

## CHAPTER VI

### REASONS FOR THE CHANGES IN OWNERSHIP AND CONTROL OF THE TIN DREDGING COMPANIES

There are some explanations as to why the foreigners are not taking such a great interest in the tin dredging companies today. As we have seen, their ownership and control of these companies are declining relatively. And in their place, we find the local population taking a greater interest in the tin mining industry. We have also to try to explain why the Chinese are buying most of the shares and why the Indians and the Malays are holding small amounts of shares in the dredging companies.

The reason why the foreigners were able to have control of the early tin dredging companies was because of the difference in organization between the European and the Chinese Companies. The early Chinese mining companies were called "Kongsis" which could be interpreted as "partnerships". The nature and organization of the "Kongsis" was such that only members of the partner's families, relatives and very close friends could participate in the business. With only a few owners, it was quite obvious that not much capital could be raised. Also, the early Chinese in Malaya were not very rich and even if there was an opportunity to take part in the business, only a few could raise the capital to do so. In contrast to this, we find that the European companies were started and organized in quite a different manner. They were incorporated as Joint-stock or Public Companies. The public at large could buy shares in these companies. There was no discrimination as to the choice of shareholders. A lot of capital could therefore be raised. Moreover, we find that the dredges were rather expensive and only public companies could raise enough capital to buy the dredges. The Chinese "Kongsis" were small. Their capital was also in amount and as such they could not participate in the dredging business. They held on to the gravel pump which was cheaper to construct and operate. And because most of the Chinese in Malaya in the early nineteenth century were poor, the capital of the early dredging companies was raised from the foreigners, particularly among the Europeans. It was no surprise therefore that the ownership and control of the dredging companies were in the hands of the Europeans.

We must not forget, too, that the early nineteenth century was a period of European economic expansion. The Industrial Revolution created a great demand for food and raw materials and some of these could only be obtained from overseas.

The Europeans could negotiate for these goods but in most cases they found good excuses for occupying the territories they wanted. In the case of the tin industry in Malaya, the English occupied Perak because of clan wars between the rival mining "kongsis" of the Chinese.

Even though the early dredging companies were public companies, only a few among the local people could afford to buy any shares. Not even the Chinese who were the richest then could afford to buy shares in great amounts. The Indians were mostly labourers earning something like a day to day living. And most of the Malays had not even heard of money and were ignorant of public enterprises.

But to-day the situation is quite different. The amount European capital appears to be stagnant since the 1950's. In many cases their capital supply is decreasing. Relatively, of course, the ownership and control of the tin dredging companies which were formerly in the hands of the foreigners are now drifting into those of the local population. The position of the foreigners have dropped to a third of their original level.

One reason why the foreigners could have lost interest in the tin mining industry, and especially in the tin dredging companies is the uncertainty of production during the early 1950s. The early dredges produced about 22% of the total production while the Chinese mines produced about 78% (12). This situation continued even through the depression of the 1930s, and the rearmament programme. By 1940, European production had exceeded that of the Chinese by producing 72% of the tin while the Chinese level was brought down to 28%. The Japanese occupation put almost all the dredges out of operation and this caused a lot of pessimism among the shareholders (13). The Malayan government had to supply substantial amounts of loans to rehabilitate the industry. More pessimism was caused by the "Emergency Period" in Malaya. Production was often brought to a standstill and prospecting could not be continued. The Pacific Tin Consolidated Ltd., for instance, often expressed hopes that the emergency would be ended quickly so that production could continue at a more favourable rate (14)

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(12) International Tin Council, Statistical Year Book, 1964. Chapter on Malaya Tin Mining Industry.

(13) Everywhere the Japanese attacked those parts of the administration (and property, too) where the European tradition was strongest.

(14) 1955 Annual Report of the Pacific Tin Consolidated Ltd.

Because of this we find that the European capital stayed more or less at their old level. The mere fact that they did not buy more shares in the tin dredging companies showed pessimism on their part.

At the same time we find some very interesting changes in the share-ownership.

Table 17: Tin Production

<u>YEAR</u>	<u>TONS</u>
1954	31,794
1955	31,649
1956	30,705
1957	28,117
1958	19,890
1959	18,860
1960	28,009
1961	29,627
1962	28,517
1963	27,541

Production began to increase in 1950 and 1951 because the prices suddenly rose. This was due to lack of supply of tin in the world market. The increase in production in the early years of the 1950s can be seen in Table 17. The increased production required more capital and it was during this period that the dredging companies decided to sell more shares in order to raise the necessary capital. Very surprisingly, most of the companies received good responses from the local population. The majority of the paid-up capital came from the local residents, especially the Chinese. They bought most of the newly issued shares and together with the Indians and Malays, increased greatly the share ownership of the local people. This was the beginning of the changes in ownership and control of the tin dredging companies. There are some reasons why by 1950s the local population could afford to buy quite substantial amounts of shares in the tin dredging companies. The standard of living had risen by then. (15).

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(15) National accounts for Malaysia are not yet available. Detailed estimates of national income were available only for Malaya up to 1961. Revised national accounts for Malaya for the years 1957-1961 show a rising trend after 1958 and indicate a definite increase in the standard of living in Malaya during the period. (Bank Negara Annual Report 1964).

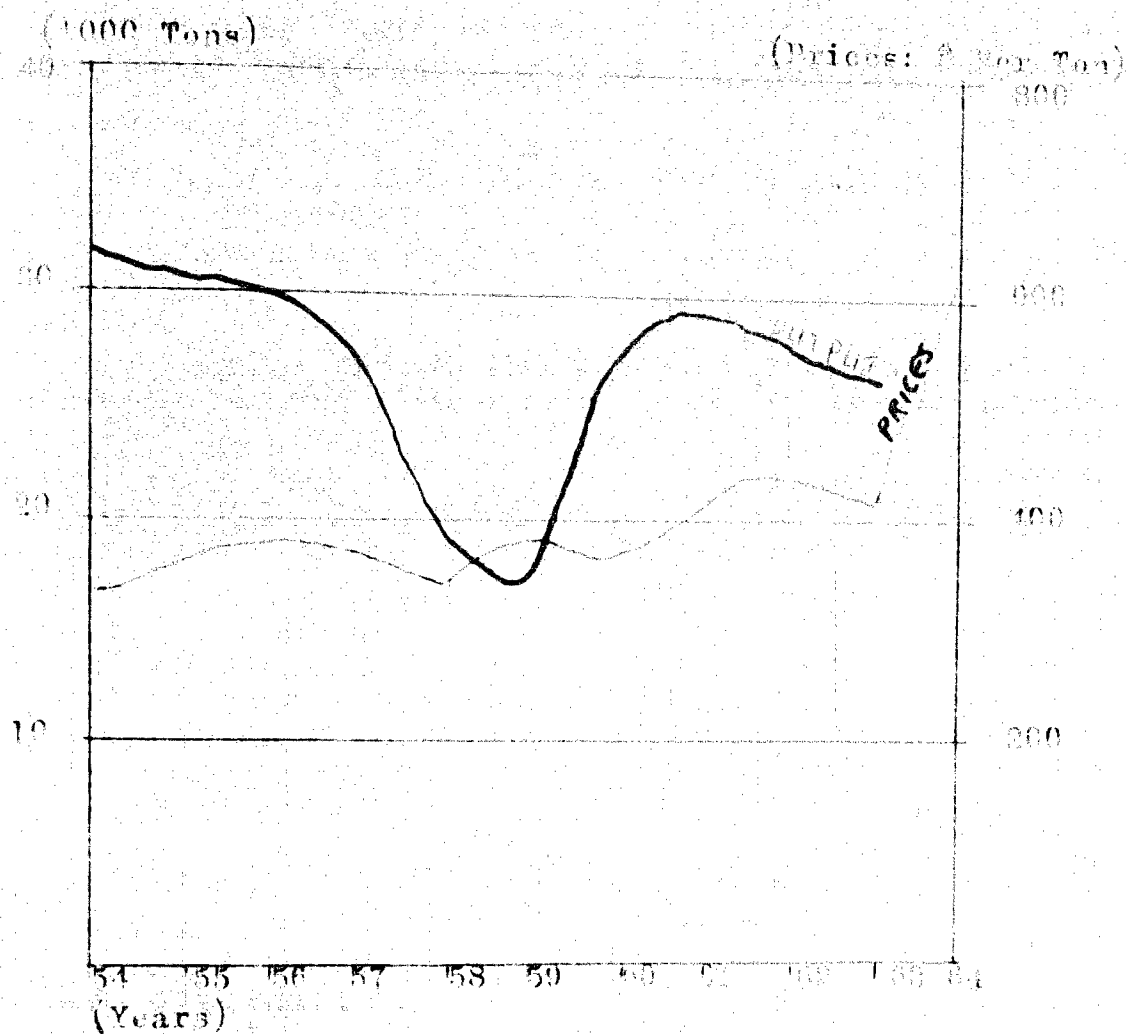
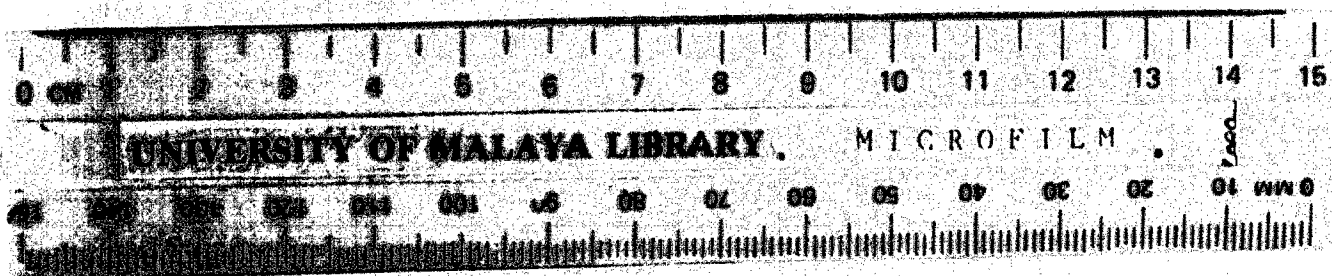


Diagram 1 : Tin Production and Prices



The Chinese in particular became very much better off than the other races. After years of establishing their small businesses in the country they had managed to save up quite a lot of money. Besides sending some of their money back to their homeland in China, they had also began to invest part of it in industries which showed good prospects at that time. (16). The tin industry attracted a lot of their investment. By 1964, their numbers had increased to nearly 10,000.

Firms also began to take a great interest in the tin dredging companies. During the post-war years, the number of firms doing business in Malaya were few. But after the war, they increased and many of them invested a lot of money in the tin dredging companies. But the foreign incorporated firms began to lose interest in the dredging companies because of a period of erratic prices and production.

From Table 18, it can be seen that from 1949 to 1950, there was a rise in the price of tin by nearly 100%. This continued through 1951 when the price rose from \$225.00 to a peak of \$721.00 in 1951. If we remember correctly, this coincided with the Korean War boom and tin was badly needed for the Korean War and the U.S.A. stockpile. But immediately after that, prices dropped back and by 1954 almost back to the 1949 level. The lowest and averages showed pessimism and it was not surprising that the foreign shareholders did not increase their investment in the tin dredging companies. At least, the fluctuating prices discouraged them from investing more than their existing amounts of investment.

The fluctuation in tin prices in the early 1950s can be observed from diagram 1. The period of greatest fluctuations ranges from 1949 to 1952 and from then onwards fluctuations remain small. While these fluctuations created pessimism among the European investors, optimism was created among the local investors. Many among the local population thus began investing in the tin dredging companies.

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(16) At first, they (the Chinese) regarded Malaya as a place in which to make money so as to return home as soon as possible. In the twentieth century, however, there was a growing number of Straits-born Chinese who regarded Malaya as their home. By the time of the Japanese invasion in the Second World War about one third of the Chinese in Malaya had severed all connections with China save for cultural ones. (Quoted from D.G.E. Hall, A History of South-East-Asia) p.664.

Table 18 : Price of Tin, 1949 to 1964

<u>YEAR</u>	<u>HIGHEST</u>	<u>LOWEST</u>	<u>AVERAGE</u>
1940	-	-	-
1941	140.00	131.26	123.92
1942	-	-	135.51
1943	-	-	-
1944	-	-	-
1945	-	-	-
1946	-	-	-
1947	-	-	-
1948	-	-	-
1949	325.63	284.25	294.23
1950	642.00	284.88	366.92
1951	721.63	411.63	526.52
1952	501.00	450.00	480.00
1953	474.38	281.88	363.92
1954	386.00	314.13	353.59
1955	409.25	335.38	365.50
1956	422.88	363.50	387.03
1957	390.62	324.50	373.19
1958	388.00	344.50	360.51
1959	408.75	381.00	396.91
1960	410.25	385.25	393.68
1961	500.00	389.00	446.65
1962	487.00	420.00	447.79
1963	515.88	425.00	455.40
1964	857.50	510.00	618.50

Note:

Tin prices were not available for the years from 1943 to 1948 because of the disruptions caused by the Japanese invasion. Production was stopped.



Incidentally, many among the local population also resorted to planting rubber for the same reason that encouraged others to invest in tin mining. The Chinese especially took advantage of the opportunity when the dredging companies recovered from the depression, the Japanese occupation period and the emergency. (17). The emergency was probably one of the major reasons that discouraged the foreigners from investing more capital in the tin dredging companies. The destruction of the dredges once during the war was enough to make them think twice. It was useless risking good resources under more unsettled conditions.

But from 1957 onwards, there was continuing demand for Malaya's export products - tin and rubber in the world market. (18). Exports amounted to 36,863 tons in 1959 which was 11.6% more than 1958 and 59% more than the post-war period of 1940. In 1959 and 1960, conditions in the international market improved considerably mainly due to unsettled conditions in some of the producing countries. (19) By 1961, the Federation's tin mining industry appeared to have recovered much of its former prosperity. Production stood at 56,028 tons which was 7.8% more than 1960 and 10.1% less than the post-war peak of 1956. (20). In 1962, tin prices began to fall because of U.S. disposal by the General Services Administration. (21) But the situation improved very much in 1963 and 1964 even though Indonesian confrontation was strong. The main reason for this improvement was a sustained demand for the principal export commodities from Malaysia arising from a high level of activity of industrialized activity in the advanced countries.

In general, therefore, the position of tin has been very favourable especially from the post-war period of 1956 till the present time. In response to this, the local people have invested tremendous amounts in the tin dredging companies. This phenomenon has continued to such an extent that by 1964 the share capital of the local investors has exceeded that of the foreigners.

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(17) This was a period when the Communists, after failing to be recognised by the government, resorted to the jungles and started a guerilla warfare against the government. It lasted from 1948 to about 1957.

(18) Bank Negara Annual Report, 1959.

(19) Bank Negara Annual Report, 1960.

(20) Bank Negara Annual Report, 1961.

(21) Bank Negara Annual Report, 1962

Also with regards to prices we should not forget that our tin prices partly depends on the disposal policy of the U.S.A. government. For this reason, the International Tin Council was established in order to try to regulate production and prices. (22). Very often we encounter fluctuations in tin prices and this can cause a lot of pessimism among the shareholders. But for the last ten years the tin prices seem to be staying at more or less \$300 to \$400. In order to maintain more price stability and also to get better prices for tin, the International Tin Council is often negotiating with the General Services Administration for more favourable disposal policies.

We could forward another reason in attempting to explain the stagnant position of foreign investment in the tin dredging companies. The investments of the foreigners have been remaining in the dredging companies, since the companies were started. It can be safely concluded that dividends to the amount of investments have been recovered and it can be also assumed that the foreigners have reached a stage of indifference as to whether they withdraw their capital or not. Since the amounts equal to that of the investments have been recovered, they are prepared to risk the initial investments with the hope of more dividends, but no new investment seems to be forthcoming. For an industry like tin mining, the position of which is determined by the forces of supply and demand, possibly they do not think it worthwhile risking any new investments in such an enterprise. As such, the share capital of the foreigners has remained quite stationary and changes for the last ten years have not been substantial. But the foreign companies especially have withdrawn tremendous amounts of capital from the dredging companies, presumably for better and more prospective opportunities elsewhere.

Another factor which could have caused the decline in the ownership and control of the foreigners in the tin dredging companies is the rise of nationalism in Malaya. During the strive for independence, fears were expressed that there would be nationalisation of major industries in the country. This fear plus the fear of the inability to remit profits could have prevented fresh foreign investment from flowing into the tin mining companies. In fact, some developing countries do not look upon certain kinds of direct foreign investment. Under certain circumstances, land could not be leased to foreign nationals. There were in fact a few companies



which were reserved only for the Malays in Malaya but unfortunately these have all failed. The fears and many other unpleasant practices like double taxation, inability to retire capital etc. have discouraged foreigners from taking a greater interest in certain Malayan industries (not forgetting the tin dredging companies of Malaya) in newly independent and developing countries. The European-owned rubber estates, for example, have been subdivided and sold by the European owners. But in the case of the tin dredging companies, they could not be subdivided and the only way of disposing of it was to sell the shares to the local residents.

Local capital has mainly been raised because of encouragement and assurances by the government. This part played by the government is important in arousing the interest of the people in the economy. As such, we find that the capital raised locally now contribute about 60% of the total investment. The Chinese who could not penetrate into the other private mining companies operated by their fellowmen found an outlet in the public companies, the tin dredging companies. I think it is mainly because of the inability to participate in the private companies that the Chinese finally resorted to the public companies. The standard of living in Malaya is still rising (second highest in Asia) and it is hoped that more people will take interest in the tin dredging companies.

Possibly another reason why foreign investors are not willing to bring their capital to Malaya is that Malaya, like any other developing country, has to compete with the more advanced countries for the offers of the foreign investors. The tin dredging companies of Malaya are not the only opportunities opened to the foreign investors. In fact, many industries in the more advanced countries offer better prospects and less insecurity. The tin dredging companies here are quite fortunate in the sense that the existing capital of the foreigners has not been attracted away somewhere else. But our figures definitely show that the capital is draining away slowly.

Besides competition with countries for capital, I suspect that the tin dredging companies are also competing with local firms for capital. There are many firms which offer better returns than the tin dredging companies. The oil companies (Shell and Esso for instance) are doing very good business and their shares are greatly in demand. It is possible that some capital from the tin dredging companies has drifted into other companies which offer better prospects.

Generally, therefore, we find that the foreigners are slowly losing interest in the tin dredging companies. But we still find that a lot of them are still acting as directors in such companies. An interesting feature is that for the newly started companies (1957 onwards) the directors are mainly local people and the majority of them Chinese. An example would be the Selangor Tin Dredging Company Limited which has all local people as directors. The shares held by Europeans are only 400,00 whilst the Chinese hold the majority of them. It is with reference to this company that we find the little interest shown by the foreigners. In yet another company, the Bindings Tin Dredging Company, we find that the only two shareholders are Chinese. There is no European interest at all.

The slow rise of local domination can also be observed when we note that local persons are sitting on the board of directors of companies once owned and controlled by foreigners. One outstanding person in the tin dredging companies is Yeap Hock Hoe, who has been in the tin mining business for more than a generation.

Finally, with the operation of the tin dredging companies by the local people, we would expect the foreigners to withdraw their capital slowly. Somehow they have more confidence when the companies are operated by their own people. Incidentally, many companies are winding-up because of low production and unfavourable prices. In time to come, we may find the ownership and control of the companies completely taken over by the local people.