the pipeline and are expected to be in operation soon.

Besides manufacturing, the U.S. investments in other sectors of the economy is also considerable.

1 Malaysia. Industrial Digest Vol.6 No.4 1973
FIDA publication K.1

It is a fact that every year large sums of profits flow out of the country. This is because the Malaysian and Agency Houses, Plantation Industries, and mining must not be overlooked. Separate data as to the total profits of the U.S. investment is not available. (But in 1962, a study of the distribution of profits showed that 90% of the dividends paid by all foreign controlled companies (this includes the U.S.) in all sectors of the economy was paid to non-residents of Malaysia.) Of this 6% was paid to Singaporeans.² The table below gives the breakdown of profits earned in different sectors and its ownership.

TABLE XV
ANALYSIS OF PROFITS OF LIMITED COMPANIES BY
INDUSTRY 1962 (\$ MILLION)

| | FOREIGN | | LOCAL | | TOTAL | |
|---------------------------|---------|----|-------|----|-------|-----|
| | | % | | % | | % |
| Depreciation | | | | | | |
| Rubber Plantation | 159.2 | 85 | 27.7 | 15 | 186.9 | 100 |
| Other Agriculture | 18.0 | 85 | 3.2 | 15 | 21.2 | 100 |
| Tin mining | 119.5 | 90 | 12.9 | 10 | 132.4 | 100 |
| Other Mining | 40.2 | 81 | 9.3 | 19 | 49.5 | 100 |
| Manufacturing | 55.5 | 89 | 7.1 | 11 | 62.6 | 100 |
| Construction | 0.2 | 15 | 1.1 | 85 | 1.3 | 100 |
| Wholesale & Agency Houses | 27.8 | 76 | 8.7 | 24 | 36.5 | 100 |
| Retail Trade | 15.6 | 83 | 3.2 | 17 | 18.8 | 100 |
| All other | 17.0 | 31 | 37.8 | 69 | 54.8 | 100 |
| TOTAL | 453.0 | 80 | 111.0 | 20 | 564.0 | 100 |

Source : Sumitro Djojohadikusumo Trade and Aid in South East Asia. University of Malaya Co-op Bookshop K.L. 1969. p.173

2 Sumitro Djojohadikusumo Trade and Aid in South East Asia University of Malaya Co-op Bookshop KL 1969 p.172

It is a fact that every year, large sums of profits flow out of the country. This is because the Malayan economy is in the hands of foreign owned enterprises. In 1962, the net profits of limited companies amounted to \$387.4 millions. The outflow of funds as a result of foreign ownership is of the order of \$350 million. Of this \$298.9 million were paid out as dividends - \$229.5 million or 77% to outside interests. In addition, undistributed profits and depreciation funds of foreign controlled companies are often held overseas. In 1962, these items amounted to \$147.9 millions.

TABLE XVI

WEST MALAYSIA : DISTRIBUTION OF PROFITS OF LIMITED COMPANIES 1962 IN MILLION DOLLARS

| | FOREIGN | % | LOCAL | % | TOTAL | % |
|---------------------------|---------|-----|-------|-----|-------|-----|
| Profit after Depreciation | 453.0 | 80 | 111.0 | 20 | 564.0 | 100 |
| Provision for tax | 139.5 | 79 | 37.1 | 21 | 176.6 | 100 |
| Net profits | 313.5 | 81 | 73.9 | 19 | 387.4 | 100 |
| Dividends paid | 247.1 | 83 | 51.8 | 17 | 298.9 | 100 |
| To reserves & Provisions | 35.8 | 67 | 17.4 | 33 | 53.2 | 100 |
| Undistributed Profits | 202.6 | 72 | 79.8 | 28 | 282.4 | 100 |
| Dividends paid:- | | | | | | |
| Local | 24.9 | 10 | 44.5 | 86 | 69.4 | 23 |
| Singapore | 15.4 | 6 | 6.4 | 12 | 21.8 | 7 |
| Other countries | 206.8 | 84 | 0.9 | 2 | 207.7 | 70 |
| T O T A L | 247.1 | 100 | 51.8 | 100 | 298.9 | 100 |

Source : Sumitro Djojohadkusumo op cit p.174

It would be appropriate at this juncture to present a survey of major U.S. companies operating in Malaysia. These companies were selected at random and their datas are mostly derived from their company reports in the Registrar of Companies.

Four companies were selected from the manufacturing sector.

| | <u>Singer Industries</u> | <u>Carrier Interna- tional</u> | <u>Texas Instru ments</u> | <u>Dodge & Seymour</u> |
|-----------------|------------------------------|--|-----------------------------------|--------------------------------|
| Paid Up Capital | \$ 810,000 | \$500,000 | \$25,000 | \$6,000 |
| Profits 1970 | 45,671 | 382,239 | | 35,623 |
| 1971 | 142,326 | 216,382 | | 48,696 |
| 1972 | 134,000 | 242,400 | 16,342,859 | 37,145 |
| Dividends 1970 | | | | |
| 1971 | 323,640 | | | |
| 1972 | 145,968 | | | |

The Singer Industries(M) Sdn Bhd was started in 1962.

They started with a paid up capital of \$810,000, of which \$620,000 was owned by the Singer Company of 30, Rockefeller Plaza, New York 20. Another \$10,000 was owned by Internation Securities of New York. The local share was bought by the Malayan Finance Corporation, at \$180,000. As can be seen from the table during the period 1970 - 1972, they made a total profit of nearly a quarter of the paid up capital. In 1971, the dividends declared was \$323,640 and \$145,968 in 1972.

Carrier International is a subsidiary of Carrier Corporation of New York. The company specialises in the making of refrigerators. Within the period 1970-72, the company made a total of \$0.83 million whereas the company started with only \$0.5 million.

Texas Instruments is a subsidiary of Texas Instrument of Dallas Texas. The company started operation in August 1972 with a paid up capital of (\$25,000) dollars.

At the end of December 1973, the total profit made was \$16,342,859. (Under the provision of investment incentives act, the company is not liable to Income Tax and development tax during the pioneer period).

The 25,000 shares of \$1 each was wholly owned by Texas Instruments of Dallas Texas.

The extraordinary profit made by Dodge and Seymour is also considerable. Within a period from 1970-72, the total profit made was around \$122,000 whereas the paid up capital of the company was only \$6,000.

A look at the above table shows that these companies are making exorbitant profits, with the exception of Beatrice Food which made a loss of \$797 in 1972. Taking Colgate-manufacturing sector discussed above. As an example, the company specialises in the making of detergents, toiletries etc. They started with 150,000 shares of \$1 each and wholly bought by Colgate Palmolive Company of 300, Park Avenue New York.

FOOD DRUGS & CONSUMER PRODUCTS

| NAME OF COMPANY | PAID UP CAPITAL | P R O F I T S | | |
|----------------------------------|-----------------|---------------|-------------|-------------|
| | | 1970 | 1971 | 1972 |
| Colgate-Palmolive | \$ 150,000 | \$4,200,000 | \$4,600,000 | \$4,500,000 |
| Warner-Lambert Pharmaceutical | \$ 200,000 | \$ 800,000 | \$1,200,000 | \$1,300,000 |
| Beatrice Food | \$ 90,000 | \$ 240,000 | \$ 270,000 | \$ 797 |
| Kodak | \$ 900,000 | | \$ 216,000 | \$ 332,000 |
| Union Carbide | \$4,800,000 | \$ 805,300 | \$1,100,000 | \$1,500,000 |
| Sterling Drugs | \$ 810,000 | | \$ 253,000 | \$ 142,000 |

A look at the above table shows that these companies are making exorbitant profits, with the exception of Beatrice Food which made a loss of \$797 in 1972. Taking Colgate-Palmolive as an example, the company specialises in the making of detergents, toileteries etc. They started with 150,000 shares of \$1 each and wholly bought by Colgate parent Company which is thousands of miles away. Palmolive Company of 300, Park Avenue New York.

The Directors Report of 1972 states that at the end of fiscal year, the total profit for the year stood at \$4,515,361, and the dividends paid was \$9.60 per share. They had captured the Malaysian market so much so that it has become a household word.

Union Carbide (M) Sdn Bhd started with a capital of \$4.8 million of these, the parent company owns \$3.8 million worth of shares. During the period from 1970-1972, they made a total profit of \$2.5 million. The dividends declared was \$1.4 million and \$1.2 million respectively for the years 1972 and 1971. The company was started in the early sixties and by now they have made profits which already exceeded the initial investment they put in many many times.

Warner-Lambert which is a subsidiary of Warner Lambert Phamacentical Co. of New Jersey started with a paid up capital of \$200,000. In both the years, 1971 and 1972, the profit for the company exceeded the one million mark.

It could be seen that since these companies are mostly owned by the Americans, there is very little local ownership, and whatever decisions they make, the local people have very little say. The company is situated in Malaysia but the decision is sometimes made by the parent Company which is thousands of miles away.

As far as banking is concerned, the three large American banks are Chase Manhattan Bank, First National City Bank of New York and Bank of America.

A typical feature of the three banks is that they have a large sum of paid up capital.

| | | |
|--------------------|------------------------|----------------------|
| Domestic offices | 8.27% | 6.08% |
| Overseas offices | 9.33% | 7.38% |
| Consolidated total | 8.61% | 6.40% |
| | Profit | Profit |
| | <u>Paid Up Capital</u> | <u>Assets at '72</u> |
| | | <u>1971</u> |
| | | <u>1972</u> |

| | | | | |
|--------------------------|------------------|----------------|------------|-----------|
| Chase Manhattan Bank | US\$ 447 million | \$ 121 million | \$0.5 mil. | \$0.5 mil |
| First National City Bank | M \$ 638 million | \$ | \$1.5 mil. | \$1.2 mil |
| Bank of America | US\$ 215 million | | \$1.6 mil. | \$0.9 mil |

a paid up capital of \$94 million. Their trading profits

A total of \$47 million were given as advances to customers by the Chase Manhattan Bank, \$108 million by the First National City Bank and \$30 million by the Bank of America in 1972.

A dividend of \$1.7 million was paid to the share holders.

Loans and Mortgages is one of the ways where the Banks earned their profits.

US\$1.08 million. The profit and loss account for the

It was found that in this respect, the overseas offices earned more than the domestic offices. The Table XVII below shows the average rates earned on loans and mortgages for Chase Manhattan Corporation.

| | | |
|---|-------------|--------------|
| Trading Profit before tax | | 1971 |
| after charging depreciation | \$3,142,994 | \$ 2,404,586 |
| less tax | 684,844 | 1,669,984 |
| Profit after tax transferred to Head office | \$1,719,742 | \$ 1,473,010 |

The table below shows the Malaysian Tin Operation

TABLE XVII

AVERAGE RATES EARNED ON LOANS AND MORTGAGES

| | <u>1972</u> | <u>1971</u> |
|--|-------------|-------------|
| Cubid yds(dredge & gravel Pump) | 11,385,000 | 9,288,000 |
| Domestic offices | 8.27% | 6.08% |
| Pounds of tin recovered | 2,867,666 | 2,397,194 |
| Overseas offices | 9.33% | 7.38% |
| Pounds of tin recovered/cubic yd | 0.25 | 0.26 |
| Consolidated total | 8.61% | 6.40% |
| Pounds of tin sold | 2,851,830 | 2,397,090 |
| Source : The Chase Manhattan Corporation | | |
| Average price received/lb tin | \$ 1.67 | \$ 1.57 |
| Annual Report 1973 p. 17 | | |
| Operating revenue from tin including royalties | \$5,003,000 | \$4,027,000 |

Petroleum Industry usually requires a large sum of capital investment. The Esso Standard Malaya Bhd had a paid up capital of \$54 million. Their trading profits for the year 1972 and 1971 are \$13.0 million and \$4.7 million respectively. In 1972, the assets of the company stood at \$145 million. Of these \$103 million come under fixed assets and \$42 million being current assets.

A dividend of \$3.2 million was paid to the share holders. sectors of the economy could go on and on. With the

The Pacific Tin Corporation had a paid up capital of US\$1.08 million. The profit and loss account for the year 1971 and 1972 is shown below study of the subject.

TABLE XVIII

Pacific Tin Corporation.Profit and Loss Account 1971-72

| | <u>1972</u> | <u>1971</u> |
|---|-------------|--------------|
| Trading Profit before tax | | |
| after charging depreciation | \$3,142,994 | \$ 2,404,586 |
| less tax | 684,844 | 1,669,984 |
| Profit after tax transferred to Head office | \$1,719,742 | \$ 1,473,010 |

The table below

The table below shows their Malaysian Tin Operation

TABLE XIX

| | <u>1972</u> | <u>1971</u> |
|--|-------------|-------------|
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| Pounds of tin recovered | 2,867,666 | 2,397,194 |
| Pounds of tin recovered/cubic yd | 0.25 | 0.26 |
| Pounds of tin sold | 2,851,830 | 2,397,090 |
| Average price received/lb tin | \$ 1.67 | \$ 1.57 |
| Operating revenue from tin including royalties | \$5,003,000 | \$4,007,000 |

Pacific Tin Corporation is the only American mining company. There are forty-six public limited companies with tin mining interests in Malaya. Of these, twenty are registered in Malaysia or Singapore and twenty-three in the United Kingdom. There is also a French company.

The extent of the American investment in most of the sectors of the economy could go on and on. With the companies expansion policy and the various incentives given, more and more companies have started their operation. This naturally calls for a thorough study of the subject.

remain very low. Taking Texas Instrument as an example, an average worker is only paid \$2.50 per day, and after working for six months or so, then only do their wage increased to \$3.50 or \$4.00. Very often new workers are recruited and old workers retrenched so that they do

CHAPTER V

CONCLUSION

We have traced in the last Chapter, the profitability of the American Investment in Malaysia. We have also briefly examined the large outflow of profits from Malaysia to other foreign countries. (The Malaysian branches of the big corporation are controlled by foreign personnels and the important decisions are made by the parent companies.) It is thus clear that there is always a conflict between the large corporations and the sovereign states as far as the interests of each is concerned.

In chapter III, we have discussed the extent and the nature of foreign investment and found that they dominate and take over high profit sectors by relying on ample financial resources of its home office. As far as employment is concerned, the foreign controlled firms are capital intensive, they did not help to solve the unemployment problem in this country whereas, large profits are reaped by the foreign companies, the wages of the workers remain very low. Taking Texas Instrument as an example, an average worker is only paid \$2.80 per day, and after working for six months or so, then only do their wage increased to \$3.50 or \$4.00. Very often new workers are recruited and old workers retrenched so that they do

not have to pay a higher wage. We have also seen that foreign investors demand and was given concessions to form a 'favourable climate' for investment. These are usually excessive and unlimited. Foreign private investment does not adapt itself to development planning. Malaysia is the third richest country in South East Asia. Perhaps the United States Commission on Foreign Economic Policy has spelt out clearly the aims of foreign investment.

(Foreign Investment) is a means for American industry and agriculture: in the long run it contributes to the general growth of foreign trade and prosperity by influencing the rise in productivity and income abroad: it is a means of first importance to permit the development of the raw materials of other countries, so as to satisfy the growing civilian and military needs of the American economy; and it is a means which should be still more important by which the national income of the United States grows through the widest and most profitable investment opportunities for American capital."¹

Whatever 'rise in productivity and income abroad' it would be short term, the long term consequences are invariably that more wealth is taken out of the country by foreign corporations than they invest

1 Quoted in Frank op cit. p.343

in it. This is the whole point in such investments. The foreign investment do not diminish the disparity in the rate of development between the advanced and underdeveloped countries but aggravate and increase it.

the countryside.

Malaysia is the third richest country in South East Asia, very often it is referred to as a show-piece of development and stability. But development conceived in terms of increase in per capita income overall stability is 'objective descriptive concept' and 'value laden'.

relations of the satellite are the product of the exploitative relationship.

Development in the sense conventionally equated with 'economic development' may well conceal more than it reveals: 'the economy is doing well but the people are not'

development because the social class which might

We shall apply Frank's thesis on the nature of underdevelopment in Malaysia.²

The following are put forward by Frank:

1. That the development of the underdeveloped countries is limited by their satellite status to a non-autonomous development which is neither self-generating nor self-perpetuating.

The colonial relationship before independence. Even up

2 Andre Gunder Frank, "The Development of Underdevelopment", in Latin America Underdevelopment or Revolution (New York Monthly Review Press, 1970)

2. That a descending chain of exploitative relationships exists which links the imperial metropole to the colonial metropole to the provincial towns and through them to the countryside.

3. That underdevelopment not development is perpetuated by the diffusion of metropolitan ideologies, values, mores and culture in the satellite; and that the economic, political, social and cultural institutions and social relations of the satellite are the product of the exploitative relationship.

4. That an independent national capitalist development is not possible as a means of escaping from under development because the social class which might have the potential to carry it through is fatally compromised.

1) That the development of West Malaysia is limited by its satellite status to a non autonomous development which is neither self-generating nor self-perpetuating.

The satellite status of Malaysia is revealed by the colonial relationship before independence. Even up to today, by theory and practice Malaysia's development has been western orientated. In all national planning,

3 Marc Lindenberg : Effects of Pioneer Industry Programs

4 Second Malaysian Plan 1974-75 Government Printer KL p.49

5 Second Malaysian Plan 1971-75 Government Printer KL 1971

the theories used have been western in origin. They have been concerned with heavy ~~western~~ technical input and have not really disturbed either the foreign penetration of the economy nor the local concentration of power in Malaysia:

'The plans left wide room for additional foreign investment, and also for continued inequitable distribution among Malaysians.'³

The 'laissez-faire' type of First and Second Malaysian Plan were pursued with the usual estate infra-structure, tax holidays and tariff incentives aimed at foreign investors. Already 60% of shares of limited companies is in foreign hands, in agriculture and fishery 75%, in commerce 63% and in manufacturing 59%⁴. The large colonial style agriculture and extractive export oriented sectors and the Malaysian dependence on the capital, goods and technology of the west is another non-autonomous, satellite character of Malaysia.

Added to the economic dependence is the fact that the large export-oriented commercial agriculture which is the 'prosperity' of Malaysia is balanced by a dependence on imports which constitutes close to half the total of goods and services consumed ⁵.

⁶ *ibid* p.276

3 Marc Lindenberg : Effects of Pioneer Industry Programme 1965-70 (unpublished thesis) Chapter IX p.2

4 Second Malaysian Plan 1974-75 Government Printer KL p.49

5 Second Malaysian Plan 1971-75 Government Printer KL 1971

The high rate of unemployment, gross racial/regional imbalances and inequalities in income and distribution of wealth are all characteristics of underdevelopment.

Unemployment and underemployment is increasing. The 6% unemployed in the early sixties has become 8% and the Second Malaysian Plan does not envisage a reduction of 1975.⁶ As we have seen in Chapter III, the foreign

dominated manufacturing sector have been capital-intensive and labour saving.

One of Malaysia's resources - cheap labour is the only asset controlled by the Government's repressive labour legislation. It is very attractive to foreign capital. The legislations were designed in the words of Minister of Labour Tan Sri V Manickavasagam, to create a

"... climate where the provision of laws would be conducive for reducing disharmony and conflict between capital and labour."⁷

- 2) That a descending chain of exploitative relationships exists which links the imperial metropole to the colonial metropolis to provincial towns and through to the countryside.

6 *ibid* p.276

7 quoted in Straits Times March 13 1971

8 W.B. Reddaway et al. Effects of U.K. Direct Investments Overseas : Final Report (Cambridge U.Press 1968) p.348

9 *ibid* p.378

10 Bob Reece, "Malaysia: Fresh Fields" THE EASTERN ECONOMIC REVIEW 25 September 1969 p.806

An example of the exploitative character of relations between Britain and Malaysia is demonstrated in the Reddaway Report. British capital invested overseas yielded a higher contribution to the U.K. National income than it would have done if it had not been so invested.⁸

Regionally in Malaysia, there also exists an exploitative relationship. The developed metropolises Kuala Lumpur, Penang, Johore Bahru, Ipoh of the South West and the East coast of Malaya and the central regions. This mirrors the impact of foreign capital upon Malaya as a whole - characterized by disadvantaged participation in development.

Malaysian rubber 76% of which is owned by the British achieved the highest profit for any enterprise examined in the Reddaway Report anywhere in the world.⁹ The rubber and palm oil estates dominated by old established firms like Dunlop, Guthrie, Harrison and Crossfield and Barlow Boustead accounted for 45% of British earnings in Malaysia.¹⁰

The high profitability of the foreign enterprise is explained in part by the low rate of taxation. The governments share of profits in taxes of 34.4% compares with India's 55.3% and Argentina's 73.3% and world average of 46%. The 34.4% makes no allowance for the very considerable benefits of tax exemption and concessions.

8 W.B. Reddaway et.al. Effects of U.K. Direct Investments Overseas : Final Report (Cambridge U.Press 1968) p.348

9 ibid p.378

10 Bob Reece, "Malaysia: Fresh Fields" Far Eastern Economic Review 25 September 1969 p.806

British policy before Independence is a clear sign of the ties between the imperial metropole of U K and the colonial metropolis of Malaya. The Residential System was adopted so as to facilitate integration and control by the British colonial office.

Regionally in Malaysia, there also exists an exploitative relationship. The developed metropolises Kuala Lumpur, Penang, Johore Bahru, Ipoh of the South West as against the East coast of Malaya and the central regions. This mirrors the impact of foreign capital upon Malaya as a whole - characterised by disadvantaged participation in development.

Commodities produced in the industrialised areas are protected by tariff and sold to the rural areas at higher prices than when imported - the rural Malay are bearing the cost of industrialization without much participation in the benefits. Raw materials from local landholders and this surplus was reinvested in the developed regions either by private investors or local government development agencies. This relationship is analogous to the profits repatriated by foreign pioneer firms and reinvested elsewhere in the world.

We have seen in Chapter III the concentration of industries in certain areas only (Table XIV). The under development of the East coast of Malaya is the result of this experience.

The historical forces which resulted in inequalities in employment opportunities, income distribution and ownership and control of wealth and predominantly racial/regional lines have been strengthened by the development programmes.

"The data on Malaysian directors shows that foreign as well as domestically owned pioneer firms help to buttress the interests of a small, highly overlapping local elite. The regional and racial imbalances perpetuated by the pioneer industries programme supports the hypothesis about the damages of past development efforts to equitable distribution."¹¹

3. That underdevelopment, not development is perpetuated by the diffusion of metropolitan ideologies values, mores and culture in the satellite; and that the economic, political, social and cultural institutions and social relation of the satellite are the product of this exploitative relationship.

The impact of British/American institutions, ideology and values upon Malaysian development has been pervasive and continuous. British aid has been spelt out as assisting in economic development.

¹¹ Lindenberg op cit p.4

'Government aid helps to build up the economic infra-structure and the trained and educated manpower which in turn create a favourable environment for private investment to add to the area's wealth and private opportunities for the labour force to gain skill and experiences." 12

Whatever infra-structure or trained personnel actually help to maximise profit and facilitate foreign investment, very often the foreign firms have a bias against local personnels even if they are qualified.

The character of British educational and technological assistance is heavily Euro-centric and much of British aid and cultural efforts are directed towards that end.

The educational system developed by the British before Independence was actually a method of recruiting the local elites to serve in the British administration. Educational opportunities were not given to those from the rural areas and the lower classes. The aim of education is to make the Malay fisherman a better fisherman than his father.

12 Britain and the Developing Nations: South and South East Asia. Central office of Information pamphlet No. 75 (H.M.S.O. London 1960) p.13

The diffusion of metropolitan technologies lies in the capital intensive industries set up by the foreigners. These industries were not able to help solve the unemployment problem. At the same time it has the effect of weakening the traditional rural industries for example, the batik industry.

In personnel terms, Britain had some 18,424 people in developing countries in 1966. In Malaysia, westerners are to be found in key departments such the Prime Minister's Economic Planning Unit.

British influence pervades Malaysian education at all levels. The British Council, the Commonwealth Scholarship Scheme, and the Government direct most overseas Malaysian students to British institutions: in 1967-8, such students numbered 3,500.¹³ At home, the Cambridge administered examination system still persists.

Another feature is the highly profitable and pervasive propagation of British. Brand consciousness in Malaysian consumers by the Agency Houses still dominating the import trade (See Table V)

4. That an independent national capitalist development is not possible as a means of escaping from under development because the social clan which might

13 Bob Reece op cit. p.807

4) have had the potential to carry it through is fatally compromised.

The local elites are a remarkable example of loyal administrators. They offer to overseas interests an excellent partnership, mutual involvement and have succeeded almost ideally in maximising rewards and minimising risks.

From the early 19th century onwards, the British cultivated the Raja class and took them as junior partners. The Malayan Union and Federated Malay States enabled the Malay aristocratic class and the British to consolidate and preserve their common interest.

"Special rights" which was given to Malays benefited the Raja class, it demonstrated the historic origin and the symbolic relationship. The consequences of which lead to the Western growth oriented development, and the exploitative role of the elites. Whatever privileges or concessions given, the rural Malay are not the one who benefited. On the other hand, the various joint ventures and mutual aid programmes only saw the participation of a small number of Malaysians who are accessible to these opportunities.

For example, in a survey on 75 pioneer firms carried out by Marc Lindenberg in 1968, it was found that Malay Directors comprised about 10% of the total directors as compared to 44% by the Chinese and Indians and 46% by foreigners. Some of the more prominent directors were shown below.

| Name | Directorship in Pioneer firms | Directorship in Economy |
|------------------------------|---|---|
| 1. Tan Sri Nik A. Kamil | a) Tien Wah Press b) Shell Refining c) Dunlop Malayan Industries d) Metal Box | a) Boustead Holdings b) Merlin Hotels c) Rompin Mining d) Straits Trading Corp. e) SEA Development Corp. |
| 2. Dato Osman b. Talib | a) Chemical Industries b) Fuson Fishing Net c) United Malayan Steel Mills d) Malaysian Welding Products | a) Eastern Smelting b) Wearne Brothers c) Singapore Glass d) Development and Commercial Bank e) Sharikat Kurnia Jasa Bhd. |
| 3. Tan Sri Hj. Mohd. Noah | a) Chemical Industries Malaysia b) Langkawi Marble c) Malayan Glass Mfg. d) Esso Malaysia e) Malayan Sugar Refining | a) U. M. B.C. b) Johore Plantation c) Mitsushita Electric d) Malayan Rice Mills e) Klang and S. S. Lain Omnibus Co. |
| 4. Hussein b Mohd Noordin | a) Southeast Asia Lumber b) Malayan Sugar c) Associate Garments | |

| Name | Directorship in Pioneer Firms | Directorship in Economy |
|--|--|--|
| 5. Tan Sri Taib b Hj.Andak | a) Hume Industries b) Poly Paks | Less than \$250,000 2-y \$250,000 plus 3-y \$500,000 plus 4-y \$1 million plus 5-y |
| 6. Tun Dr.Ismail b Dato Hj.Abd Rahman | a) Food Specialists b) Malayan Cables | |
| 7. Mohd.Yusoff bin Hj.Ahmad | a) Sanyo Malaysia b) South Pacific Textiles | (a) Development Area, on (b) Priority Products, c (c) Specified Local Content |
| 8. Tan Sri Syed Jaafar b Hassan Albar | a) Associate Garments b) Malayawata Steel | |
| 9. Tunku Ismail bin Tunku Yah-ya | a) Dunlop Malayan Industries b) I.C.I. Paints | |
| 10. H H Tunku Temenggong Ahmad Ibrahim | a) Metal Box b) Insulations | Where losses incurred every year throughout tax relief period allowed to be notion- ally calculated and aggregated as deduc- tion in pioneer period |

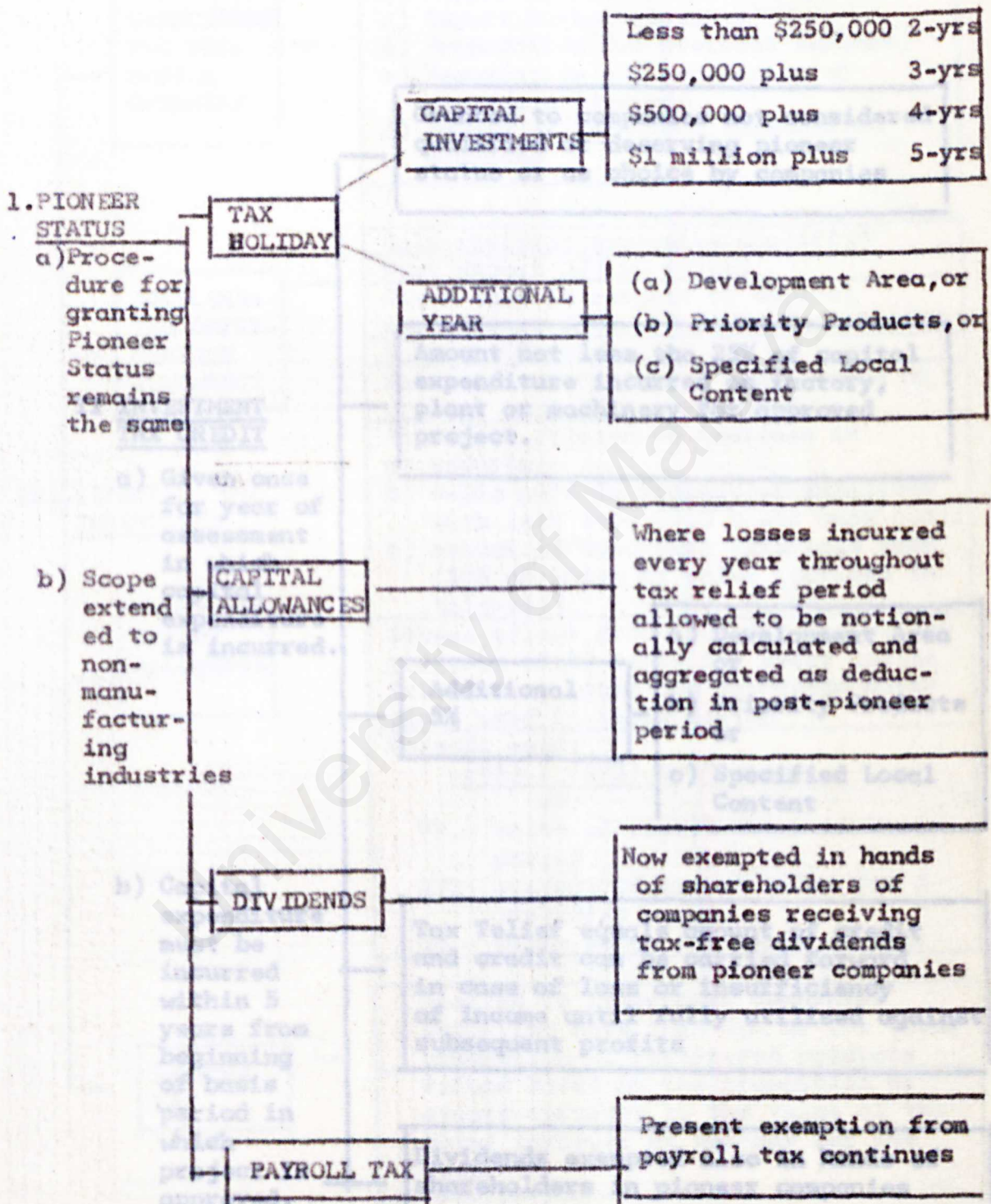
It could be seen that these company directors are former civil servants and or politicians and one of the consequences of the large foreign joint venture is that they helped to provide opportunities for a small Malaysian elite.

PAYROLL TAX

Present exemption from payroll tax continues

APPENDIX I

INVESTMENT INCENTIVES ACT 1968



APPENDIX I

(Cont'd)

II INVESTMENT
TAX CREDIT

a) Given once
for year of
assessment
in which
capital
expenditure
is incurred.

Granted to companies not considered
qualified or deserving pioneer
status or as choice by companies

Amount not less than 25% of capital
expenditure incurred on factory,
plant or machinery for approved
project.

Additional
5%

- a) Development Area
or
- b) Priority Products
or
- c) Specified Local
Content

b) Capital
expenditure
must be
incurred
within 5
years from
beginning
of basis
period in
which
project is
approved.

Tax Relief equals amount of credit
and credit can be carried forward
in case of loss or insufficiency
of income until fully utilised against
subsequent profits

Dividends exempted also in hands of
shareholders in pioneer companies

APPENDIX I

(Cont'd)

| | |
|------------------------------------|---|
| DEDUCTIONS FOR PRO-MOTION OVERSEAS | <p>Expenses Qualified</p> <ol style="list-style-type: none"> Overseas Advertising Supply of free samples overseas Export market research Preparation for overseas tenders. Negotiation and conclusion of contracts overseas Supply of technical information overseas |
| ACCELERATED DEPRECIATION ALLOWANCE | <p>Only resident companies qualified Must export 20% by value. Given only in respect of capital expenditure incurred for modernization Rate - 40% per annum Non-resident companies and exports of primary commodities excluded Allowance related to increase in</p> <ol style="list-style-type: none"> exports; wages paid in respect of employees with less than \$500 basic wage p.m.; amount of Malaysian materials used (50% of which by value provided in Malaysia) |
| EXPORT ALLOWANCE | <p>Scheme allows deduction for income tax purposes of 20 cents for every dollar incurred on wages and Malaysian materials used in basis period Formula used: $\frac{(VE) - (AV3)}{GS} \times 20 \text{ cents}$ VE - value of export sales in basis period AV3- average of export sales for 3 preceding years. GS - gross sales for basis period.</p> |
| PAYROLL TAX | <p>Granted to registered companies exporting more than 20% of the total production of registered products Refund based on the proportion of export turnover to the value of the total turnover of company for the year</p> |

Source: Federal Industrial Development Authority, KL

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