

Refereed paper delivered at
Australian Political Studies Association Conference
6 – 9 July 2008
Hilton Hotel, Brisbane, Australia

Developmental State and Chinese Capitalism in Malaysia

LooSee Beh, PhD
Department of Administrative Studies & Politics
Faculty of Economics & Administration
University of Malaya

Abstract

This paper reviews the developmental state and the relationship with Chinese capitalism, ownership, control, competition and collaboration in the country. Chinese capitalism in East and Southeast Asia are naturally more economic rather than socio-cultural or geographical. As such, links and collaboration with the state are very much consolidated upon in economic terms. Competition was not a determining factor then and now especially when they increasingly operate across national boundaries when the state market is saturated and essentially with patronage policy. The relationship between state, identity, and ethnicity and the consequences of economic benefits can be difficult to manage if not well articulated. To begin with, Chinese capitalism cannot take place without pressures from the past and the recognition of the changes and transformation it has transcended with hybridization of native and foreign influences.

Introduction: Nation-State and Developmental State

A state such as Malaysia absent from ethnic neutrality with the exposition of self-defining religious contentions is examined from the perspective of the developmental state. A developmental state is defined as one which promotes long-term entrepreneurial perspectives among the industrial elite comprising key business groups and resists growth-compromising demands from special-interest groups (Johnson, 1982: 1999). Most Asian developmental states are not homogenous and, like the Association of Southeast Asian Nations (ASEAN), have their own political priorities. State-business relations are not forged through industrial policy but through ethnic division of labour in managing politics and economy (Woo-Cumings, 1999). The ethnic dimension in business-government partnerships and relations has gone beyond arm's length industrial policy, abetted by regime durability, extended incumbency and consequent autonomy of the executive. In fact, late industrialization in East Asia has made the region more "state-managed" and Malaysia is no exception. The resulting state control and domination is inevitable to rebalance the ownership equity and create space for government-linked companies (GLCs). In conventional economic theory, the state is often referred to as an important initiator and catalyst of growth and development. There is a tendency to conceive the state as an independent institution that functions in accordance with the decisions of rational decision makers (Martinussen, 2004). In Southeast Asia, relationship between state and business is a result of the elaborate ethnic give-and-take and even protection (Woo-Cumings, 1999).

In political terms, the developmental state concerns political legitimacy, with the economy as a side show where decisive characteristics of the state and/or the mechanisms by which it becomes developmental is established. Johnson's (1982) implicit model of developmental state comprises four elements: a small, elite, top-quality management within the state to select and promote industries and to supervise competition; a political system that oversees such a development approach; market-conforming methods of state intervention; and a "guiding" organization such as the Ministry of International Trade and Industries (MITI), to effect implementation. Implicitly again, economic development is not so much the goal but rather the means for the developmental state. This is similar to Gordon White's (1998) definition of the developmental state as "the deliberate construction of a set of institutions geared towards a clear vision of development under the guidance of a motivated political leadership". Accordingly, the essential feature of the autonomy of the state is the concern with vested interests. In Malaysia, the developmental state has been a negotiated consensus on power and resource sharing, assimilative in its advocacy of language and unity but salient to religions. Nevertheless, the dynamism of such negotiated consensus seems to be waning over the years with the dominance of one party over the others.

The concept of the ethnically identified developmental state contributes several important foci to the debate on politics and economic growth. There are four notable aspects. First, analysts of this concept stress the primacy of politics, as carried out most particularly by the bureaucrats. Second, the bureaucrats concentrate on how economic development can result from a politically constructed project aimed at improving national economic competitiveness; Third, growth need not be (and perhaps never is) the passively generated consequence of multiple and uncoordinated invisible hands. Fourth, the developmental state underscores the ways in which political power, if wielded astutely, can contribute positively and effectively to a nation's economic well-being (Pempel, 1999).

According to Yeung (2006), the state plays a critical role in shaping economic institutions of the developmental state. In Malaysia, it appears that political-economic

alliances based on patron-client relationships have taken precedence over state-driven industrial and business networks in the still developing economy. This preference for political connections is particularly important in the context of the state's ethnic-biased redistributive economic policies through which indigenous capitalists have been given special rights and privileges. An unfortunate outcome is the rise of so-called ersatz capitalism in such economies, a term that refers to the rent-seeking behavior of Chinese capitalists in Southeast Asia through political-economic alliances with dominant ruling elites (Yoshihara, 1988; McVey, 1992; Brown, 2000; Yeung, 1999, 2000). Here, Chinese capitalism is embedded in the political-economic alliances of the host economies. Whereas some ethnic Chinese have consolidated and strengthened their intra-ethnic group networks to overcome hostile business and institutional constraints in the host countries, other more pragmatic Chinese entrepreneurs have engaged in patron-client relationships with indigenous capitalists (see Gomez, 1999; Gomez and Hsiao, 2004). This process of network juxtaposition has resulted in a hybrid network structure comprising both family networks and political-economic alliances. Other Chinese have chosen a response strategy by internationalizing their business operations in other parts of Asia and beyond. In these processes, the Chinese capitalists have once again leveraged their transnational networks of personal and business relationships.

Hereafter, in this article, the Chinese ethnic is referred to the Chinese Malaysian except for those pertaining to the region where it is generic. In Malaysia, the ethnic bargain between the Chinese and Bumiputra elites, popularly operationalized as assimilation and consociation, seeks to legitimize ethnic domination. The ethnic bargain encapsulates the communal settlement in which the Chinese agree not to challenge the Bumiputra political dominance with the *quid pro quo* that they would acquire citizenship rights, continue with the way of life and that their economic dominance would be unaffected. However, ethnic bargains are increasingly inadequate in coping with conflicting needs and aspirations in a globalizing world and the demands of both democratization and marketization (Tan, 2001).

The development of separate identities during the formative years of nation-building has resulted in "ethnic hegemonic states" whereby a single ethnic group takes control of the state and uses its powers to exercise control over others. The ethnic bargain was revised unilaterally by the Malay political elites who believed that inter-ethnic income inequalities and the ethnic division of labour had caused mass discontent against the *status quo*. Since then, coercive consociationalism is practiced with a mix of affirmative action and preferential policy in favour of the indigenous group (Tan, 2001). This is complicated by religious and socio-economic cleavages where religion can be mobilized to garner popular support into the political fray. The results of the recent general election on 8th March 2008 demonstrates that the state no longer commands so much coercive power demonstrating the escalating issues of contention which had not been paid attention to, now alters the equation for the past fifty years.

Table 1 shows a summary of characteristics of developmental state of Malaysia that has actively developed within the institutional and industrial structures, historical legacies and cultural affinity with a significant presence of ethnic Chinese.

Insert Table 1

Ownership and Control of Chinese Capitalism

Numerous scholars have examined the performance of East Asian corporations over the last four decades in Hong Kong, Indonesia, Japan, Korea, Philippines, Taiwan, Thailand, and Singapore. However, their ownership structure and the separation between ownership and control remain largely unknown. Rajeswary Ampalavanar Brown (2000) noted that across Southeast Asia, the economic power of the Chinese far outstrips their population numbers. In Indonesia, Chinese business accounts for 73 per cent of the market capitalization of all listed companies. In addition, the Chinese have major holdings in government and foreign companies operating in Indonesia. In the Philippines, Chinese corporations account for 50 per cent of the market capitalization of listed companies, in Malaysia, 60 per cent, in Singapore, 81 per cent, and in Thailand, 90 per cent.¹ The use of the market capitalization of listed companies as a measure of the economic power of the Chinese in Southeast Asia is not without its difficulties. Firstly, the listing of a company is simply a device to secure additional capital, and therefore may not reflect the economic importance of the company. Secondly, Chinese economic activities are extremely diverse, ranging from itinerant trading in far-flung provinces to corporate dealings in the commercial powerhouses of Asia, Europe, and the United States. Not all these activities will be caught by stock market listings. The Chinese commercial “community” is fractured by family, lineage, dialect, regional and political considerations, making it dangerous to speak of the collective economic power of the Chinese in the Asia-Pacific region (Brown, 2000).

Much of the existing literature on Chinese business has emphasized Chinese culture and ethnicity as the core elements in entrepreneurial success. Attention is directed towards the family, and the culture of risk in entrepreneurship. Within the institutional economists’ literature, the close relationship with the state is emphasized (Yoshihara, 1988; MacIntyre, 1990). Yoshihara (1988) and Robison (1986) saw Chinese capitalists in Southeast Asia as rent-seekers, a capitalist class dependent on the state and foreign capital. During the age of colonialism in Southeast Asia, the Chinese occupied an ambiguous position, as they balanced their own pursuit of wealth with the need to satisfy the colonial state’s demand for revenues. The seventeenth century crisis produced an important divide, in that it eroded the strength and networks of the indigenous trading communities who felt threatened and that fear has continued to determine the relative positions of Chinese and indigenous capitalism in the region through to the present (Brown, 2000: 7). Chinese businessmen were central to economic reconstruction after 1945, import-substitution industrialization, and export-led industrialization from the 1960s and paradoxically, the Chinese rode on the back on strident economic nationalism (Brown, 2000). Among those who have studied on ownership and control of the Malaysian economy are Puthuchery (1960), Mamajiwalla (1968), Yip (1969), Hirschman (1971), Lim (1981) and Claessens et al., (Djankov, & Lang) (2000) and several others such as Sieh Lee Mei-Ling (1978) who have concentrated on certain sectors of the economy in their dissertations.

Puthuchery’s work concluded that the corporate economy, namely the mining, rubber, commercial and manufacturing sectors, is primarily controlled by large business units, with the most important ones being the agency houses and mining agencies and in terms of nationality, British capital was dominant. Eight years later, Mamajiwalla did a study on the ownership and control of a small segment of rubber plantation sector with a sample of about twenty local incorporated rubber companies but excluded the largest rubber companies

¹ Derived from data provided by the stock exchanges in the region for 1994-1998.

where there was a process of transfer of share ownership from foreign to local owners. Yip gave a descriptive account of the tin mining industry in Malaysia with a small section devoted to changes in ownership and control of some twelve locally incorporated tin companies. Similar to Mamjiwalla's study output, he concluded that control of the industry was still largely in the hands of the foreign mining agencies. Hirschman examined the manufacturing sector based on government published statistics of manufacturing companies of 1968. He found that the top 5 per cent of manufacturing companies accounted for 78 per cent of gross value of sales and 74 per cent of value added in the manufacturing sector in 1968.

In 1973, the government published statistics on the ownership of assets in the agricultural and industrial sectors. The statistics revealed in a comprehensive manner for the first time that 70 per cent of the acreage in the corporate agriculture sector and 87 per cent of fixed assets in the corporate industrial sector were foreign owned (Government of Malaysia, 1973:12).

An extensive study by Lim (1981) revealed in detail the ownership structures of the largest 100 corporations in Malaysia. Ownership and control were discussed in the context of stock ownership and control of corporations. Ownership is a concept which implies that the owner of capital has legal rights to the use and disposal of capital as well as the claim over the fruits of capital. Control over a corporation is the capacity to determine the broad policies of the corporation. Control is related to ownership because it is necessary for the owner to have the capacity to determine the use of capital so that it might bring the required rewards. If that capacity is actually exercised, it is actual control. If it is not, it remains as potential control, which is one of the main foci of his study.

Lim (1981) found that a major proportion of the financial assets and productive capacity of the corporate economy was concentrated in a few large corporations and a multitude of companies. The second level of concentration occurred at the level of stock ownership. This too was highly concentrated in the hands of a few institutions and, ultimately a few wealthy families. There were about 100,000 shareholders in Malaysia's 62 large corporations and representing only 0.9 per cent of the total population. The distribution of ownership was therefore highly skewed. Among the shareholders, 797 of the largest or 0.8 per cent of the shareholders in these 62 corporations owned 69 per cent or RM1.4 billion worth of stocks. Within this group, the top 1 per cent owned 29 per cent of the RM1.4 billion, the top 50 per cent owned 97 per cent and the bottom 20 per cent owned only 0.4 per cent. The Gini coefficient for this distribution is 0.847, which means that stock ownership is highly concentrated in a few investors.

The third level of concentration is that of control over these large corporations and effected through a number of mechanisms. Two of the most common and important forms are interlocking stock ownership and interlocking directorates. Interlocking ownership was primarily effected through institutional investors such as corporations, banks, finance companies, nominee and trustee companies, and to a lesser extent through directors who owned large blocks of shares in various companies. Companies with large common owners coalesced to form interest groups. Companies were also connected through the sharing of common directors. There were 121 directors (20 per cent) in these large corporations who held two or more directorships. Graph theory techniques were used to identify the groups that resulted from these interlocking on the basis of directors form cliques and those on the basis of stock ownership and directors form interest groups. Eight major cliques were

identified among the top 100 corporations in Malaysia. They were the Oversea-Chinese Banking Corporation-Sime Darby, the London Tin-Charter Consolidated, the Malayan Banking, the Kuok Brothers, the Pan Malaysia Cement, Harrisons and Crossfield, Lee Loy Seng, and the Sung Chi Fang. It was found that in every corporation for which stock ownership information was available, centres of ownership and control could be identified which consisted of families or interest groups. Lim further concluded that while different sets of elites were found in Malaysia, as in other countries, he showed that the two most important sets of elites, i.e. the economic and political, were neither independent nor acted to countervail the influence of each other. Economics and politics served to complement each other. In the colonial era, the British allowed the Malay elites to enjoy symbolic political power and the Chinese elites to take the position of junior partners in the economic sector. The advent of political independence upset this balance. Having received political power, the Malay elites set about to redress this uneven distribution of economic power. Hence, political power was used to acquire economic power and with it a train of economic conflicts (Lim, 1981).

The literature suggests that the dominance of most business group lies in the privileges that they solicit from the government such as exclusive exporting or importing rights, protection from foreign competition for extensive periods of time, granting of monopoly power in the local market, and procurement of large government contracts. However, such privileges rarely document the precise mechanisms by which the owners are to exercise and extend their control. Comparatively ownership in the majority of Japanese and Korean corporations is found to be widely dispersed, corporations in Hong Kong are predominantly controlled by families, while about half of the sampled companies in Singapore are controlled by the state (Claessens *et al.*, 2000).

A recent study by Claessens, Djankov, and Lang (2000) investigated the separation of ownership and control in 2,980 publicly traded companies in nine East Asian countries (Hong Kong, Indonesia, Japan, South Korea, Malaysia, the Philippines, Singapore, Taiwan, and Thailand). They found that state control is more significant in Malaysia than family control as evidenced in other countries.

The study shows that data are either completely missing, available only on nominee accounts, or cover less than half of the ownership rights. Nominee accounts are especially problematic in Malaysia and Thailand. Of the 66 Malaysian companies that reported either nominee ownership only or a mixture of nominee and direct ownership. Further, the exclusion might under-estimate the importance of nominee-dominated companies. Even the primary source of information, i.e. annual reports of companies, is of little help as the identities of major shareholders are not always revealed. Such information is held only by the Securities and Exchange Commissions and is not publicly available. Hence, the research team could only seek out sources on group affiliation and to identify firms that report nominee accounts in *Worldscope* and the other sources of immediate ownership data in *1998 Asian Company Handbook*, *Datastream International 1998*, and *1997 Company Handbook*. The purpose is to see whether in fact nominee accounts are more common in widely held firms. For instance, the study found that the Arab-Malaysian Development Co. belongs to the A-M Banking Group (Malaysia), which holds 44.5 per cent of ownership. Under this group are Arab-Malaysian Finance and Arab-Malaysian First Property Trust and six other companies listed on the Kuala Lumpur Stock Exchange (now called Bursa Malaysia). Repeating this process for each firm, the study found that 41 of the 66 Malaysian firms belong to family groups. This exercise shows that this situation results against finding more family ownership

and control and when a company is owned by another company whose ultimate owners could not be identified.

Insert Table 2

As shown in Table 2, in terms of ethnic ownership of share capital, although the Malay share has increased from 2.4 per cent in 1970 to nearly 19.1 per cent in 1985, with a further increase of 0.3 per cent in 1998, the Chinese have also increased their share from 27.2 per cent in 1970 to 33.4 per cent in 1985 and 38.5 per cent in 1998. Thereafter, the figures seem to have stabilized.

The World Bank's estimate of the combined economic output of ethnic Chinese outside Mainland China was about US\$400 billion in 1991 and US\$600 billion in 1996 (quoted in Weidenbaum and Hughes, 1996: 25). Through family, clan and dialect ties, they have virtually created a borderless "nation" that generates a GDP only fractionally less than that of Mainland China then. Based on data from local stock exchanges in Southeast Asia between 1994 and 1998, it was estimated that ethnic Chinese business conglomerates accounted for an overwhelming majority of market capitalization with a GDP of 60 per cent in Malaysia as shown in Table 3 (Brown, 2000; *The Economist*, 9-15 March 1996; Yeung, 2006).

Insert Table 3

Table 4 presents statistics of the 83 largest local public companies controlled by ethnic Chinese in 1994. Although the figure might have changed after the 1997-98 Asian economic crisis, it is still very indicative of the significance of ethnic Chinese business. This estimate confirms broadly the 1994 figures in Table 5 and the 1996 figures in Table 6 and demonstrates the enormous corporate and economic power of Chinese families and their ownership of public companies in Malaysia (Yeung, 2006). Assuming the majority of those families reported in Table 6 were ethnic Chinese, the extent of market capitalization and share of GDP accounted for by the top 15 Chinese families in 1996 is impressive. Other estimates also reported that ethnic Chinese controlled up to 40-50 per cent of Malaysia's corporate assets. Focusing only on public companies controlled by ethnic Chinese and their families, these statistics have excluded many more privately controlled Chinese firms throughout Malaysia and the Asian region (Yeung, 2006). The latter part of the chapter will examine the leading Malaysian Chinese capitalists who have built and nurtured painstakingly their businesses over many decades in the country.

Insert Table 4, 5, 6,

Bank Negara Malaysia (Central Bank) statistics indicate that services, mostly in the hands of the non-Bumiputera, had outstripped manufacturing in terms of contribution to GDP since 1997. Invariably, the commanding heights of the public service are in the hands of the Bumiputera with equally respectable representation in the professions. By the first quarter of 2003, services accounted for RM43 billion in comparison with the RM29 billion earned by manufacturing (Balasubramaniam, 2006).

The fact that Malaysia was able to attract foreign capital and through it help the country towards the NEP goals had much to do with the industriousness of the Chinese population in particular and the security umbrella provided by the Americas in the Cold War period (Balasubramaniam, 2006). By far, in Malaysia, Indonesia, Thailand, and the Philippines where ethnic Chinese represent a demographic minority, Chinese family

businesses still represent a large proportion of each country's leading businesses (Carney and Gedajlovic, 2002; Claessens *et al.*, 1999; Shapiro *et al.*, 2003).

More generally, Table 7 shows the participation in the various economic sectors by ethnicity. The active participation of the Chinese in all the sectors is clear. Although it cannot be conclusively proven that the growth of economy is prevalently due to the accumulation of wealth, the ability of Chinese business to survive and thrive is evident.

Insert Table 7

Competition and Collaboration of Chinese Capitalists in Malaysia

The Chinese links with the state, indigenous merchants, local elites and Bumiputera technocrats, have varied from co-opting elites onto the boards of Chinese companies, to raising equity from indigenous sources and government capital, to operating joint ventures with the state and with foreign multinationals. The state function ranges from patron to partner, or investor to executor (Brown, 2000).

The Chinese have developed business models to take advantage of the opportunities afforded them by the retreat of colonial businesses and the institution of nationalistic economic policies and to protect their interests in a business environment characterized by insecurity and bureaucratic "rent-seeking" (McVey, 1992; Carney, 2004). Businesses which were built during the colonial and early independence periods were mainly in the tin and rubber industries. Many entrepreneurs such as H.S. Lee, Low Yat, Lau Pak Khuan and their children were deterred by the requirement to dilute their capital and management base with Malay inputs and hence chose to forsake corporate growth in order to retain complete control and ownership of their businesses (Heng, 1997).

The Chinese entrepreneurs who started before the NEP and grew in size during the period include Tan Sri Robert Kuok Hock Nien (Perlis Plantations, Federal Flour Mills, and Shangri-La Hotels Malaysia), the late Tan Sri Lim Goh Tong (Genting), Quek Leng Chan (Hong Leong Industries and Hume Industries Malaysia) and Tan Sri Loh Boon Siew (Oriental Berhad). Subsequently, a few Chinese tycoons have emerged. These include Tan Sri Wiliam Cheng Heng Jem (Amalgamated Steel Mills), Datuk Loy Hean Heong (MBf Holdings), Tan Sri Khoo Kay Peng (MUI), Tan Sri Vincent Tan Chee Yioun (Berjaya), Lim Thian Kiat (Kamunting), Tan Sri Yeoh Tiong Lay (YTL Corporation), Dick Chan Teik Huat (Metroplex), and Tan Sri Teh Hong Piow (Public Bank).

The business conglomerates controlled by Malaysian Chinese and their networks across the region have propelled the outward movement of firms and capital from their "home" base to form intricate webs of cross-border investments in Asia and beyond. Chinese capitalism has been argued to be a predominant mode of economic organization in Asia that has spearheaded the rapid diffusion of economic activities and intra-regional investment flows among various Asian economies in which ethnic Chinese have significant control in the economic realm (Yeung, 2006).

Most of the Chinese enterprises in Malaysia involved in industries are inextricably intertwined with natural resources such as sugar, palm oil, timber, rice and rubber and with

the manufacturing, construction, banking and telecommunications. Chinese enterprises have yet to make an impact in the advanced technology sector. The technology frontier is at best peripheral to the core business of Chinese firms. Research and development divisions are limited to imitation and to acquiring new technologies through partnerships. Consideration of changes in quality, technological linkages, long-term product development and flexibility of technology assimilation is absent from the decisions made by Chinese multinationals. The issue of technology is crucial as long-term competitiveness is dependent on innovative skills and the creation of technological clusters (Brown, 2000). Chinese entry into this sector in recent decades has been assisted by the flow of information and favourable policy changes, such as the state's reduction of barriers to trade and investment and through privatization initiatives since the late 1980s.]

The entrepreneurs have struggled through their efforts and professional management to expand their operation, to enhance shareholder value, and the infusion of a global perspective to their home-grown business empires. There are also those whose wealth is not clearly evident and hard to quantify. They may not control any listed companies but may be serial investors subtly building up an immense portfolio of assets and real estates and substantial privately-run business enterprises.

Despite the growing volume of literature on Chinese businesses in Malaysia and Southeast Asia, data on the actual assets of Chinese firms are difficult to find. A common approach adopted by many is to examine the stock market value and data compiled by business magazines. Data on non-listed firms will not be available and even those that are listed may not reflect the total wealth as many individuals have private assets and debts that are not publicly known. Despite these limitations, some data on the leading businessmen and corporations in the country may be culled from various sources.

While the law permits the Registrar of Companies access to the Register of Substantial Shareholders of companies and public companies can require substantial shareholders to declare their beneficial interests, the public is left without reasonable means of access to such information except if disclosed in the Annual Reports of companies.

According to the survey, the main measure of estimated wealth is based on the individuals' reported personal stakes in listed companies and private holdings. Cross-holdings and indirect stakes in subsidiaries are not included to avoid double-counting and overstating of wealth. Personal debt is taken into account only if it has been reported or made known in the annual statements. The list is by no means a definitive compendium of the wealthiest in Malaysia. There are many who may be richer, with interests buried in inexplicable webs of companies or nominees which makes tracing difficult. Table 8 shows the summary of the leading 40 Chinese Malaysian capitalists.

Insert Table 8

From the above discussion, Chinese capitalists and their strategies to operate locally and internationally, through sectoral specialization, diversification plans, and control policies are the epitome of the dynamism of Chinese capitalism. These capitalists, like the long and distinguished list of similar entrepreneurs in the past, are the owners, founders, and managers participating actively on a personal capacity and contributing towards the nation's economic activities and growth. Chinese capitalism is still family-oriented in form but increasingly

diverse and hybridized in substance as there is an increase of the role of professional managers in sustaining and transforming the businesses domestically and globally.

Besides the large Chinese conglomerates that have registered rapid growth, there are also the SMEs which have created synergy of economic capability and entrepreneurship. Reliable figures are difficult to obtain and even more difficult on specific Chinese SMEs because they are registered according to the business rather than ethnicity. Estimates may be gauged indirectly from sources such as the lists of Chinese trade guilds and business associations. The Selangor Chinese Chamber of Commerce and Industry has an estimated membership of 2,000, that of the Plastic Manufacturers Association in Malaysia is about 1,600, while the Malaysian furniture industry ranging from small cottage industries to large, integrated producers with their own raw material and wood-processing facilities has 3,000 (*Malaysian Business*, 1 January 2001). It is estimated that 80 per cent of the 200,000 SMEs are Chinese-owned (Lee and Lee, 2003). Table 9 shows the estimated figures of ownership by ethnicity, jointly agreeable by the Associated Chinese Chamber of Commerce and Industries of Malaysia. After all, reliance on Chinese chambers of commerce remained a function of Chinese social relations and timeless essence of Chinese descent, practice, and fortress. Admittedly, some Chinese companies listed on the KLSE may have been omitted in this study, though SMEs undeniably play significant roles in the national economy.

Insert Table 9

While business strategies are important, though not absolutely so, victories and losses may also often depend on local conditions and the political battleground. In the context of the changing conditions of globalization reflecting the reality of the market, an amalgamation of social and economic practices within the realm of deliberation and control of policy forces challenges the conventional thoughts on Chinese capitalism of ownership structures given the tensions generated from time to time, it is understandable that changes of adaptation do take its due course.

Studies by Jesudason (1989) and Yoshihara (1988) argue that discrimination against Chinese has been responsible for the nature of much development policy and the problems of growth and industrialization, in Malaysia and much of Southeast Asia. Ethnic redistribution goals of the NEP have influenced the nature and quality of state interventions and the role of the public sector and how a bargain is mapped from time to time to protect interests. It is even argued that the politically dominant indigenous ethnic elites have emphasized inter-ethnic economic distribution at the expense of other priorities (Jomo, 2005). Considering the conditions in which they operate and the business strategies adopted, it is no surprise that Chinese capitalists are engaged in economic cum political spectrum resulting in the support of the Malaysian Chinese Association's (MCA) call for Chinese to overlook narrow clan divisions and instead participate in corporatization and privatization (Gomez et al., 2004). This involved structural reforms from growing state intervention and in mapping the bargain of the developmental state instead it entailed strengthening ethnic compartmentalization, when the thrust is to reduce it, posits a trade-off between racial economic balance and national unity, supposedly mutually exclusive and supportive.

Concluding Remarks

Malaysians are repeatedly reminded to build on the commonalities that bind them together as a nation and to celebrate the differences between them so that the much acclaimed objective of “unity in diversity” would be imbued with real meaning.

Undoubtedly, though the New Economic Policy is unpopular particularly among the non-Bumiputeras due to the generally acknowledged leakages in its implementation but many have made the synergic connection between the public and private partnerships in competition and collaboration. With this caveat in mind, it is necessary that hybrid forms of Chinese capitalism, albeit continuously evolving in the national and international contexts, a nation-state that is not branded effectively will experience indifference with its various stakeholders. It is important to realize ethnic heterogeneity has been an asset for economic development during the past fifty years of independence and will continue to be so in the future as the nation reconfigures its economy that will be more resilient and dynamic.

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Table 1: Institutional and Industrial Structures of the Developmental State of Malaysia

Characteristics	Developmental State of Malaysia
<i>Institutional structures</i>	
Political institutions	<ul style="list-style-type: none"> • Social democracy: domination of UMNO party • Weak bureaucracy • Ethnicity-biased political system • Constitutional monarchy • Member of APEC and ASEAN
Economic institutions	<ul style="list-style-type: none"> • Economic organization based on ethnicity • State involvement in Bumiputra firms • Strong patron-client relationships • Certain domestic markets nationalized: petroleum and automobile • Limited labour movements
Dominant economic ideology	<ul style="list-style-type: none"> • Ethnicity-biased developmentalism
Changes since the 1990s	<ul style="list-style-type: none"> • Large-scale state projects, e.g. Multimedia Super Corridor • More opening of the economy to FDI • Emergence as a major manufacturing centre in some industries, e.g. electronics • Badly hurt by the 1997-98 crisis due to large domestic debt
<i>Industrial structures and firm strategies</i>	
Direct investment	<ul style="list-style-type: none"> • Limited outward FDI by ethnic Chinese • Large inward FDI among LDCs; historical influence of UK and recent favour of Japan.
Intra-firm trade	<ul style="list-style-type: none"> • Large among foreign-controlled regional production networks
R & D	<ul style="list-style-type: none"> • Low, but recent growth
Corporate Governance	<ul style="list-style-type: none"> • State/bumiputra firms: important role of ethnicity and political connections
Corporate financing	<ul style="list-style-type: none"> • Chinese firms: control within family members and constrained by family ideology
Industrial structure	<ul style="list-style-type: none"> • State/bumiputra firms: reliance on government projects and funding • Chinese firms: reliance on family sources and capital markets • High price sensitivity • Domination of Chinese firms in SMEs

- National firms in strategic sectors
- Reliance on labour-intensive industries
- Large presence of the agricultural sector in certain commodities, eg. palm oil and rubber
- Saturated labour markets

Source: Adapted from Yeung (2006); Yeung did not use the term ‘developmental state’.

Table 2: Malaysia: Ownership of Share Capital (at par value) of Limited Companies (percentages)

Year	Total Value (Ringgit million)	Malaysian Residents Malays/Bumiputras Individual Total	Trustees	Nominee Companies	Chinese	Others	Total	Foreign Residents
1971	5329.2	2.6 4.3	1.7	6	27.2	0.8	38.3	61.7
1980	32420.4	4.3 12.4	8.1	N/A	N/A	40.1	52.5	47.5
1985	77964.4	11.7 19.1	7.4	7.2	33.4	14.3	74.0	26.0
1990	108377.4	14.1 19.2	5.1	8.5	45.5	1.4	74.6	25.4
1995	179792	18.6 20.6	2.0	8.3	40.9	2.5	72.3	27.7
1998	294576	17.7 19.4	1.7	7.1	38.5	3.2	68.2	31.8
2000	332417.6	17.2 18.9	1.7	8.5	38.9	2.4	68.7	31.3
2002	390821.6	17.1 18.7	1.6	9.2	40.9	2.3	71.1	28.9
2004	529768.7	17.2 18.9	1.7	8.0	39.0	1.6	67.5	32.5

Notes: 1. Individuals includes institutions such as Amanah Saham MARA, Tabung Haji, Cooperatives.

2. Shares held by MARA, PERNAS, UDA, SECs, FIMA, Bank Bumiputra.

3. Excludes shares held by Federal, State, and Local Governments.

4. N/A – Not available.

Source: Malaysian Plans, various volumes, Lee (2000).

Table 3: Ethnic Chinese Contributions to GDP in Malaysia, 1995

Population (million)	Total population (%)	Contributions to GDP (US\$billion)	Total GDP (%)
6	32	48	60

Sources: Adapted from *The Economist* (9-15 March, 1996:12); Yeung (2006).

Table 4: Financial Statistics of the 500 Largest Public Companies in Malaysia Controlled by Ethnic Chinese, 1994

No. of companies	Market capitalization (US\$billion)	Total assets (US\$billion)
83	55	49

Sources: Yeung (2006); Weidenbaum & Hughes (1996).

Adapted from

Table 5: Control of Publicly-traded Companies in Malaysia, 1996 (per cent)

Number of corporations in sample	Widely held corporations	Corporations with ultimate owner			
		Family	State	Widely held financial institution	Widely held corporation
238	16.2	42.6	34.8	1.1	5.3

Note: Weighted by market capitalization
Source: Claessens *et al.*, (1999).

Table 6: Family Ownership of Publicly-listed Firms and GDP in Malaysia, 1996

Year of stock exchange establishment	Total no. of listed firms	Market capital (US\$millions)	No. of sample firms (% of total)	Share of market capital (%)	% owned by families (20% cut-off)	Family control weight by market capital (%)	Total market capital by top 5 families (%)	Total market capital by top 15 families (%)	Share of GDP by top 15 families (%)
1964	621	307,179	238 (38.3)	74	67.2	42.6	17.3	28.3	76.2

Source: Claessens *et al.*, (2000); Carney (2004); Yeung (2006)

Table 7: Economic Sector Participation by Ethnicity, 1998

Sector	Bumiputera	Chinese	Indian	Others	Total
Agriculture	12.2	57.9	0.9	29.0	100
Mining	14.1	45.6	0.1	40.2	100
Manufacturing	8.7	52.6	1.0	37.7	100
Electricity, Gas, Water	22.3	39.6	1.3	36.8	100
Construction	25.1	54.9	1.0	19.0	100
Retail and Wholesale	18.3	57.9	1.6	22.2	100
Transport	29.0	42.7	2.2	26.1	100
Finance	16.8	52.8	1.9	28.5	100
Others	29.0	49.7	2.1	19.2	100

Source: Lee & Lee (2003), compiled from figures from the Economic Planning Unit, Malaysia.

Note: "Others" include foreign, joint companies of Malays and non-Malays, and others.

Table 8: Leading Malaysian Chinese Capitalists, 2007 & 2008

Current Ranking	Previous Ranking	Chinese Capitalists	Current Wealth As at Jan 18 2008 RM million	Previous Wealth As at Jan 19 2007 RM million	Flagship
1	1	Robert Kuok Hock Nien	58,110.00	32,400.00	Kerry Group/Kuok Group
3	6	Tan Sri Datuk Lee Shin Cheng	14,943.00	6,620.00	IOI Group
4	3	Tan Sri Quek Leng Chan	11,098.05	10,300.00	Hong Leong Group
6	5	Tan Sri Datuk Teh Hong Piow	8,060.00	7,554.32	Public Bank
7	9	Tan Sri Tiong Hiew King	3,870.00	2,420.27	Rimbunan Hijau
8	12	Tan Sri Vincent Tan	3,408.86	1,120.00	Berjaya Group
9	8	Tan Sri Lim Kok Thay	3,168.32	2,600.00	Genting Group
11	14	Datuk Lee Yeow Chor	2,333.00	1,030.00	IOI Group
12	15	Lee Yeow Seng	2,297.00	1,020.00	IOI Group
13	10	Tan Sri Yeoh Tiong Lay	1,747.00	1,551.86	YTL Group
14	New	Ong Beng Seng	1,738.00	-	Hotel Proeprties Ltd
15	21	Tan Sri Jeffrey Cheah Fook Ling	1,493.00	686.54	Sunway Group
16	13	Datuk Yaw Teck Seng	1,390.70	1,080.00	Samling Group
17	35	Datuk Seri Lee Oi Hian	1,304.00	431.81	Batu Kawan
18	34	Datuk Lee Hau Hian	1,301.00	432.00	Batu Kawan
19	16	Tan Sri Francis Yeoh Sock Ping	993.33	936.84	YTL Group
21	17	Datuk Yeoh Seok Hong	883.71	837.69	YTL Group
22	18	Datuk Yeoh Seok Kian	881.58	836.34	YTL Group
23	19	Datuk Michael Yeoh Sock Siong	878.85	832.88	YTL Group
24	20	Datuk Mark Yeoh Seok Kah	862.97	819.61	YTL Group
27	11	Tan Sri Dr Lim Wee Chai	787.25	1,161.17	Top Glove Corp
28	24	Tan Sri Kua Sian	750.97	617.35	Kurnia Asia

29	27	Kooi Puan Sri Chong Chook Yew	713.73	562.50	Selangor Properties
30	New	Datuk Tony Tiah Thee Kian	678.00	-	TA Enterprise
31	31	Datuk Tan Chin Nam	619.92	463.00	Tan & Tan
34	New	Datuk Seri Panglima Lau Cho Kun	533.60	-	Gek Poh Holdings
35	New	Datuk Lin Yun Ling	532.70	308.22	Gamuda
36	New	Datuk Seri Liew Kee Sin	527.90	-	SP Setia
37	37	Ong Leong Huat	500.37	423.31	OSK Holdings
40	New	Kwan Ngen Chung	401.28	-	Kwantas Corp

Note: Omitted in the top 40 rankings are other ethnics.

Source: Malaysian Business, February 16, 2008

Table 9: Estimate of SME Ownership by Ethnicity

Paid-Up Capital (RM)	Bumiputera	Chinese	Indian	Others	Total
10,000 and below	23.7	57.1	2.3	16.9	100
10,000 – 100,000	25.7	55.0	1.9	17.4	100
100,001 – 2.5 million	13.9	52.9	1.1	32.1	100
2.51 million – 10 million	6.8	18.5	0.7	74.0	100
More than 10 million	2.8	6.5	0.1	90.6	100

“Others” include foreign, joint companies of Malays and non-Malays, and others

Source: Lee & Lee (2003) and compilation from Economic Planning Unit, Malaysia