

The Maneuver Capability of Malaysian Chinese Business During The Era of New Economic Policy

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Abstract

The Chinese business in Malaysia during the era of the NEP (New Economic Policy) was able to translate their business momentum into a consistent and competitive performance thereby making it possible to continue to lead the domestic business environment despite the many challenges posed by the NEP. This study employed the Structure, Conduct and Performance (SCP) model approach in assessing the performance of the Chinese business especially in the transformation of business structure, strategy, innovation and achievement. This study is a historical study conducted through primary source-based business documents and archival sources. As a result, the study discovered that the business strategy used, particularly the maneuver capability factors in Chinese-owned companies. Business diversification methods were common strategies applied by the Chinese enterprises to increase the number of firm size during the period of the implementation of NEP era. The companies responded to the government's call in opening up the ownership of shares for the Malay-Bumiputera investors without affecting their performance. Innovation to the preservation of Chinese-owned businesses in the era of NEP indicates that the companies practiced merger and acquisition as well as in strengthening research and development in the company. Overall, the SCP model used has proved that the dynamics of the company's business in the Chinese business based on the concept of maneuver allowed Chinese owned companies not only to survive, but to compete successfully and expand tremendously during the NEP era.

Keywords: Chinese business, New Economic Policy, Structure, Conduct and Performance, maneuver

1. Introduction

The Chinese first came to Peninsula Malaya around 1400, but the Chinese settlement in peninsula Malaya was not significant until the early 19th century. The Chinese immigration to Malaya was largely due to several factors such as the agrarian problems, overpopulation, natural calamities and landlord exploitation. As for the pull factors, they were mainly derived from western expansion in east following the Industrial revolution in Europe, the growth of southeast Asia markets and the increasing demand for labour in tin mines and various kinds of plantations.

The Chinese immigration in the 19th century beginnings of Chinese labour on a large scale in Malaya, rests upon two interconnected foundations. Firstly, the occupation by the British of Penang, Singapore and Malacca and the subsequent expansion of British protection to the Malay States; second, the development of tin mining in the Malay States. [1]. By 1860 the Chinese population of the Straits Settlements had grown to 100,000 and there were many thousands more in the States. [2].

A number of Chinese migrants migrated to Penang and Singapore as these two cities emerged as major trading centres, while increased tin mining in the western states of the peninsula augmented demand for labour. Most of these Chinese migrants were from southern China, and comprised members of various dialect groups, particularly the Hokkiens, Cantonese, Hakkas, Hainanese and Teochew. [3].

2. A Brief on Chinese Commercial Activities

The Chinese were actively involved in commercial agriculture, especially sugar and tapioca, in the 19th century. The former was planted mainly in Province Wellesley and Perak in the north of Malaya, while the latter was concentrated in the western part of the Peninsula, including the states of Malacca and Negri Sembilan. Chinese sugar planters had settled in Batu Kawan prior to the cession of Province Wellesley to the British in 1800. They opened up sugar estates in the mangrove-covered land and later extended the activity to Bukit Tambun. The industry gained a firm foothold and began to expand during the 1820s and 1830s. [4]. The majority of the Chinese sugar planters were Teochews. In the 19th century Malaya also traced the growth of pepper and gambier plantations early in Singapore and later in Johore under the kangchu system. [5]. In Singapore the planting of gambier and pepper was entirely in the hands of the Chinese; and almost 90 per cent of the plantations were controlled by a single Chinese dialect group, the Teochews. Many of the planters became rich and powerful in the Chinese society. The Chinese planters adopted the shifting method of cultivation which promised quick return. Besides commercial agriculture, the Chinese economic activities in the 19th century covered tin mining. Tin was discovered in Malaya by Long Jaafar, the Malay ruler of Perak, in Larut in 1848. The extension of British power over the Malay States following the Pangkor Treaty in 1874 saw a great increase in the number of Chinese. During the British administration in Malaya, the Chinese had managed to maintain control over the tin mining

sector as they were able to mobilize labour from China to work the mines, until the British introduced more sophisticated mining techniques that were less labour intensive. Before the British intervention in Malaya, the development of the mining industry came from the European and Chinese capitalists in the Straits Settlements. Chinese capitalists such as Chee Yam Chuan, See Boon Tiong, Si Food Kee, and Yeo Hood Ing came principally from Malacca. They made their wealth in trade, real estate, opium and liquor farms, and accumulated enormous capital for reinvestment. Many of them regarded tin mining as one of the big business enterprises and a potentially important source of wealth. They were actively involved in opening up tin mines in Selangor and Negri Sembilan. [6]. The Chinese Capitan the early 1880's had the largest and richest mines. Capitan Yap Ah Loy, being a pioneer miner, had a total of 411 acres of mining land and also became the first Chinese to institute on his mine a steam-engine. [7]. In the 20th century Malaya, the most important economic change affecting the Chinese business community in Malaya was the rise of the rubber industry. The commercial planting of rubber began prior to 1900. Rubber was an indispensable raw material for the fast growing new industries. It helped transform the economy of Malaya and some of the Chinese community played a major role in the production. For example in 1896, Tan Chay Yan, planted 16.2 hectares of rubber at Bukit Lintang, northeast of Malacca and further developed more than 810 hectares in Bukit Asaham, Malacca into a rubber plantation. [8]

In mid of 20th century Malaya, many of the Chinese owners of large plantation companies who started as rubber dealers, millers, and exporters of smallholder produce subsequently turned to plantation ownership. The most outstanding Chinese in the rubber industry was Lee Kong Chian, a Singaporean, who owned fifteen rubber milling factories and controlled about 18,500 acres of rubber in 1953. The Tan family, who came from the Baba community in Malacca, were also prominent rubber owners. Tan Cheng Lock was also a director of Sime Darby, representing one of the few instances of collaboration between Western and Asian interests. [9]. The period between 1901 and 1941 saw the rise of Chinese commercial banking. [10] Large Chinese businessmen also diversified into banking or it served as a useful platform to get more funds and widen existing businesses. Some of the men mentioned were deeply involved in setting up or running banks in the colonial era. [11]. Tan Cheng Lock was associated with the Ho Hong Bank [12,13,14,15]. These banks did their business principally with the Chinese community and, more specifically, with particular clan groups since the banks themselves were founded and run by people of distinct clans. These Chinese banks played an important role in strengthening the position of Chinese traders. By providing credit and financial guarantees, Chinese importers could get their consignments direct from Europe rather than through the agency houses and close connections with the European producers. A characteristic of these early Chinese banks was their close ties with Chinese dialect communities. This was clearly reflected in the founding of two Kwong Yik banks and the Lee Wah bank by the Cantonese group, the Sze Hai Tong Bank by the Teochew group, and the Ho Hong Bank and the Overseas Chinese Banking Corporation by the Hokkiens. This close connection suggests that these banks were intended to serve primarily the interests of a particular dialect group.

3. Towards the NEP Period

Yet during the *laissez faire* post independent Malaya, the Chinese business community gained freedom in business activities and became compradors and business tycoons. For example; some of the big name of Chinese businessmen like Lim Goh Tong, who was a major resort and casino developer, sold foodstuffs during the Japanese occupation. He then set up a scrap iron shop, and from buying and selling used mining machinery developed a profitable business in hardware; this experience allowed him to

enter construction in a big way in the 1950s. Penang's tycoon, Loh Boon Siew was a property developer and holder of the Honda franchise, started out as a mechanic, and saved enough to establish the Penang Yellow Bus Company in 1941. He later diversified into real estate and property development. [16]. When Malaysia became independent from Britain in 1957, compromises between the top ethnic leaders resulted in a relatively *laissez faire* economic framework between 1957 and 1969. There was comparatively little state interference in the operations of the Chinese and foreign business groups. However, the May 1969 general election results were also significant as it led to the end of a relatively *laissez-faire* economic system favoured by the Chinese enterprises. This change to the economic system was justified as a response to the factors that contributed to the race riots that erupted soon after the general election.

Since the racial turmoil was partly ascribed to the inequitable distribution of wealth among the Malays and the Chinese, the government introduced the New Economic Policy (NEP) in 1970, an ambitious twenty-year social engineering plan to achieve national unity.

In 1957 to 1969 the economic policy implemented by the government was basically *laissez faire* in nature. Under conditions of free enterprise the Chinese community performed remarkably well that they were able to increase their equity share of the national corporate wealth up to 22.8 percent in 1969. However the Malay share in 1969 was a mere 1.5 percent. This state of affairs caused great dissatisfaction within the Malay community and may be said to be one of the underlying causes of the May 13 racial riots of 1969. To redress the alarming inequality, the government introduced the New Economic Policy (NEP) in 1971. However the Chinese business community perceived the NEP as disadvantages to their business activities. Despite the disadvantages and difficulties during the NEP period 1971-1990, the Chinese business community increased their share of corporate wealth from 23 percent in 1969 to 45 percent in 1990. The focus of the study therefore is to try and explain how the Chinese business community was able to increase their share of corporate equity during the period of New Economic Policy also called the affirmative action. On an overall basis, the study examines the economic performance of the Chinese business community during the NEP based on business innovations and the organizational changes undertaken by the community to adapt to the circumstances and infact perform better than expected. It was widely anticipated that the introduction of the New Economic Policy (NEP) in 1971 would likely undermine the performance of Chinese business community due to the policy's inherent limitations. Nonetheless, against all expectations, Chinese business community at large did perform outstandingly well by 1990. The problem statement therefore is how and why this community continued to perform so well despite confronted with the limitations and challenges brought about by the NEP. The Structure, Conduct and Performance (SCP) model approach is employed in the study to assess the performance of companies when transforming their business structure, strategy, innovation and achievement. A business strategy, sometimes termed competitive strategy or simply strategy, A business strategy includes a determination of the product market in which the business is to compete, the level of investment, the functional area strategies needed to compete in the selected product market, the strategic assets or competencies that underlie the strategy and provide the sustainable competitive advantage, the allocation of resources over the business units, the development of synergistic effects across the businesses-the creation of value by having business units that support and complement each other. [17].

Strategy as an area of management is concerned with the general direction and long-term policy of the enterprise as distinct from short-term tactics and day-to-day operations. Hence the strategy of a business may be defined as its long-term objectives and the general means by which it intends to achieve them. An important feature of business strategy is the need to consider the reactions of

others to any initiative taken by the firm, particularly the reactions of its competitors, but also of bodies such as trade unions, national and local governments and regulating agencies. [18]. In the findings based on SCP model, the business diversification methods were the most common forms of strategies employed by the Chinese companies to increase the number and size of firm. These companies also responded to the government's call of opening up the ownership of shares to the Malay-Bumiputera investors without affecting their performance. Innovation aimed at retaining Chinese-owned business was illustrated through corporate merging and acquisition, as well as strengthening research and development area. This study is of significant in evaluating business management approach adopted by the Chinese-owned companies which was consistent and competitive despite the many challenges posed by the NEP. The significance of this study demonstrates that the rapid expansion of Chinese business during the NEP period was due to internal dynamics and innovation rather than government patronage and this model may be used by others for successful business expansion.

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