Kinta Kellas, however, marked his comeback on the local corporate scene. He was appointed chairman of Kinta Kellas in August 1988 and held the post until September 1989, when he sold his stake in the company (*The Star*, 5/4/91). In 1991, Ahmad Sebi was also involved in the takeover of another quoted company, Batu Lintang Rubber Company Bhd.[57]

Soon after Ahmad Sebi left Kinta Kellas, a major 29.84 per cent stake in the company was acquired by Raabnik, which in turn was controlled by former UEM managing director, Ismail Rashid and Mohd Zaid Ibrahim, an UMNO lawyer who had been acting as solicitor for UEM (*The Star*, 5/10/89).

Raabnik, an investment holding company, was incorporated on 10 April 1989; around a month later, Zaid and Ismail were the two shareholders and directors of the company.[58] In June 1990, Raabnik declared losses amounting to RM1.23 million which it had to shoulder together with RM8.6 million in outstanding loans; the company also had quoted investments worth RM8.89 million which had a market value of RM22.4 million. By 1991, Ismail had become the sole shareholder of the company's RM1 million paid-up capital; Raabnik's investments were down to RM3.4 million and the company had made a capital gain of RM9.7 million from the sale of its investments.

In November 1989, two months after its takeover by Raabnik, Kinta Kellas acquired UEM's wholly-owned subsidiary, Pengurusan Lebuhraya Bhd, in a reverse takeover. Pengurusan Lebuhraya, which had a paid-up capital of RM5 million, was purchased for RM190.119 million; the acquisition was satisfied through the issue of 152.1 million new Kinta Kellas shares of 25 pence each valued at RM1.25 each. This gave UEM a massive 96.02 per cent stake in Kinta Kellas' enlarged capital of 158.4 million shares. To retain Kinta Kellas' listing status, UEM made an offer to sell 33.3 million Kinta Kellas shares to the minority shareholders of both UEM and Kinta Kellas. Despite the sale, UEM's stake in Kinta Kellas still amounted to a substantial 75 per cent (*The Star*, 30/11/90).

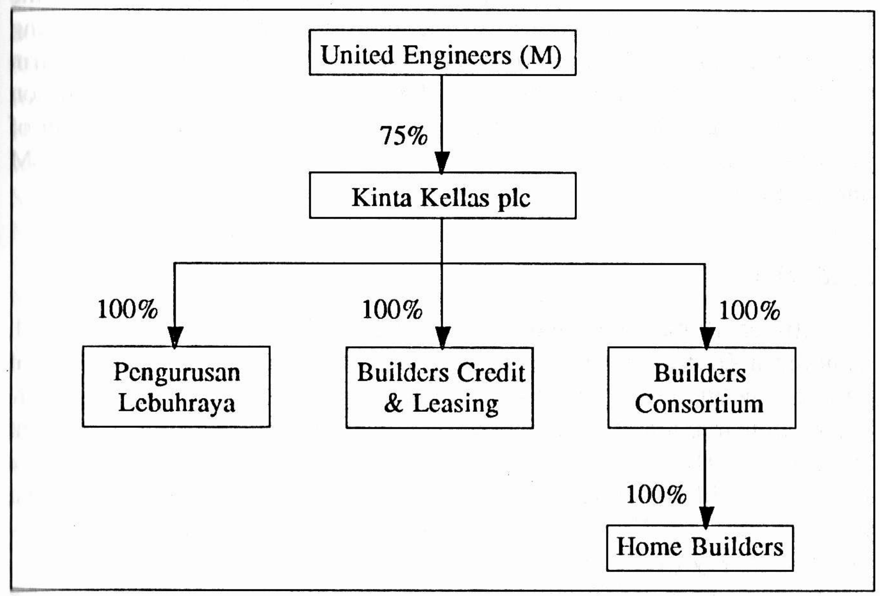
In July 1990, Halim Saad was appointed chairman of Kinta Kellas; he, however, relinquished the post to veteran UMNO politician, Tengku Ahmad Rithaudeen, in December 1990, after the latter lost his ministerial post following his defeat in the October 1990 General Elections. Halim was re-designated executive vice-chairman. Meanwhile, although Raabnik had reduced its stake in Kinta Kellas, Ismail still remained a director of the listed company (*The Star*, 5/4/91).

Pengurusan Lebuhraya was incorporated by UEM to undertake the project management of the North-South Highway; on 20 October 1988, it

entered into a seven year project management agreement with PLUS (*NST*, 8/11/89). UEM also appointed the company to prepare the feasibility studies for the second causeway between Malaysia and Singapore and the land reclamation project in Penang. Since Pengurusan Lebuhraya has a written understanding that it will serve as project managers for all projects that UEM will undertake, the company is the main cash generating entity in the Kinta Kellas Group (*The Star*, 5/4/91). In fact, within a year of its incorporation, Pengurusan Lebuhraya had grown to become Malaysia's largest project management company (*NST*, 8/11/89).

Meanwhile a host of other major consultancy and project management projects have been lined-up for Kinta Kellas. After the announcement by Prime Minister Mahathir of the government's decision to construct a new multi-billion ringgit international airport, Kinta Kellas disclosed that it had, on the invitation of the government, submitted a proposal to provide project management services for the construction of the airport (*NST*, 12/5/93). In July 1993, Kinta Kellas also revealed that it had presented a proposal for the government's privatised commercial vehicle inspection system (*The Star*, 29/7/93).

FIGURE 3.7
Corporate Structure of Kinta Kellas in Mid-1991



Source: KLSE Annual Companies Handbook, 1991: 199.

By July 1991, UEM was still the largest single shareholder of Kinta Kellas, with a hefty 74.99 per cent stake (*KLSE Annual Companies Handbook*, 1991: 199). See Figure 3.7 for Kinta Kellas' corporate structure in mid-1991.

3.3.5: Acquisition of Ho Hup Construction

Another notable acquisition by UEM was that of a 50 per cent stake in Ho Hup Construction Bhd, a civil engineering and construction firm. In September 1991, when Ho Hup Construction was listed on the KLSE, UEM's stake in the company was reduced to 37.5 per cent, making it the single largest shareholder (*Business Times*, 12/9/91).

As in the case of several other companies acquired by UEM, Ho Hup Construction was awarded a number of major contracts by PLUS. In March 1990, Ho Hup Construction was assigned a RM136 million contract to build the Sg. Selangor-Tanjung Malim stretch of the North-South Highway; in November 1990, the construction company received the RM38 million contract to improve the North Klang Straits bypass exchange; and in June 1991, the company obtained a RM140 million contract for the construction of the Sungkai-Slim River portion of the North-South Highway project (*NST*, 10/9/91). Later, Ho Hup Construction was also awarded the RM70 million contract to construct the 12 kilometer stretch from Pehrang to Tanjung Malim (*The Star*, 20/5/92). In late 1991, the construction firm obtained a RM118 million contract, which was part of the RM830 million Sungei Selangor Water Supply Scheme (*NST*, 10/9/91). The chairman of Ho Hup Construction is Anuar Othman, who is also a director of UEM and Renong.

3.3.6: Other UEM Acquisitions

In October 1990, UEM and its 50 per cent subsidiary, Pati Sdn Bhd, acquired a 60 per cent stake in Mudajaya Construction Sdn Bhd, a civil engineering and construction concern, from publicly-listed IJM Engineering & Construction Bhd (IJM) (*NST*, 1/11/90). IJM owns a 70 per cent stake in the IJM-Hassan Mat joint-venture which had been awarded a RM103.76 million contract in October 1988 by PLUS to construct the first phase of the New Klang Valley Expressway (NKVE), part of the North-South Highway (*NST*, 11/10/88).

In November 1990, UEM also moved into the oil and gas industry when it received a RM40 million drilling contract from Esso Production Malaysia Inc. The contract was to be undertaken by UEM's subsidiary, Petcon Sdn Bhd (*The Star*, 1/11/90).

Another area that UEM moved into was the long-haul transportation business, teaming up with Hume Industries and Seino Transportation Co Ltd, Japan's largest trucking company, to form United-Seino Transportation (M) Sdn Bhd (UST) in April 1991. UEM obtained a 50 per cent stake in UST, while the rest of the equity was divided equally between the two other companies. Hume Industries was then the main supplier of construction material to PLUS for the building of the highway project (*NST*, 1/4/91).

The study on Hatibudi Nominees' development since its acquisition into UEM indicates that there has been a concerted attempt to corner the construction market. The takeover of various construction-related companies, for example, Time Engineering, CIMA, Ho Hup Construction, and Mudajaya suggests that moves are also being made to keep the rents accruing from projects obtained from the government within the UEM Group. Thus, by sub-contracting supplies and construction projects to its subsidiaries and associate companies, profits can be retained within the Group.

3.4: Waspavest Sdn Bhd

Although one of UMNO's more obscure holding companies, Waspavest, formerly known as Halimtan, has been a major corporate owner and player. Incorporated on 17 August 1982, Waspavest's original directors were Halim Saad and Daniel Tan See San, the brother of Vincent Tan See Yin, who was closely connected with the Melewar Group controlled by Negeri Sembilan royalty. Daniel Tan resigned as director of Waspavest on 23 March 1983, while Halim resigned on 26 December 1986; his replacement was Mohamed Rahmat, current UMNO Secretary-General and Information Minister. Mohamed Rahmat remained a director of Waspavest until 15 June 1987, soon after his ministerial appointment, and was replaced by Mohd Rusland Abdul Saham. Two weeks later, Mohd Rusland and Shah Abu Mansur were listed as the main shareholders of Waspavest, with 800,000 shares and 3.2 million shares respectively. Shah Abu Mansur was then the managing director of publicly-listed Aokam Tin and a director of Cold Storage, another listed concern; he is currently still a director of Aokam Tin.[59]

On 25 January 1992, a winding-up notice was served by MBf Finance Bhd on Waspavest for a RM7 million debt which had been due since October 1990; MBf Finance had provided the loan without securing any

collateral. When repayment of the loan defaulted, MBf Finance had instituted a civil suit against Waspavest, Shah Abu Mansur, and Mohamed Rahmat. By November 1990, MBf Finance had obtained a judgment in its favour; the court ruled that Waspavest and Shah Abu Mansur were liable for the outstanding amount. The amount had not been paid, hence the winding-up notice.

Since it is an exempt private company, Waspavest's financial statements are unavailable. Other documents, however, indicate that Waspavest had been taking a number of loans since late 1986. On 30 December 1986, for example, Waspavest secured a RM1.5 million loan from Credit Corporation (M) Bhd, for which 395,000 Aokam Tin shares were provided as security. Two weeks later, on 13 January 1987, Waspavest took a RM5 million loan from Bank Utama for the purchase of RM1.2 million Aokam Tin shares which were pledged as collateral. During the next six days, Waspavest secured two more loans. On 16 January 1987, a RM3.8 million loan was provided by Asia Commercial Finance (M) Bhd, for which one million Aokam Tin shares stood as collateral. Three days later, on 19 January 1987, a RM5.8 million loan was furnished by MBf Finance for which no collateral was provided.[60] On 24 September 1987, Arab Malaysia Merchant Bank provided the company with a RM5.8 million loan for the acquisition of Cold Storage shares — this deal involved Daim's family company, Pradaz — for which 420,000 Aokam Tin shares were used as security; another company, Faroy Sdn Bhd, provided 1.575 million shares of Lysaght Corrugated Pipes Sdn Bhd as additional security.[61] It appeared that one of UMNO's investment holding companies, which had been trying to develop a conglomerate through Aokam Tin through its apparently easy access to loans,[62] had come to an ignominious end; it is also unclear where Waspavest's equity in corporate stock was transferred to and how much of it was sold by financial institutions to recover their loans.

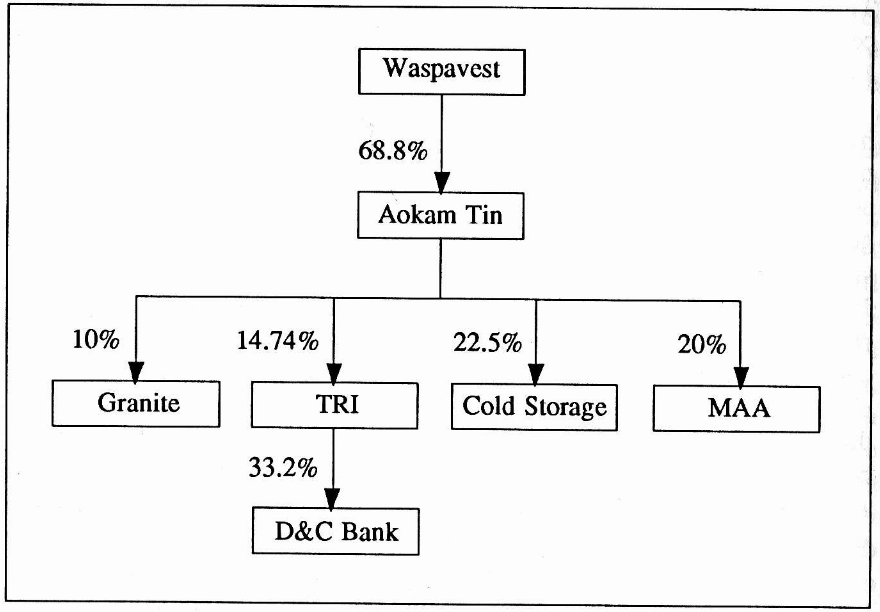
Waspavest's first major acquisition was its 42.9 per cent stake in Aokam Tin in June 1986, purchased from government-owned and publicly-listed Malaysia Mining Corporation Bhd (MMC) and its publicly-listed subsidiary, Tronoh Mines Bhd. The sale went through despite objections from minority shareholders that Aokam Tin was being sold for half its market price (*FEER*, 6/10/88). A month later, on 14 July 1986, Waspavest purchased a 7.37 per cent stake in publicly-listed Technology Resources Industries (TRI) (formerly Roxy) from Mohd Razali, Mohd Aziz bin Mohd, and Hassan Abas. Mohd Razali and Hassan, who had figured as directors of other UMNO-linked companies like Hatibudi and Seri Pacific, were believed to be acting as proxies for Daim; in fact, at the time of this acquisition, Daim's proxies were believed to have a 26.4 per cent stake in TRI, which then had a 33.2 per cent stake in D&C Bank, and a 29.7 per cent stake in Cold Storage; all three are quoted companies (Gomez, 1990: 116-20).

On 26 October 1986, Waspavest consolidated its control of Aokam Tin by making a general offer for the rest of the publicly-listed company's eight million shares which it did not own. The general offer received acceptances from MMC and Tronoh Mines, again involving the channelling of government-owned shares to an UMNO-controlled company; Waspavest's stake in Aokam Tin then increased to 68.8 per cent. On 11 November 1986, after Waspavest announced a one-for-one bonus issue of 14 million shares in Aokam Tin, a share-swap involving the takeover of a 32.5 per cent stake in Cold Storage was also proposed; Cold Storage was then already under the Waspavest umbrella, though controlled indirectly through TRI. At the same time, Waspavest also announced the acquisition of a 20 per cent stake in another publicly-listed company, Malaysian Assurance Alliance Bhd (MAA), also through a one-for-one share swap with Melewar Equities Sdn Bhd (Gomez, 1990: 120-22).

On 20 June 1987, Aokam Tin continued on the acquisition trail by purchasing a 5.2 per cent stake in another publicly-listed company, Granite Industries Bhd, a property development concern; this stake was increased to 10 per cent two weeks later. On 30 June 1987, probably in an attempt to increase Waspavest's stake in D&C Bank, Aokam Tin sold Cold Storage shares to acquire TRI shares. On 11 July 1987, Aokam Tin acquired a direct 5.16 per cent stake in TRI. On 20 July, Waspavest offered its 7.37 per cent stake in TRI to Aokam Tin, which had in the meantime been acquiring additional TRI shares on the open market. Aokam Tin was evidently being used as a "cash-cow" by Waspavest to increase its shareholdings in a major financial institution (Gomez, 1990: 120-22). By this time, Waspavest had obtained direct and indirect control of six listed companies (see Figure 3.8).

In December 1987, with UEM now under the charge of Halim Saad — who had been primarily responsible for the development of Waspavest and had resigned as its director a year earlier, on 26 December 1986 — UEM announced the acquisition of a 30.4 per cent stake in Aokam Tin and a 51 per cent stake in a private company controlled by Alex Lee, Istidaya Sdn Bhd, which also had a 15 per cent stake in TRI. This twin acquisition would give UEM 30 per cent of TRI's equity, apart from converting UEM, overnight, into a major conglomerate. Since the deal involved a share-swap,

FIGURE 3.8
Shareholding Structure of Waspavest, July 1987



Source: Gomez, 1990: 123.

no cash outlay was required on UEM's part. UEM was to acquire the stakes in Aokam Tin and Istidaya by issuing 63 million new UEM shares. In order for Hatibudi not to lose majority control of UEM, it was also agreed that Hatibudi would repurchase a portion of the new UEM shares which were to be issued. The deal, however, was called off when one of the key terms of the agreement, the simultaneous acquisition of Istidaya, fell through (*FEER*, 6/10/88).

Despite this setback, Waspavest continued using Aokam Tin to gain control of other publicly-listed companies through some complicated cross-holdings. On 13 April 1988, Aokam Tin acquired 21.68 per cent of Ayer Hitam Tin Dredging Bhd's equity and 10 per cent of Kampung Lanjut Tin Dredging Bhd, which then also owned a 24 per cent stake in Ayer Hitam Tin Dredging. A day earlier, on 12 April 1988, Sehasrat Sdn Bhd[63] — a company in which Ahmad Sebi had majority control, and which in turn had a 20 per cent stake in Kampung Lanjut Tin Dredging — sold 8 million shares in publicly-listed Berjaya Corporation Bhd to Kampung Lanjut Tin

Dredging; on 13 April, Sehasrat also sold 17 million Berjaya shares to Ayer Hitam Tin Dredging (*The Star*, 11/4/91).

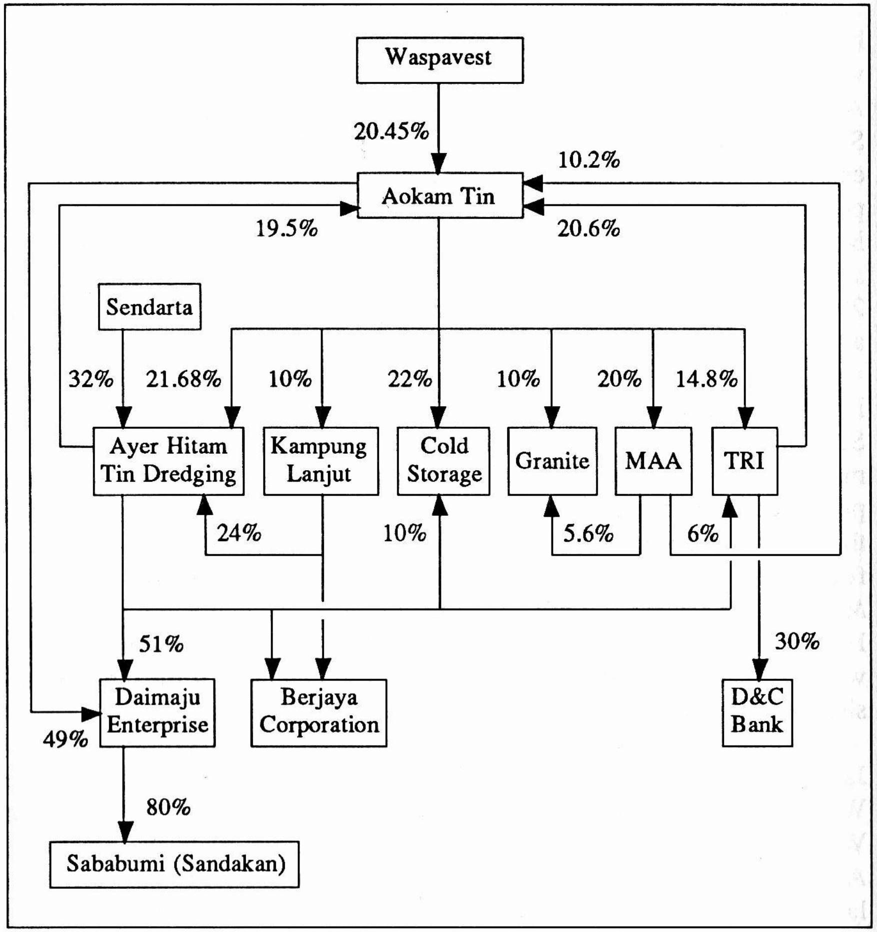
Another major shareholder of Ayer Hitam Tin Dredging was an obscure holding company, Sendarta Sdn Bhd, controlled by Mohamed Rahmat, who was then one of Aokam Tin's directors. Thus, it was not surprising that Ayer Hitam Tin Dredging was used to acquire a 10 per cent stake in Cold Storage from Aokam Tin; Ayer Hitam Tin Dredging also bought 22 per cent of Aokam Tin's equity. In February 1989, Ayer Hitam acquired a 6 per cent stake in TRI. These cross-holdings became more intricate when MAA also acquired a 10 per cent stake in Granite and a 10.21 per cent stake in Aokam Tin (Cheong, 1990a: 70); TRI, in turn, had purchased a 20.6 per cent stake in Aokam Tin, while in March 1990, Granite acquired a 5.6 per cent stake in MAA (*Business Times*, 19/3/90).

Another of the Waspavest Group's major interests was Daimaju Enterprise Sdn Bhd, which had a 80 per cent stake in Sababumi (Sandakan) Sdn Bhd, a company incorporated in 1986 and which had secured the management rights to run the Sandakan Turf Club. This was another privatised project which gave Sababumi the right to operate and manage the Sandakan race course's on-course and off-course betting three-digit and four-digit lotteries, and the Sabah Sweepstakes (*The Star*, 17/4/89; *Malaysian Business*, 1/6/89). Daimaju's major shareholders were Ayer Hitam Tin Dredging, which owned a 51 per cent stake, and Aokam Tin, which owned the remaining 49 per cent. (See Figure 3.9 for the intricate shareholdings of the Waspavest Group by 1989.)

Daimaju, a private exempt RM2 company, was incorporated on 22 January 1984. The two original directors of the company were Tan See Wee and Tan See Dip. Tan See Wee had figured as a director of Waspavest. On 20 June 1988, Dr Abdul Razak bin Abdul, a director of Ayer Hitam Tin Dredging, was appointed director of Daimaju. Ten days later, on 30 June, the authorized capital of this RM2 company was raised from RM25,000 to RM5 million. One day later, on 1 July 1988, Ayer Hitam Tin Dredging bought two million Daimaju shares while a nominee company, Budico Nominees, acquired 2,999,998 shares. By the end of the year, Abdul Razak had resigned as director and Mohd Sharif bin Saidin was appointed in his place; Tan See Wee remained as the other director of the company.

By March 1989, the major shareholders of Daimaju were Ayer Hitam Tin Dredging (2.55 million shares), Budico Nominees (1.2 million shares), and Aokam Tin (1.25 million shares). In November 1989, when Tan See Wee resigned as a director of Daimaju, Mohd Ghazali bin Mohd Khalid,

FIGURE 3.9
Waspavest Group Structure in 1989



Source: Gomez, 1990: 126.

a director of Aokam Tin, was appointed in his place. By the end of 1989, Daimaju had lost its private exempt status since its major shareholders were Ayer Hitam Tin Dredging (2.55 million shares), Aokam Tin (1.25 million shares), and Samquity Sdn Bhd (1.2 million shares).

Daimaju, a loss-making concern, had debts totalling more than RM17 million, while its investments in unquoted companies were worth only RM3.5 million in 1989. Its major interest was its 80 per cent stake in

Sababumi, and by 1990, Daimaju had also acquired an interest in Aokam Tin. Despite these investments, Daimaju's losses had accumulated to RM11.44 million by June 1992. This necessitated a divestment of some of its assets, including its interests in Sababumi, which had also been recording losses (*NST*, 6/8/92).

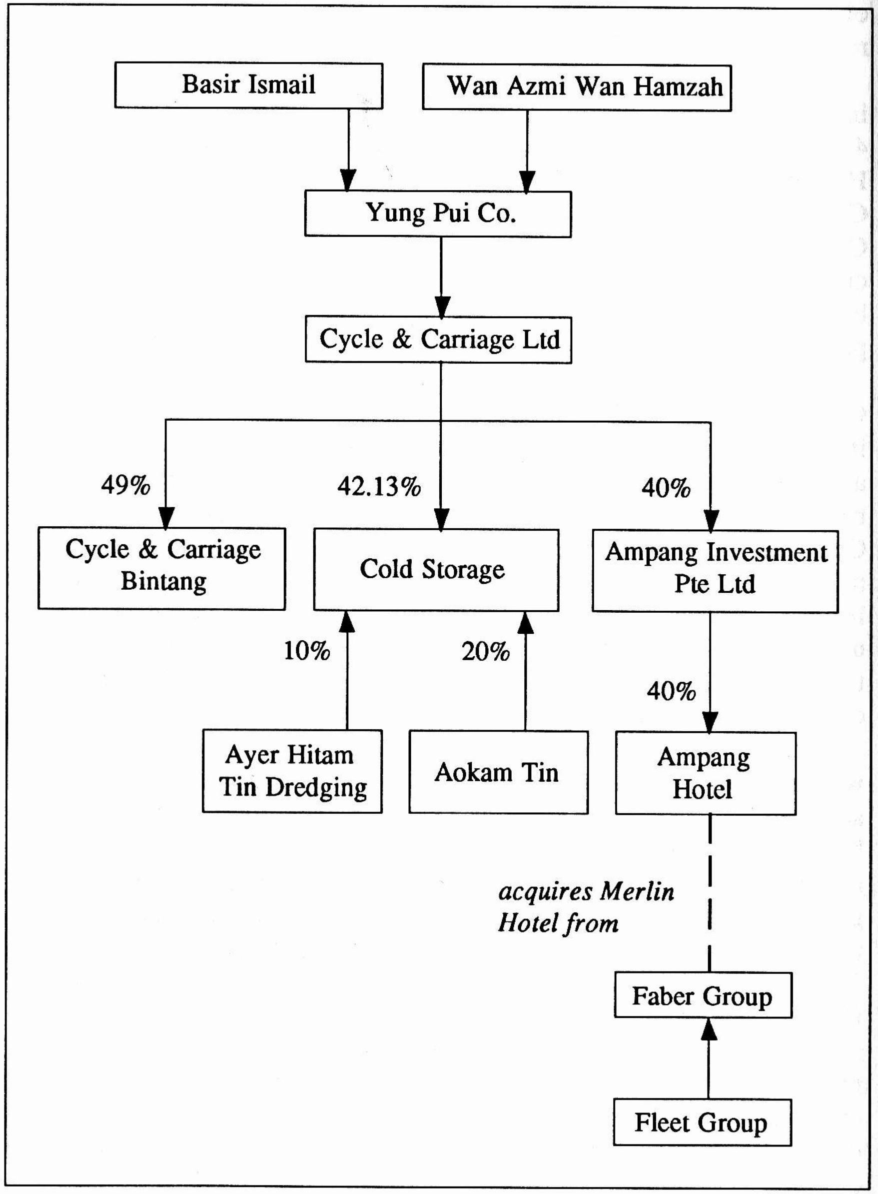
These inter-linkages within the Waspavest Group had developed more intricately in 1989, when publicly-listed Cycle & Carriage Ltd acquired a 42.13 per cent stake in Cold Storage from the British-based Cold Storage Holdings Ltd for RM75.539 million cash (*The Star*, 4/8/89). Cycle & Carriage Ltd, which owns a 49 per cent stake in publicly-listed Cycle & Carriage Bintang Bhd, had been used to bail out Faber Group, then controlled through UMNO's other holding company, Fleet Group, by buying the Merlin Hotel for RM113 million from the ailing hotel and property group (see Figure 3.10).

The acquisition of Cold Storage, a food manufacturer and retailer, by Cycle & Carriage Ltd, a car distributor, did not appear altogether odd when it was disclosed that the latter was controlled by two of Daim's close associates, Basir Ismail and Wan Azmi Wan Hamzah, through Hong Kong-based Yung Pui Co. Thus, the total equity control over Cold Storage by Cycle & Carriage Ltd, Aokam Tin, and Ayer Hitam Tin Dredging was now more than 70 per cent (see Figure 3.10). The joint control of these three listed companies over Cold Storage was attained just one year after the unsuccessful attempt in 1988 by Ayer Hitam Tin Dredging and Aokam Tin to sell their Cold Storage equity to The New Straits Times Press and TV3, controlled by UMNO's Fleet Group.

In the light of these circumstances, it was not unexpected when Basir was appointed chairman of Cold Storage, particularly after he had also acquired a one per cent stake in TRI on 4 June 1990, held through his holding company, Kegiatan Makmur Sdn Bhd. Known to be a close associate of Prime Minister Mahathir, Basir also obtained control of government-owned Kumpulan Fima Bhd through a management buy-out under the privatisation policy. It was a major acquisition, for Kumpulan Fima had three listed companies under its control — United Plantations, Fima Metal Box, and Nestle (Gomez, 1991a: 22-27).

Another important government appointment for Basir was to the powerful Capital Issues Committee (CIC), which approves share issues and company transactions; his appointment to the regulatory body was made despite Basir's extensive corporate holdings. Basir, the former chairman of Bank Bumiputra, is also the chairman of Petronas, the Malaysian Association of Banks, United Plantations, and the Malaysian Airport

FIGURE 3.10
Connection between Cold Storage and
Faber Group through Cycle & Carriage Ltd



Source: *The Star*, 4/8/89.

Corporation, that is also to be privatised. He was appointed chairman of Cycle & Carriage Ltd in 1985 and of Cycle & Carriage Bintang in 1986. Basir also has his own brokerage firm, Capitalcorp Securities Sdn Bhd. Kegiatan Makmur, apart from holding Basir's TRI stake, is also the holding company for his interests in Kumpulan Fima and Capitalcorp Securities (*The Star*, 13/7/91). In October 1991, Basir was identified as the Bumiputera party who had acquired a 20 per cent stake in Jernih Insurance Corporation Sdn Bhd, the insurance arm of the Hong Kong-based Kuok Group (*NST*, 11/10/91).

On 16 June 1990, two weeks after Basir bought into TRI, an obscure company, Arnah Murni Sdn Bhd, bought 34 million TRI shares, or a 25.06 per cent stake, in the company from Alex Lee and two of his holding companies, Irex Sdn Bhd and Tun Sir H.S. Lee & Sons Sdn Bhd. Soon after this, Tajudin Ramli, another close associate of Daim's, was appointed to TRI's board. Company records indicated that Arnah Murni was then a RM2 company, with two apparently obscure shareholders. In August, Tajudin was disclosed as being a shareholder in Arnah Murni; he also had a direct 2.96 per cent stake in TRI (Gomez, 1991a: 25-26).

Meanwhile, in April 1989, TRI sold 20 per cent of its stake in D&C Bank to Singapore-based United Industrial Corporation (UIC), controlled by Indonesian-born tycoon Oei Hong Leong, for around RM96 million; in August 199O, UIC divested its interest in the bank to the listed brokerage firm, Rashid Hussain Bhd, for a massive RM223.74 million (Gomez, 1991a: 40-43). In an effort to reverse its losses and reduce its debts, TRI, in December 1990, totally divested its remaining 8.91 per cent stake in the D&C Bank (*Investors Digest*, March 1991). At the same time, TRI also acquired a 9.8 per cent stake in Malaysian Helicopter Services Bhd (MHS), which is involved in air services, and changed its name from Roxy to Technology Resources Industries Bhd (TRI) (*The Star*, 2/1/91). In 1991, TRI continued increasing its stake in MHS, apparently to focus its activities on the transport sector (*The Star*, 4/2/91). By January 1991, TRI's stake in MHS had increased to 11.2 per cent; by March, the stake had almost tripled to 30.6 per cent. Tajudin Ramli also has a 17.5 per cent stake in MHS which, in turn, has acquired a 18 per cent stake in Pelangi Air Sdn Bhd and a 40 per cent stake in Perbadanan Nasional Shipping Line Bhd (*The Star*, 12/2/91; *Investors Digest*, March 1991).

In August 1989, Aokam Tin scaled down its stake in Kampung Lanjut Tin Dredging to 5.8 per cent, and also reduced its interests in MAA (*The Star*, 22/8/89; *Malaysian Business*, 1/4/90). In December of that year, Aokam Tin continued its divestment by selling its stake in Daimaju to

Ayer Hitam Tin Dredging. This also meant an increase of Ayer Hitam Tin Dredging's indirect interest in Sababumi whose gaming business was expected to account for 75 to 80 per cent of Ayer Hitam Tin Dredging's profits, although the company, due to poor management, was a loss-making concern (*The Star*, 23/9/89). In June 1990, it was reported that Aokam Tin had sold its 22.3 per cent stake in Cold Storage to Faroy for RM55.07 million, or RM3 per share (*NST*, 5/7/91). Faroy, as mentioned earlier, was an investment holding company controlled by Samsudin Abu Hassan and Pradaz, a company owned by Daim Zainuddin's family.[64] Samsudin, a director of Aokam Tin, had served under Daim at Peremba. These divestments were necessary probably because Aokam Tin had been experiencing losses of RM1.79 million and RM1.18 million in 1989 and 1990 respectively (*NST*, 5/7/91). By 1991, Aokam Tin had also reduced its interests in Ayer Hitam Tin Dredging to a mere three per cent; Sendarta, however, maintained its stake in Ayer Hitam Tin Dredging at around 31.4 per cent (*The Star*, 27/8/91).

A new major shareholder of Ayer Hitam Tin Dredging in 1991 was Teguh Equity Sdn Bhd,[65] which had been building up its stake in the company, and had 14.3 per cent equity-ownership by August that year. Although it was unclear who owned Teguh Equity, it was speculated that the company was linked to businessman Yap Yong Seong, more popularly known as Duta Yap. Yap is also the managing director of another listed entity, Mycom, which owns a majority stake in another quoted company, Olympia Industries; both these companies are involved in the gaming industry (*NST*, 22/5/93). By that month too, a major contest had erupted between Sendarta and Teguh Equity for control of the listed company; the tussle was probably connected to Ayer Hitam Tin Dredging's control over its gaming entity, Sababumi (*The Star*, 29/8/91). In January 1992, the publicly-listed gaming concerns, Magnum Corporation (controlled by Multi-Purpose Holdings) and Leisure Management Bhd (over which Magnum Corporation has control), acquired a 51 per cent and 21 per cent interest respectively in Sababumi for RM29.82 million (*Investors Digest*, January 1992). Ayer Hitam Tin Dredging had allowed its stake in Sababumi to be diluted to 28 per cent probably because the latter's losses were proving to be a major financial burden (*Malaysian Business*, 1/3/92).

In an attempt to diversify and halt its losses, Ayer Hitam Tin Dredging has ventured into advertising through AHT Mega Outdoor Sdn Bhd, into films through Teletrade Sdn Bhd, and into finance through Petra Finance Sdn Bhd. As in the case of Aokam Tin, Ayer Hitam Tin Dredging also divested its stake in Cold Storage to venture into logging activities in Papua New Guinea (see *Malaysian Business*, 16/1/90; *Business Times*, 7/3/92; *NST*, 4/3/92). In February 1992, Ayer Hitam Tin Dredging acquired 100 per cent equity of Naga Juara Sdn Bhd, a general trading company, and Rimsaya Development Sdn Bhd, a timber-based company. Ayer Hitam Tin Dredging also moved into the stockbroking industry when it acquired a stake in HA Securities Sdn Bhd (*The Star*, 10/2/92). By May 1993, it was believed that Teguh Equity had divested its entire stake in Ayer Hitam Tin Dredging to the police cooperative, Koperasi Polis Diraja (M) Bhd (see *The Star*, 22/5/93).

By 1991, Aokam Tin's major shareholder was Khidmas Sdn Bhd, owned by Samsudin Abu Hassan, Aokam Tin's executive vice-chairman. In September 1991, he had raised his stake from 5.7 per cent to 20.5 per cent (*The Star*, 19/9/91). By 1992, through another holding company, Rahaz Sdn Bhd, and in a personal capacity, Samsudin also owned a 20 per cent stake in Granite, another listed company that had been under Waspavest's control; Samsudin, who acquired most of the Granite equity from MAA, is also a director of the company. It is noteworthy that the chairman of MAA, Aokam Tin, and Granite is Tunku Abdullah, who controls the Melewar Group and is reputedly a close associate of Prime Minister Mahathir (*Malaysian Business*, 16/12/92).

Granite is developing into one of the most important listed companies controlled by businessmen with strong political links. In 1993, the value of its stock increased appreciably following rumours that Granite would receive the licence for TV4 and after its acquisition of Kensen (China) Ltd which is involved in the gaming industry (*The Sun*, 31/7/93).

To boost its performance, Aokam Tin, in August 1990, acquired 100 per cent equity of Pembangunan Papan Lapis (Sabah) Sdn Bhd (PPL), one of the country's largest integrated timber complexes, for RM124 million. This amount was paid for partly through the issuance of new Aokam Tin shares and partly by cash (*Malaysian Business*, 1/2/92). As in the case of Ayer Hitam Tin Dredging, Aokam Tin has also entered into a logging venture in Papua New Guinea (*Business Times*, 7/3/92). In July 1991, Aokam Tin also proposed a one-for-two rights issue of RM50.616 million 6.5 per cent unsecured redeemable loan stock 1992/97 with 50.616 detachable transferable subscription rights (TSR). The loan stock and TRS were used to facilitate Aokam Tin's expansion of PPL in its timber manufacturing business (*The Star*, 3/7/91 & 18/1/92).

In 1992, Aokam Tin, now renamed Aokam Perdana, began to make a major turnaround, even declaring a 600 per cent increase in profits. Its enhanced performance was primarily attributed to its investment in PPL

and the divestment of its 22.3 per cent stake in Cold Storage (*NST*, 22/4/92).

In the case of Kampung Lanjut Tin Dredging, after declaring losses from 1989 to 1991, the company began to turn around by early 1992. The improved performance was due to Kampung Lanjut Tin Dredging's acquisition of the entire equity of DCA (M) Pemaju Corporation Sdn Bhd, a property development company (*NST*, 25/12/91). Functioning primarily as an investment holding company, Kampung Lanjut Tin Dredging, in a further attempt to widen its earning base, also ventured into trading through KLTD Trading Sdn Bhd and is contemplating moving into the manufacture of construction materials (see *NST*, 16/4/92; *The Star*, 16/4/92).

The decline of Waspavest and the manoeuvring of the shares of Aokam Tin, Ayer Hitam Tin Dredging, Cold Storage, Kampung Lanjut Tin Dredging, and Granite has obscured the actual ownership patterns of these companies. It is clear, however, that Aokam Tin, in comparison to 1989, has lost its conglomerate status and control of publicly-listed companies. The major shareholder of Aokam Tin is no longer Waspavest, but Khidmas, with a 20.5 per cent stake; Khidmas is owned by Daim's close associate, Samsudin Abu Hassan, who also owns a majority stake in Granite which is tipped to be the beneficiary of some important privatised contracts. In the case of Cold Storage, 42.13 per cent of its equity is owned by Cycle & Carriage Ltd; the chairman of both these companies is Basir Ismail. One of the major shareholders of Ayer Hitam Tin Dredging is still Sendarta, although it appears that the latter has relinquished much of its control over the company; the shareholders of Kampung Lanjut Tin Dredging are a number of obscure private companies, indicating that this listed entity may no longer figure as a major UMNO-related concern. Nonetheless, although Waspavest may no longer hold an interest over these quoted companies, it appears that control of most of these listed companies continues to remain in the hands of businessmen and private companies linked closely to UMNO.

3.5: Renong Bhd — Amalgamating the Assets

Since UMNO holding companies, such as Fleet Holdings and Hatibudi Nominees, had control over a diverse number of companies, the eventuality of an amalgamation exercise to simplify the complex business links and concentrate control of the party's investments was only to be expected; what was unexpected, however, was the process and extent of the amalgamation.

On 30 April 1990, the ailing, property-based, publicly-listed Renong Bhd announced the reverse takeover of Fleet Group, Hatibudi Nominees,

and 2 per cent of UEM. Renong was incorporated in Britain as The Renong Tin Dredging plc on 1 July 1913. It ceased its tin mining activities in 1976, operating instead as an investment holding company, deriving most of its income from dividends and interests from time deposits. Under a reconstruction scheme, Renong Bhd was formed and domiciled in October 1982, after it was taken over by Malaysian interests the year before. When Renong went public in November 1983, it continued to function primarily as an investment holding company, with its subsidiaries essentially engaged in property development, although the company was controlled by textile tycoon Ng Song Choon and former judge Abdul Aziz Zain (*KLSE Annual Companies Handbook*, 1988: 1117-21; *Shin Min Daily News*, 25/4/89). After experiencing losses since the mid-1980s (by this time the Ng family had majority control of the company) and burdened with heavy debts, Renong was restructured in late 1989 by Dr Chan Chin Cheung, who had taken over the company and managed to obtain a controlling 32.7 per cent stake in it.[66] Although the restructuring left the company with little debt, it was weak enough to be susceptible to a takeover.

The reverse takeover by Renong of UMNO's most important assets involved RM1.226 billion, then the largest takeover in Malaysian corporate history. The exercise, essentially an equity-swap involving no cash outlay, gave Renong effective control of eight publicly-listed companies involved in diverse fields of business — The New Straits Times Press, TV3, Commerce Asset Holdings, Time Engineering, CIMA, Kinta Kellas, Hume Industries, and UEM — thus converting, overnight, an ailing Renong into one of Malaysia's biggest conglomerates. Three other companies, Commerce International Merchant Bankers Bhd, Southern Iron and Steel Works Sdn Bhd (SISW), and PLUS were then expected to go public in the near future (*Business Times*, 3/5/90). SISW, founded in 1963, is one of the top four steel mill companies in the country; one of the company's major shareholders is Hong Leong Industries Bhd, again suggesting the close relationship between UMNO companies and Quek Leng Chan's Hong Leong Group (*The Star*, 25/11/91).

Hume Industries was included among these companies because on 26 April 1990, only four days before the announcement of the Renong takeover, Fleet Group had announced the acquisition of the total equity of three companies — Jaguh Mutiara, Cantuman Bahagia, and Fibroceil Manufacturing. Jaguh Mutiara owned a 24 per cent interest in Hume Industries, while Cantuman Bahagia had a 50 per cent stake in PLUS; UEM held the remaining PLUS equity.

Although Fibroceil Manufacturing was incorporated on 21 March 1984,

it was only about four years later that it commenced operations. On 10 October 1988, Tunku Adnan bin Tunku Besar Baharuddin and Zahari bin Abdul Wahab were appointed directors of Fibroceil Manufacturing. Two days later, the company's issued capital was increased from RM2 to RM100,000, with Tunku Adnan holding all but two of Fibroceil Manufacturing's shares. On 8 June 1989, Ismail Rashid was appointed a director, and two months later, Anwar Batch Ibram Ghaney was named the company secretary. By June 1989, Ismail was also the main shareholder of the company. Ismail was also a director of Jaguh Mutiara and Cantuman Bahagia. When Fleet Group bought over Fibroceil Manufacturing, the latter had a total net liability of RM22 million and term loans amounting to RM18.33 million. Fibroceil Manufacturing, however, also owned 4.29 million Time Engineering shares and RM17.77 million CULS of the listed company.[67]

Some indication of an impending major takeover of Renong was given in March 1990 when an obscure company, Pacific Fleet Sdn Bhd, bought a 14 per cent stake, or 15 million shares, in Renong from its chairman, Chan Chin Cheung; it was then also expected that Chan would before long sell his remaining 15 per cent Renong stake to Pacific Fleet (*Tong Bao*, 3/5/90).[68] Fuelling market rumours were disclosures that Pacific Fleet was UMNO-linked; apart from its close similarity in name with Fleet Group, the companies had two common directors, Halim Saad and Anuar Othman. The legal firm acting on behalf of Pacific Fleet was Zaid Ibrahim & Co, owned by Mohd Zaid Ibrahim, a prominent UMNO lawyer who was also involved in the takeover of Kinta Kellas in late 1989; his company also handled UEM's legal affairs (*AWSJ*, 2/5/90). Zaid had also served as a director of a number of UMNO-related companies like Cantuman Bahagia and Raabnik. It was then also presumed that Renong would be the next publicly-listed company to be taken over by UEM, which had been on an acquisition binge, having just bought into Kinta Kellas, Time Engineering, and CIMA; UEM was then also negotiating the takeover of another property-based publicly-listed company, MCB Holdings Bhd, although the deal fell through soon after the Renong takeover was announced. This caused Renong's share price to escalate to a high of RM4, compared to its RM1.08 just months before (*NST*, 1/5/90). Through the creation of new Renong shares and a major share-swapping exercise, it was Renong, however, which in fact obtained control of UEM, in the process actually lowering the net value of each Renong share and catching speculators off-guard.

Renong, like most other property-based companies, had been reporting

losses since 1986 following the mid-1980s recession. Renong had declared post-tax losses of RM7.17 million in 1986, RM4.33 million in 1987, RM14.95 million in 1988, and RM5.88 million in 1989 (*KLSE Annual Companies Handbook*, 1991: 701). On approval of the takeover, however, the ailing Renong was transformed into one of the country's top ten companies, with a projected pre-tax consolidated profit of RM69.6 million for the fiscal year ending 30 June 1991, and a market capitalization approaching six to seven billion ringgit (*NST*, 4/9/90). The Renong reverse takeover continued to reflect UMNO's proclivity for taking control of ailing quoted companies and reviving them through various corporate manoeuvres, a process initiated by Hatibudi's takeover of UEM.

The reverse takeover entailed Renong's purchase of the entire equity of Fleet Group from Fleet Holdings for RM794.92 million, the total stake of Hatibudi Nominees' one million shares from Halim Saad (90 per cent), Anuar Othman (5 per cent), and Zulkifli Hussain (5 per cent), a 2 per cent stake in UEM from Tellic Sdn Bhd for RM30.31 million, and RM12.5 million UEM CULS from Gallio Sdn Bhd, Hanurai Sdn Bhd, Mediacover (M) Sdn Bhd, and Tellic for RM156.25 million. These acquisitions were paid for by issuing new Renong shares of 50 sen valued at RM1 each. This increased Renong's share capital by 92 per cent, leaping from a mere RM54.97 million to a massive RM668.16 million, or 1.34 billion 50 sen shares (*NST*, 1/5/90).

That Gallio, Hanurai, Mediacover, and Tellic owned UEM CULS was not the only common feature of these companies. Hanurai was incorporated as an investment holding company on 8 October 1987 by the legal firm of Zaid Ibrahim. Hanurai's company secretary was Zulkifli Hussain. By June 1989, Hanurai had investments in UEM, which comprised RM4.95 million shares and RM6.275 million worth of CULS; the shares and CULS were, however, pledged as security for loans amounting to RM14.95 million. It appeared from Hanurai's accounts that the UEM shares were sold to settle its loans while the company held on to the UEM CULS which were subsequently sold to Renong. Hanurai's accounts indicated that although it registered a post-tax loss of RM7.12 million in June 1991, the sale of its quoted stock netted the company RM55.29 million. By 1991, Hanurai had investments worth RM61.56 million comprising Renong shares.[69] Halim Saad and Anuar Othman were appointed directors of Hanurai on 15 August 1991; the company is currently wholly-owned by Hanuma Sdn Bhd, which is owned by Halim and his wife Noraini Zolkifli.

Gallio is an investment holding company whose original director was Zaid Ibrahim; its company secretary was Zulkifli Hussain. By November

1988, the two major shareholders and directors of Gallio were Ariffin Mohd Isa and Ismail Rashid, with the latter serving as a director for almost a year. On 11 October 1989, Ismail resigned as a director and was replaced by Zulkifli Ghazali. Ariffin Mohd Isa and Zulkifli Ghazali were also directors and shareholders of Tellic, whose company secretary was Zulkifli Hussain. Tellic, an investment holding company, had made an extraordinary gain of RM55.29 million in 1990 from the sale of its investments; by the end of the year, it had investments (most probably in Renong) worth RM61.56 million, but with a market value almost double that, at RM100.35 million.[70] Zulkifli Hussain was also a director and shareholder of Mediacover, an investment holding company incorporated on 22 October 1986.[71] The company's accounts indicate that by the end of 1987, Mediacover owned UEM CULS worth RM6.275 million. By late 1990, Mediacover had made RM33.35 million from the sale of its UEM stock, which helped erase its debts and losses.

In order to ensure that Fleet Holdings would not have to make a general offer for Renong's remaining shares — Fleet Holdings would obtain 59.48 per cent of Renong's equity after the takeover — a restricted rights offer was made by Fleet Holdings to Renong's shareholders. Fleet Holdings ended up not only with a controlling 28.5 per cent stake in Renong, but also earning a massive RM439.74 million in cash from the sale of its Renong shares to the listed company's shareholders. Renong's other major shareholders were Pacific Fleet, with 6 per cent, and Halim Saad, with 17.7 per cent; Chan's stake had reduced to 2.68 per cent (*Business Times*, 4/5/90). Chan, as expected, eventually relinquished his Renong stock in July 1990, although it is uncertain if his equity in the company was picked up by UMNO proxies (*NST*, 27/8/90). At the time of the Renong takeover, Halim and Anuar Othman were also directors of Pacific Fleet, Hatibudi Nominees, Fleet Group, and UEM (*NST*, 1/5/90). Halim and Anuar Othman were also shareholders of Pacific Fleet and Hatibudi Nominees. This meant that through its proxies, UMNO owned more than 50 per cent of Renong's equity.

While Renong's reverse takeover was viewed primarily as an attempt to help the financially beleaguered Fleet Holdings retire its debts, then reportedly approaching RM600 million, other queries were raised (*The Star*, 15/5/90). Razaleigh, leader of the opposition Semangat 46, questioned the legality of the Renong takeover on the grounds that the Official Assignee had not obtained a court order before the sale of Fleet Group was effected (*NST*, 2/5/90).[72] The controversy heightened when it was disclosed that the takeover of Fleet Group was not negotiated through the

Official Assignee's office, but directly with Fleet Holdings. This implied that Fleet Holdings (and thus Fleet Group) had, by then, been sold by the Official Assignee (*AWSJ*, 3/5/90). The identity of the party which had obtained ownership of Fleet Holdings before the Renong reverse takeover was never disclosed. In fact, the company records of Fleet Group and Fleet Holdings — unlike the accounts of Hatibudi and Seri Pacific — do not indicate that these companies were held by the Official Assignee. Another contentious issue, however, was the apparent "loss" of a significant number of UEM shares.

When Hatibudi was taken over by the Official Assignee, it had listed among its assets RM37.5 million UEM CULS and 25 million UEM shares. When the reverse takeover of Time Engineering by Hatibudi Nominees was announced and the former took control of RM37.5 million UEM CULS, it was then assumed that Hatibudi Nominees — apart from the RM12.5 million UEM CULS it had acquired from UEL — had also bought over from the Official Assignee the 25 million UEM shares that Hatibudi owned. When Renong took control of Hatibudi Nominees, however, it was evident that Hatibudi Nominees did not have ownership of the 25 million UEM shares (Gomez, 1991a: 13-14). Hatibudi Nominees also did not have ownership of its remaining RM12.5 million UEM CULS, though it was believed that the loan stock may have been sold earlier to four private companies — Gallio, Tellic, Mediacover, and Hanurai (*The Star*, 27/3/91). With an impending General Elections, which was expected to be a keenly contested affair for UMNO, the "disappearance" of the UEM shares fed speculations that they may have been sold to raise funds for the party's coffers. The failure to disclose the movement of such a substantial number of publicly-listed shares is a violation of the KLSE's listing regulations.

By September 1990, the necessary approvals from the FIC, CIC, and Bank Negara were obtained, but with some minor conditions attached, the most significant of which was Bank Negara's stipulation that Renong should divest its stake in either American Malaysian Insurance or Frank B. Hall Insurance Brokers within two years (*The Star*, 16/8/90). Even before Renong's shareholders could approve the reverse takeover, however, plans were already underway to rescue the only publicly-listed company that was not brought under Renong's control, Faber Group.

3.5.1: Bailing Out Faber Group

Faber, which had been staving off protracted attempts to go into liquidation, was saddled with accumulated debts amounting to a hefty RM329.8

million, most of which were not being serviced. By 30 June 1990, Faber also had accumulated losses totalling RM346 million (*Malaysian Business*, 16/1/92). Most of Faber's shares which were held by Fleet Group prior to the Renong takeover had either been transferred to Fleet Holdings or sold to Ikral Holdings, a company wholly-owned by Fleet Holdings. This was to ensure that Faber's precarious financial position would not jeopardize the Renong takeover. Some of the funds required to revive Faber were to come from the cash obtained by Fleet Holdings from its sale of the Renong shares.

Fleet Holdings, under this deal, poured RM222 million into Faber in a three-step plan. In the first stage, 50 sen was cancelled from every RM1 share, thus reducing Faber's share capital to RM176.5 million comprising 353 million 50 sen shares. Every two 50 sen shares were then consolidated into one share of RM1 each. In addition to this, the share premium account and the capital reserve account — amounting to RM65 million and RM27.7 million respectively — were written off. These write-offs, totalling RM92.7 million, plus the capital reduction of RM176.5 million, were used to reduce Faber's accumulated losses from RM329.8 million to RM60.6 million. At the second stage, Fleet Holdings subscribed to 222 million new Faber shares of RM1 each; part of this RM222 million was used to wipe out most of Faber's debts. The balance was to be settled through the sale of Wisma Desa, a Kuala Lumpur-based office block owned by Faber then under construction. At the final stage, Fleet Holdings offered for sale 124 million of its new Faber shares to the company's existing shareholders at RM1 each on a one-for-one basis. The outcome of this exercise was a debt-free Faber, in which Fleet Holdings had a 36.5 per cent stake, an increase of seven per cent compared to the stake it held before the exercise (Gomez, 1991a: 17-22).

Although Fleet Holdings injected RM222 million into Faber, its actual cash outlay was only RM98 million since Fleet Holdings resold 124 million shares to Faber's shareholders. Considering the magnitude of Faber's loans before this exercise, an outlay of RM98 million by Fleet Holdings to bail out its publicly-listed company was relatively small; in the process, Fleet Holdings increased its stake in a now debt-free company, which still had at least eight hotels and some lucrative property sites among its stable of assets.

Faber, for example, still owned prime land in the Kelang Valley and in Ipoh and Penang, most of which were targetted for housing development. Faber had also acquired from Time Engineering a RM10 million piece of land in Kuala Lumpur's golden triangle on which it intended to construct

its new flagship hotel (*The Star*, 29/3/91). Negotiations were also underway for the acquisition of the highly profitable Langkawi Island Resort hotel from the Tourist Development Corporation (TDC), a government agency (*Malaysian Business*, 16/1/92). It was also believed that Faber was about to benefit from Malaysia's privatisation policy. The company had reportedly submitted bids for the privatisation of the Postal Department and the Totalisator Board, although in both cases its interests were only those of a minority partner (*FEER*, 20/9/90); Faber's bid for the Totalisator Board, however, proved unsuccessful.

In May 1991, Faber diversified into the haulage business when it acquired a 25 per cent stake in MISC Haulage Sdn Bhd. Faber also acquired a 51 per cent stake in Syarikat Permasaran Sejati Sdn Bhd, the contract operator of two of the largest dry bulk terminals in the country — the Klang Port Authority's dry bulk terminal and the government-controlled Tenaga Nasional Bhd's coal terminal at the Kapar Power Station (*Business Times*, 13/11/91).

There are several noteworthy parallels between the takeover of Renong and the bailing-out of Faber. In both exercises, the companies were financially unsound and sluggish. And in both cases, after obtaining majority control of these companies, Fleet Holdings offered for sale to these listed entities' minority shareholders just enough shares to ensure that Fleet Holdings retained control of these concerns. This use of minority shareholders to raise funds also greatly helped to narrow the financial burden that Fleet Holdings would have incurred in the course of both these exercises. In the process, the long outstanding debts of Fleet Holdings and Faber were almost completely wiped out. In effect, the public had been used to provide the funds to assist UMNO's Fleet Holdings not only to resolve its critical financial problems, but also to help it create a huge new corporate conglomerate in the process.

The amalgamation exercise was used to dissociate UMNO from its main investment arms. Fleet Holdings is currently wholly-owned by Peri Bakti, a company owned by Halim Saad and Anuar Othman. Such a shareholding structure of UMNO's corporate assets has meant that Daim could in July 1990 safely tell the *Far Eastern Economic Review*: "My personal opinion is that political parties should not get involved in business. As treasurer of the party, I wouldn't have the time to supervise because my time should be devoted to running the government" (*FEER*, 5/7/90).

In November 1990, it was disclosed that Hanuma, a company wholly-owned by Halim Saad and his wife, Noraini Zolkifli, had become a major shareholder in Renong with its 9.1 per cent stake after acquiring the entire

paid-up capital of Pacific Fleet and Hanurai Sdn Bhd. In January 1991, Halim disclosed that he held another 9.1 per cent stake in Renong through three nominee companies; in all, apart from his Renong stake held through Hanuma, Halim was estimated to have a direct 25.6 per cent stake in Renong (*The Star*, 28/3/91). A month earlier to that, on 27 October 1990, Halim, Noraini, and Anuar Othman were appointed directors of Renong, while Aminuddin Yusof Lana was named managing director (*Investors Digest*, November 1990). Another director of Renong is Lee Siew Choong, who was one of Fleet Holdings' first directors; he later re-emerged as a director of one of Daim's holding companies, Pradaz.

3.5.2: Further Consolidation Under Renong

In February 1991, Faber was incorporated into the Renong Group in another major RM1.95 billion "in-house" exercise to, among other things, improve Renong's cash-flow, raise public funds for greater expansion, and further consolidate UMNO's assets. In the process, also through an equity-swapping exercise, Renong acquired direct holding over two of UMNO's most important assets, TV3 and UEM (*NST*, 4/2/91).

Under the exercise, Renong acquired 150 million UEM shares, or a 30.5 per cent stake, from Time Engineering for RM675 million, thus adding to its existing 11 per cent stake in Renong — 9 per cent held indirectly through Hatibudi Nominees and 2 per cent owned directly. Renong also acquired 18.992 million shares, or a 43 per cent stake, in TV3 from The New Straits Times Press for RM152 million, paid for by the issuance of 116.87 million new Renong 50 sen shares valued at RM1.30 each. Renong also sold its wholly-owned subsidiary, Cantuman Bahagia, which owned 50 per cent of PLUS, to Faber for RM1 billion; it was a visible attempt to bolster Faber's cash-flow by ensuring that it had direct access to a cash-generating company. In return, Faber issued Renong 445 million new Faber shares valued at RM1.20 each and RM466 million convertible loan stocks at RM1 each. From the 445 million Faber shares owned by Renong, a restricted offer for the sale of 199.25 million shares was made to Faber's shareholders; Renong's ownership of Faber's equity was thus scaled down to 30 per cent, but upon conversion of the loan stock, this stake would increase to 63.1 per cent of the enlarged capital. Renong was estimated to have made an extraordinary profit of RM630 million from the sale of its stake in PLUS to Faber (*NST*, 3/2/91). The effect of these deals was a progressive dilution of the stake held by Faber's minority shareholders at the expense of Renong-related companies (see Table 3.8).

TABLE 3.8

Change in Substantial Shareholders of Faber Group since April 1991

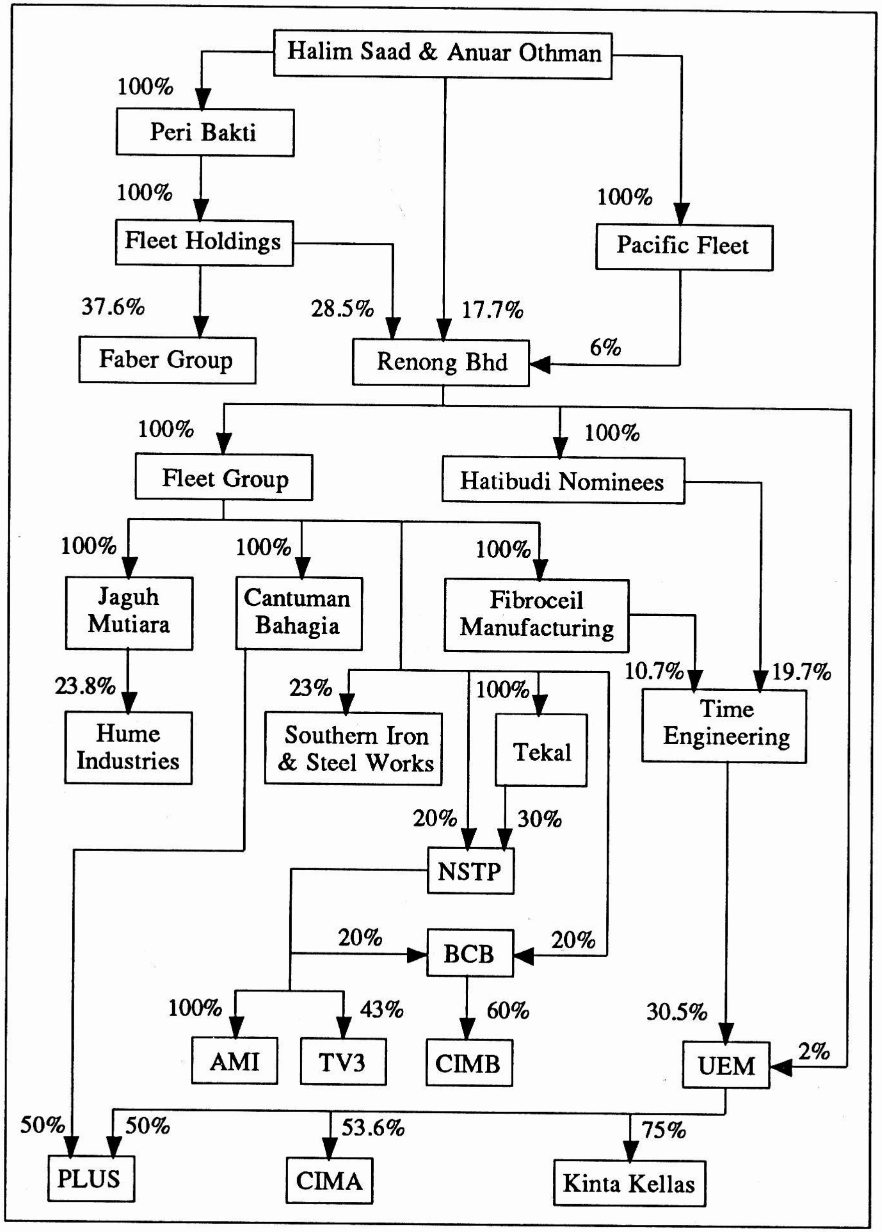
Shareholders	As at 15/4/91	After buying PLUS	After the Restricted Sale Offer	After Converting Faber Notes
Fleet Holdings	17.0%	8.0%	12.0%	6.3%
Ikral Holdings	13.1%	6.2%	9.3%	4.8%
NSTP	1.4%	0.6%	1.0%	0.5%
Cantuman Bahagia	–	52.8%	29.1%	63.1%
Others	68.5%	32.4%	48.6%	25.3%

Source: The Star, 16/4/91.

On completion of the exercise, Renong's paid-up capital rose from RM668 million to RM1.064 billion, equivalent to a share capital of 2,128 billion 50 sen shares! In addition to this, Renong also indicated its desire for greater involvement in two highly lucrative sectors, the oil and gas industry and the financial sector. Through its subsidiary, Probadi Sdn Bhd, Renong invested RM121.38 million to buy three oil-drilling rigs and two rigs and barges. Renong's interest in the financial sector was expressed through its participation in the proposed Kuala Lumpur Options and Financial Futures Exchange (KLOFFE) (*The Star*, 3/2/91). This restructuring was nothing more than a massive paper creation and shuffling exercise since no cash or assets left the Renong Group (see Figures 3.11 and 3.12).

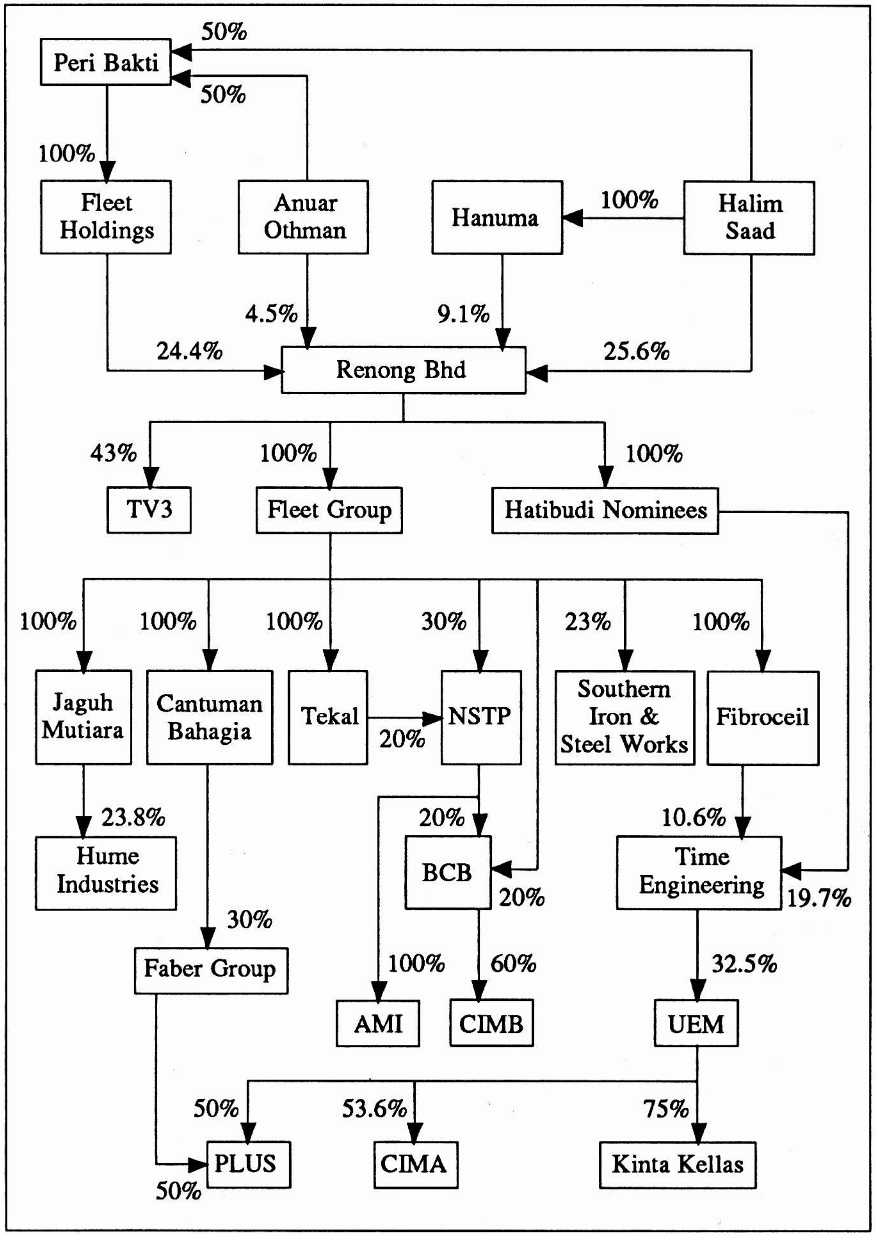
Although it did not appear to make much sense to remove TV3 from the control of The New Straits Times Press, since both companies were in the media business, the deal was justified on the basis of the extraordinary profit of RM74.3 million that The New Straits Times Press would then reap. The restructuring exercise appeared to be an attempt to relocate cash-flush TV3 and UEM under Renong's direct control in order to buttress the latter's profit margin and increase its prospects for further corporate expansion. While the restructuring exercise augured well for Renong and while there were lucrative short-term financial gains to be had for Time Engineering and The New Straits Times Press, the long term interests of the minority shareholders of these two listed companies were substantially impaired with the sale of TV3 and UEM to Renong.

FIGURE 3.11
Renong After the Restructuring of 30 April 1990



Source: *Business Times*, 1/5/90.

FIGURE 3.12
Renong After the Second Restructuring of 2 February 1991



Source: *NST*, 4/2/91.

This restructuring exercise could have been precipitated by strong rumours that Daim was about to tender his resignation as Finance Minister. It was also well known that Education Minister Anwar Ibrahim, an outspoken critic of political involvement in business, had been lobbying strongly to be appointed to the Treasury in place of Daim. This apparently necessitated speeding up the Renong restructuring exercises. This was reputedly also the reason for several top management reshuffles in companies under Renong (see *FEER*, 14/2/91).

In mid-January 1991, Halim Saad relinquished his position as chief executive officer of The New Straits Times Press, UEM, Faber, and PLUS. He was, however, reappointed executive vice-chairman of all these companies and retained his position as executive chairman of Renong (*NST*, 17/1/91). On 9 February, Prime Minister Mahathir accepted Daim's resignation as Finance Minister, appointing Anwar as his successor.

With companies involved in such diverse business activities under its control, Renong could now ensure that business opportunities and potential profit-generating activities were kept within the Group. For example, Time Engineering has been given the exclusive rights to implement the telecommunications system along the North-South Highway operated by PLUS (*The Star*, 29/3/91). Faber is conducting a feasibility study on the prospect of building motels near major towns, rest areas with eating facilities, and petrol stations along the North-South Highway (*Malaysian Business*, 16/1/92). In the publishing sector, Renong, The News Straits Times Press, and Nanyang Press have undertaken a study to establish Malaysia's first newsprint recycling plant (*NST*, 26/11/91).

Meanwhile, it appears that asset shifting between companies in the Renong Group and those that control the conglomerate will continue. In July 1992, Fleet Holdings and its wholly-owned subsidiary, Ikral Holdings, proposed to sell 20.7 per cent of their equity in Faber to CIMA for RM148.25 million cash (*Business Times*, 22/7/92). UEM has a 56 per cent stake in CIMA. The deal, however, eventually fell through.

In March 1992, Peri Bakti, which is the holding company for Fleet Holdings and whose directors include Halim Saad and Anuar Othman, was also revealed to be Metro Juara Sdn Bhd's holding company. Merto Juara's most important asset was Metramac Corporation Sdn Bhd, which is involved in road construction and toll collection. Company records indicate that Metramac Corporation's original name was Sykt. Teratai K.G. Sdn Bhd. In March that year, in another consolidation exercise involving UMNO-linked companies, Metro Juara had proposed to sell its entire equity in Metramac Corporation to Renong for RM150 million cash (*Business Times*, 7/3/92).

Metro Juara was incorporated on 1 December 1990 and its original directors were Halim Saad and Anuar Othman; its company secretary was Zulkifli Hussain. About one month later, on 7 January 1991, Zulkifli Hussain and Syed Zaid Syed Jaafar Albar, who had figured as a director of Cantuman Bahagia, took over as directors of Metro Juara.

Metramac Corporation, toll-collector for the highway in Cheras, a Kuala Lumpur residential suburb, found itself at the centre of a controversy in mid-1990. The high toll charges imposed on motorists and other road-users had sparked a public outcry. During the protests, the DAP Member of Parliament for the constituency, Tan Kok Wai, was arrested along with several others — under the ISA — for his role in the protest movement.

It was later revealed that Metramac (or Sykt. Teratai), prior to receiving the RM269 million privatised highway contract from the Kuala Lumpur City Hall in November 1987, was an obscure and poorly-capitalized civil engineering and contracting firm (*Investors Digest*, May 1990). As public protest against the toll intensified, the shareholders of Metramac Corporation announced that they had "at the request of the Government", agreed to sell their stake in the company to UEM, then UMNO's main listed company, so as to resolve the problem (*NST*, 16/12/90).

In the event, the government had to re-negotiate the toll rates, slashing them by between 50 and 75 per cent. It was, however, Metro Juara and not UEM which took over Metramac Corporation. In August 1991, Metramac Corporation received another RM823 million contract to complete construction of interchanges and connecting roads, as well as traffic management works, linked to the Cheras Highway. The contract value was reportedly three times higher than that originally negotiated (see *Business Times*, 14/8/91). It appeared that UEM was not used by UMNO to secure Metramac Corporation because, unlike Metramac Corporation's discreet ties with the party, UEM's links to UMNO were then already public knowledge. The acquisition of Metramac Corporation by UEM might have complicated the already heated controversy surrounding the company.

Renong's acquisition of Metramac Corporation, however, fell through when it was disclosed that the deal contravened recent amendments to the Companies Act. Metramac Corporation was later injected into Metacorp Bhd, a minor company listed on the KLSE's Second Board. This reverse takeover of Metramac Corporation gave Halim Saad and Anuar Othman a 55 per cent stake in Metacorp, thus giving them majority control of another listed entity.

Although it was Metacorp that obtained ownership of the Cheras Highway, the Renong Group still has virtual monopoly over toll collection on almost all other Malaysian highways. Even this, however, is probably not as significant as the cooperation among Renong, The New Straits Times Press, and other companies closely related to UMNO, which has given them widening control over the financial sector. The company primarily responsible for implementing this plan is KLOFFE Sdn Bhd (later renamed KLOFFE Capital).

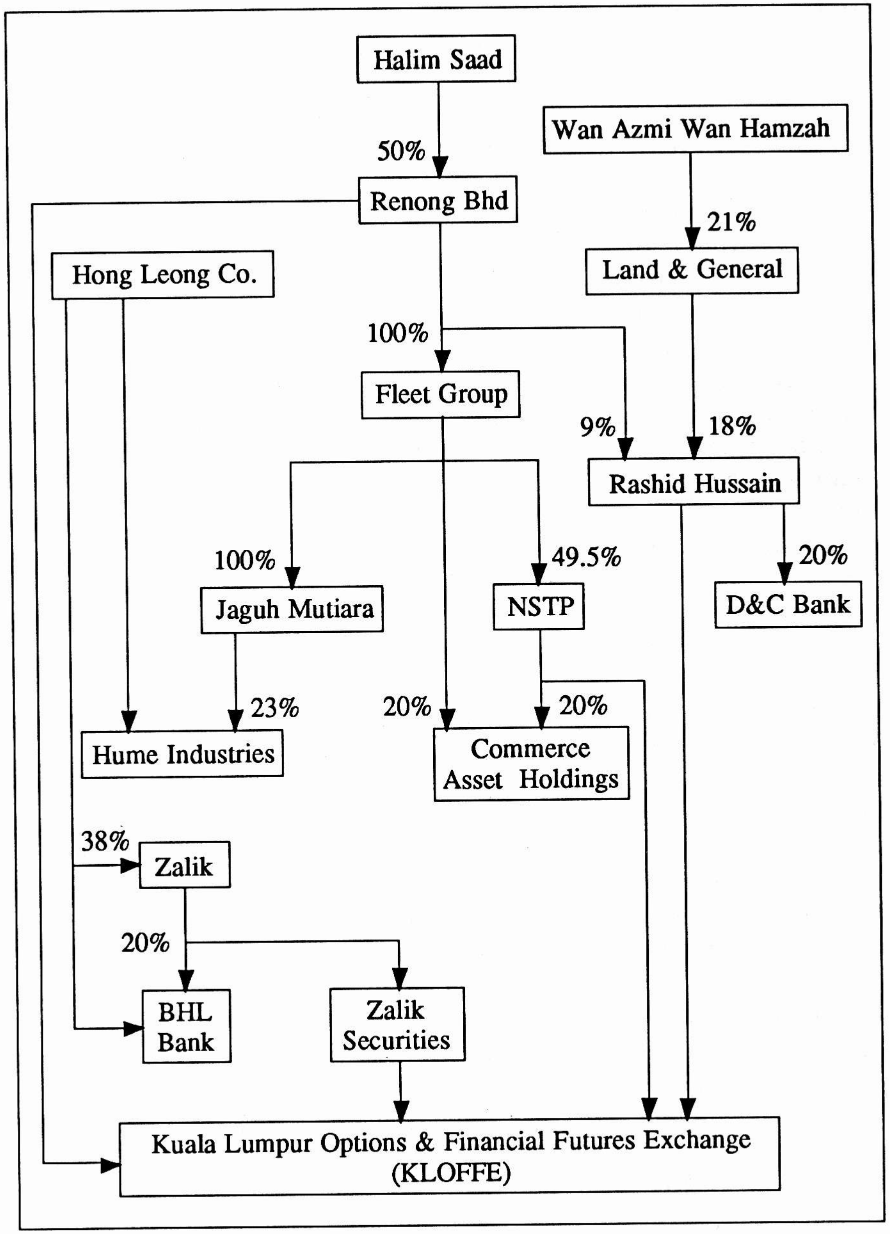
3.5.3: The Establishing of KLOFFE

When the proposal to form the Kuala Lumpur Options and Financial Futures Exchange (KLOFFE) was announced in February 1990, the consortium was to comprise Renong, The News Straits Times Press, the publicly-listed brokerage firm, Rashid Hussain Bhd, and Zalik Securities Sdn Bhd, a stockbroking firm 51 per cent-controlled by Hong Leong Credit, a subsidiary of Hong Leong Co. The involvement of Zalik Securities in KLOFFE was another indication of the expanding business ties between UMNO companies and the Quek family group of companies (see Figure 3.13). The KLOFFE, which proposes to help develop Malaysia into a major financial centre in the region, would initially trade in stock options and subsequently in financial futures (*Business Times*, 3/2/91).

Interestingly, the Kuala Lumpur Commodity Exchange (KLCE), the only futures exchange in the country, had been flirting with the possibility of going into stock index and financial futures trading for some time. While there had been a general view that the Malaysian financial market would not yet be ready for financial futures trading for the next few years, the KLSE had shown some interest in cooperating with the KLCE on stock index futures trading. Thus, it came as no surprise when the KLCE objected strongly to the haste with which KLOFFE was established and approved by the CIC and the Finance Ministry.

The KLCE's protest received a sharp rebuke from Finance Minister Daim, who was quoted as saying, "When they (the KLCE) had the opportunity, they failed to do anything. And now when the private sector is willing to set up KLOFFE, they oppose such moves.... They have not been doing their job and financial futures is definitely not their exclusive right" (*Malaysian Business*, 15/2/91). KLCE chairman, Dr Syed Alhady, responded to this accusation of apathy by stating: "We set the committee up. We jointly commissioned the study. We submitted a long term plan to the CTC (Commodities Trade Commission) which eventually prompted

FIGURE 3.13
Renong's Control of the Financial Sector in 1992



Source: Gomez, 1991c.

the IMF (International Monetary Fund) report being commissioned (by Bank Negara). We've organized a series of workshops on futures trading...." (*Malaysian Business*, 16/4/91).

In October 1990, a government-sponsored study of the Malaysian financial market by the IMF advised against the early introduction of an exchange like KLOFFE; according to the IMF's assessment, the local market was not ready to accommodate the trading of financial futures like medium-to-long-term bonds, short-term ringgit interest rate contracts, ringgit/US dollar exchange rate contracts, and stock index contracts (*Investors Digest*, February 1991). In fact, around the same time, even KLSE executive chairman Nik Mohamad Din Nik Yusoff had warned that "the KLSE would be very careful in introducing such (financial) futures contracts" (*NST*, 4/10/90).

In January 1992, the KLCE took on a more confrontational stance, announcing that it intended to participate in financial futures trading to prevent a monopoly of the market (*The Star*, 13/1/92). In April 1992, following objections made to him by the KLCE, the Primary Industries Minister, Dr Lim Kheng Yaik, entered the fray, arguing that the Malaysian market was too small for two financial futures exchanges and that he was "worried that people for selfish narrow reasons may kill something that is good for the country" (*NST*, 20/4/92). The situation forced new Finance Minister, Anwar Ibrahim, to suggest dialogue at ministerial level; no decision has yet been reached on the issue (*The Star*, 22/4/92).

The KLOFFE had hoped to commence operations in July 1992, soon after the June tabling and adoption in Parliament of a bill relating to the trading of financial futures (*Business Times*, 16/10/91). The tabling of the bill, however, was postponed. The KLOFFE is expected to initially trade in ten to twelve stock options and stock index futures (*NST*, 17/10/91).

The establishment of KLOFFE reflects the growing in-roads made by Renong into the financial sector. Apart from the vast financial network created through the merged BCB-UAB entity, Renong, on 12 November 1991, acquired from Goodfort Sdn Bhd[73] and Fleet Development, a subsidiary of Fleet Holdings, 80 per cent equity of UB-Co Management Sdn Bhd, a trading company which acts as a buying house for government agencies, statutory bodies and major corporations (*Business Times*, 13/11/91). It was reported that Renong had earlier acquired a 9 per cent stake in the securities conglomerate, Rashid Hussain, a stake which was expected to increase (see *FEER*, 14/3/91). Rashid Hussain's most important asset is its 20 per cent stake in the D&C Bank, Malaysia's fifth largest bank (see Figure 3.13).

Another major shareholder of Rashid Hussain, with an 18 per cent stake, is publicly-listed Land & General Bhd (formerly General Lumber), which is 21 per cent owned by a prominent protege of Daim's, Wan Azmi Wan Hamzah. The Wan Azmi-Land & General link with Renong and Rashid Hussain is particularly interesting considering the rampant allegations that Wan Azmi's companies were the conduit for shifting the shares of publicly-listed Nanyang Press to Hume Industries. Renong had an indirect stake in Hume Industries through its wholly-owned subsidiary, Jaguh Mutiara. Wan Azmi had steadily increased his stake in Nanyang Press before divesting part of these shares to Hume Industries, whose other major shareholder is the Hong Leong Co., which also has a stake in Zalik Securities, another KLOFFE member (Gomez, 1991c).

On 25 February 1991, Zalik Bhd was incorporated, and acquired the entire paid-up capital of Zalik Securities for RM25 million through an exchange of shares. On 24 July 1991, Zalik purchased a 20 per cent stake in the Ban Hin Lee (BHL) Bank Bhd for RM29.069 million through a share exchange of 1,304 Zalik shares for every 1,000 BHL Bank shares. Following this, Zalik sought and obtained public-listing on the KLSE on 28 January 1992. Zalik's main shareholders after being listed were Hong Leong Credit (38.2 per cent), Omar Zolkifli (22.5 per cent), Zahari Abdul Wahab (12.5 per cent), and Dr Mohamed Haneef Haji Mokhtar (7.5 per cent). Zahari Abdul Wahab had figured as a director of Fibroceil Manufacturing, which owned a stake in UEM that was eventually brought under the control of Renong. Sitting on Zalik's board of directors, apart from Quek Leng Chan, is Mohd Sofi Abdul Ghafar, a son of Deputy Prime Minister, Ghafar Baba. Zalik's main assets are its two wholly-owned subsidiaries, Zalik Securities and Ellipsis Nominees Sdn Bhd, its 22 per cent stake in KLOFFE, and its 20 per cent stake in the BHL Bank (*The Star*, 13/1/91; *NST*, 4/12/91).

The BHL Bank was incorporated in September 1935 by the Penang-based Yeap family, and went public in 1990. The bank, which has eighteen branches, was then ranked twelfth in terms of asset size.

Although it was believed that the BHL Bank would soon come under the Renong Group, the Hong Leong Group has since late 1992 been increasing its stake not only in Zalik, but also in the bank. It was also reported that the Hong Leong Group may have already obtained, since early 1992, a waiver from the Banking and Financial Institutions Act (Bafia) regulations to obtain more than the limited 20 per cent stake in the BHL Bank (see *Malaysian Business*, 16/12/92). For Quek Leng Chan, who is believed to be actively pursuing an attempt to gain greater control of the

local financial sector, attaining a greater stake in the BHL Bank and Zalik, and thus the KLOFFE, is an important step towards this goal.

3.5.4: Management Buy-Out of The New Straits Times Press and TV3

On 5 January 1993, there was another shuffling of UMNO-related assets controlled by Renong, arising out of factionalism within UMNO. Through a management buy-out, Renong-controlled The New Straits Times Press and TV3 were taken over by a management team from the publishing company. Even before the management buy-out was announced, however, there was wide speculation in the market that such a takeover was imminent, linking it to Finance Minister Anwar Ibrahim.

Although Anwar has openly eschewed political involvement in business, a phenomenon which characterized the era of his predecessor and close ally Daim Zainuddin, much skepticism abounded. The reason could be found in a statement made to the *Far Eastern Economic Review* (6/6/91) by Anwar himself in June 1991, only three months after his appointment as Finance Minister: "UMNO should have no business in dealing with business. It should remain a political party.... But it is accepted that the relationship between political leaders and business leaders are often close."

While Daim's tenure had been noted for UMNO's growing ownership of business entities, Anwar's term, however, has increasingly been marked by his close ties with politically well-connected businessmen. Both these different forms of political-business linkages, however, appear to share a common purpose — patronage and ascendancy up UMNO's hierarchy.

Under the management buy-out, four senior management executives of The New Straits Times Press acquired a controlling 48.01 per cent stake in the company and 43.22 per cent of TV3's equity for RM800 million cash. Each share of The New Straits Times Press was valued at RM7.12, while each TV3 share was priced at RM5, much higher than prevailing market prices. The four executives were the publishing company's managing director, Khalid Haji Ahmad, its senior group general manager, Mohd Noor Mutalib, *New Straits Times* group editor, Abdul Kadir Jasin, and *Berita Harian* group editor, Ahmad Nazri Abdullah. The controlling stakes in The New Straits Times Press and TV3 were acquired from Renong through Realmild Sdn Bhd, a company owned by these four executives with a paid-up capital of just over RM100,000 and with hardly any asset base. There was, thus, little doubt that to finance this RM800 million

management buy-out, Realmild would eventually have to include another publicly-listed company in this corporate exercise.

As expected, two days later, Malaysian Resources Corporation Bhd (MRCB), a financially-beleaguered listed property development firm — the company had persistently been registering losses between 1986 and 1989 before being able to declare a minor profit in 1990 — controlled by Quek Leng Chan's Hong Leong Group, announced that it would undertake Realmild's RM800 million rights and obligations, thus obtaining control of The New Straits Times Press and TV3. Interestingly, on MRCB's board of directors during this reverse takeover was Wan Azmi Wan Hamzah (as chairman) and Mirzan Mahathir, the son of Prime Minister Mahathir.

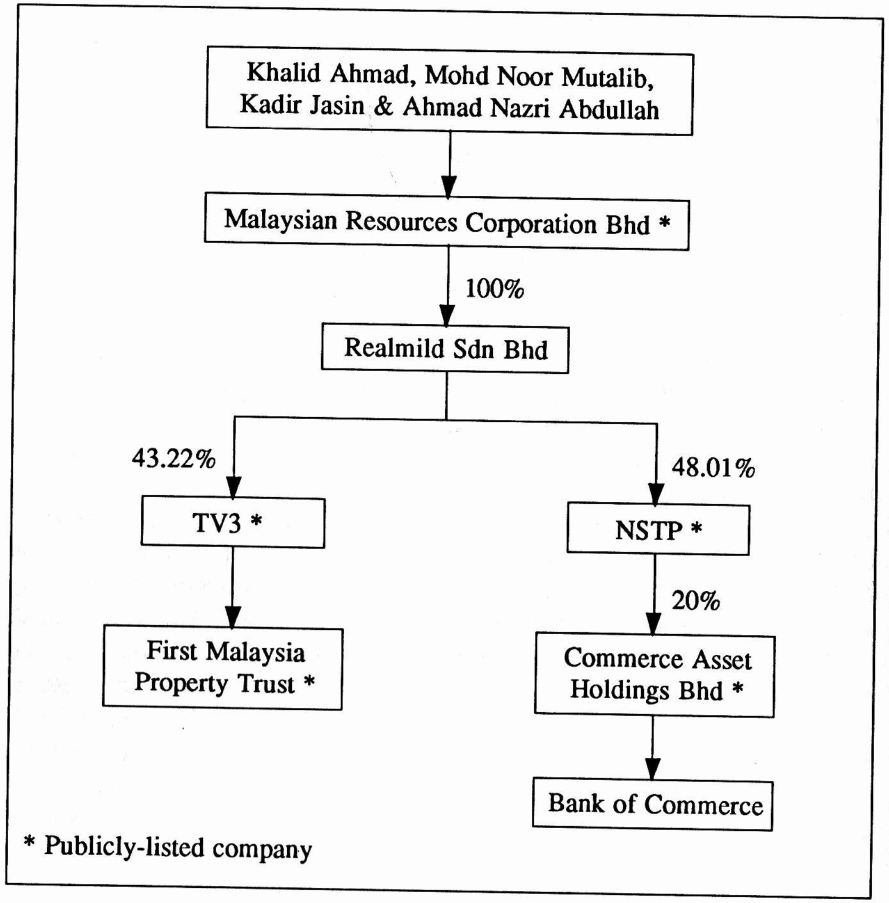
Along with most of MRCB's other directors, Wan Azmi and Mirzan resigned from the company's board following the appointment of Khalid Ahmad, Mohd Noor Mutalib, Kadir Jasin, and Ahmad Nazri Abdullah. Realmild's management buy-out of The New Straits Times Press and TV3 and its reverse takeover of MRCB meant that these four newspaper executives had, overnight, obtained direct and indirect control of five major listed companies (see Figure 3.14).

In addition to bank loans and a bond issue, Realmild's reverse takeover of MRCB was to be financed through the creation of 275 million new MRCB shares. While this substantially diluted the ownership of minority shareholders, it also meant that Quek's Hong Leong Group had to relinquish control of MRCB. Just four months before this management buy-out, the Hong Leong Group had, in August 1992, made a general offer for MRCB, giving it a majority 52 per cent stake in the company. By November 1992, however, Hong Leong had reduced its stake in MRCB to a mere 10 per cent; it is believed that the Heavy Industries Corporation of Malaysia Bhd (HICOM) had picked up at least 20 per cent of MRCB's equity (Gomez, 1993a).

Majority ownership of HICOM, a public enterprise, is held by the Ministry of Finance Inc., the holding company of Anwar's Finance Ministry. By late 1992, there was some speculation that MRCB might be the listed vehicle for the takeover of such a management buy-out. It appeared from the transactions that transpired on the local bourse that the Hong Leong Group had played a part in facilitating this management buy-out.

Although Renong chairman, Halim Saad, insisted that the sale of The New Straits Times Press and TV3 was an "opportunity (Renong) could not refuse" (*The Star*, 6/1/93), thereby trying to dispel market speculation that Anwar had encouraged the management buy-out, it was undeniable that

FIGURE 3.14
MRCB's Corporate Structure After the Management Buy-Out of The New Straits Times Press and TV3



Renong had indeed received a high price for its interests in these two companies. Since Realmild had acquired more than a 33.3 per cent stake in both The New Straits Times Press and TV3, it was obliged, however, to make a general offer to the minority shareholders for the rest of these listed companies' equity. When Realmild applied to the Panel on Takeovers and Mergers for a waiver from making the general offer, it was strongly expected that an exemption would be granted by the regulatory body. The exemption, if obtained, would again highlight the manner in which the interests of minority shareholders have been overlooked.

Through the management buy-out of The New Straits Times Press, which owns 20 per cent of Commerce Asset Holdings' equity and has a stake in the proposed KLOFFE, the four media executives also obtained an important interest in the financial sector. Since Renong also has a 20 per cent stake in Commerce Asset Holdings and a direct stake in the KLOFFE, it would appear that there should have been greater reluctance on Renong's part to sell the publishing company. This enhanced presumption that there may have been some political pressure on Halim Saad to relinquish Renong's stake in The New Straits Times Press.

Since another participant of the KLOFFE is Zalik, which is controlled by Quek Leng Chan's Hong Leong Group, the role played by the Group (which also controlled MRCB) was particularly significant. In fact, it was believed that Hong Leong's profits from the sale of its MRCB equity were used to buy into Zalik and the BHL Bank, thus increasing Hong Leong's interest in the KLOFFE (see Gomez, 1993a). Significantly too, the chairman of MRCB was Wan Azmi who also has an indirect stake in the KLOFFE through his listed company, Land & General.

Even before this management buy-out, the largest to date in Malaysian corporate history, market speculation had been rife that The New Straits Times Press and TV3 would be taken out of the Renong Group, in view of an apparent fall-out between Renong's chairman Halim Saad and Finance Minister Anwar. Halim, although a close protege of Daim, had in fact reportedly been out of favour with Anwar since early 1991 following disagreements over the management and editorial control of The New Straits Times Press.

The management buy-out has thus been widely attributed to this mutual distrust between Anwar and Halim as well as to the Finance Minister's desire to bring under his direct control the influential TV3 — Malaysia's sole private television network — and The New Straits Times Press, which controls not only the leading English and Malay dailies, *New Straits Times* and *Berita Harian* respectively, but also a Chinese daily, *Shin Min Daily News*. Anwar's editorial control over these media operations was seen as being crucial in his attempt to maintain his top placing in UMNO's triennial vice-presidential election next due in November 1993; since early 1992, there were growing signs that the impending party polls had deeply factionalised the party and that it would involve a close and vicious contest.

Victory for Anwar, who is reputedly well supported by Daim, is likely to make him Mahathir's heir apparent, over even Ghafar Baba, who although publicly acknowledged as the premier's successor, is still seen as an interim deputy. Ghafar, meanwhile, is believed to be actively trying to

consolidate his position within the party by unifying factions opposed to Anwar's meteoric rise in the party under Mahathir's patronage. In fact, there was also much speculation that Anwar was preparing to challenge Ghafar for the deputy president's post in the November party election. Anwar probably feels that it is expedient that he contest the post for his own political survival — he faces the risk of being overlooked as UMNO deputy president if Ghafar were to succeed Mahathir.

In an attempt to ensure that MRCB is well supplied with projects to ensure its viability, it is believed that the company will soon be the recipient of a number of privatised contracts. In fact, in July 1993, MRCB, along with another UMNO-linked company, Kinta Kellas, submitted a proposal for the government's commercial vehicle inspection system privatisation project (*The Star*, 29/7/93). Later that month, MRCB also announced its intention to acquire an 80 per cent stake in Sikap Power Sdn Bhd, an obscure company which, however, was given the licence to set up a RM3.4 billion power generation plant, only one of two companies in the country which are licensed independent power producers (*The Star*, 3/7/93). Sikap Power was then also to acquire a majority interest of 35.6 per cent in a publicly-listed company, Malakoff Bhd. In May 1993, MRCB had also disclosed that it would be part of a consortium, comprising Sime Darby Bhd, Tenaga Nasional, and a subsidiary of Negeri Sembilan's State Economic Development Corporation (SEDC), to construct and operate a power plant in Negeri Sembilan (*NST*, 25/6/93).

Reports linking Anwar to The New Straits Times Press and TV3 management buy-out, however, have yet to be verified. Anwar, for his part, has resolutely denied allegations linking him to corporate circles. The Finance Minister, however, remains under close scrutiny; since his appointment to the Treasury, there has been an inordinate rise in the takeover of listed companies by politicians and businessmen closely associated with him. Such ties have been particularly obvious in the case of publicly-quoted Idris Hydraulic Bhd, once controlled by UMNO's cooperative, KUB.

3.6: Koperasi Usaha Bersatu Bhd

Koperasi Usaha Bersatu Bhd (KUB) was established on 7 July 1977. Formed during Hussein Onn's term as UMNO president, the cooperative was a response to demands from party members — who had watched the success of the MCA's cooperative, KSM — that an avenue be created for party members to pool their resources for investment purposes and to function as a base for Malay participation in business. The structure of the cooperative was similar to that of the party, with liaison chiefs and constituency networks stretching into most villages in the peninsula. Although UMNO itself had a membership approaching one million and had sought to actively promote the cooperative, KUB's membership, however, only stood at a meagre 100,000 by 1984 (*Berita Harian*, 9/2/84).

Notwithstanding its poor membership, the cooperative grew rather swiftly, primarily under government patronage. By the mid-1980s, its assets totalled almost RM1.48 billion (*NST*, 25/5/88). Although UMNO politics was not to interfere with the affairs of the cooperative, KUB's swift growth, its extensive network, and enormous asset backing made it an important channel for patronage. Since KUB had a branch in every parliamentary constituency in Peninsular Malaysia, directorship of the cooperative was also an important avenue for ascent up the UMNO hierarchy. It is also significant that a number of UMNO leaders were also directors of KUB.[74]

Operating at two levels — at the level of the cooperative itself and at the level of its subsidiaries — KUB commenced operations with a paid-up capital of between RM18 and RM20 million. It has since been engaged in construction, trading, plantation, and property development. To co-ordinate the activities of its subsidiaries, the cooperative established a holding company, Sykt. PKB Sdn Bhd, later renamed Permodalan Bersatu Bhd (PBB) (*NST*, 25/5/88).[75]

PBB was incorporated on 29 November 1979 as a wholly-owned subsidiary of KUB. PBB's first two directors were Kamarul Ariffin, then Bank Bumiputra chairman, and Dr Agoes Salim, then Bank Pertanian chairman; both banks are government-owned. Both men were also directors of KUB, with Kamarul Ariffin then acting as KUB's chairman (Gomez, 1990: 142-43).

Soon after its incorporation, KUB, in exchange for PBB shares and capitalization of loans, injected a number of its subsidiaries into PBB. These subsidiaries included Perumahan KUB Sdn Bhd, Usaha Telapak Sdn Bhd, Sri Saujana Development Corporation Sdn Bhd, Jaya Usaha Bersatu Sdn Bhd, and Kumpulan Ladang Bersatu Sdn Bhd; most of them were minor property development companies. Profitable in 1981 and 1982, PBB, with loan capitalizations from KUB, diversified further by acquiring companies such as JUB Credit & Leasing Sdn Bhd, Talasco Insurance Sdn Bhd, and Kewangan Usaha Bersatu Bhd (KUBB), all involved in the financial and insurance sectors, and Advanced Electronic Sdn Bhd, which is engaged in the manufacture and marketing of electronic appliances. PBB's most important acquisition, however, was its 34.35 per cent stake

in publicly-listed Idris Hydraulic in November 1981. The Idris Hydraulic equity was acquired from Straits Trading Company Ltd, a subsidiary of the Singapore-based Oversea-Chinese Banking Corporation (OCBC) (Gomez, 1990: 143-44). The OCBC Group was also the ultimate holding company of United Engineers Ltd, which sold publicly-listed United Engineers (M) Bhd (UEM) to another UMNO holding company, Hatibudi, in 1985.

PBB's acquisition of Idris Hydraulic was surprising since the latter was then only a small and ailing company whose mining activities were being phased out; yet, PBB paid an exorbitant RM14 per share, the total amounting to RM6.15 million cash. Following this, since PBB had exceeded the 33.3 per cent trigger off point, it had to make a general offer for the rest of the Idris Hydraulic shares; PBB ended up with a massive 79.8 per cent stake in the ailing company. Since Idris Hydraulic was acquired primarily because of its listed status, it was thus rather strange that the company was left basically dormant for the next two years, its earnings coming mainly from existing investments (*FEER*, 2/8/84).

It was only after Harun Idris' appointment as KUB chairman in January 1983 — Agoes Salim had been acting chairman after Kamarul Ariffin's resignation in October 1982 — and Mahathir's appointment of Ibrahim Mohamed and Azman Hashim[76] to PBB's board in July 1983, that a reconstruction scheme was proposed to revive Idris Hydraulic and make it KUB's main vehicle for corporate expansion.[77]

During Idris Hydraulic's reconstruction, PBB, through a share-swap, injected four companies into the listed company — KUBB, Advanced Electronic, Masa Merdeka Sdn Bhd, and Mengawarti Sdn Bhd.[78] Part of this equity-swap exercise involved Idris Hydraulic's acquisition of 100 per cent of Talasco Insurance's equity, 40 per cent of which came from PBB. Just a few weeks before Idris Hydraulic's takeover of Talasco Insurance, PBB had acquired its stake in Talasco Insurance for RM2.25 per share; PBB, however, valued each Talasco Insurance share at RM3.72 during its sale of the insurance company's shares to Idris Hydraulic, thus making a huge capital gain from the sale (*The Star*, 27/9/83).

On 20 September 1984, the cross-transactions and share-swaps between PBB and Idris Hydraulic continued with the latter announcing its intention to acquire from PBB a 61.8 per cent stake in Sykt. Permodalan & Perusahaan Perak Bhd (SPPPB), a Perak-based investment group which PBB had acquired only a year earlier.[79] SPPPB has an indirect 26 per cent interest in a publicly-listed company, Gadek (M) Bhd, held through its wholly-owned subsidiary, Perinding Plantations Sdn Bhd. Gadek, which is involved in the cultivation and marketing of rubber and oil palm, was listed on the KLSE in July 1978 (*BLS*). Sitting on Gadek's board of directors is Mohd Tamrin Abdul Ghafar, an UMNO Member of Parliament and son of Deputy Prime Minister Ghafar Baba. Tamrin, who has a direct 3.14 per cent stake in Gadek, was also chairman of government-owned MARA and director of a number of other listed companies (*KLSE Annual Companies Handbook*, 1991: 868-70).

Despite its interest in Gadek, SPPPB's most important asset, when it was acquired by Idris Hydraulic, was its 77 per cent-owned subsidiary, Peramining Sdn Bhd, which in turn had a 41.5 per cent stake in Kwong Yik Bank Bhd; the bank's major shareholder, with a 51.5 per cent stake, was Malayan Banking Bhd. The remaining 23 per cent of Peramining's equity was owned by Azman Hashim who in fact had served as chairman of the Kwong Yik Bank. Following the SPPPB takeover, Idris Hydraulic made several concerted but unsuccessful efforts to purchase Malayan Banking's interest in Kwong Yik Bank. In August 1986, however, Idris Hydraulic's proposed acquisition of SPPPB was aborted. And on 12 November 1988, it was Malayan Banking which managed to acquire Peramining's stake in the Kwong Yik Bank, via an exchange which gave Peramining a small stake in Malayan Banking (Gomez, 1990: 149-51). The swap gave Malayan Banking more than 90 per cent ownership of Kwong Yik Bank's equity.

On 12 October 1984, less than a month after the proposed acquisition of SPPPB was announced, Idris Hydraulic also proposed to acquire PBB's 15 per cent stake in Selangor Properties Bhd (Selprop), a publicly-listed company which is one of the country's largest property development concerns.[80] Idris Hydraulic also planned to procure PBB's 30 per cent stake in Pusat Bandar Damansara Sdn Bhd (PBD), whose other shareholders were Selprop's wholly-owned Bungsar Hill Development Sdn Bhd (50 per cent) and Ibrahim Mohamed (20 per cent). In July 1987, both these deals were also abandoned as Idris Hydraulic's financial standing began to decline, due primarily to the economic recession. Although it was not incumbent on it to do so, PBB agreed to transfer 4.3 million Selprop shares to Idris Hydraulic for the deposit already paid (Gomez, 1990: 152-57).

Apart from these deals involving Idris Hydraulic, PBB was also involved in a number of property development ventures with MCA-linked companies. These undertakings stemmed primarily from the close alliance between Ibrahim Mohamed and former MCA president, Tan Koon Swan, then managing director of the party-controlled listed holding company, Multi-Purpose Holdings. In September 1983, Multi-Purpose Holdings and PBB agreed to establish a joint-venture, Multi-Purpose Bersatu Develop-

ment Sdn Bhd, to develop an integrated township in Kepong, on the outskirts of Kuala Lumpur. PBB held 49 per cent of the joint-venture's equity and Multi-Purpose Holdings the remaining 51 per cent. Six months later, another joint-venture, Bersatu Raya Development Sdn Bhd, was formed between PBB and a publicly-listed company controlled by Multi-Purpose Holdings, Bandar Raya Developments Bhd. PBB held 51 per cent and Bandar Raya Developments the rest of the equity in this joint-venture, which was also to develop another township in Cheras, on the outskirts of the city. PBB also teamed up with Multi-Purpose Holdings to develop West Country Estate on a 50-50 basis (Gomez, 1990: 157-60). Although the equity in all three joint-ventures was rather evenly divided between PBB and Multi-Purpose Holdings, all the properties in the ventures were contributed by Multi-Purpose Holdings. Interestingly, it was only after the joint-ventures were formed that the Selangor state government gave approval for conversion of the land in Kepong and Cheras for property development (*Business Times*, 29/12/84).

Although Koon Swan had referred to these deals as "the beginning of a lasting and beneficial relationship" (*Business Times*, 14/9/83), two years later, in November 1986, Bandar Raya Developments divested its stake in Bersatu Raya Development to PBB. In January 1987, Magnum Corporation Bhd, a publicly-listed subsidiary of Multi-Purpose Holdings, secured the entire paid-up capital of Multi-Purpose Bersatu Development, renaming it Sri Damansara Sdn Bhd. Magnum Corporation later sold its total equity in Sri Damansara to Land & General, a company controlled by Wan Azmi Wan Hamzah. The divestment of the highly lucrative Sri Damansara provoked a controversy within the MCA.[81] Magnum Corporation also ended up owning 44.46 per cent of West Country Estate.

KUB's poor state of operations was reflected in its dismal financial performance. Since 1982, the cooperative had begun to register losses, which peaked in 1986 at a colossal RM114.75 million. In 1987, KUB failed to submit its accounts to the Registrar General of Cooperatives. When in 1987, the intense factionalism in UMNO began to affect the party's business interests, those loyal to Mahathir did not hesitate to expose KUB's dire financial position, as the cooperative was controlled by leaders closely associated with Razaleigh. One of the disclosures made by UMNO Youth was that KUB had incurred debts totalling RM211 million and had become capital deficient. The cooperative's machinery and funds had apparently also been used to organize political *ceramah* (gatherings) "not for UMNO, but for sectional interests" (*NST*, 25/5/85). UMNO Youth later filed a police report alleging irregularities in the running of KUB.

KUB's accounts were so heavily qualified by its auditors that they had to add a disclaimer to it. In a circular dated 22 November 1988, the Director-General of Cooperatives informed KUB members that since the auditors could not give their views for the 1985 accounts, and since the 1987 accounts had not been submitted, the members would "not be able to know the position and developments of Koperasi Bersatu" (*The Star*, 30/5/88). Despite the allegations of fraud and clear evidence of poor management, the members, at KUB's Annual General Meeting in 1988, still re-elected the incumbent directors, thus virtually vindicating them of the allegations made against the cooperative. It was, however, very probable that the re-election of the cooperative's directors was based more on political, rather than business, considerations. KUB's chairman, Harun Idris, however, did make concessions, promising to appoint auditors to get to the bottom of the cooperative's finances (*Malaysian Business*, 6/6/88).

Some management changes were made, and Marina Yusof, who was appointed managing director of Idris Hydraulic, instituted a few changes which helped to marginally improve the performance of the company and its subsidiaries. For example, for the first time in several years, Idris Hydraulic reported a pre-tax profit of RM10 million in December 1989; although the company had suffered a loss of RM10.78 million in 1990, it registered a pre-tax profit of RM16.28 million the following year (*The Star*, 2/7/92). Idris Hydraulic's financial wing, KUBB, declared a profit of RM20 million in 1990, which wiped out its accumulated debts. Talasco Insurance, though still facing a major gearing problem, had been revived to some extent by the intervention of Bank Negara. Idris Hydraulic's manufacturing arm, Advanced Electronic, had also begun to record profits (*Malaysian Business*, 1/4/91). In an effort to revive Idris Hydraulic, at least four restructuring schemes had been proposed since 1988, all of which were rejected by the approving authorities (*The Star*, 8/10/90). Since KUB and Idris Hydraulic were then under the control of the opposition Semangat 46, rumours surfaced that UMNO had used its influence over the bureaucracy to thwart any attempt to revive the cooperative and its listed vehicle, an allegation strongly denied by UMNO leaders (see *FEER*, 17/1/91).

3.6.1: Takeover by Tanjung Layang

These denials rung hollow when UMNO businessmen closely associated with the party leaders obtained a 30 per cent stake in Idris Hydraulic in January 1991. The acquiring vehicle was a RM2 investment holding company, Tanjung Layang (M) Sdn Bhd, whose shareholders were Ishak

bin Ismail and Abdul Aziz Mohamad (*NST*, 19/1/91).[82] Ishak, who had been a director of KUB for a number of years, had also served as secretary for UMNO's Permatang Pauh division, whose chairman is Finance Minister Anwar Ibrahim; this fed rumours that Ishak was acting on behalf of Anwar. Abdul Aziz was a former civil servant who had been managing director of Harrisons & Crosfield Sdn Bhd from 1974 until 1990 (*The Star*, 19/1/91).

In September 1992, Ishak emerged as a director of Grand Care Sdn Bhd, which had a majority stake in Wembley Industries Holdings Bhd, publicly-listed in August 1992. Another director of Grand Care is Mohamed Sarit Haji Yusoh who had served as Anwar Ibrahim's political secretary (*The Star*, 11/9/92). A month later, in October 1992, Ishak and Mohamed Sarit were disclosed as having acquired a 32 per cent stake in publicly-listed Golden Plus Holdings Bhd (formerly Dayapi Industries), a minor but profitable property development and quarrying firm; it had earlier been speculated that Ishak's acquisition into Golden Plus was undertaken on behalf of Idris Hydraulic (see *NST*, 23/10/92). The chairman of Golden Plus is Ahmad Razali, the former Mentri Besar of Selangor and brother-in-law of Prime Minister Mahathir. In December 1992, Golden Plus acquired a substantial stake in another publicly-listed concern, the fast-food operator, KFC Holdings (Malaysia) Bhd, then controlled by Innovest Bhd, another quoted concerned then deeply mired in debt (*NST*, 9/12/92).

Following the takeover by Tanjung Layang, Harun Idris, Rais Yatim, and Zainal Abidin Zin, all prominent Semangat 46 leaders, resigned as directors of Idris Hydraulic. Although Marina Yusof kept her post as managing director, apparently because her three-year contract had not yet expired, she was soon replaced by Ishak (*NST*, 19/1/91).

Tanjung Layang is believed to have acquired at least 5 per cent of Idris Hydraulic's equity from KUB and PBB; the cooperative, along with Idris Hydraulic, had been under the control of the Official Assignee since 1988 when UMNO had been ruled illegal. By July 1990, PBB's majority stake in Idris Hydraulic had dropped to an almost scant 4 per cent since the company's stake in the listed company was being sold by financial institutions in an attempt to recover outstanding loans from PBB. Apart from buying Idris Hydraulic shares in the open market, Tanjung Layang was also reported to have acquired a stake from Harun Idris, who had returned to UMNO's fold (see *NST*, 19/1/91). In fact, between December 1990 and January 1991, Idris Hydraulic was the most actively traded counter on the Kuala Lumpur bourse, which resulted in its share price more than doubling, necessitating a query from the KLSE (*The Star*, 27/2/91).

Tanjung Layang was reported by the *Far Eastern Economic Review* (17/1/91) to have obtained the funds for the Idris Hydraulic takeover from another UMNO-linked company, Technology Resources Industries; although the report was described as "inaccurate" (see *The Star*, 25/1/91), the *Review* stood by its report (see *FEER*, 14/3/91). Meanwhile, former Defence Minister, Tengku Ahmad Rithauddeen, was appointed chairman of Idris Hydraulic while Ishak was named his deputy (*NST*, 27/2/91). Rithauddeen is also the director of another publicly-listed company controlled by UMNO, Kinta Kellas.

One month after Tanjung Layang's takeover, Idris Hydraulic announced a restructuring exercise involving a one-for-one rights issue to increase its paid-up capital from RM136.25 million to RM272.49 million comprising 545 million 50 sen shares. The proceeds from this exercise were to be utilized to increase the capital of some of Idris Hydraulic's subsidiaries, to repay bank loans, and to function as working capital (*NST*, 27/2/91).

Apart from this, in an effort to strengthen its base in the financial sector, Idris Hydraulic proposed to venture into stockbroking (*Business Times*, 12/7/91). Idris Hydraulic was also reportedly interested in acquiring a substantial stake in Malaysia's third largest bank, UMBC, which was put up for sale by government-owned Pernas (see *The Star*, 27/2/91). UMBC, however, chose to pursue a merger with D&C Bank, the country's fifth largest bank (*Malaysian Business*, 1/4/91). Apparently unperturbed by what appeared to be a rebuff, Idris Hydraulic was then strongly rumoured to be making a bid for 30 per cent of publicly-listed MUI Bhd, which controls the MUI Bank. Ishak, who was believed to have acquired a 4 per cent stake in MUI, denied the possibility of any takeover attempt by Idris Hydraulic (*The Star*, 12/7/91).

Idris Hydraulic has, however, secured an 80 per cent stake in Promet (Langkawi) Resorts — the Kedah State Economic Development Corporation (SEDC) owns the remaining 20 per cent — which is to develop a 457 hectare site in Pulau Langkawi (*Business Times*, 31/7/91). The company has also secured a 40 per cent stake in Kuala Perlis Langkawi Ferry Services Sdn Bhd which provides passenger ferry services in Malaysia, Thailand, and Indonesia (*NST*, 5/8/91). Masa Merdeka, Idris Hydraulic's property development arm, was used in December 1991 to acquire a piece of development land in Johore Baru and three dormant property development companies, which collectively owned almost 100 hectares of land in Selangor.[83] In April 1992, Masa Merdeka announced its intention to develop the land into a RM100 million residential development project (*The Star*, 23/12/91 & 11/4/92).

At the cooperative level, in May 1991, almost five months after Tanjung Layang's takeover of Idris Hydraulic, Harun Idris lost the chairmanship of the cooperative at KUB's Annual General Meeting. A number of UMNO Supreme Council members — among them, Rahim Bakar, Kathijah Mohd Som, Ahmad Bahri Abdul Rahman, and Hassan Harun — were elected new directors. Rais Yatim, Zainal Abidin Zin, and Kelantan Deputy Mentri Besar (Chief Minister), Rozali Isohak, although members of Semangat 46, retained their directorships as their term of office had not yet ended. Harun Idris' removal was attributed to the RM95.8 million accumulated losses KUB still had to shoulder, although this was a drop from the RM134.3 million registered the previous year (*The Star*, 6/5/91).[84] Harun Hassan, UMNO Kelantan's Information chief, was appointed by Mahathir as KUB's new chairman (*The Star*, 18/11/91). With KUB now firmly under UMNO control, the party's youth wing retracted the police report it had filed three years previously, in which it had alleged criminal breach of trust in the cooperative (*NST*, 11/9/91).

On 11 October 1991, Idris Hydraulic diversified into a new line of business — timber product manufacturing — by acquiring a 35 per cent stake in Pembangunan Papan Lapis (Sabah) Sdn Bhd (PPL) and 190,000 hectares of timber concessions in Sabah. The PPL stake was to be acquired from another publicly-listed company linked to UMNO, Aokam Tin, for RM72 million. Since the deal involved a part-cash-part-share swap, this meant that Aokam Tin was acquiring an interest in Idris Hydraulic (*NST*, 14/10/91).

According to the terms of the deal, Idris Hydraulic was to pay Aokam Tin the RM72 million through the issue of 100 million new 50 sen shares, valued at 65 sen per share, and RM7 million cash (*The Star*, 14/10/91). Idris Hydraulic's proposal meant that Aokam Tin would make an extraordinary gain of RM25 million from the sale of PPL, and still retain majority control of the lucrative timber company (*Malaysian Business*, 1/2/92). Following its acquisition of PPL, Aokam Tin's performance improved markedly; the company was expected to declare a pre-tax profit of RM30.2 million in 1992, compared to its loss of RM1.2 million in 1990 (*NST*, 9/7/92; *Business Times*, 9/7/92).

In a move to revive the ailing KUB, UMNO president Mahathir launched a massive campaign to bolster its membership — which stood at a mere 112,000 in 1991 — and to raise funds (*The Star*, 7/11/91). Although some of KUB's less profitable subsidiaries were sold, its investment holding company, PBB, remains a major problem.

By 1988, apart from its interests in Idris Hydraulic, SPPPB, Selprop, and Bersatu Raya Development, PBB had direct interests in Perumahan

KUB (100 per cent), Hanidel Sdn Bhd (100 per cent), Usaha Telapak (55 per cent), Jati Discounts (36.8 per cent), and Verein Sdn Bhd (100 per cent); PBB later acquired an interest in Kumpulan Ladang Bersatu (100 per cent), SIE Manufacturing (31 per cent), and Waikiki Beach Hotel. Despite these numerous investments, PBB has been struggling to stay afloat. In fact, company records reveal that the holding company is so financially unsound that it faces imminent liquidation; in July 1991, UAB served a winding-up notice in the High Court on PBB for an outstanding debt of RM3.2 million. By September 1990, although PBB had a paid-up capital of RM23.7 million, its accumulated debts totalled RM33.96 million. Its accounts for 1989 revealed that the PBB group had heaped up losses totalling RM99.76 million.[85] PBB's stake in Idris Hydraulic had also plummetted from 50.7 to 14.1 per cent as banks sold the shares of the listed company to recover their debt; most of its remaining equity in Idris Hydraulic was later sold to Tanjung Layang. In another attempt to raise funds to settle its debts, PBB sold its entire interests in Bersatu Raya Development to KUB for RM1.54 million. Bersatu Raya Development, which had a capital deficiency of RM25.2 million in 1987, itself had to sell 304.3 hectares of its land base to raise RM53.23 million to settle its own outstanding loans. PBB also reduced its stake in SPPPB from 61.8 per cent to 30.7 per cent by selling 9.2 million SPPPB shares for RM15.64 million, despite incurring an extraordinary loss of RM5.52 million. In 1987, PBB sold a substantial portion of its equity in its other publicly-listed concern, Selprop, for an extraordinary gain of RM36.1 million.

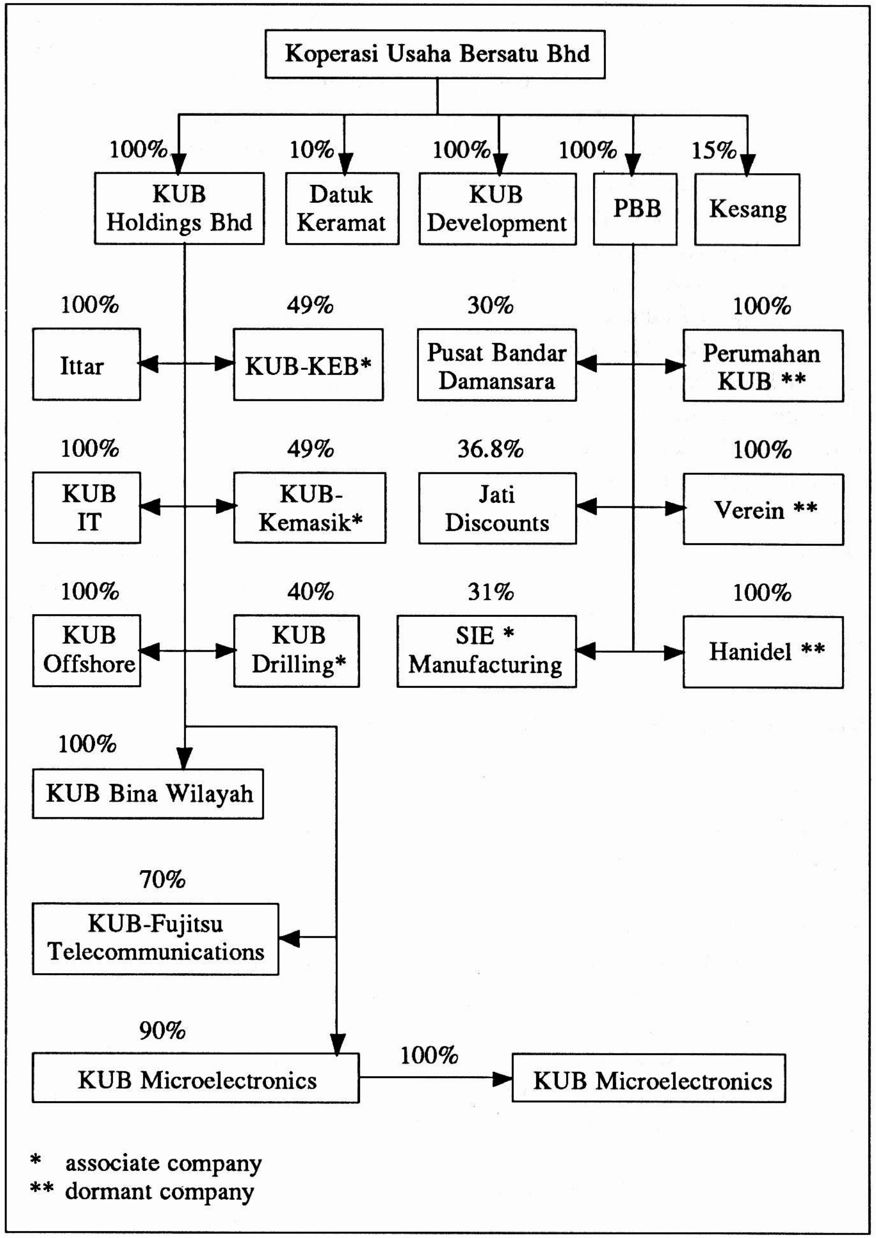
Independently of PBB, however, KUB is moving into a range of diverse activities including computer diskette manufacturing (through its acquisition of a 90 per cent stake in Menang Electronics Sdn Bhd, since renamed KUB Microelectronics, and an 80 per cent interest in KUB Software Craft Sdn Bhd), oil and gas industry, as well as education and information technology (through its 60 per cent stake in KUB-Datacentralen Sdn Bhd) (*NST*, 19/9/91; *The Star*, 24/12/91). KUB also acquired a 40 per cent stake in KUB Drilling Sdn Bhd which is expected to manage drilling ships (*The Star*, 2/12/91). The cooperative also intends to establish a private college, Institut Teknologi Tun Abdul Razak, and has submitted a proposal to take over the government's Industrial Training Institute in Penang (*The Star*, 2/12/91 & 19/6/93). KUB is also considering venturing into the hotel industry by building two hotels — one in Kuala Lumpur's golden triangle area and the other in Pulau Langkawi (*The Star*, 17/6/93). KUB, however, has gained much prominence since early 1993 from its active acquisition of a number of publicly-listed companies.

In early 1993, KUB bought into Datuk Keramat Holdings Bhd, a minor and ailing British-controlled publicly-listed company involved in tin mining. Although it had no previous banking experience, Datuk Keramat had emerged in July 1992 with a serious bid to purchase UMBC, Malaysia's third largest bank, from government-owned Pernas. Majority control of Datuk Keramat Holdings was, in turn, being taken over by a Bumiputera company, Meridien Best Sdn Bhd. In the intricate transaction, Bakti Kilat Sdn Bhd, a wholly-owned subsidiary of Meridien Best, was to initially acquire a 20 per cent stake in UMBC. Bakti Kilat would then be sold to Datuk Keramat Holdings via a share-swap which would give Meridien Best a 30.3 per cent control of the ailing Datuk Keramat Holdings. Pernas would also be acquiring a 20 per cent stake in Datuk Keramat Holdings. The reason for this rather odd decision by Pernas, which meant that it would retain indirect control of UMBC, was not disclosed. Interestingly, Meridien Best is owned by Mohamed Noor Yusof, reportedly a close associate of Anwar Ibrahim and a former political secretary of Prime Minister Mahathir Mohamad. He is currently chairman of an UMNO-controlled listed entity, Sistem Televisyen (M) Bhd (TV3), and has also served as a director of KUB (see *The Star*, 20/7/92 & 22/7/92).[86] Despite Datuk Keramat Holdings' lack of banking experience and the political links of the businessmen who were behind its takeover and that of UMBC, Anwar's Finance Ministry went on to approve the takeover bid. KUB's acquisition into Datuk Keramat Holdings thus gave the cooperative an indirect stake in one of the country's largest financial institutions. By June 1993, the major shareholders of Datuk Keramat Holdings were Meridian Best (32.8 per cent), KUB (10 per cent), and Pernas (7.7 per cent) (*NST*, 2/7/93).

In mid-1993, KUB acquired a 15 per cent stake in a weak listed property development concern, Kesang Corporation Bhd, later renamed Damansara Realty Bhd. Originally involved in tin mining and owned by Choo Ching Hwa, a prominent businessman and MCA leader, the company was taken over in 1986 by Safuan Holdings Sdn Bhd, the holding company of Bumiputera businessman Matshah Safuan who is also an UMNO member. Among the directors of Kesang Corporation was Ramli bin Kushairi, another UMNO member who had served as a director of KUB (Cheong, 1990: 39-43).[87]

Following its takeover of Kesang, KUB announced a share acquisition scheme for its members which involved the listed company: any KUB member who had invested between RM500 and RM900 in the cooperative was eligible to buy 1,000 Kesang shares, while those who had invested more than RM1,000 could buy a maximum of 2,000 Kesang shares. The

FIGURE 3.15
KUB Corporate Structure in Early 1993



Source: Malaysian Business, 1/10/92.

scheme was evidently a means to increase the cooperative's membership, which it did — membership swelled from 116,000 to 184,000 months after the launching of the scheme; in the process, the cooperative raised RM84 million in revenue. Among the new directors appointed to Kesang's board was Ibrahim Mohamad who had been a director of KUB, PBB, and Idris Hydraulic; Ibrahim Mohamad also acquired a substantial 16 per cent stake in Kesang (see *The Star*, 2/6/93; *Malaysian Business*, 16/6/93).[88] (See Figure 3.15 for KUB's corporate structure in early 1993.)

KUB's most ambitious and controversial deal was its joint-venture with the Japanese conglomerate, Fujitsu Ltd, to supply digital telephone equipment to Sykt Telekoms (M) Bhd (STM), a privatised entity in which the Ministry of Finance Inc, the Finance Ministry's holding company, held a majority stake. The joint-venture was one of five companies successful in their bids for the massive RM2 billion supply contract. The awarding of the contract to KUB embarrassed Finance Minister Anwar because, apart from the UMNO-linked cooperative, another recipient of the STM contract was the joint-venture between Alcatel and the *Yayasan Bumiputera Pulau Pinang* (Pulau Pinang Bumiputera Foundation). Anwar had long been chairman of Yayasan Bumiputera Pulau Pinang, resigning only in 1991. The Finance Minister insisted that the award of the contract had been aboveboard and that the decision on the tenders had been made solely by the directors of STM (*NST*, 12/4/92).[89]

3.7: Emerging UMNO-Linked Companies

3.7.1: Setron (M) Bhd

Another company which has come to be associated with UMNO since 1991 is publicly-listed Setron (M) Bhd. The company, incorporated on 29 September 1971 and listed on the KLSE in January 1976, was formed to take over the activities of Singapore-based Setron Ltd, which was involved in the manufacture of electrical products and the marketing of pharmaceuticals, computers, and software products. In April 1982, Setron acquired Scott & English Sdn Bhd from Haw Par Brothers International Ltd of Singapore via a share-swap; Haw Par ended up with a 58.1 per cent stake in the company. In 1985, in compliance with the Bumiputera equity requirements of the NEP, Haw Par divested 27 per cent of its interests to the Yayasan Bumiputera Pulau Pinang and Abdul Murad bin Ahmad (*KLSE Annual Companies Handbook*, 1988: 632-34; Cheong, 1990b: 73-75).

By June 1991, Setron's major shareholders were Abdul Murad with a 23.99 per cent stake, Haw Par with 26.84 per cent, and Yayasan Bumiputera Pulau Pinang with 11.85 per cent. Around the same period, another new major shareholder in Setron was former Selangor Mentri Besar and brother-in-law of Prime Minister Mahathir, Ahmad Razali Mohamad Ali, who had acquired a 6.2 per cent stake through Artic Builders (M) Sdn Bhd and Sun Conventional Investment and Trading Pte Ltd, in which he holds a 49 per cent and 51 per cent stake respectively (*NST*, 19/6/91 & 11/11/91).

The Yayasan Bumiputera Pulau Pinang, whose chairman from 1988 until 1991 was Finance Minister Anwar Ibrahim, was established by the Penang UMNO to help Malays of that state improve their economic position through business; it was reputedly Anwar's main political base in the state. Anwar resigned as chairman of the Yayasan in April 1991, soon after his Treasury appointment and disclosurse of his indirect link to Setron, declaring "I want to make it clear that I am not a businessman, and I don't have any proxies.... I am not favouring any particular individual or company" (*Malaysian Business*, 1/1/92). The new deputy Chief Minister of Penang, Dr Ibrahim Saad, Anwar's political secretary between 1982 and 1986, was appointed chairman of the foundation.

In July 1991, Ahmad Razali was appointed Setron's chairman. Another new director named that month was Kamarudin Jaafar, the former political secretary of Deputy Prime Minister Ghafar Baba and secretary-general of Angkatan Belia Islam Malaysia (ABIM) from 1981 to 1985; Anwar Ibrahim was a long serving president of ABIM before he was inducted into UMNO (*The Star*, 18/7/91). These new board appointments arose out of a campaign waged by Setron's major shareholders to remove then chairman, Syed Mohamad Syed Murtaza, and managing director, Abdul Murad, both of whom were then believed to be close allies of Anwar (*The Star*, 16/7/91). Syed Mohamad, for example, was an influential UMNO Penang member and also director of the Yayasan Bumiputera Pulau Pinang. The conflict was ostensibly over Setron's decision to acquire Ireka Construction through a share-swap and the fact that Setron, once a modestly profitable counter, had begun to register major losses. Syed Mohamad and Abdul Murad were later suspended and an Extraordinary General Meeting (EGM) was called to remove them as directors (*Business Times*, 11/11/91).

In the event, Syed Mohamad resigned before the EGM was held on 11 December 1991, while Abdul Murad was dismissed when the EGM voted strongly against him. Among the Setron shareholders who voted against Abdul Murad were the representatives of the Yayasan Bumiputera Pulau Pinang (*The Star*, 12/12/91). This appeared to confirm strong speculation that Finance Minister Anwar had fallen foul of Abdul Murad and Syed Mohamad for "over-using" his name and their close relationship in their

business deals. In fact, almost all analysts agreed that although Setron had been performing badly, the boardroom tussle "was purely political" and that Anwar was not averse to the idea of a takeover (see *Malaysian Business*, 1/1/92; *AWSJ*, 13/3/91).

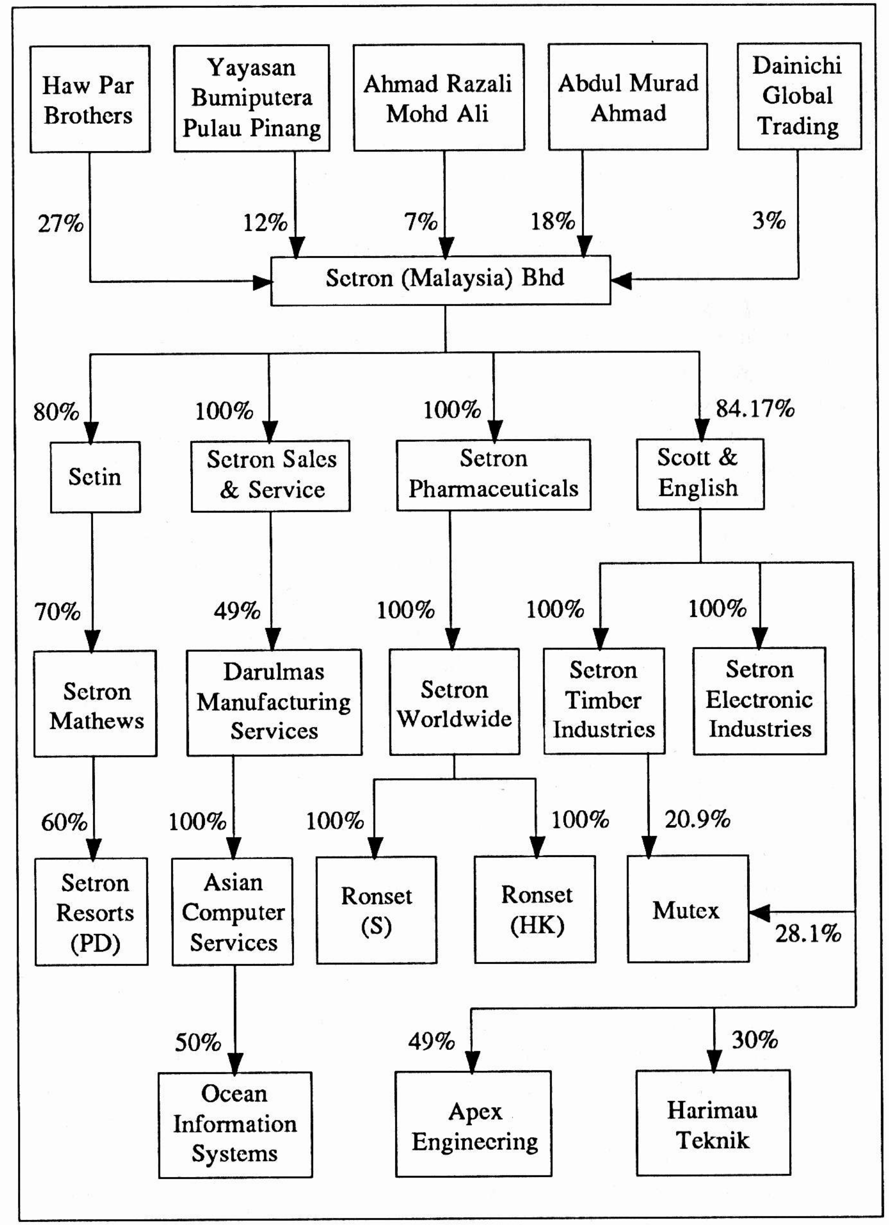
Speculation over the contest for control of Setron has been linked to the government's impending award of a licence for a second private television network. Although market speculation has long been that the most likely recipient would be the Melewar Group, controlled by Tunku Abdullah Tuanku Abdul Rahman, an old friend of Mahathir from the Negeri Sembilan royal family, it is also expected that Setron may be part of the consortium which will operate the private television network (see *The Star*, 16/7/91 & 18/7/91).

A recent new shareholder of Setron is Dainichi Global Trading Sdn Bhd, whose directors are Kamarudin Jaafar and Wan Nordin Che Murat. Dainichi is also believed to be linked to another businessman closely associated with UMNO, Ahmad Sebi, who once served as director of The New Straits Times Press, TV3, and Kampung Lanjut Tin Dredging, all UMNO-related companies.[90] Following the removal of Abdul Murad, Wan Nordin Che Murat — who has only a minor 3 per cent stake in Setron — was appointed the company's Chief Executive. Although he has admitted being an acquaintance of Ahmad Sebi, Wan Nordin has denied the latter's involvement in Dainichi (*Business Times*, 9/11/91). While Wan Nordin may not be directly linked to UMNO, sitting on Setron's current board of directors are several prominent UMNO members, among them, chairman Ahmad Razali and Kamarudin Jaafar. Mohd Desa Pachi, formerly a director of Fleet Group, TV3, and The New Straits Times Press, is also a director of Setron (*NST*, 30/6/92).

Meanwhile, Setron has still not been performing well. In December 1991, after declaring a pre-tax loss of RM16.27 million, Setron also announced its intention to divest its 84.2 per cent stake in the trading concern Scott & English Sdn Bhd, probably its most important subsidiary (*The Star*, 1/6/92, *NST*, 4/7/92; see Figure 3.16).

It appears that the major shareholders and members of Setron's board of directors, like those of Idris Hydraulic, have close links with Finance Minister Anwar. As with Idris Hydraulic, The New Straits Times Press, TV3, and other minor listed companies like Golden Plus, Wembly Industries, and KFC Holdings, Setron's political ties, however, are not distinct and no major conflict-of-interest situations yet appear to have surfaced. Nevertheless, Anwar's faction in UMNO appears to be gathering much political clout because of its business alliances, enhancing general

FIGURE 3.16
Setron's Corporate Structure



Source: Malaysian Business, 1/1/92.

presumption that if Anwar were to eventually take over the presidency of UMNO, money politics will continue to form an integral aspect of party affairs.

3.7.2: Putra World Trade Centre

The Putra World Trade Centre (PWTC), which houses UMNO's impressive headquarters, is another major entity which reflects the inroads made by politics on business as well as the party's dominance over institutions, especially financial ones, controlled by the government.

According to party officials, some of the funds for the RM400 million PWTC, a project first mooted in 1972, were obtained from UMNO's Building Fund, which provided RM70 million, and the sale of shares held by the party, which contributed another RM80 million. In 1983, a RM200 million loan was secured from government-owned Bank Bumiputra and another RM60 million loan from Malayan Banking, a listed bank controlled by the government through PNB (*NST*, 8/12/89). By December 1988, the total loan amount due to Bank Bumiputra had climbed to RM308.47 million (*The Star*, 18/3/88). UMNO's loan to Malayan Banking had also increased to RM60.4 million during the same period. These were not the only loans accruing to UMNO. The party also owed UMBC RM14.16 million and the Perwira Habib Bank RM13.29 million (*The Star*, 22/3/89).

In 1989, UMNO President Mahathir himself admitted that the party had also spent at least RM100 million on furniture and fittings and more than RM25 million on audio-visual equipment for the PWTC (*The Star*, 19/11/89 & 8/12/89). Although Mahathir's disclosure was meant to discredit Razaleigh Hamzah, then UMNO treasurer who was responsible for the construction of the PWTC, it reflected nevertheless the ostentation and extravagance which have long been a feature of party affairs and culture.

In order to retrieve the loans it had granted to UMNO, Bank Bumiputra, in 1988, had to file a lawsuit to auction off the PWTC and the land on which it is erected (*The Star*, 13/3/88). Malayan Banking followed suit (*The Star*, 22/3/89). The legal proceedings instituted by Bank Bumiputra were widely believed to be one means to stop UMNO dissidents, who were members of the splinter group Semangat 46, from claiming ownership of UMNO's assets which had been placed with the Official Assignee (see *Mingguan Kota*, 15/1/89; *Harakah*, 6/1/89). Since Semangat 46 claimed to comprise members of the de-registered UMNO, its leaders insisted that they had legitimate rights over UMNO's assets. The Bank Bumiputra lawsuit was also another timely and effective means of discrediting Razaleigh, especially

in the eyes of the Malays, given the upcoming General Elections. Bank Bumiputra dropped its legal suit in August 1991, although the bank had obtained the court order to proceed with the auction in December 1988 (*The Star*, 20/8/91). By 1992, with UMNO increasingly secure in its power, and Semangat 46 in disarray over mass party defections, it appeared that the success of UMNO's bid for the assets held by the Official Assignee was almost assured.

3.8: Conclusion

The influence of money on Malaysian politics is probably best exemplified by UMNO. Money has become such a crucial factor in UMNO politics that politicians have increasingly resorted to the use of money to develop a power base and to amass personal wealth. The impact of money on party politics is an irrefutable cause for the open fracture in the party.

The rise of money politics and UMNO's inherent political fractiousness since the early 1980s can principally be attributed to the increasing centralization of power in the hands of the party president. The potentially destabilizing consequences of this were especially realized in the 1987 power struggle, a contest which is developing again given UMNO's obscure succession line. The factionalism arising out of the spread of money politics also has its roots in the rise in the party membership of a politically influential Malay middle class. The twin problem of accommodating this burgeoning class within the existing power structure and of providing its members with increasingly scarce rent opportunities poses many difficulties that have led to rancorous infighting within the party. In addition to this, rising political ambitions, commendable economic expansion, and modernization have all meant that the Malay cultural values of deference and acquiescence to leaders, for so long deeply entrenched aspects of UMNO tradition, are on the decline. As in the challenge for the party leadership in 1987, however, the current tussle for the leadership is unproductive for it is not the kind of confrontation that will contribute to a transformation of the social order within the party.

The widening rift in UMNO is paralleled by the apparently growing connections between Finance Minister Anwar and businessmen-cum-politicians linked to UMNO's business interests, particularly its cooperative, KUB, and its former listed subsidiary, Idris Hydraulic, and other concerns such as Setron, The New Straits Times Press, and TV3. Although the Finance Minister has gone to great lengths to deny the existence of such links, the present political-business linkages indicate the perpetuation of a

trend set by his predecessor, Daim Zainuddin, that of exploiting political power for patronage and corporate objectives. Control over wealth resources now appears to be an indispensible factor for constructing a political base. The growth of such factionalism, however, also points to the increasing emergence of "vertical" rather than "horizontal" alliances within the party and the material nature of the exchanges arising out of these relationships. Further, each faction in UMNO appears to be setting up its own sources of funding, its own list of candidates, often even operating independently of the party. Under such circumstances, new avenues of power are heavily circumscribed for those who have little or no access to patronage, further reinforcing the power of those already in positions of authority. Patronage networks acquire added significance as cooptation becomes the only available means to ascend the political hierarchy. The business empires built by UMNO — apart from functioning as a vital source for the dispensing of favours and the procuring of new loyalties — have also been exploited as avenues for helping to counter political opposition.

The close links between patronage, money politics, and UMNO affairs became obvious when an economic crisis created by a recession in turn became the primary cause of an intense political rift in the party. The crisis was severe enough to provoke a power contest in 1987 which nearly culminated in a change in the party's top leadership, an unprecedented event in UMNO's then forty-year history. The fissure was so severe that it even threatened UMNO's hegemony in the Barisan Nasional. Although this party infighting led to the de-registration of UMNO and a formal split in the party, these events suggested that more democratic space had been created in spite of increasing authoritarian restraints. The UMNO crisis of 1987 and the General Elections of 1990 also demonstrated that the fissure within the political elite had repercussions on the business elite, affecting both Bumiputera and Chinese capitalists.

Despite the emergence of an opposition multiracial coalition, authoritarianism prevails; the redrawing of constituency boundaries continues to favour the Barisan Nasional; UMNO's control over the media appears to be increasingly consolidated through business organizations and stringent government supervision, censorship, and legislation; political dominance over the bureaucracy and access to state patronage perpetuates the power of UMNO leaders; and the powers of the judiciary and the monarchy are increasingly being circumscribed. All these factors continue to help Mahathir maintain his hegemony over the state. As in 1987, any threat to his dominance over the state apparatus, however, is likely to come from within, rather than outside, UMNO. The near-demise of Mahathir's

leadership in 1987 was precipitated not by the electorate's overwhelming discontent with his administration, the decline of the economy, or even with the brazen corruption and irregularities that have marked the Mahathir era, but by forces once closely aligned to the Prime Minister within UMNO. It was the desertion of Musa and Razaleigh, both once Mahathir's close allies, to form a rival faction in UMNO, comprising mostly disgruntled middle class rent-seekers, that nearly brought about a new leadership for the country. Although the existence of a strong opposing faction was evidence of serious flaws in Mahathir's leadership, a change of economic circumstances in the late 1980s and the development of new avenues for the deployment of patronage through both public and private enterprises were enough to propel Musa and several other Mahathir critics to return to the Prime Minister's side. The experience left Mahathir sufficiently chastened to amend UMNO's constitution to ensure that his hegemony over national politics is impervious to any future assault from within the party. Power contests in the party have since been carried out at second echelon level of the leadership, as is currently the case. Further, by deliberately maintaining an unclear succession line, Mahathir hopes the struggle at the second echelon of the party that will inevitably ensue will help to consolidate his hegemony over the party. In part, this has compelled UMNO leaders to seek affiliations with corporate figures, probably to ensure that they will have sufficient access to funds should they mount a challenge for the party leadership.

The rise of numerous Malay businessmen who have developed privileged links with UMNO leaders has also been attributed to UMNO factionalism. A number of prominent Malay businessmen who have benefited from state patronage or who have been involved in major corporate exercises are now closely associated with second echelon UMNO leaders. It remains unclear, however, whether these men are still business proxies or have become independent businessmen who are obliged to their political patrons. The shifting strategies through which UMNO's corporate assets are held have further blurred the role played by those who hold these assets in trust. While UMNO's business trustees and proxies were identifiable in the 1970s and early 1980s, the case was no longer as straightforward in the late 1980s, especially since UMNO's main corporate assets are no longer under the legal jurisdiction of the party. Tajudin Ramli, Wan Azmi Wan Hamzah, Mohd Razali Mohd Rahman, Hassan Abas, Samsuddin Abu Hassan, Ismail Ishak, Ismail Rashid, Mohd Noor Yusof, Halim Saad, and Anuar Othman are examples of businessmen leading newly established corporate groups who have close links with UMNO leaders. It is arguable

whether these men are beneficiaries of the NEP or are proxies of UMNO or its leaders.

Although both the NEP and privatisation have been the cause for the emergence of major Bumiputera capitalists, they have also helped to cement the links between politics and business and habitualized the use of political power to gain access to wealth opportunities. While the NEP may have been introduced to rectify inequitable distribution of wealth, those who have benefited most within the Bumiputera community are those who enjoy close links with UMNO. Thus, while the intervention of the state and the distribution of its resources have served an important political purpose, they have simultaneously helped to enrich a political elite and those with close links to them. In fact, some of the country's current wealthiest Bumiputeras include Daim Zainuddin, Wan Azmi Wan Hamzah, Tajudin Ramli, Halim Saad, and Anuar Othman, all of whom have direct or indirect links to either UMNO or some of its leaders (see *Malaysian Business*, 16/4/92; *The Star*, 19/5/92). The swift rise of such capitalists indicates how exploitation and abuse by a political elite of the avenues for wealth accumulation in the state apparatus has resulted in marked differences in wealth and power between classes in Malaysia.

The magnitude of such a wealth concentration is reflected in the value of the assets accumulated by UMNO. The value of shares owned by UMNO in July 1990 was conservatively estimated at RM4 billion, of which approximately RM2 billion-worth were shares of listed companies. This figure then represented almost 2 per cent of Malaysia's stock market capitalization. The tabulation, however, did not include the party's massive property holdings in the country which were also believed to total a few billion ringgit (see *FEER*, 5/7/90).

The role played by the NEP in focusing such wealth in the hands of UMNO cannot be underestimated. The mandatory 30 per cent company share-allocation to Bumiputeras during the public-listing or restructuring of companies has enlarged the number of corporate entities under UMNO's control. Even in cases where the shares have been allocated to Bumiputera individuals, there have been instances when they have been rechannelled to UMNO-related companies, the Nanyang Press shares being one example. Further, by using privatisation ostensibly to reduce state involvement in business, another avenue was created to shift state assets to politically-connected Malay businessmen, thus intensifying political involvement in the corporate sector.

The easy access of select Bumiputeras and UMNO-linked companies to bank loans has facilitated the transfer of wealth to an elite minority. This

has allowed for the heavily leveraged business style of UMNO companies, especially in the early 1980s when Daim Zainuddin wielded control over the party's corporate holdings. While such loans facilitated a number of important acquisitions, they also led to a severe gearing problem for Fleet Holdings and Fleet Group. When the debt problem was exacerbated by the slowdown caused by the recession, an alternative method had to be found to raise revenue and ride out these debts. By creating a massive number of new shares during reverse takeovers and share-swaps, large funds were generated, particularly from minority shareholders, while UMNO's control over these lucrative companies was retained through intricate cross-holdings. This rather indiscriminate creation of shares of UMNO-controlled entities also facilitated company takeovers and led to the rise of the large corporation, Renong Bhd, with its concentration of corporate ownership and market power. The numerous and new obscure investment holding companies such as Tellic, Gallio, Mediacover, Jaguh Mutiara, Cantuman Bahagia, Sepakat Ganda, Fibroceil Manufacturing, Hanurai, and Pacific Fleet controlled by politically-linked businessmen have all extensively relied on bank loans to shift corporate assets between companies.

Not surprisingly, the massive creation and manoeuvring of shares of UMNO-related companies on the local stock exchange has led to allegations of insider trading. Even more astonishing is that some of these allegations were made by Daim, while still Finance Minister. In late 1989, Daim had announced that merchant bankers, lawyers, foreigners, and some individuals were being investigated for insider trading. Among the companies under scrutiny were UEM, Kinta Kellas, and Time Engineering; all three companies had experienced sharp increases in their share price and trading volume in 1989 (*AWSJ*, 14/2/90).

The share price fluctuation of these companies had indeed been remarkable. The shares of Kinta Kellas, for example, which were being traded at around RM2 per share in mid-1989, had rocketed to RM16.40 in early 1990. Time Engineering shares which were trading at around RM2.65 in mid-1989 had jumped to RM9 in late 1989. UEM's share price during this same period leapt from RM6.35 to RM15.80. In terms of trading volume, while only 46,000 Kinta Kellas shares were traded in September 1989, the figure increased the following month to approximately 288,000 shares. Time Engineering created a record on 24 July 1989 when 1.684 million of its shares were traded (*NST*, 24/2/90). This significant increase in share prices transpired during mid- and late 1989, when there was strong speculation of a snap general election. Although Finance Minister Anwar Ibrahim announced that the outcome of a probe into allegations of insider

trading involving these three companies would be revealed in "due time" (*FEER*, 18/7/91), the results were still pending in mid-1993.

Despite the inquiries that have been conducted by the authorities into allegations of insider trading, the phenomenon is evidently so widespread in the country that very little may be done to curb it. It was hardly surprising therefore when a similar situation recurred in 1993. Between 4 January and 9 June 1993, the average daily trading volume on both the first and second boards on the KLSE amounted to 356 million units valued at RM892.3 million. The average daily trading volume on both boards for the whole of 1992 had, however, only amounted to 77.7 million units valued at RM207 million, while for 1991 it was only 49.6 million units worth RM120.9 million (*NST*, 15/6/93). Speculation was strong that this dramatic rise in trading activity was linked to the impending UMNO elections, scheduled for November 1993. This speculation was supported by the fact that trading of company stock linked to UMNO, such as Idris Hydraulic, Granite, and Renong was noticeably high. In the case of all these three companies, although the increase in the value of the stock was not as high as that of UMNO-linked companies in late 1989, the value of these shares had appreciated almost three-fold within a period of just over a month. Granite had been queried by the KLSE on the rapid rise in the value of its shares within just a week in early June — leaping from RM3.68 to RM8.50 (*NST*, 17/6/93). The Registrar of Companies had also begun its own investigation into suspected insider trading involving UMNO-linked companies — TV3, The New Straits Times Press, Renong, and Malaysian Resources Corporation — following a surge in their share prices in early 1993; by the middle of the year, the results of its probe had still not been disclosed (*The Star*, 27/2/93). The fluctuation of share prices during impending party and national elections strongly suggests that the stock market was being manipulated to raise funds for political campaigns.

The extent of insider trading and other unproductive styles of business involving UMNO-related companies suggest that UMNO's control over the state has been used to foster unfruitful private rent-seeking, rather than productive local investment. There is much evidence that the business style of these wealth-accumulating, politically-linked capitalists primarily involves speculative share trading and manoeuvring for quick returns. There are several benefits that can arise from the productive use of rents, among them, creating legitimate Bumiputera businessmen, promoting competition and thus increasing efficiency, and ensuring better distribution of wealth and business opportunities among all ethnic communities. With the mix

between politics and business, however, rents obtained from the state have been abused and have had a counter-productive impact on the local economy. Furthermore, corporate development does not appear to depend solely on sound business acumen, efficient distribution of resources, or market control, but also on the extent to which these companies coordinate their activities with influential political leaders and other politically-linked companies. Thus, corporate activity is not solely centred around the goal of profitable growth; corporate goals of companies are subject to periodic shifts depending on the political situation to ensure that operational efficiency and opportunities for further development are not impaired.

Although UMNO's control of the corporate sector has been well secured, the party, however, has been very circumspect when it comes to the issue of how its party activities are financed by its corporate holdings. While there have been instances of disappearing shares, as in the case of UEM, and admissions by party leaders that UMNO went into business to raise funds and achieve financial independence, there has yet been no clear case of fund transfer to the party. This is probably where the proxies or nominees by the party have been most effectively utilized. During the 1990 General Elections, it was reported that UMNO had in its coffers at least RM1 billion for campaign funds and that it was prepared to spend between RM300 million and RM1.5 billion to win the elections (*FEER*, 5/7/90). In fact, almost all analysts of the 1990 General Elections concur that money was one of the most crucial elements for helping Barisan Nasional secure the kind of victory it did. It is very probable that most of the funds available to UMNO came not from its own companies, but from other big business entities. Most of these entities hope to benefit from business opportunities controlled by UMNO companies, especially since they have increasingly monopolized certain sectors of the economy.

The involvement of UMNO in business and the development of Bumiputera capitalists through the help of state policies and political patronage carry many implications. This new breed of politically-linked Bumiputera capitalists, which has grown so immensely in strength and influence in recent years, may soon become a major power base. It is probable that such a trend has been perpetuated because UMNO leaders are fearful that such capitalists, if allowed to grow independent of the party, may become a force that could affect the power and prestige of the party. This is not to exclude the possibility that this is part of UMNO's strategy to maintain its hegemony over the state. Furthermore, this form of political control over business guards against the forming of political coalitions organized around corporate interests and goals antithetical to UMNO's political interests.

The manner of development of UMNO's corporate assets and of certain politically well-connected capitalists indicates that in future a small number of business corporations will come to dominate and control the Malaysian economy; thus, even if UMNO should lose power, its influence on national politics will still be significant since the level of economic activities in a capitalist economy is largely determined by the private investment decision of capitalists. Thus, in their collective role as investors, such politically-linked companies can have a veto power over government policies by withholding investment in the economy, an act which could create major political problems (Block, 1977). A similar strategy, after all, had been utilized by the Chinese business elite for their benefit after the implementation of the NEP.

Since some of UMNO's most important assets are outside the party's jurisdiction, these will, even if there is a change of leadership within UMNO, remain under the control of one faction of the party; moreover, this faction is no longer accountable to party members for UMNO's corporate assets. While this also points to the concentration of power within UMNO, it also could lead to problems within the party for control over these assets. Such possibilities do not augur well for Malaysian capitalism; a struggle for UMNO's vast corporate assets may prove disruptive, leading to a loss of confidence in the stability of the Malaysian economy. The existence of factions within the party with their own business base also does not portend well for the economy since such factions tend to work in the economic and political spheres to redistribute income to themselves instead of working to raise efficiency and national income. This may, by affecting efficient resource allocation, stifle economic growth, curtail innovative technological development, and provide little incentive for genuine entrepreneurship. The continued involvement of politics in business could also add to the already existing problem of speculative investment habits, massive corruption, gross inefficiency, and corporate mismanagement.

NOTES

1. The rallying call of the opposition to the Malayan Union was "Malay Unity", a theme which would henceforth figure prominently in Malay politics. It was a theme frequently used by politicians to evoke Malay sentiment and has successfully been exploited to give more power and influence to Malay politicians (Syed Husin, 1981: 39).
2. More information on the formation of the Alliance and its early electoral successes at municipal and national level is given in Chapter 4.

3. In the 1959 General Elections, although the proportion of the Chinese electorate had increased to 37 per cent, at least half the total electorate was rural Malay. In the legislature, in demographic terms, rural-based parliamentary constituencies have always far out-numbered those that are urban-based.
4. See Chapter 4 for background information on these MCA leaders and the party's early lottery operations.
5. The significance of the MCA's financial contributions to the Alliance became evident in 1958. During that year, a central issue at UMNO's General Assembly was the composition of the Alliance's Executive Committee. The draft Alliance constitution proposed that the committee comprise six representatives from UMNO, six from the MCA, and three from the MIC. Most of the UMNO delegates proposed that the number of MCA representatives be reduced to three. In dismissing the move, Tunku Abdul Rahman said that if the proposal was carried, UMNO would have to make correspondingly larger contributions to the Alliance campaign fund. Tunku went on to stress the inadequate funds available to UMNO (Leo, 1972: 91-92).
6. Golay (1969: 366), quoting the Minister of Finance's report on RIDA to Parliament in 1958, stated "...the desired results (of RIDA) have not been achieved, due not to any inherent flaw in the enterprise but to lack of energy, experience, acumen and steady application on the part of the borrower."
7. The First Bumiputera Congress forwarded around 69 recommendations while the Second Bumiputera Congress had more than 83 resolutions. These included a request to increase the paid-up capital of Bank Bumiputra to RM5 million, a reservation of 50 per cent of company shares for Malays, and greater government support and financial provisions to enable RIDA to function more efficiently (von Vorys, 1975: 246).
8. Among the ministers in Tunku's cabinet dropped by Razak were prominent UMNO leaders like Senu Abdul Rahman and Khir Johari (Ismail, 1979: 13-14).
9. Hussein Onn, together with his father, had left UMNO in 1951; he was then the UMNO Youth leader. Hussein only returned to UMNO in 1968 after much persuasion from Razak. Although he won a parliamentary seat in the 1969 General Elections, Hussein refused to serve in Tunku's cabinet. In 1971, Razak appointed Hussein minister of the influential Education Ministry following his success in winning a seat in UMNO's Supreme Council elections that year; he had, however, lost in the contest for the vice-presidency. In 1972, he was elected a vice-president of UMNO and, at the party's General Assembly in 1973, won the Deputy President's post which had fallen vacant (Ismail, 1979: 19).
10. Mahathir Mohamad, who had lost his parliamentary seat in the 1969 General Election, was a leading critic of Prime Minister Tunku Abdul Rahman following the 13 May crisis. Mahathir's criticism of Tunku led to his expulsion from the party. In 1972, just before UMNO's General Assembly, Mahathir was brought back into the party by Razak, who also gave him a

senatorial appointment. Although Mahathir lost the vice-presidency during the party elections, he secured a seat in the Supreme Council. After Mahathir won a parliamentary seat in the 1974 General Election, he was appointed Education Minister. At the 1975 UMNO General Assembly, he was elected one of the party's three vice-presidents (Ismail, 1979: 15).

11. Razaleigh, a prince from Kelantan, was first appointed to the UMNO Supreme Council in 1968, at the young age of twenty-eight. In 1973, he was elected vice-president of UMNO. Under Razak's patronage, Razaleigh was rapidly promoted in government. In 1970, he was appointed chairman of Pernas and, in 1974, was also appointed chairman of Petronas, the national petroleum agency. In 1976, Razaleigh was appointed Finance Minister (Gomez, 1990: 35).
12. See Chapter 4 for details on the incorporation and growth of Multi-Purpose Holdings.
13. Daim Zainuddin, born in 1938 and a native of the state of Kedah, is a trusted aide of Prime Minister Mahathir. He worked as a teacher before he trained as a lawyer in England in the late 1950s. On his return, he began his legal career with a private firm in Kelantan, then worked as a government prosecutor and magistrate, before reverting to the private sector. His first commercial activity, producing table salt and plastics — which he ventured into in the late 1960s — was a failure. It was only in 1973, when he acquired a lucrative piece of land on the outskirts of Kuala Lumpur, obtained apparently because of his close association with certain UMNO leaders, that his business fortunes improved appreciably.
    In 1979, then Deputy Prime Minister Mahathir appointed Daim as chairman of Peremba, a property development concern then owned by the government's Urban Development Authority (UDA). In 1982, Mahathir appointed him chairman of UMNO's investment arm, Fleet Holdings, which operated through its wholly-owned company, Fleet Group. Acting in this triple capacity as private businessman, government servant, and party trustee, Daim was involved in a myriad of business activities involving companies he controlled in his different capacities.
    See Gomez (1990: 37-44) for a detailed profile on Daim.
14. Azman Hashim, a former UMNO Selangor treasurer, was one of the original shareholders of UMNO's holding company, Fleet Holdings. An accountant by training, he worked with Bank Negara, the central bank, and was appointed an executive director of government-owned Malayan Banking in 1971. In 1980, he became the chairman of Kwong Yik Bank, in which he owned a minor stake. In 1982, Azman Hashim gained control of a merchant bank, Arab Malaysian Merchant Bank, which became his most important business entity.
    Ibrahim Mohamed, a close associate of Prime Minister Mahathir, is the chairman of publicly-listed property development concern, Uniphoenix Corporation Bhd. He gained national prominence when he teamed up with Singaporean businessman, Brian Chang, to form a publicly-listed entity, Promet Bhd, which later ran into a severe financial crisis.
    For more information on Azman Hashim and Ibrahim Mohamed, see Gomez (1990: 46).

15. Musa Hitam, once the Executive Secretary of UMNO, was expelled from the party along with Mahathir in 1969. One year later, he returned to active UMNO politics and was soon elected deputy president of UMNO Youth. In 1971, he was appointed chairman of FELDA and, in 1973, was appointed Deputy Minister of Trade and Industry (Means, 1991: 83-84).
16. For a comprehensive background on the BMF scandal, see Lim Kit Siang's *BMF: Scandal of Scandals*.
17. For a more detailed account of Daim's role in the UMBC controversy, see Gomez (1990: 41-43).
18. See Gomez (1991a: 31-43) for a detailed account of Alex Lee's business deals and his involvement in the D&C Bank controversy.
19. The government's attempt to corner the world tin market through Maminco is dealt with by Jomo (1990b: 71-77).
20. For an account of the Pan-Electric crisis, see Means (1991: 178-79) and Clad (1989: 131-32).
21. Chapter 4 deals with the Deposit-Taking Cooperatives (DTC) scandal and the involvement of the MCA and its leaders in the affair. For a detailed account of the scandal, refer to Gomez (1991a: 47-104).
22. Abdul Ghafar Baba, a teacher by training, joined UMNO in 1951 — prior to this, he had been a member of a left-wing organization, the Malay Nationalist Party — and has stood successfully as a candidate in every general election since 1955. In 1959, he was appointed the Chief Minister of Malacca. In 1967, he was appointed chairman of MARA and in the following year, Tunku Abdul Rahman made him a federal minister (*NST*, 7/10/90).
    In 1976, following the death of Razak, Ghafar Baba was overlooked by Hussein Onn for the deputy-presidency of UMNO, although he was the most senior vice-president; Ghafar quit his ministerial post in protest, but retained his UMNO vice-presidency. He subsequently ventured into business, using his listed vehicle, Pegi (M) Bhd, to develop his corporate interests. When Ghafar was appointed Deputy Prime Minister in 1986, it was strongly rumoured that he was facing a severe financial crisis. Some of Ghafar's business deals are dealt with in Chapter 4.
23. Anwar Ibrahim had been one of the most strident critics of the Barisan Nasional in the 1970s, resulting in his almost two-year detention, without trial, in 1974 under the Internal Security Act (ISA). His main public platform was the 40,000-member *Angkatan Belia Islam Malaysia* (ABIM), or Malaysian Muslim Youth Movement, of which he was president. Since his views were more closely identified with those of the opposition Islamic party, *Parti Islam*

SeMalaysia (PAS), Anwar's move in April 1982 to join UMNO was largely unanticipated, more so as he had openly eschewed party politics. In the 1982 General Elections, Anwar won a parliamentary seat in Penang and was promptly appointed a Deputy Minister in Mahathir's cabinet. In late 1982, Anwar was elected president of UMNO Youth by a narrow margin, and by virtue of that also became an ex-officio vice-president of UMNO. He was promoted to a full Ministership in 1983. When Anwar was challenged for the presidency of UMNO Youth in 1984 by his predecessor, Suhaimi Kamaruddin, he had little trouble retaining his post. After winning re-election in the 1986 General Elections, he was assigned the influential post of Education Minister. Just before the 1987 UMNO election, Anwar stepped down from his post as UMNO Youth President after he declared his candidacy for a vice-presidency, which he secured (Hasan, 1990: 314).

24. This was, however, not the first time in UMNO's history that a party president was being challenged. In 1978, Hussein Onn, then the Acting President of UMNO, was challenged by Haji Sulaiman Palestine. It was, nevertheless, evident right from the outset that Sulaiman would not pose any threat to Hussein. Sulaiman's candidacy was a means for a faction within UMNO to protest Hussein's strong stand that Harun Idris be prosecuted for corruption.
25. The three senior ministers dropped were Abdullah Ahmad Badawi, Shahrir Samad, and Ajib Ahmad. The deputy ministers who were dismissed were Kadir Sheikh Fadzir, Radzi Sheikh Ahmad, Zainal Abidin Zin, and Rahmah Osman.
26. Razaleigh's decision to form Semangat 46 was an important step as he was proceeding along a road already taken by UMNO leaders who, having fallen out of favour with UMNO leaders or members, had gone on to form another party which they hoped would gain the support of the Malay populace. Two prominent examples were Onn Jaafar, who formed the IMP and later the Parti Negara, and Abdul Aziz Ishak, a former Agriculture Minister, who formed the National Convention Party in 1963 after his expulsion from UMNO; both leaders failed to obtain the support of the Malays despite their popularity. See Parmer (1969: 354-55) for further information on Aziz Ishak and the National Convention Party.
27. For a detailed account of the growth of all UMNO's main investment arms and the publicly-listed companies under its control, read *Politics in Business: UMNO's Corporate Investments* (Forum: 1990). A summary of that study is provided here to facilitate discussion on the development of UMNO's business involvement.
28. Junus Sudin was one of Razaleigh's closest business proxies. Control of UMNO's Fleet Holdings and its listed subsidiaries was primarily under Junus Sudin during Razaleigh's term as treasurer of UMNO. For more detailed information on Junus Sudin, see Gomez (1990: 36).
29. Lee Siew Choong was one of the first directors of Fleet Holdings, having served for only about a year. He was also a director of Pradaz Sdn Bhd, a company owned by Daim Zainuddin and which held his stake in publicly-listed Cold Storage (Gomez, 1990: 53-55).

30. Apart from the annual reports filed with the Registrar of Companies during the first few years of its incorporation, Fleet Holdings' 1990 annual report is the first recent financial statement of the company available for public scrutiny.
31. See Table 3.5 below for details of the business activities of the companies sold to Ikral Holdings.
32. It should be pointed out that the reverse takeover of Renong by Fleet Holdings also involved Hatibudi Nominees whose entire equity was also bought by Renong. Since the Renong takeover was primarily an amalgamation of most of UMNO's corporate assets, the takeover is dealt with in detail at the end of this chapter. The emphasis here is on business deals involving Fleet Holdings and Fleet Group.
While tracing the development of UMNO's assets before this reverse takeover, further information on Jaguh Mutiara, Fibroceil Manufacturing, Cantuman Bahagia, and PLUS, and the people behind these companies, will be provided.
33. It was also reported that before the Renong takeover, Fleet Group had also transferred four million Hume Industries shares to Fleet Holdings (see *The Star*, 1/4/91).
34. Although the *Shin Min Daily News*, a major Chinese daily, was an important acquisition by NSTP, the apparent purpose for this acquisition was to help out former MCA president, Tan Koon Swan, who controlled the newspaper and was then facing serious financial difficulties (Gomez, 1990: 62).
35. The American Malaysian Insurance (AMI) was incorporated on 11 June 1980 as a joint-venture between Fleet Group and AFIA Worldwide Insurance, the largest insurance company in the United States (*NST*, 20/10/80). AMI was established with Fleet Group holding 51 per cent of the company's equity. In 1984, CIGNA, an insurance conglomerate in the USA, acquired AFIA Worldwide Insurance. When the company was restructured following the takeover, it was decided that AFIA Worldwide Insurance's stake in AMI be sold to Fleet Group (*Malaysian Business*, 16/6/90).
36. Among the major shareholders of United Oriental Assurance in the early 1980s were the United Asian Bank and the government of India. For further information on this insurance company, see Chapter 5.
37. Khoo Kay Peng of MUI was believed to have brought Fleet Group and the Wee family together to discuss the takeover of the Bian Chiang Bank (Gill, 1987: 158). Wee Cho Yaw and Razaleigh also shared a close relationship. Both had served as directors of Straits Steamship; Cho Yaw was also nominated by Pernas, whose chairman was Razaleigh, to sit on the board of Sime Darby (Lim Mah Hui, 1981: 109).
38. According to the *Far Eastern Economic Review* (3/9/87), before BCB acquired its interest in CIMB, Fleet Group had, in January 1985, made an offer

to government-owned Pernas to buy its 40.68 per cent stake in Malaysia's third largest bank, United Malayan Banking Corporation Bhd (UMBC). At that time, Finance Minister Daim had an almost identical stake in UMBC. In consideration, Fleet Group offered Pernas its 86 per cent holding of BCB, 100 per cent of American Malaysian Insurance, and RM850 million in cash. Fleet Group also said that it would "arrange" for BCB to acquire a majority stake in CIMB. The report went on to add that Fleet Group's assurance of such an undertaking indicated the close relationship between the company and the government; not only was Bank Pertanian government-owned, but official approval by Daim as Finance Minister was required for such an ownership change in a bank. For a detailed account of the CIMB acquisition by Bank of Commerce, see Gomez (1990: 69-70).

39. In 1988, through CIMB, the bank ventured into stockbroking by establishing CIMB Securities Sdn Bhd. Later that year, BCB also became involved in the setting up of the region's first property unit trust through First Malaysia Property Trust Bhd.

40. One of the major shareholders of UAB was the MIC-controlled investment holding company, Maika Holdings Bhd. For background information on the history of UAB and the factors that led to the bank's near bankruptcy, see Chapter 5.

41. Fleet Group's stake in TV3 was sold to The New Straits Times Press and Uniphone Telecommunications controlled by Sapura Holdings. Syed Kechik's 20 per cent TV3 equity and 10 per cent of Utusan Melayu Press' 20 per cent stake in TV3 were also sold to The New Straits Times Press. Uniphone Telecommunications subsequently sold its 17 per cent TV3 equity to Berjaya Corporation. For a detailed account of the movement of the TV3 shares, see Gomez (1990: 72-78).

42. Mohamad Noor Yusof had also served as a director of Permodalan Bersatu Bhd, the holding company for UMNO's cooperative, KUB. He is also a director of publicly-listed Technology Resources Industries, a company controlled by Tajudin Ramli, a close associate of Daim. Mohamad Noor Yusof also figured in the Pernas takeover of UMBC in 1992.

43. The sale of TV3 by The New Straits Times Press to Renong in 1991 and the management buy-out of The New Straits Times Press and TV3 in 1992 is dealt with in detail later in this chapter.

44. The special Bumiputera CULS issue of RM27.41 million was part of a total loan stock issue of RM56.41 million.

45. For a detailed account of how Daim Zainuddin used his influence in Faber to induce the company to acquire some of his assets and companies, see Gomez (1990: 80-84).

46. The New Straits Times Press-Daza-Fleet Group deal was a rather complicated transaction. For a detailed account of how the deal was transacted, see Gomez (1990: 84-88).

47. For an account of the involvement of Wan Azmi and Basir Ismail in Yung Pui, see Gomez (1991a: 23-27).

48. Among the vendors of the Nanyang Press stake was Wan Azmi's brother, Wan Ariff Wan Hamzah, who had bought into the company only three months earlier. It was then speculated that Wan Ariff may have been acting for Wan Azmi, a prospect that did not go down well with the Chinese community which was fearful that these men were proxies through whom the Nanyang Press stake would eventually end up being controlled by UMNO, particularly since the spectre of a general election was then hovering in the air (see *FEER*, 28/2/91).

49. Company records indicate that Peninsula Springs was incorporated on 10 January 1991. Of the company's entire paid-up capital, Ismail Rashid owns 149,999 shares, while Yap Soon Nam owned 99,999 shares.

50. The setting up of KLOFFE is dealt with in detail later in this chapter.

51. Hume Industries' unsuccessful takeover of Multi-Purpose Holdings is dealt with in detail in Chapter 4.

52. Hassan Abas, along with Daim's relatives, was also involved with Seri Angkasa, the company that was awarded, without tender, the privatised Jalan Kuching-Jalan Kepong Highway contract. When Peremba was privatised through a management buy-out in 1990, Hassan Abas was one of the beneficiaries (see Gomez, 1991a: 23-27).

53. For a detailed account of how UEM was acquired by Hatibudi and the restructuring of the listed company following the takeover, see Gomez (1990: 111-15).

54. When Celcom was incorporated in January 1988, its original shareholders were Fleet Group, with a 49 per cent stake, and Sykt Telekom Malaysia (STM) with 51 per cent. Fleet Group sold its stake in the highly lucrative Celcom to Time Engineering, while STM sold its stake to Tajudin Ramli, reputedly an UMNO business proxy. Tajudin Ramli, in turn, sold his stake in Celcom to publicly-listed Technology Resources Industries in return for an increased controlling interest in the company.

55. Renong's acquisition of UEM from Time Engineering is dealt with in detail later in this chapter.

56. Budimaju was incorporated on 23 December 1986. On 27 January 1987, Ahmad Sebi and Izhar Sulaiman were appointed directors of the company. Ahmad Sebi was then also a director of The New Straits Times Press, TV3, Berjaya Corporation, and Nautilus Corporation, the last two of which were linked to Vincent Tan Chee Yioun.
By early 1988, Budimaju had investments in quoted companies amounting to RM17.13 million. By 1989, although Budimaju had sold off assets amounting to RM22.5 million, the company still had quoted investment stock worth RM11.5 million and accumulated losses amounting to RM2.2 million. In 1989, Ahmad Sebi's shares in Budimaju were taken over by Capt. Raja

Ahmad. In 1991, despite registering a RM30,994 profit, the value of Budimaju's quoted investments amounted to only RM14,484.

57. See Chapter 5 for details on Ahmad Sebi's takeover of Batu Lintang Rubber Company.
58. On 15 March 1990, Zulkifly Ghazali was appointed a director of Raabnik. When Zaid Ibrahim resigned as a director of the company on 9 September 1990, his replacement was Nurul Lina Christina Abdullah.
59. On 30 June 1988, Daniel Tan was re-appointed director and manager of Waspavest, replacing Mohd Rusland; Daniel Tan was then an alternate director of Cold Storage. In March 1989, although Shah Abu Mansur and Daniel Tan resigned as directors of the company, and Vincent Tan See Yin and Ali Dad Khan bin Sardat Khan were appointed directors, the main shareholders of the company were Shah Abu Mansur, with 3.2 million shares, and Bakti Nominees Sdn Bhd, with 800,000 shares. In January 1990, when Vincent Tan See Yin resigned as director, Wah Yuen Fu was appointed in his place. By June 1991, however, there was no change in the shareholders. In January 1992, Ali Dad Khan and Wah Yuen Fu resigned as directors; their replacements were Tan See Wee, probably a relative of Vincent Tan See Yin, and Loke Chooi Ying.
60. The records do indicate, however, that Waspavest has provided some movable and immovable assets as security.
61. Faroy is an investment holding company incorporated on 25 August 1984. One of the first directors of the company was Halim Saad; later, Samsudin Abu Hassan, was also appointed a director. Samsudin, along with Halim, had been an executive at Peremba while the company was controlled by Daim Zainuddin. Samsudin is currently a director of Aokam Tin. Halim resigned as a director of Faroy on 22 April 1987.
    At the end of 1987, Faroy had quoted investments worth RM1.575 million, although it is uncertain in which company. It was only on 12 February 1990 that Faroy's paid-up capital was raised from RM2 to RM3 million when 2.991 million shares were issued to Pradaz, a family company of Daim, in return for capitalizing a debt of the same amount, that had been due since December 1989; at the same time, 8,998 shares were issued to Samsudin for cash.
62. For a detailed account of how Waspavest used publicly-listed Aokam Tin to develop a major conglomerate, see Gomez (1990: 116-27). A brief account of Waspavest's early development is provided here to facilitate discussion.
63. Sehasrat was incorporated on 8 May 1985 as an investment holding company. By September 1985, the shareholders of the company were Ibrahim bin Syed Mohamad (250,000 shares), Abdul Kadir bin Yusof, a former UMNO minister (50,000 shares), Sulaiman bin Mohd Amin (99,999 shares), Ahmad Fathan bin Hj Sulaiman (25,000 shares), Ismail Omar (49,999 shares), and Ghazi Hashbullah bin Haji Ramli (25,000 shares). Except for Ghazi, they were all directors of the company. Ghazi and Ahmad Fathan are directors of Berjaya, which is controlled by Vincent Tan Chee Yioun's Inter-Pacific Group; Ghazi is also a director of Inter-Pacific.

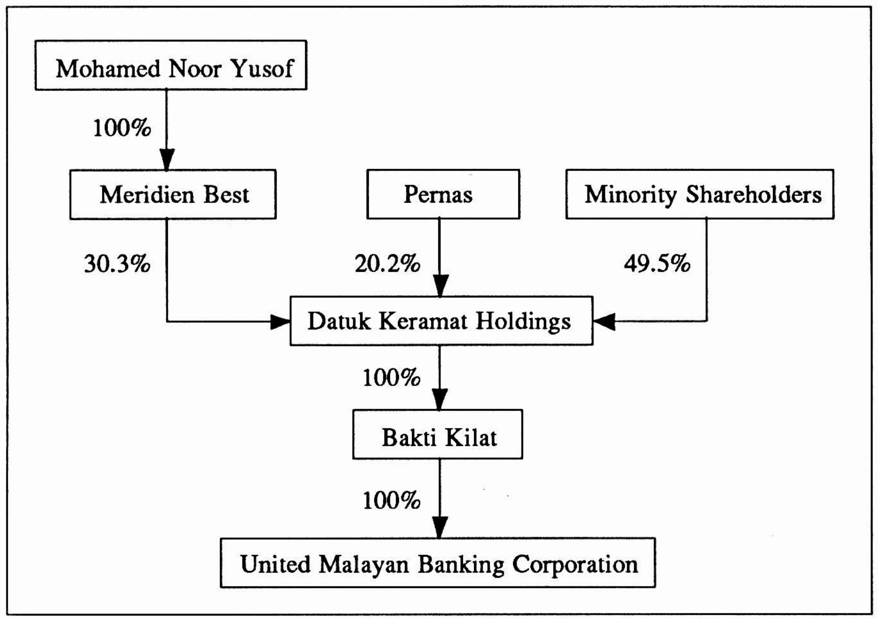
    On 6 February 1988, Ahmad Sebi became a director of the company and, by the following month, was the single largest shareholder of the company; he, however, remained a director for only a year, resigning on 1 March 1989, although he remained a major shareholder with 2.55 million shares. By December 1989, it appeared that Sehasrat had been sold by Ahmad Sebi to B&B Enterprise, a company controlled by Vincent Tan Chee Yioun. By December 1991, the shareholders of Sehasrat were B&B Enterprise (2.55 million shares), Ibrahim Syed (200,000 shares), Sulaiman Mohamad (100,000 shares), and Ahmad Fathan (150,000 shares).
64. See Footnote 61 for background information on Faroy. Since Faroy was under the majority ownership of Pradaz, it appeared that Daim's family company had retrieved an interest in Cold Storage.
65. Teguh Equity was incorporated on 14 June 1991, just a few months before it began buying into Ayer Hitam Tin Dredging. The directors of the company were Ali Ahmad bin Mohamed, Mohamed Amir Abas bin Zainal Azmi, and Ishak bin Hassan.
66. Chan Chin Cheung had been involved in restructuring and reviving a number of other listed companies, among them, Sri Hartamas, Technology Resources Industries, Mycom, and KL Industries. Chan played a particularly prominent role in Technology Resources Industries in 1986 when he tried to help businessman-politician, Alex Lee, who was then facing a severe financial crisis (see Gomez, 1991a: 12-13).
67. In June 1989, in order to comply with the Bumiputera equity objective of the NEP, Time Engineering proposed a special issue of 8 million shares. Fibroceil Manufacturing received the Bumiputera portion of the special issue, which gave the company a 30 per cent stake in Time Engineering. This stake was reduced following the creation of new Time Engineering shares during Hatibudi Nominees's takeover of Time Engineering in 1989 (*The Star*, 3/4/91).
68. Pacific Fleet, an investment holding company, was incorporated on 19 October 1989. By April 1991, Halim Saad and Anuar Othman each held 500,000 shares of Pacific Fleet.
    In December 1990, although Pacific Fleet had investments worth RM86.4 million, the company declared a post-tax loss of RM1.55 million; it also had loans amounting to RM42.5 million.
69. Hanurai's records also indicate that on 6 December 1990, the company had entered into an agreement with Bumiputra Merchant Bankers Bhd to allow the bank to provide Sepakat Ganda a RM116 million loan for which Hanurai had provided the collateral. Sepakat Ganda was the company that had acquired the UEM shares owned by the Perlis SEDC following the CIMA takeover by UEM.
    On 20 June 1991, Hanurai obtained a RM10 million loan for the benefit of Gallio; Hanurai provided 10 million Renong shares as collateral.
70. In 1991, Tellic acquired the entire equity of the following companies, all of which, save for two, were investment holding companies: Rayoo Sdn Bhd

(management services), Suara Urus Sdn Bhd (investment and property holding), Desa Rezaki Sdn Bhd, Probrain Sdn Bhd, Interlind Associates Sdn Bhd, and Ditries Sdn Bhd.

71. The other major shareholder and director of Mediacover was Azmi bin Abdul Jalil; together with Zulkifli Hussain, they each owned 49,999 shares in the company.
72. According to Razaleigh, a court order was required before the Official Assignee could sell UMNO's assets, after which the sale had to be made public. A bid was then necessary for the assets, with the Official Assignee obliged to accept the best bid (*Sin Chew Jit Poh*, 3/5/90).
    In October 1990, some of Semangat 46's top leaders filed a suit in the High Court seeking to declare the Renong reverse takeover unlawful because it was conducted "under legally questionable circumstances" (*NST*, 6/10/90). The case, however, was dropped by Semangat 46 in January 1992 (*NST*, 16/1/92).
73. Goodfort was incorporated on 17 June 1989. The original directors and shareholders of the company were Mazlin bin Muhamad and Raja Alawiah binti Raja Lop Idris.
74. Present and former UMNO stalwarts who have served as directors of KUB include Abdullah Ahmad, Syed Hamid Albar, Dr Afifuddin Omar, Mazlan Idris, Mustapha Jaabar, Dr Jamaludin Jarjis, Haji Sulaiman Palestine, Ishak Ismail, Rais Yatim, Zainal Abidin Zin, Marina Yusof, Rahman Othman, and Sulaiman Aris (*Berita Harian*, 4/3/87).
75. For a detailed account of the incorporation of KUB and PBB, see Gomez (1990: Chapter Five). For the purposes of this study, only a brief overview of the growth of KUB and PBB is provided.
76. Background information on Ibrahim Mohamed and Azman Hashim is provided earlier in this chapter. See also Gomez (1990: 46).
77. For a detailed account of the reconstruction of Idris Hydraulic, see Gomez (1990: 147-48).
78. Masa Merdeka, incorporated in April 1979, was supposed to be Idris Hydraulic's main property development arm. It, however, did not contribute significantly to Idris Hydraulic's early development.
79. SPPPB, a Bumiputera-owned company, was incorporated on 21 June 1965 to participate in commerce and industry.
80. Selprop was incorporated on 12 October 1963 and publicly-listed on 6 November 1963. The principle activities of the company are property development and construction (*BLS*). Selprop is owned primarily by T.K. Wen and his family, through their holding company, Kayin Holdings Sdn Bhd, which has a 36 per cent stake in the company (*KLSE Annual Companies Handbook*, 1991: 702-04).
81. Some MCA leaders were upset that Sri Damansara had fallen into the hands of a non-Chinese company. See Chapter 4 for details on the controversy surrounding the sale of Sri Damansara.

82. Company records at the Registrar of Companies disclose very little information on Tanjung Layang. Incorporated on 5 October 1990, the original directors and shareholders of the company were Abdul Aziz bin Mohamed and Rohaya binti Abdul Rahim; Ishak Ismail was Tanjung Layang's company secretary.
83. The three companies — Jauza Sinar Sdn Bhd, Cermat Jaya Sdn Bhd, and Asal Cipta Sdn Bhd — were acquired for a total of almost RM33 million (*The Star*, 23/12/91).
84. Harun Idris' case was not helped when he received a scathing attack from the Deputy Minister of Land & Cooperative Development, Khalid Haji Yunus, during the opening ceremony of the KUB's Annual General Meeting. Khalid Yunus, an UMNO member, admitted that the cooperative had since its inception failed to meet its objectives and that "instead KUB has continued to be saddled with heavy losses and debts" (*The Star*, 6/5/91).
85. Apart from PBB's poor financial state of affairs, the accounts of some of its subsidiaries — Perumahan KUB, Kumpulan Ladang Bersatu, and Usaha Telapak — were qualified.
86. The final ownership structure following the complex UMBC takeover is shown in Figure 3.17.

FIGURE 3.17
Ownership Structure of UMBC Following the Takeover by Datuk Keramat Holdings



Source: The Star, 24/7/92.

87. Ramli Kushairi had also served as a director of publicly-listed Gadek in which KUB had indirect stake. He was also a director of Kumpulan Fima, while it was still a public enterprise. Ramli Kushairi is believed to be a close associate of Prime Minister Mahathir (Gomez, 1990: 152, 165).
88. This Kesang share acquisition scheme was by no means original. In fact, in late 1983, following KUB's takeover of Idris Hydraulic, a similar share acquisition scheme was proposed which resulted in a massive increase in the cooperative's membership (see Gomez, 1990: 147-149).
89. The STM contract involved the supply of a digital exchange and 800,000 lines by each of the five companies. The other successful companies were Perwira Ericson, Pernas NEC Telecommunications, and Nokia-Sapura Holdings (*NST*, 12/4/92).
90. Despite reports of Ahmad Sebi's link to Dainichi, company records do not confirm this. Dainichi, which was incorporated on 11 October 1989, is a private exempt company; thus, Dainichi's financial statements are not available to the public.

CHAPTER 4

THE MCA IN BUSINESS

4.1: The MCA's Political History

Chinese migration to Malaya commenced on a large scale in the second quarter of the 19th century, following the rapid growth of Penang and Singapore as trade centres and increased tin mining in the western states of the peninsula (Gullick & Gale, 1986: 52).[1] Most of these Chinese migrants were from Southern China and comprised members of various dialect groups, the most prominent of which were the Hokkiens, Cantonese, Hakkas, Hainanese, and Teochew.[2] These dialect differences were further complicated by the division of the Chinese into clan and guild associations. Primarily motivated by commercial concerns and material wealth, the largely apolitical Chinese of the early 20th century, like other Malayan ethnic groups, did not align themselves to any pan-Malayan political organization.[3] Following various developments, however, especially in the mid-1940s, the community felt compelled to form a Chinese-based political organization.

While most of the early immigrant Chinese in Malaya had harboured hopes of returning to China in the future, a succession of political events such as Japan's invasion of China, the Second World War, and the victorious Communist Revolution after years of civil strife in China, deprived most Chinese of exercising that option; their adopted land of Malaya had now become home. Another reason for the need to promote Chinese political affiliation on a preferably communal basis was the birth of Malay nationalism, a phenomenon created in the wake of Malay opposition to the British-proposed Malayan Union in 1946 (Mauzy, 1983a: 151). Although the Union would have given the Chinese more political rights in Malaya, it became clear to the British that the proposal had failed due to Chinese political apathy and inertia. The mainly Chinese-supported communist insurrection in Malaya, the banning of the Malayan Communist Party

(MCP), and the declaration of Emergency in 1948 constituted, however, the new set of political circumstances that necessitated the establishment of a Chinese-based party. In view of this, the British encouraged the creation of a new, conservative Chinese political party. The colonialists hoped that this party would provide a more nationalist and non-communist image of the Malayan Chinese and become a new focus for Chinese loyalties. Exploratory talks on the formation of such an organization, initiated by Chinese elites and members of the Chinese Chambers of Commerce, led to the incorporation of the Malayan Chinese Association (MCA) on 27 February 1949 (Ratnam, 1965: 10-11).

The new party comprised the wealthiest Chinese businessmen and professionals in the country, some of whom had also been associated with the British through their appointments on various consultative bodies.[4] In fact, all sixteen members of the MCA's first central committee were also members of the British-formed Federal Legislative Council, and the party's first president was Tan Cheng Lock, a Malacca-born rubber baron who spoke only English and Malay (Lee, 1987: 74).[5] According to Heng (1988: 57), the overriding concern of the new party and its members was to ensure that "the economically privileged position of the Chinese mercantile class was protected through political action". British proximity to and dominance over the MCA was obvious; the party constitution allowed for Chinese members of the Legislative and Executive Councils (formed by the British ostensibly to allow for local participation in dealing with affairs of the country) to automatically become MCA office-bearers, thus giving the British much influence over party affairs (Khong, 1984: 155-56).

It was therefore not surprising that the party first functioned mainly as a welfare organization; its primary task between 1950 and 1953 was to collaborate with the British and help relocate almost 500,000 Chinese from rural areas to over 500 heavily guarded semi-urban "New Villages". Such relocation was imperative in the hope of abrogating any ties which these Chinese may have had with the communists. To fund these activities, the MCA was given permission in 1950 to operate a "million dollar" Social Welfare lottery; since the immensely popular lottery was open only to MCA members, it helped to expand both the party's membership and its influence among the Chinese (Ness, 1967: 53, 59). In fact, by the time the first lottery was drawn in February 1950, there was already a 50 per cent increase in the MCA's membership, and by mid-1953, the party had raised several million ringgit, four million of which was used for welfare work (Heng, 1988: 108-9). In 1953, following protests from other parties, particularly the multiracial Independence of Malaya Party (IMP) led by the influential Onn Jaafar, the lottery was banned since it was alleged that it provided the MCA with an unfair financial advantage over other parties in election campaigns (Khong, 1984: 174).

Despite losing the lottery operations in 1953, the MCA's access to funds did not diminish significantly as it still continued to enjoy the patronage of the Chinese business elite whose interests the party protected. Furthermore, the lottery had already made the MCA the richest political party in terms of the amount of money it had and could spend.

It was the MCA's strong financial position and its access to further funds from the wealthy Chinese business community that brought about its alliance with UMNO. Chary of the serious threat posed by the IMP in the impending Kuala Lumpur Municipal elections in January 1952, the Selangor branches of the MCA and UMNO formed an ad-hoc alliance in which both parties agreed not to split votes by contesting each other; in return, the MCA would help fund UMNO's campaign, while UMNO would help garner Malay support for the MCA. The arrangement paid off — the Alliance swept all nine seats in Malay- or Chinese-majority constituencies. Of the remaining three seats, all with an Indian majority, the IMP won two, while the third went to an independent candidate (von Vorys, 1975: 108-09).[6]

The success of the alliance formula at municipal level was soon institutionalized at national level with the official formation of the Alliance in August 1953, with the MCA as UMNO's junior partner. In 1954, the Malayan Indian Congress (MIC) also joined the Alliance. When Malaya's first federal General Election was held in 1955, the Alliance secured a landslide victory, winning 51 of the 52 seats contested.

As UMNO's access to financial resources was limited, the Alliance's financial dependence on the MCA increased. Since UMNO's funds came mainly from its members, the majority of whom were poor rural farmers and fishermen, the party was perpetually faced with a shortage of funds. In effect, the bulk of the Alliance's election expenses during the 1955 General Elections were paid by the MCA (Heng, 1988: 163-65).

The cooperation between the conservative Chinese business elites who made up the MCA leadership and the aristocratic Malay elite who headed UMNO was also mutually profitable for other reasons. Participation in Malaya's emerging post-Independence leadership was desirable for Chinese businessmen who wanted to ensure the expansion of their business ventures in a situation where foreign domination of the economy would probably be perpetuated. It was well known that the British had managed to elicit from Tunku Abdul Rahman an agreement that in exchange for early independence his government would not infringe upon the vast business

interests of the British in Malaya (Funston, 1980: 12). Also, the promotion of Malay capitalism, then expounded as Malay economic upliftment, had already been initiated in 1953 with the establishment of the Rural and Industrial Development Authority (RIDA). Aware that the granting of Independence was contingent on inter-communal cooperation, the Malay leaders were anxious that such a condition be met. Having established their dominance in the Alliance through UMNO, members of the Malay elite were convinced that such multiracial cooperation would not threaten their position.

The cordial relations and cooperation between these ethnic elites, established through the Alliance, were, however, as transient as their multiracial ideology was nebulous. This became most apparent when the MCA president, Cheng Lock, was defeated by Dr Lim Chong Eu in the 1958 party polls.[7] When Chong Eu later showed signs of adopting a "more Chinese" posture, especially on issues of language and education, in a bid to secure broader Chinese support, he invoked the wrath of the UMNO leadership and was manoeuvred out of office in 1959.[8] His eventual replacement was Cheng Lock's son, Tan Siew Sin,[9] who had also been rejected during the MCA's 1958 party election. Siew Sin, however, was a more acceptable figure to the UMNO leaders since he subscribed to the view that the "alliance with UMNO was of utmost importance to the party and the national interest" (quoted in Lee, 1987: 76, 81). This case adumbrated the dilemma faced by future MCA leaders — whether they could effectively represent Chinese interests without compromising too much to UMNO, or whether by being too unyielding they risked earning the coalition's displeasure, thereby undermining their own long term interests.

This schism within the MCA led to the party's declining support in the 1959 General Elections. In the 1964 national elections, however, the party's performance at the polls improved,[10] only before declining even more steeply in 1969.[11] The MCA's eroding electoral strength was in part due to increasing Chinese support for the mushrooming new opposition parties in the late 1960s, notably the Democratic Action Party (DAP) and the Gerakan Rakyat Malaysia (Gerakan) led, among others, by former MCA president, Lim Chong Eu. The Chinese believed that these parties were better able to represent their interests.

In addition to this, the MCA also felt threatened by the "Malaysian Malaysia" concept which emerged in the mid-1960s. The racial equality theme was strongly espoused by the Singapore-based People's Action Party (PAP), led by Lee Kuan Yew. Thus, in August 1965, the MCA actively

supported the expulsion of Singapore from Malaya, although it was one of only two states in the country with a majority Chinese population. While this removed the threat posed by the PAP, the role played by the MCA in the expulsion of Singapore considerably diminished its support from the Chinese. Anxious to halt the slide, the MCA proposed the setting up of a Chinese language tertiary institution, Merdeka University.[12] But when the Malays strongly objected to the idea, the MCA, fearful of the consequent repercussions, revoked the proposal. The renunciation was widely perceived by the Chinese community as an MCA "sell-out"; the disappointed Chinese thus were vehement in their support for opposition parties, which appeared to them to be aggressive in their advocacy of the proposed university in the 1969 General Elections (Milne & Mauzy, 1978: 162). The MCA's political survival in the 1960s had been increasingly dependent on its close relationship with UMNO via the Alliance; this also resulted in the party's increasing acquiescence to the Malay elite.

There were other issues, however, that proved just as detrimental to the MCA. Although Chinese businesses prospered in the post-Independence period, the Chinese business community, from whom the MCA derived the bulk of its support, became extremely concerned in 1965 with the economic issues being raised by "ultras" within UMNO. Though these grouses primarily pertained to the abysmal economic condition of most Malays, the MCA believed that these complaints were being orchestrated by certain UMNO leaders to promote their vested interests. When the government-sponsored First and Second Bumiputera Economic Congresses were convened in 1965 and 1968 respectively, a segment of the Malay elite was provided with an occasion to voice their economic grievances and propose remedies which could benefit them. Among the Congresses' proposals implemented by the government was the establishment of Bank Bumiputra Bhd and Perbadanan Nasional Bhd (Pernas), and the re-organization of RIDA as MARA. A number of their other suggestions were later incorporated into the New Economic Policy (NEP) introduced in 1971.

As the Congress resolutions initiated government intervention in the economy, the Chinese business elite became increasingly concerned over the repercussions of such an involvement on their business interests. Among the most important new entities established during this period was Bank Bumiputra, the country's first Malay bank, which was entering a sector of the economy then dominated and controlled by the British and the Chinese.

Declining Chinese support and an expanding Malay middle class which was gradually making incursions into business were factors that prompted MCA president, Siew Sin, to suggest, in 1966, that Chinese businesser of

combine their resources to form a large company that would enter new industries and promote Chinese economic interests. In 1967, Siew Sin called for the establishment of large Chinese public companies which would in time supersede the family business operations in which the Chinese were then largely involved (Gale, 1985: 19). Despite the urgency of these calls, there was much delay in the implementation of these suggestions. It is highly probable that Siew Sin, being a major owner of corporate stock, was aware that the establishment of such a company would undoubtedly cause problems for business groups owned by other major Chinese capitalists. Friction between the business operations of an MCA-controlled company and existing Chinese conglomerates, most of which were probably controlled by Chinese businessmen who had been responsible for financing the MCA, would not augur well for the party. It was Lee San Choon, then MCA Youth leader, who acted more swiftly, initiating discussion with MCA-linked businessmen on the new form that Chinese business organizations should take; in 1968, they agreed on the formation of a cooperative, Koperatif Serbaguna (M) Bhd (KSM), which was a forerunner of the other major investment companies and cooperatives promoted by the MCA.

Following the MCA's dismal performance in the 1969 General Elections — two of its incumbent Cabinet ministers were defeated, it had to concede the chief ministership of Penang, and was all but obliterated in Perak and Selangor where it won only one state seat each — the party decided to withdraw from the Alliance. Returning to the Alliance fold a short time later, however, Siew Sin discovered that the decision had cost the MCA much of the support of the Chinese business community. Chinese businessmen were now hesitant to place too much trust in a party leader who was willing to jeopardize the MCA's influence and capacity to protect and promote the welfare of Chinese business interests by withdrawing from the government (von Vorys, 1975: 426). In a step towards regaining their confidence, especially after the NEP-endorsed establishment of public enterprises, Siew Sin became more active in promoting the protection of Chinese economic interests.

In a determined attempt to promote political involvement in business, Siew Sin declared in 1972: "We have realized that the 'economic strength' attributed to Malaysians of Chinese descent is an illusion, and that whatever semblance of 'control' they may have over the economy is meaningless without a corresponding share of political responsibilities in the Government" (quoted in Milne, 1981: 157). The MCA president's aim was clearly to win the support of the Chinese business community.

The MCA leaders also felt that the political division within the Chinese community was to blame for the 1969 electoral defeats and the weakened voice of the Chinese. This prompted the formation of the Chinese Unity Movement in 1971, and later of the Perak Task Force, to help revive waning support for the MCA (Means, 1991: 58).[13] The MCA even entered into negotiations for a merger with the DAP, a plan which was shelved when exposed by the press. Unsuccessful attempts were also made to merge with the Gerakan and the Sarawak United People's Party (SUPP) (Hua, 1983: 168).

During the next two years, the Chinese Unity Movement and the Perak Task Force gathered some momentum for MCA through the efforts of its young and aspiring protagonists such as Dr Lim Kheng Yaik, Paul Leong, Alex Lee, and Dr Tan Tiong Hong. When these projects succeeded in mobilizing considerable support, the MCA leadership, however, began to fear that its own position was in jeopardy. Keng Yaik's call for collective leadership and greater democracy within the MCA especially perturbed party leaders. This contributed to a factional struggle within the party, leading to the eventual suppression and demise in 1973 of both these movements (Means, 1991: 58). Not long after, Siew Sin, with the support of MCA Youth leader, San Choon, managed to expel their most vocal opponents from the party, who left leading a phalanx of their supporters into Gerakan.

Realizing the extent of the damage done to his support from within the MCA, Siew Sin resigned as party president in 1974 and was replaced by San Choon.[14] The Chinese business elite, however, were cautious of San Choon's leadership as the new MCA president's lack of professional qualifications and humble lower middle class origins stood in sharp contrast to his predecessor's illustrious credentials. Furthermore, although San Choon's leadership of the initially successful and popular KSM had helped him develop his grassroots base in the party, Chinese businessmen who did not subscribe to the more egalitarian style of business done by cooperatives were concerned that this would affect their business operations (Gomez, 1991a: 52).

San Choon's relationship with UMNO leaders also was by no means a close one, reflected in the relatively minor ministerial portfolios assigned to him, in contrast with Siew Sin who had served as Finance Minister. Apart from these drawbacks, San Choon also faced a stiff challenge from another prominent party stalwart, Michael Chen,[15] a leader more widely accepted by the Chinese elite and UMNO alike.

In order to garner more support, San Choon implemented a number of

programmes which were aimed at Chinese economic and educational advancement. Among the projects were the incorporation of Multi-Purpose Holdings Bhd under KSM, the establishment of the Tunku Abdul Rahman (TAR) College and a cooperative, Koperasi Jayadiri (Kojadi), to help members finance the education of their children. He also initiated the construction of a prestigious new headquarters for the party and began a nationwide recruitment drive. Under his leadership, the MCA experienced a remarkable recovery, capturing 19 of the 23 parliamentary seats it contested in the 1974 General Elections (Heng, 1988: 268).[16]

In 1979, San Choon managed to further consolidate his party position after effectively out-manoeuvring Michael Chen, who had put up a strong challenge for the presidency.[17] Chen's running mate, Richard Ho, however, succeeded in wresting the deputy presidency. Some of Chen's supporters were subsequently expelled from the MCA, and Chen himself lost his cabinet post; he then joined the Gerakan with his supporters (Means, 1991: 176). San Choon later dropped Richard Ho, then the Labour Minister, as a party candidate in the 1982 General Elections; Ho eventually resigned from the MCA.

Under the Mahathir administration, San Choon led the MCA to another impressive victory in the 1982 General Elections when 24 of its 28 candidates won seats at parliamentary level. San Choon even took on DAP chairman, Chen Man Hin, in the latter's parliamentary constituency of Seremban, winning it narrowly.[18] During San Choon's leadership, the MCA appeared to be at the high point of its popularity. It was thus unexpected when San Choon suddenly submitted his resignation as MCA President in May 1983, after having appointed Neo Yee Pan as Acting President.

The actual reasons for San Choon's early retirement were never disclosed, fuelling rumours that he was embroiled in a financial scandal (see Sankaran & Hamdan, 1988: 28). It was also believed that San Choon could not get along with UMNO President Mahathir. Others speculated that San Choon's departure was linked to his bruising 1979 battle with Michael Chen which had left the party deeply factionalised. One MCA faction was led by Neo Yee Pan,[19] San Choon's appointed successor, and the other by Tan Koon Swan,[20] a self-made millionaire businessman brought in by San Choon to help develop KSM and Multi-Purpose Holdings. The leadership struggle between the two leaders had apparently prompted San Choon's decision to retire (see Means, 1991: 176).

This brewing rivalry, between a pro-business politician and a policy-minded bureaucrat, soon became an acrimonious battle, embroiling the

party in a severe crisis and throwing the MCA into a quagmire of legal cases. It was in fact surprising that San Choon had picked Yee Pan over Koon Swan as Acting President; Koon Swan was not only San Choon's protege, but also shared most of the latter's pro-business ideas, implementing them rather successfully in the early stages. Yee Pan, in contrast, had played only a minor role in the policy formation and implementation of MCA's business ventures (Gale, 1985: 58).[21]

The party crisis began in February 1984, when Koon Swan, then one of MCA's six vice-presidents, accused Yee Pan of padding the party's membership rolls with phantom members so as to ensure his victory in the party's forthcoming elections in June. Yee Pan countered Koon Swan's allegation by expelling him and thirteen of his close supporters, most of whom were leading MCA stalwarts, causing an open split in the party ranks.[22] This, in turn, resulted in court injunctions and extraordinary general meetings.

The rancorous bickering between the MCA leaders reached embarrassing proportions when Yee Pan's appointed Deputy President, Mak Hon Kam, broke away from the party mainstream to form yet another faction, further exacerbating the messy state of affairs.[23] Eventually, UMNO had to step in, appointing Barisan Nasional Secretary-General Ghafar Baba to play a mediating role in the intra-party conflict, a move resented by large sections of the Chinese community. Later, some UMNO leaders even proposed that the MCA should leave the Barisan Nasional until its internal dispute was settled. Finally, the expelled MCA leaders were reinstated, and in November 1985, well before the August 1986 General Elections, the issue was resolved when Koon Swan secured an overwhelming victory over Yee Pan in the presidential election. Koon Swan secured 77 per cent of the votes cast, while Yee Pan the other 23 per cent, bringing to an end the 21-month power skirmish (*FEER*, 31/10/85).[24] During the leadership crisis, there were many allegations about the extensive use of money by the Koon Swan faction to buy support; Clad (1989: 48), for instance, observed that Koon Swan had won the MCA presidency after a "money-in-every-direction" fight.

The Koon Swan faction's euphoria over the outcome of the party polls was short-lived. Koon Swan, who had pledged to unwind his "business interests within the shortest time possible and thereafter to devote full-time attention to politics" (*FEER*, 5/12/86), barely had time to keep his word. He was arrested in Singapore less than a month after the party election and, in February 1986, was charged with fifteen counts of fraud.

These events further underscored the weakened political position of the

Chinese community and the dominant role played by UMNO in directing the internal affairs of constituent parties of the Barisan Nasional. One important outcome, however, of Koon Swan's short term in office, were changes to the MCA's party constitution; henceforth, in the hope of promoting greater collective leadership, more power was to be centred in the hands of the central committee rather than the president.

The MCA was, as expected, resoundingly rejected in the 1986 General Elections, managing victory in only 17 of the 32 parliamentary seats it contested. Of the 17, 10 were in Malay majority areas, indicating the party's dependence on UMNO to remain in power. Meanwhile, the DAP secured 24 parliamentary seats, compared to the nine it had won in the 1982 General Elections (Sankaran & Hamdan, 1988: 51-53).[25]

The MCA's disastrous showing in the General Elections marked only the beginning of the party's problems. On 8 August 1986, just five days after the elections, the Deposit-Taking Cooperatives (DTC) scandal broke out, implicating a number of top MCA officials, including party president Koon Swan. It was believed that the disclosure of this scandal was deliberately delayed by the government until the General Elections were over. The repercussions of the scandal for the MCA were overwhelming since it involved savings amounting to nearly RM1.4 billion of over 588,000, mainly Chinese, Malaysians in 24 deposit-taking cooperatives (Gomez, 1991a: 56).[26] Kee Yong Wee, the party Youth president, and Wang Choon Wing, a deputy minister, were convicted and imprisoned for criminal breach of trust.[27] Koon Swan, however, had been sentenced to jail in Singapore earlier after pleading guilty to charges of criminal breach of trust. Upon his release, he was arrested by the Malaysian authorities and also served a jail sentence for corruption, this time involving funds of the MCA-controlled Multi-Purpose Holdings, which was already facing severe financial problems in the midst of a recession.

This highly embarrassing state of affairs had tarnished the MCA's reputation. It was only three years later that most of the problems associated with the cooperative issue were resolved; meanwhile, Multi-Purpose Holdings was placed under a new leadership of businessmen who, although not party officials, were sympathetic to the MCA. In an apparent move to revive flagging confidence, the new MCA leadership under Dr Ling Liong Sik pledged that the party and its leaders would in future no longer mix politics with business.

In 1990, another equally intense battle surfaced over the leadership of the MCA. Although it was waged on a smaller scale than the 1983 power struggle, it, all the same, revealed the continued involvement of MCA leaders in business. The party was again divided into factions, and MCA deputy president, Lee Kim Sai, was urged to challenge the president at the party's General Assembly. In the public slanging match that ensued between the two groups, Liong Sik's credibility was questioned, his apparently despotic running of the MCA criticized, and his personal business dealings revealed. Kim Sai, however, decided not to confront Liong Sik when it became evident that he could not marshall sufficient support within the party.[28] It was also apparent that UMNO preferred the leadership of Liong Sik over Kim Sai since the latter had been known to take a strong and independent stand on Chinese issues.[29]

Although another bruising battle was averted, the intra-party conflict had already created a poor image of the party in the eyes of the Chinese. The indecisiveness of its leaders and, again, the influence of UMNO in dictating internal MCA affairs embarrassed even party members. The unhappiness within the MCA over Kim Sai's decision to withdraw his challenge at the eleventh hour was clear when token opposition was offered, not only against Liong Sik, but also against Kim Sai; there were over two hundred spoilt votes for the deputy president's post to which Kim Sai was elected (Gomez, 1991a: 103). Just before the 1990 General Elections, Liong Sik took the opportunity to remove some of the leading dissenters, a number of whom were Ministers and Deputy Ministers, by not nominating them as candidates for the elections, a move which considerably weakened Kim Sai's position in the MCA.

The outcome of the 1990 General Elections disclosed that the MCA had failed to win the support of the Chinese, especially in the urban areas, as they had in 1982. Although the party gained one additional parliamentary seat, compared to the 1986 elections, by winning 18 of the 32 seats it contested, it secured only 11.27 per cent of the votes cast in the parliamentary elections, a decline of 1.48 per cent from 1986 and a drop of 7.14 per cent from 1982 (Khong, 1991: 33). In the Federal Territory and Penang, the MCA lost all the parliamentary and state seats it contested. In the states of Perak and Selangor, which have large Chinese populations, the MCA won less than half the number of parliamentary seats it contested. It was only in the state of Negeri Sembilan that the party showed an improved performance. Its showing in the state assembly elections was worse. Contesting 64 seats nationwide, the MCA managed to retain only 34, a more deplorable performance than the 1986 elections, where it had won 43 seats; in the 1982 elections, the MCA had, in contrast, won 55 of the 62 seats it contested (Khong, 1991: 27-28). As in previous General Elections, the MCA parliamentary candidates were returned

primarily in areas where Chinese voters constituted less than half of the electorate, indicating the party's dependence on UMNO for victory.

In May 1993, just before the forthcoming party polls, Kim Sai announced that although he would defend his post as deputy president, he would not be contesting in the next general elections which were widely expected to be held in 1994. Kim Sai's decision, which meant that he would have to give up his ministerial appointment, was probably due to his weakened position in the MCA and the lack of support he had received from a party leadership which was strongly dominated by Liong Sik's supporters. Liong Sik, however, was challenged when Woon See Chin, a Kim Sai supporter who had been removed as a deputy minister although he had retained the vice-presidency in 1990, declared his candidacy for the party presidency. Although See Chin eventually lost — he managed, however, to obtain a credible 22 per cent of the total votes cast — he reiterated in his campaign most of the grievances raised against Liong Sik in 1990; a confident Liong Sik did not even see it fit to refute See Chin's allegations. Following the party elections, Kim Sai was stripped of his influential post as MCA Selangor chairman; party secretary-general, Dr Ting Chew Peh, a staunch ally of Liong Sik, assumed Kim Sai's position. While Liong Sik has consolidated his presidency by appointing his allies to influential positions in the party, it appears that there is still much dissent at grassroots level.

4.2: Koperatif Serbaguna (M) Bhd

The KSM, or Malaysian Multi-Purpose Cooperative Society, was registered on 8 August 1968 under the auspices of the MCA Youth. The first major business organization promoted by the MCA, KSM was to operate as a general cooperative. Its first chairman was San Choon, who held the post until 1979 (Gale, 1985: 20-21).[30] Since cooperatives were then a form of business organization unfamiliar to the Chinese, it appeared that KSM was incorporated by the MCA principally to cater to the needs of the lower middle class Chinese, who have not been traditional supporters of the party.

Although Siew Sin felt that the cooperative jeopardized his own plans to set up an investment arm, the MCA president was soon to realize the political merits of having the endorsement of such a business organization. It was San Choon's mobilization of the KSM and MCA Youth machineries that helped Siew Sin counter the challenge posed by the Perak Task Force in 1972. Despite Siew Sin's endorsement of the KSM, San Choon found it difficult to draw the support of the Chinese business elite. The Co-operative Societies Act 1948, which allowed each member only one vote regardless of the size of his investment, meant that these businessmen had little hope of controlling the cooperative. Furthermore, the fact that most of KSM's promoters were Chinese-educated did not go down well with the Chinese elite (Gale, 1985: 22).

The early promoters of KSM were Choo Ching Hwa, who had served as treasurer-general of the MCA for ten years, Chan Siang Sun, the late MCA vice-president and minister, Loh Fook Yen, a former secretary-general of the MCA, Oon Seng Lee, a former MCA youth leader, and Teo Ah Kiang, a former Johore MCA leader (Gale, 1985: 21-23). In fact, throughout the cooperative's history, the top posts have traditionally been held by party stalwarts who came to realize the importance of KSM for the purposes of climbing the MCA hierarchy. Other prominent MCA leaders who have served as directors of the cooperative include Koon Swan, who later became president of the party, Kee Yong Wee, who was to head the party's youth wing, and Chan Kit Chee, a former MCA Perak chairman.

There were a number of reasons behind San Choon's decision to actively promote a cooperative even though he was probably aware that it would not be well received by the Chinese elite whose patronage was crucial for the party. With the demise of the Chinese Unity Movement and the Perak Task Force, the MCA Youth was aware that the party had lost the support of the Chinese middle and lower middle classes. As a form of economic organization specially suited for people of limited means, a cooperative was an ideal vehicle to bring together the Chinese of this class. KSM was also seen as a means to curb the loss of support experienced by the MCA as more Chinese were turning to the nominally multiracial opposition parties, particularly the DAP and Gerakan (Gomez, 1991a: 48).

Since, however, the business community was withholding its support for the KSM, and many Chinese did not understand the concept of the cooperative, initial response to KSM's membership drive was disappointing. This was despite the nationwide campaign mounted by the MCA Youth. When the KSM commenced business in 1968, it had a membership of only 1,396 and a paid-up capital of RM69,000 (Gomez, 1991a: 77). Gale (1985: 22-23) attributed the early survival of the co-operative to the financial support of Public Bank chairman, Teh Hong Piow, and the profitability of some of KSM's early investments. In fact, in 1969, one year after its inception, the cooperative was already able to declare a seven per cent dividend.

KSM's first business activity in 1968 was the procurement of taxi-licences for its members in various states (*The Star*, 9/8/86). Since then,

KSM has been involved in diverse activities ranging from housing, oil palm cultivation, insurance, transportation, retailing, trading, leasing, finance, to investment holding. Among its more prominent subsidiaries were KSM Finance Sdn Bhd, KSM Insurance Sdn Bhd, and KSM Trading Sdn Bhd. While not all these business ventures proved lucrative, KSM's financial position and asset base improved steadily (see Table 4.1).[31]

In 1972, with Siew Sin now visibly more supportive of the cooperative, more MCA members were drawn to the KSM, leading to a sharp rise in its total membership (see Table 4.1). After Koon Swan's appointment as KSM's general manager in 1977, the cooperative's asset base increased a phenomenal ten-fold, all within the brief span of five years (see Table 4.1). By the early 1980s, a little more than a decade after its incorporation, KSM was the country's largest cooperative both in terms of membership and assets. It was larger than even such institutions as the Central Cooperative Bank and the government-backed Bank Rakyat.

TABLE 4.1
The Expansion of KSM (1968-81)

Year	Membership	Paid-Up Capital	Assets
1968	1,395	69,000	72,000
1969	2,222	292,060	357,000
1970	3,778	550,960	1,906,000
1971	9,881	1,023,340	4,148,000
1972	17,681	2,012,924	5,685,000
1973	25,978	3,578,375	9,305,000
1974	35,100	4,818,609	10,048,000
1975	41,821	5,678,584	16,105,000
1976	48,371	6,565,042	33,776,000
1977	55,649	7,580,394	76,345,000
1978	60,554	8,531,058	89,264,000
1979	68,998	9,756,782	121,017,985
1980	80,404	14,099,837	195,794,840
1981	169,551	30,376,538	347,772,201

Source: Gale, 1985: 35.

It was Koon Swan who was primarily responsible for KSM's rapid growth. He was also responsible for merging the activities of the cooperative with those of commercial companies despite the differing social objectives of both. This was possible because the Cooperative Societies Act contained provisions that allowed cooperatives to establish subsidiaries, a rather unusual provision since a cooperative was not supposed to be motivated by profit (Gomez, 1991a: 52-53).

In 1977, just three months after Koon Swan took to the helm of KSM, the cooperative was actively involved in the stock market. Its first acquisition of a publicly-listed company was a 20 per cent stake in Plantation Holdings Ltd, an oil palm and rubber plantation company then under British control. Not long after, KSM acquired another publicly-listed company when it exchanged two pieces of land for a 30 per cent stake in Bandar Raya Developments Bhd, making the cooperative its largest single shareholder (Gale, 1985: 32-33). Further expansion, however, was heavily curtailed by the cooperative's rather limited fund-raising methods. In addition to this, the implementation of the NEP in 1971 and its implications on Chinese businesses necessitated the incorporation of a new holding company, one that did not possess the limitations of a cooperative. This led to the Chinese corporatisation movement and the establishment of Multi-Purpose Holdings.

4.2.1: The Corporatisation Movement

The restructuring policies introduced under the NEP had a major impact on the Chinese, who feared that government policy to hasten Bumiputera participation in the economy would in the long-term probably lead to an erosion of Chinese business interests. The introduction of the Industrial Coordination Act (ICA) in 1975 further provoked Chinese consternation as the legislation was widely perceived by the community as an attempt to advance Bumiputera interests in the country's manufacturing sector. At a Malaysian Chinese economic conference organized by the Associated Chinese Chambers of Commerce and Industry of Malaysia (ACCCIM) in 1978, it was stated that Chinese capital was running into problems because of the "misconceived implementation of regulations and the narrowing access of economic opportunities for the Chinese through Government edicts and directives" (ACCCIM, 1978: 84).

Even the usually reticent MCA, which reportedly was not consulted before the ICA was introduced, joined the Chinese Chambers of Commerce and other organizations to protest the legislation. The ICA was subse-

quently amended, first in 1977, and again in 1979, with a few concessions by the government each time. The essential premise of the ICA, however, remained intact; except in the case of very small firms, licences would be required from the Ministry of Trade and Industry, and these could be revoked if requirements for Bumiputera ownership and employment were not met (Milne & Mauzy, 1978: 346).

Gale (1985: 52) noted another event of importance which fed strong Chinese speculation that their economic interests were indeed being threatened. In mid-1975, government-owned Pernas, under the control of Tengku Razaleigh Hamzah, attempted a sensational takeover of Haw Par International, a Singapore-based multinational Chinese conglomerate. The ultimate aim of the takeover was for Pernas to gain control of London Tin which had extensive shareholdings in several Malaysian mining companies. Although the takeover of Haw Par International was called off, Pernas managed to obtain control of London Tin the following year. Pernas' conspicuous strategy to expand through acquiring controlling interests in large companies was received with a fair measure of alarm and anxiety on the part of the Chinese business elite.

Reacting to these events, and encouraged by the MCA, Chinese businessmen began to seriously ponder the state of Chinese capital in Malaysia and of ways to ensure its development. These discussions became the nucleus for what has come to be referred to as the Chinese "corporatisation movement" (see Yeoh, 1987: Chap. V).[32]

The leading proponents of the corporatisation movement, such as Koon Swan, Kee Yong Wee, and Choo Ching Hwa, were convinced that the business style of the Chinese needed a number of fundamental structural reforms. An important drawback, in addition to the highly individualistic manner of Chinese commercial practices, was the modest initial capital available to most Chinese business people. This limited capital base meant a low capacity for capital generation and accumulation which in turn reduced profit potential. Hence, only a small amount of capital was available for reinvestment.

Another impediment to the development of Chinese capital was the presence of the "middleman" in the Chinese economy. Since this manner of business did not involve sophisticated instruments of production, the spirit of research and innovation was non-existent (Yeoh, 1987: 110).

The Chinese style of management was usually closely linked with real or assumed ancestral relationships and parochial sentiments. Employment too was based mainly on kinship ties and in the area of employer-employee relationships, paternalism and unconditional loyalty took precedence over

merit, experience, and educational qualifications (Yeoh, 1987: 111). Even within the large-scale Chinese business groups, where stock was held by a family, Limlingan (1986: 282-83) noted that the Chinese managerial system consisted of the following:

i) An entrepreneurial group consisting of the family;
ii) A professional management group consisting primarily of professional managers;
iii) A custodial group which performs the control function for the entrepreneurial group over the professional management group and which consists primarily of family members and trusted retainers.

Another distinct feature of the Chinese economic structure was that each disparate dialect and district group tended to monopolize a certain field of trade as a result of their self-centred attitude, their "assist-only-the-fellowmen" principle, and their specialization in certain areas of business. This was not unusual because, as Redding (1990: 143) pointed out, among overseas Chinese, the family business came to be "the dominant form for the coordination and control of economic activity".

There were probably other reasons for Chinese hesitation to change their family or individual style of business ownership for more western business practices. Chinese businessmen were fearful that if their company grew rapidly and had to tap public equity markets for funds, they might not be able to inject sufficient capital to maintain control. Another conceivable reason was the fear that corporate success and growing prestige would increase public and institutional interest in the company, thus widening the company's ownership base, possibly to even include "hostile" parties.

With the implementation of the NEP, however, there were increasing arguments that these fears and structural barriers to the development of the Chinese economy had to be removed. An important strategy that evolved out of this concern was the promotion of Chinese participation in the share-market economy through the establishment of corporate entities that would funnel the petty savings of ordinary Chinese into more productive activities (Means, 1991: 59-60).

Accordingly, using the argument that the Chinese would benefit from a politically-controlled company in view of the political circumstances arising from the implementation of the NEP which its detractors described as being inimical to the further development of Chinese capital, the MCA set up Multi-Purpose Holdings Bhd in 1975 as a vehicle to safeguard Chinese business and investment interests against the encroachment of

large government enterprises. Multi-Purpose Holdings was to cut across kinship ties and clan associations to raise a large amount of capital from the Chinese public. The first public issue of RM30 million shares in 1977 was overwhelmingly over-subscribed, mostly by the Chinese (Yoshihara, 1988: 239).

The corporatisation movement did not result in the MCA's incorporation and promotion of Multi-Purpose Holdings and KSM alone. Yeoh (1987: 117) estimates that at least one hundred and fifty Chinese guilds and associations had plans for establishing their own investment holding companies or cooperatives, or both. He noted, however, that only ten of the approximately fifty investment holding companies eventually incorporated were active. Several reasons were cited for this, among them the lack of bureaucratic support, the call by national leaders to curb "racial business groupings", and the attack on MCA-backed organizations by opposition parties.[33] Most of these large enterprises were also not professionally run since their management possessed neither the qualifications nor the expertise to operate an organization with a large capital base (Yeoh, 1987: 120-22).

With the rapid expansion of the Malaysian economy in the 1970s and the share market boom in 1981, many Chinese organizations were beginning to be convinced that such companies were feasible economic ventures.[34] Thus, by the early 1980s, the number of such active companies almost doubled to nineteen, though the more successful organizations were linked through directorships to the MCA-backed Multi-Purpose Holdings or through dealings with the company. For example, Ka Yin Holdings Sdn Bhd,[35] controlled by the Hakka-based Federation of Ka Yin Associations, was headed by Lee Loy Seng and Choo Ching Hwa, both then directors of Multi-Purpose Holdings. The Hokkien Association established Hok Lian Holdings Sdn Bhd, which was incorporated in August 1981; the company was led by Lee Yan Lian, the president of the ACCCIM in the early 1980s and a keen supporter of Multi-Purpose Holdings. The Batu Pahat-based Funsun Holdings, whose advisers were Koon Swan and San Choon, owned 500,000 shares in Multi-Purpose Holdings. The Keng Chew Selangor Society, a Hainanese organization which incorporated Grand Ocean Development Bhd,[36] was linked to Koon Swan through his brother, Tan Loon Swan (Gale, 1985: 107-09 & 121-24; Yeoh, 1987: 122-23).

The active role played by the MCA in promoting the corporatisation movement led to its incorporation of a number of major investment holding companies at state level. The most prominent of these were Matang Holdings Bhd (Johore), Aik Hua Holdings Bhd (Selangor), Panwa Development Bhd (Pahang), and Peak Hua Holdings Bhd (Perak) (Yeoh, 1987: 148).

Aik Hua Holdings is a public investment holding company with a paid-up capital of RM20.09 million from more than 11,000 shareholders. Incorporated on 13 May 1981, Aik Hua Holdings was to function as the investment arm of the Selangor MCA and operate in a manner similar to Multi-Purpose Holdings. In fact, in 1985, the largest shareholder, with a 10 per cent stake, was Multi-Purpose Holdings; the stake appeared to have been transferred to KSM in 1988 (*The Star*, 13/9/85; *Business Times*, 30/8/88).

According to company records, Aik Hua Holdings has a number of wholly-owned subsidiaries such as Aik Hua Credit & Leasing Sdn Bhd (licensed money-lenders, leasing and hire-purchase financing), Aik Hua Properties Sdn Bhd (property investment), Aik Hua Trading Sdn Bhd (trading), and two dormant companies, Aik Hua Plantations Sdn Bhd and Aik Hua Industries Sdn Bhd. Aik Hua Holdings also has a 51 per cent stake in Aik Hua Engineering Systems Sdn Bhd, which operates a mechanical car-parking system. Aik Hua Properties, in turn, has two wholly-owned companies, Town Centre Sdn Bhd (property investment and housing development) and Dugaan Hati Sdn Bhd, a dormant company. Apart from these companies, Aik Hua Holdings' investments in publicly-listed companies were valued at more than RM28,000 in 1987.

A loss-making concern between 1986 and 1990, the Aik Hua Holdings Group's losses peaked at RM15.58 million in 1988; by 1991, although the Group reported a profit at company level, the accumulated losses stood at RM8.8 million. The company's losses were primarily due to interest payments for a loan taken to construct the 18-storey Menara Aik Hua, situated in the heart of Kuala Lumpur (*Business Times*, 29/9/87); Aik Hua eventually lost control of the building. One of the political figures to have been appointed to the board of Aik Hua Holdings was Yap Peng, an MCA senator from 1977 to 1983, who served as chairman of the company.

Panwa Development, the investment holding company for the Pahang MCA, has a paid-up capital of RM20.782 million, and a number of wholly-owned subsidiaries involved in a wide range of activities. Company records indicate that these subsidiaries include Ee Lee Development Sdn Bhd (property development), Panwa Leasing Sdn Bhd (leasing and hire purchase), Panwa Housing Sdn Bhd (property development), and Panwa Industries Sdn Bhd (timber trading). Panwa Development also owns two dormant companies, Panwa Trading Sdn Bhd and Panwa Plantations Sdn Bhd, and has a 26 per cent stake in Mawai Products Sdn Bhd, which is

involved in the manufacture of rattan furniture. In June 1990, Panwa Development also owned equity in quoted companies amounting to around RM850,000.

Another loss-making entity, Panwa Development, by June 1991, had accumulated losses totalling RM17.4 million. Among the MCA leaders who served as directors of the company were Ho Chock Keong and Mok San Hang, both of whom were also state assemblymen, and Foo Boon Liang, a former MCA senator.

Matang Holdings, the Johore MCA investment arm, was incorporated on 3 April 1978, but it did not commence business until 1988. A public investment holding company, it has a paid-up capital of RM60 million and is, after Multi-Purpose Holdings, the largest Chinese communal investment holding company. The company has 21,283 shareholders, nearly all of whom are MCA members; party leaders thus figure prominently in Matang's board of directors. Such close ties also explained why a major segment of Matang's investments were in Multi-Purpose Holdings and in some of the conglomerate's quoted companies like Bandar Raya Developments and Mulpha International Trading (Yeoh, 1987: 150).

Records filed at the Registrar of Companies indicate that prominent MCA leaders were directors of Matang Holdings; these include Teo Ah Kiang, a founding member of KSM and a director of Multi-Purpose Holdings, Chua Jui Ming, a current MCA deputy minister, and Tan Peng Choon, an MCA Johore leader and former state assemblyman. From September 1984 until December 1991, former MCA president San Choon was chairman of the company.

Matang Holdings' first business venture was in the timber industry when the company secured a 500-acre timber concession area known as Hutan Simpan Maokil from the Johore state government. Since then, the company has incorporated a number of wholly-owned subsidiaries including Matang Credit & Leasing Sdn Bhd, Matang Factoring Sdn Bhd, Matang Manufacturing Sdn Bhd, Matang Realty Sdn Bhd, and Matang Nominees Sdn Bhd; it also has a 20 per cent stake in Suzuki Sdn Bhd, a plantation concern. As in the case of other state MCA holding companies, Matang Holdings has also been registering losses. By June 1990, the company had suffered losses amounting to RM3.4 million. Matang Holdings, however, also owned assets totalling approximately RM5.4 million and shares in publicly-listed companies worth RM5.87 million, a huge drop from the RM13.32 million worth of quoted stock it owned in 1984.

In December 1991, in an attempt to revive the ailing company, MCA President Liong Sik announced a revamp of Matang Holdings' board of directors; the reshuffle saw the removal of San Choon as chairman and the appointment of Senator David Yeoh, a close associate of Liong Sik, as director. Lim Fung Chee, the former chairman of Kojadi, another MCA-related cooperative, was appointed chairman of the company (*The Star*, 2/12/91).

Peak Hua Holdings was established by the Perak MCA as an investment holding company with a paid-up capital of RM43.878 million. One prominent MCA leader who served as director of Peak Hua Holdings was Chan Kit Chee, a former MCA Perak state chairman and director of KSM. Peak Hua Holdings owned a number of subsidiaries involved in assorted commercial activities; these included Peak Hua Credit & Leasing Sdn Bhd (hire purchase, share and lease financing), Peak Hua Development Sdn Bhd (property development and rental), Peak Hua Securities Sdn Bhd (investment dealing), and Peak Hua Realty Sdn Bhd (property investment). Peak Hua Holdings also owned two dormant companies, Peak Hua Housing Sdn Bhd and Peak Hua Management Sdn Bhd, while Peak Hua Realty had a wholly-owned subsidiary, Peak Hua Property Management Sdn Bhd, which was involved in property investment.

Peak Hua Holdings' most important asset was, however, probably its stake in a minor listed company, Lien Hoe Corporation Bhd, formerly known as Peak Hua Industries Bhd, which in turn wholly-owned a number of subsidiaries.[37] At the end of 1987, Peak Hua Holdings had a controlling 50.10 per cent stake in Lien Hoe Corporation (*KLSE Annual Companies Handbook*, 1988: 557). Following its failure, however, to service a loan in which Lien Hoe Corporation's shares were pledged as collateral, Peak Hua Holdings' stake in this listed entity progressively diminished as financial institutions liquidated their equity to recover their debt. By late 1988, Peak Hua Holdings' stake in Lien Hoe Corporation had all been sold. Apart from this, the company's financial statement indicated that by the end of 1989, it had accumulated losses totalling RM52.731 million; Peak Hua Holdings also had a winding-up notice served on it which was later deferred.

All these four MCA-sponsored investment holding companies, which were created during the corporatisation movement, fared very poorly. While all these companies ventured heavily into property development and invested in businesses badly affected by the mid-1980s recession, their dismal performance was also attributable to the political, rather than business, backgrounds, of their managements (*Business Times*, 29/7/87). Assigning the poor management of these companies to the fact that they served both political and economic purposes, Heng (1992: 135) went on

to observe that their "most fundamental problem" was their "lack of access to state patronage and Malay holders of power".

Another major cooperative established by the MCA was the Koperasi Jaya Diri, more popularly known as Kojadi. The cooperative was registered on 15 May 1981 and had a membership of approximately 63,000 and deposits totalling around RM13.1 million by the mid-1980s.[38] It is principally involved in investment holding and deposit-taking activities. Established as an associate of the Multi-Purpose Holdings Group, Kojadi was run by Multi-Purpose Holdings staff (*NST*, 12/11/86).

The first chairman of Kojadi was Choo Ching Hwa, a founding member of KSM. Among the other MCA leaders who were directors of Kojadi — apart from Koon Swan, Loh Fook Yen, and Oon Seng Lee, who were also directors of KSM — were Ng Cheng Kiat, a former MCA minister, Teng Gaik Kwan, the leader of the party's women's wing, and Wong Mook Leong, an MCA Central Committee member (Gomez, 1991a: 60).

Kojadi was set up by the MCA to address the Chinese community's demands for tertiary education in the country. Criticized for its wavering support for and eventual abandonment of the Merdeka University proposal, the MCA had also been attacked for failing to do much to solve Chinese educational woes, especially at tertiary level. The implementation of the NEP, which reserved a larger than proportionate share of university places for Bumiputeras, aggravated an already politically charged issue. Despite the setting up of TAR College, the demand for higher education still remained high, a need the fledgling College could not fulfill. Kojadi's main project was to organize a "Higher Education Loan Scheme" through which study loans were provided to help members further their children's education (Gale, 1985: 125-28). Although the loan scheme became extremely popular — within two years, there were 60,000 participants in its education scheme — the MCA's credibility was affected when Kojadi was suspended in 1986 following the Deposit-Taking Cooperatives (DTC) scandal.

In fact, the scandal also reflected the proliferation of Chinese-dominated cooperatives in the 1970s, most of which were linked to the political aspirations of MCA politicians. Among the most prominent was the cooperative Koperasi Belia Bersatu Bhd (Kosatu) — second only to KSM in terms of deposits — led by Tee An Chuan, a former MCA member who became the president of the People's Progressive Party (PPP), a minor component party of the Barisan Nasional. Another was the Gerakan-associated cooperative, Koperasi Rakyat Bhd (Korakyat), chaired by Hew See Tong, an ex-MCA member who had defected to the Gerakan. Yap

Peng, a former MCA senator, led Koperasi Sepadu Bhd. Kee Yong Wee, a former MCA Youth president, and Wang Choon Wing, a former MCA deputy minister, controlled Koperasi Pembangunan Ekonomi Pemuda (M) Bhd (Komuda), a cooperative which functioned as the investment arm of the Chinese-based Malaysian Youth Movement, closely linked to the MCA Youth. With the exception of Hew See Tong, all these men were implicated for their errant mishandling of funds in the cooperatives they led, and subsequently served prison sentences. Even the MCA women's wing had established a cooperative, Koperasi Wanijaya (M) Bhd, which was also implicated in the scandal (Gomez, 1991a: 47-104).[39]

4.2.2: Huaren Holdings Bhd

Another major MCA business entity is Huaren Holdings Sdn Bhd, the party's official holding company. Company records indicate that Huaren Holdings was incorporated on 4 February 1977 and its first directors and shareholders were Choo Ching Hwa and Loh Fook Yen, who figured as directors of all the MCA's other major business entities — KSM, Kojadi, and Multi-Purpose Holdings. By July 1978, the MCA had invested RM4 million in the company and Huaren Holdings owned quoted investments valued at almost RM7.7 million.

In 1979, Huaren Holdings acquired its most important asset, a controlling 67.35 per cent stake in Star Publications (M) Bhd.[40] Later, in 1981, Huaren Holdings also acquired the Malayan Thung Pau Daily News Sdn Bhd for RM11 million from the Chew Swee Pheow family (*The Star*, 8/7/92). Star Publications publishes the popular English tabloid, *The Star*, while the Malayan Thung Pau Daily News publishes the Chinese newspaper, *Tong Bao*. These newspapers have since become important propaganda organs for the party. These were not the only newspapers important to the MCA. Koon Swan privately controlled the Chinese-language *Shin Min Daily News*, which was eventually bought over by the UMNO-controlled The New Straits Times Press (M) Bhd; Koon Swan also had control of the now defunct English tabloid, the *National Echo*.[41]

By 1984, the MCA's four million shares in Huaren Holdings were held in trust by Choo Ching Hwa, Loh Fook Yen, Michael Wong Kuan Lee, a former MCA senator, and Tan Peng Choon, who was also a director of Star Publications. These men also served as directors of Huaren Holdings. Other familiar MCA members who were directors of Huaren Holdings were Chan Kit Chee and Michael Yeoh.

Company records also indicate that Huaren Holdings was an un-

profitable concern, reporting accumulated losses of RM9.32 million in 1985; by 1987, its accumulated losses almost doubled at RM17.3 million. Meanwhile, Huaren Holdings also raised its stake in Star Publications to 78 per cent. In an attempt to cut its losses, Huaren Holdings reduced its stake in Star Publications to 58 per cent. The 20 per cent stake in the publishing company had been sold in January 1990 to IGB Corporation, a Chinese concern controlled by Tan Chin Nam; in 1990, Berjaya Corporation, controlled by Vincent Tan Chee Yioun, bought over this 20 per cent stake in Star Publications (*Business Times*, 21/12/90).[42] In July 1992, Huaren Holdings lost control of *Tong Bao* when it sold for an undisclosed sum its entire 100 per cent equity in Malayan Thung Pau Daily News to an obscure company, Stock Trade Sdn Bhd (*The Star*, 8/7/92). It is likely that the sale was another move towards reducing Huaren Holdings' losses, which by the end of 1991 amounted to RM581,347 at group level and a massive RM11.84 million at company level.

By 30 June 1992, the four million shares in Huaren Holdings owned by the MCA were held in trust by party president Liong Sik, deputy president Kim Sai, vice-president Lim Ah Lek, and secretary-general Ting Chew Peh. These men were not listed as directors of Huaren Holdings at the time.

Unlike the companies set up by the MCA at state level, all part of the Chinese corporatisation movement, Huaren Holdings' manner of operation suggests that the company is the party's main investment holding entity. Huaren Holdings, however, does not appear to be a major tool for the practise of patronage by MCA leaders or for corporate forays to construct an important asset base for use in politics. Rather, the company's main objective appears to be to maintain control over the popular English tabloid, *The Star*, particularly since the other leading English newspapers are controlled by businessmen with close ties to UMNO leaders. The company most closely associated with the MCA for developing a corporate base to serve political ends has been Multi-Purpose Holdings.

4.3: Multi-Purpose Holdings Bhd

The incorporation of Multi-Purpose Holdings Bhd (MPHB) on 18 August 1975 was to fulfill a two-fold objective. It was an economic strategy which while not contravening the NEP would help bolster flagging support for the MCA; it was also hoped that MPHB would increase the economic bargaining power of the Chinese with the state. Also, the pooling of Chinese economic resources into one investment network would help centralize local funds, thus enabling MPHB to compete with large Bumiputera agencies (Jesudason, 1989: 155).

According to company records, the first directors of the company included a number of MCA leaders and KSM directors such as Chan Kit Chee, Teo Ah Kiang, and Loh Fook Yen; Wong Seng Chow, an MCA leader from Negeri Sembilan and currently a deputy minister, was also listed as a director. Appointed as chairman of MPHB was rubber baron Lee Loy Seng of publicly-listed Kuala Lumpur Kepong Bhd, the largest locally incorporated plantation company; Koon Swan was named its managing director.

There was concern among the MCA that MPHB's shares would be under-subscribed considering the earlier meagre interest shown in KSM when the cooperative was first launched and the fact that opposition parties and some Barisan Nasional parties had strongly objected to MPHB's establishment. Contrary to expectations, however, public application for MPHB's 30 million RM1 shares totalled RM42.94 million (Yeoh, 1987: 188). A major shareholder, however, was KSM, which originally held a 10 per cent stake; this equity rose to more than 52 per cent when MPHB subsequently enlarged its capital base (Gill, 1985: 183). Koon Swan immediately made it known that MPHB's development would primarily be seen through a massive acquisition drive.

4.3.1: On the Acquisition Trail

Three months after MPHB was launched, the company, in September 1977, purchased 3.484 million shares, or a 22.7 per cent stake, in publicly-quoted Bandar Raya Developments Bhd (Gale, 1985: 74). Bandar Raya Developments, which was incorporated in 1964 and went public in 1968, was principally involved in housing development before it diversified into manufacturing; the Group also has one of the largest urban land banks among property companies nationwide (*KLSE Annual Companies Handbook*, 1991: 640-43). This initial acquisition of Bandar Raya Developments grew over the next few years, with even KSM directly investing in the company through a land-for-share swap. MPHB's financial statement indicates that the company owned a 30.09 per cent stake in Bandar Raya Developments in 1978, which was raised to 35.08 per cent by the end of 1979.

With MPHB in control, Bandar Raya Developments embarked on a major drive to acquire property development companies to enlarge its land bank. Among its major business deals was its purchase in July 1980

of KL Land Sdn Bhd, which owned prime land in Malacca; the deal was partly financed through an equity swap. In December that year, Bandar Raya Developments also announced the acquisition of 74.1 million shares, or a 57.7 per cent stake, in Hong Kong-based investment and property company, Intercontinental Housing Development Ltd (IHD); this deal was also partly funded by a share-swap.

IHD's most attractive investment was its 49.98 per cent interest in United Estates Project Sdn Bhd (UEP), the company responsible for the development of the new Subang Jaya township on the outskirts of Kuala Lumpur. The other major owner of UEP was the government-controlled Urban Development Authority (UDA), which controlled UEP through its wholly-owned company, Peremba Bhd, whose chairman was then Daim Zainuddin, later to become Finance Minister of Malaysia. IHD also had indirect control of prime land in the heart of Kuala Lumpur. In a surprising turn of events, however, Bandar Raya Developments, eighteen months later, in December 1982, sold its stake in the highly lucrative UEP to Baktimu Sdn Bhd, a family company of Daim. The sale was justified on the basis of the monetary gain it provided Bandar Raya Developments (Gale, 1985: 91-94).

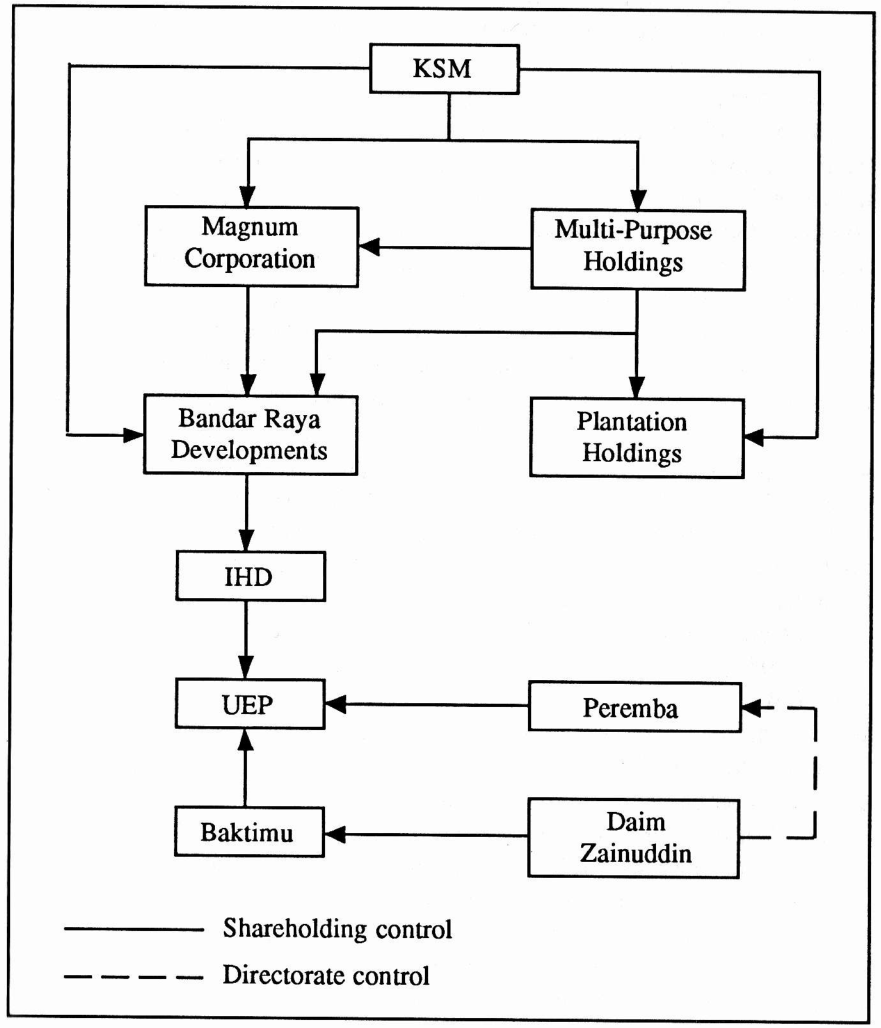
Another major acquisition during this period was MPHB's stake in another quoted company, the gaming concern Magnum Corporation Bhd. Incorporated in December 1968 as Empat Nombor Ekor Bhd and publicly-listed a year later, Magnum Corporation was involved in the sale of the highly profitable four-digit numbers forecast betting operations. Magnum Corporation later ventured into finance, property development, recreation activities, manufacturing, and investment holding (*KLSE Annual Companies Handbook*, 1991: 223-27).

It was KSM Insuran, a minor subsidiary of KSM, which first acquired one per cent of Magnum Corporation's equity in 1977. By the end of 1979, MPHB also had acquired 19.1 per cent of Magnum Corporation's equity. In turn, Magnum Corporation had bought an interest in Bandar Raya Developments, creating an interesting interlocking web which also involved KSM and MPHB (see Figure 4.1). This was only the beginning of the internal dealings of these companies, which were controlled ultimately by MPHB and KSM. In July 1980, cash-rich Magnum Corporation was used to acquire a controlling interest in Phicom Ltd from MPHB and KSM through a share-swap which gave the MPHB group a significant 35.53 per cent stake in Magnum Corporation's enlarged capital (Gale, 1985: 98).

One of KSM's first acquisitions in 1977 was a 20 per cent stake in Plantation Holdings Ltd, a London-based company with substantial rubber

and oil-palm plantations in Malaysia, which had later diversified into manufacturing. Plantation Holdings was established in 1965 following the merger of four plantation companies (Gale, 1985: 81). In October 1978, KSM and MPHB became the largest shareholders of Plantation Holdings when they acquired 27.51 per cent of the company's equity; together with

FIGURE 4.1
Interlocking Shareholding between
KSM, MPHB, and Acquired Companies



the Plantation Holdings' shares bought in the open market, KSM and MPHB owned 49.97 per cent of Plantation Holdings' paid-up capital. Following the acquisition, Plantation Holdings went into voluntary liquidation, and in May 1979, the company was divided into Malaysian Plantations Bhd and Phicom Ltd. Malaysian Plantations took over the plantation operations of Plantation Holdings, while the manufacturing activities were placed under Phicom (Gale, 1985: 88).

Later, ostensibly through a consolidation exercise, KSM exchanged its interests in Bandar Raya Developments and Malaysian Plantations for more of MPHB's equity. This increased MPHB's shareholding in Bandar Raya Developments and in Malaysian Plantations to 24.65 per cent and 53.67 per cent respectively (Gale, 1985: 95-98).

Another major investment by MPHB in June 1981 was its acquisition of 24.251 million shares, or a 73 per cent stake, in the Singapore-based trading company, Guthrie Bhd (GB), a British-controlled company incorporated in 1968. The stake was acquired from GB's holding company, Guthrie & Co. (Far East) Sdn Bhd, for RM101.25 million. GB's Malaysian-based operations were conducted through its wholly-owned subsidiary, Guthrie Malaysian Holdings Bhd (GMHB), a company incorporated in August 1974. MPHB subsequently purchased the remaining GB shares it did not own. Later that year, in September 1981, government-owned Permodalan Nasional Berhad (PNB) bought a majority stake in the British-based Guthrie Corporation, the ultimate holding company, whose main assets were its plantation holdings in Malaysia. Thus, whereas the Malaysian government had obtained control of the foreign-owned plantation subsidiaries of the company, MPHB had secured control of its trading wing. PNB claimed that one of the reasons for its takeover of Guthrie Corporation was the latter's disposal of some of its main assets, citing the sale of GB as an example (see Gale, 1985: 157-62).

In 1983, a reconstruction scheme resulted in the separation of GMHB from GB. At the same time, GMHB became the parent company of GB, which was renamed Mulpha (Singapore) Ltd. GMHB was then publicly-listed and renamed Mulpha International Trading Corporation Bhd; in July 1991, the company's name was again changed to Mulpha International Bhd (*KLSE Annual Companies Handbook*, 1988: 486-87; BLS).[43]

With these acquisitions under Koon Swan's management, MPHB had become by the early 1980s a major conglomerate involved in almost all the major sectors of the economy. In fact, by 1983, only six years after its incorporation, Multi-Purpose Holdings was listed as the sixth largest shareholder of Malaysian corporate stock, with KSM holding second place

(Mehmet, 1988: 114). The swift development of MPHB was attributable to its rapidly expanding asset base due to the adroit use of share-swaps which entailed hardly any cash outlay. Despite its extensive corporate holdings, however, MPHB did not own significant interests in the financial sector, over which the Chinese wielded much control. By the early 1980s, MPHB had managed to secure only a minor foothold in this sector through its indirect control of Magnum Finance, then a relatively small financial entity controlled through Magnum Corporation. MPHB also had an indirect 11 per cent stake in the Development & Commercial (D&C) Bank Bhd, also controlled through Magnum Corporation. In December 1982, however, Magnum Corporation sold its equity in the D&C Bank to two of the bank's other major shareholders, Syed Kechik and Alex Lee, both of whom were members of the component parties of the Barisan Nasional (Gomez, 1991a: 31-33).

Sections of the burgeoning Bumiputera business community and members of the political elite were probably concerned with MPHB's rapid growth. It was clear, however, that there were limits to Bumiputera tolerance, especially when they began to fear that MPHB's corporate endeavours threatened the control that the Bumiputera agencies had managed to secure for themselves. The opportunity to voice their protest arose when MPHB penetrated the financial sector and bought into entities owned by public enterprises or which the government also had an interest in acquiring.

4.3.2: The UMBC & Dunlop Estates Controversies — Friction at the Top

In June 1981, following the decision of Malaysian tycoon Chang Ming Thien to relinquish his 56 per cent stake in Malaysia's third largest banking entity, United Malayan Banking Corporation (UMBC), MPHB finally gained direct control of a major financial institution. MPHB reportedly paid Chang RM204 million cash for the UMBC equity. Founded in 1960 by Chang, who was also responsible for the development of the UMNO-controlled Faber Merlin Bhd (now Faber Group), UMBC had come under the scrutiny of Bank Negara in 1976 when UMBC's owners were suspected of misappropriating funds. Eventually, the central bank stepped in to restructure UMBC's management and ownership, bringing in government-owned Pernas as a 30 per cent shareholder (Jesudason, 1989: 92).

MPHB's acquisition of UMBC, although approved by the CIC, FIC, and the Ministry of Finance, fuelled fears in UMNO that Pernas might lose executive control of the bank. A political crisis was clearly in the offing when certain quarters within UMNO chose to view the MCA's UMBC deal

as conflicting with the NEP's principles. Suhaimi Kamaruddin, then UMNO Youth leader and a Deputy Minister, protested that the UMBC acquisition was "the latest in a series of strategies carried out in secrecy to cripple the plans carried out by the government to improve the economic standing of the Malays and other Bumiputeras" (quoted in Gale, 1985: 144). The controversy necessitated the intervention of the Prime Minister and was only resolved when it was agreed that Pernas and MPHB would be co-shareholders with a 41 per cent stake each in UMBC. When MPHB later learnt that another government agency, Petronas, had acquired a nine per cent stake in UMBC, it decided, in 1984, to dispose of its interest in the bank in exchange for a majority 51 per cent stake in the Malaysian French Bank Bhd, a much smaller financial institution (*AWSJ*, 30/4/86). The Malaysian French Bank was then under the control of Daim Zainuddin through one of his numerous holding companies, Aslira Sdn Bhd.[44] This was MPHB's second deal with Daim; a few years earlier, MPHB had also sold its stake in the lucrative UEP to Baktimu, another one of Daim's companies.

The Malaysian French Bank became a locally incorporated company in 1982 after the local branches of the French-based Banque Indosuez were restructured. Aslira obtained a 51 per cent stake in the restructured entity, while the other major shareholders were Kuok Brothers Sdn Bhd (19 per cent) and Banque Indosuez (30 per cent) (Gomez, 1990: 41-42). MPHB later raised its interests in the Malaysian French Bank to 70 per cent on acquiring the Kuok Brothers' stake. Finance Minister Daim's 41 per cent stake in UMBC was sold in late 1986 to Pernas for a hefty RM349.1 million (see *AWSJ*, 31/5/88).

A few months after the MPHB-UMBC controversy, another dispute erupted in September 1981 between UMNO Youth and the MCA over MPHB's participation in a deal which involved Pegi (M) Bhd, a publicly-listed company controlled by Ghafar Baba, then an UMNO vice-president.[45] In 1981, the British-based Dunlop Holdings Ltd owned a 51 per cent stake in Dunlop Estates Bhd, a major Malaysian plantation company which owned 58,000 acres of rubber and oil palm land. By the end of the year, the British directors of Dunlop Holdings were increasingly worried that their company would be the next target of a takeover attempt by Malaysian interests. Their concern arose out of Prime Minister Mahathir's "Buy British last" policy and the Malaysian government's takeover of other British-controlled plantation companies, primarily through PNB. Their fears were not unjustified. In November 1981, a 15.4 per cent stake in Dunlop Holdings came under the control of a Malaysian concern, Goodyield Plaza Sdn Bhd, controlled by Ghafar Baba. Goodyield also owned a majority 67 per cent stake in Pegi, which in turn had a 2.1 per cent stake in Dunlop Holdings (Gale, 1985: 161-62). Goodyield later sold its interests in Dunlop Holdings to Pegi.

To safeguard their interests, Dunlop Holdings approached MPHB with an offer which involved an intricate deal. MPHB was to collaborate with Pegi, which now had a 17 per cent stake in Dunlop Holdings, to form a joint company which would take over Dunlop Estates. Dunlop Holdings would first sell its 51 per cent equity in Dunlop Estates to MPHB for RM252 million, which would then be invested in the joint MPHB-Pegi entity, on condition that Pegi would not increase its stake in Dunlop Holdings. Pegi would then invest its 17 per cent stake in the joint MPHB-Pegi entity. Upon completion of this deal, the joint MPHB-Pegi entity would end up with a 51 per cent stake in Dunlop Estates and a 17 per cent stake in Dunlop Holdings giving both Pegi and MPHB control of a major plantation company (Gale, 1985: 162-65).

UMNO Youth leader Suhaimi Kamaruddin, however, declared that the deal was "obviously against the NEP"; according to his tabulation, Bumiputera interests in the final outcome would amount to only 40 per cent (Gale, 1985: 167). In his opinion, the first option to purchase the Dunlop Estates shares should have been given to Pernas or PNB. In the event, Ghafar came under mounting pressure from a segment of UMNO that he eventually offered to sell his 67 per cent stake in Pegi to Bumiputera interests. It was an astonishing offer since Pegi was then Ghafar's only listed vehicle. There was no acceptance of the offer, probably because it would have also entailed making a general offer for the rest of Pegi's shares (Gale, 1985: 168-69).

The joint MPHB-Pegi collaboration was subsequently cancelled. After much discreet manoeuvring, MPHB finally, in March 1982, obtained the necessary clearance to conclude the Dunlop Estates acquisition; Pegi retained its control of Dunlop Holdings (Gale, 1985: 162-70). MPHB later made the mandatory general offer for Dunlop Estates' remaining shares, receiving almost 37 per cent acceptances, thus raising MPHB's final stake to a colossal 88 per cent! This was, ironically, almost double what MPHB would have received if its collaboration with Pegi had been effected. By 1983, MPHB could confidently reduce its stake in Dunlop Estates to 61 per cent (*KLSE Annual Companies Handbook*, 1988: 1343-344).

It was evident that the main cause for the friction between UMNO and MCA was the race between the MCA-backed MPHB and state-owned agencies to acquire foreign-controlled corporate equity. MPHB's pursuit

of majority equity was, in both cases, obstructed following objections from Bumiputera quarters voiced through UMNO Youth. Since the eventual outcome of both these deals favoured MPHB, it appeared that UMNO leaders — using ethnic-based arguments — had protested these deals primarily to project themselves as guardians of the NEP; they were obviously trying to make political capital from an economic issue. Since MPHB's acquisition drive had not contravened the objectives of the NEP in any direct way, the controversy over these deals made clear that state promotion of Bumiputera equity ownership was to take precedence over the interests of other communities.

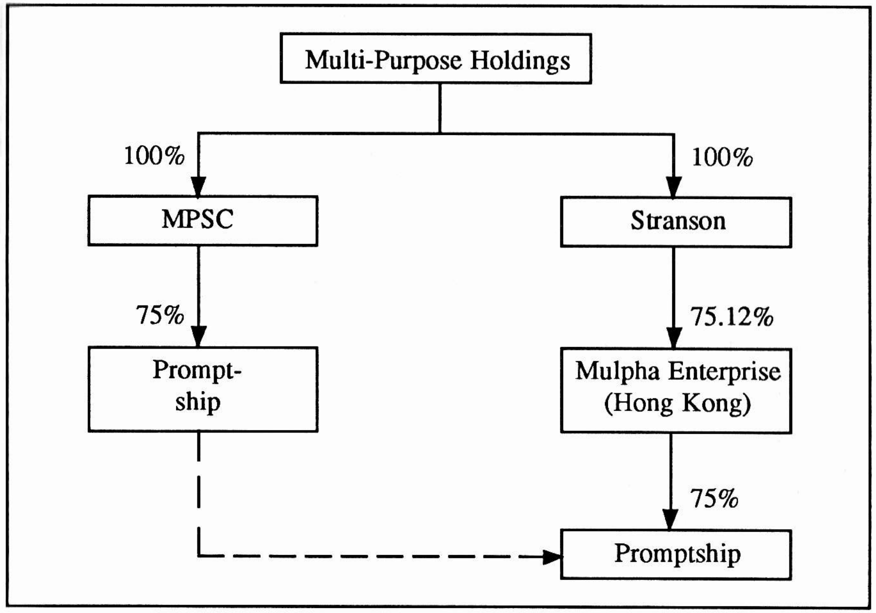
The spectacular development of MPHB through its massive acquisition drive rapidly converted it into a conglomerate, catching the imagination of the Chinese community. In January 1982, MPHB also achieved public-listed status despite the obstacles it had to run against. These well-publicized furors and the undisguised racialist overtones of UMNO Youth's protests attracted heavy Chinese support for the MCA which was translated into an improved MCA electoral performance in the 1982 General Elections, which in turn promoted the party's corporatisation movement. It dawned on MPHB, however, that if it wished to develop its asset base further, it would have to look abroad for acquisitions.

4.3.3: The Decline of MPHB

MPHB's decision to venture overseas was based on two objectives: one was to broaden its geographical sphere of business, particularly in the areas of shipping, trading, and banking; the other was the assumption that MPHB would encounter fewer problems in the purchase of foreign stock. This decision was not common only to MPHB; many other Chinese capitalists attempted to establish business links overseas due to the limited size of the Malaysian market and the constraints of the NEP (Heng, 1992: 131). MPHB's overseas business ventures, however, and the recession-dogged economy of the mid-1980s were major factors which precipitated the company's decline.

To promote MPHB's activities in shipping and commodity trading, the Group incorporated Multi-Purpose Shipping Corporation Bhd (MPSC) and Multi-Purpose Commodity Trading Bhd (MPTC) in 1982 (Gale, 1985: 186). In April 1983, in what was to be one of MPHB's last major acquisitions under Koon Swan, MPSC was used to acquire a 25 per cent stake in a Hong Kong-based shipping concern, Promptship Holdings, with the option of increasing this stake by another 50 per cent.[46] A few months later, in

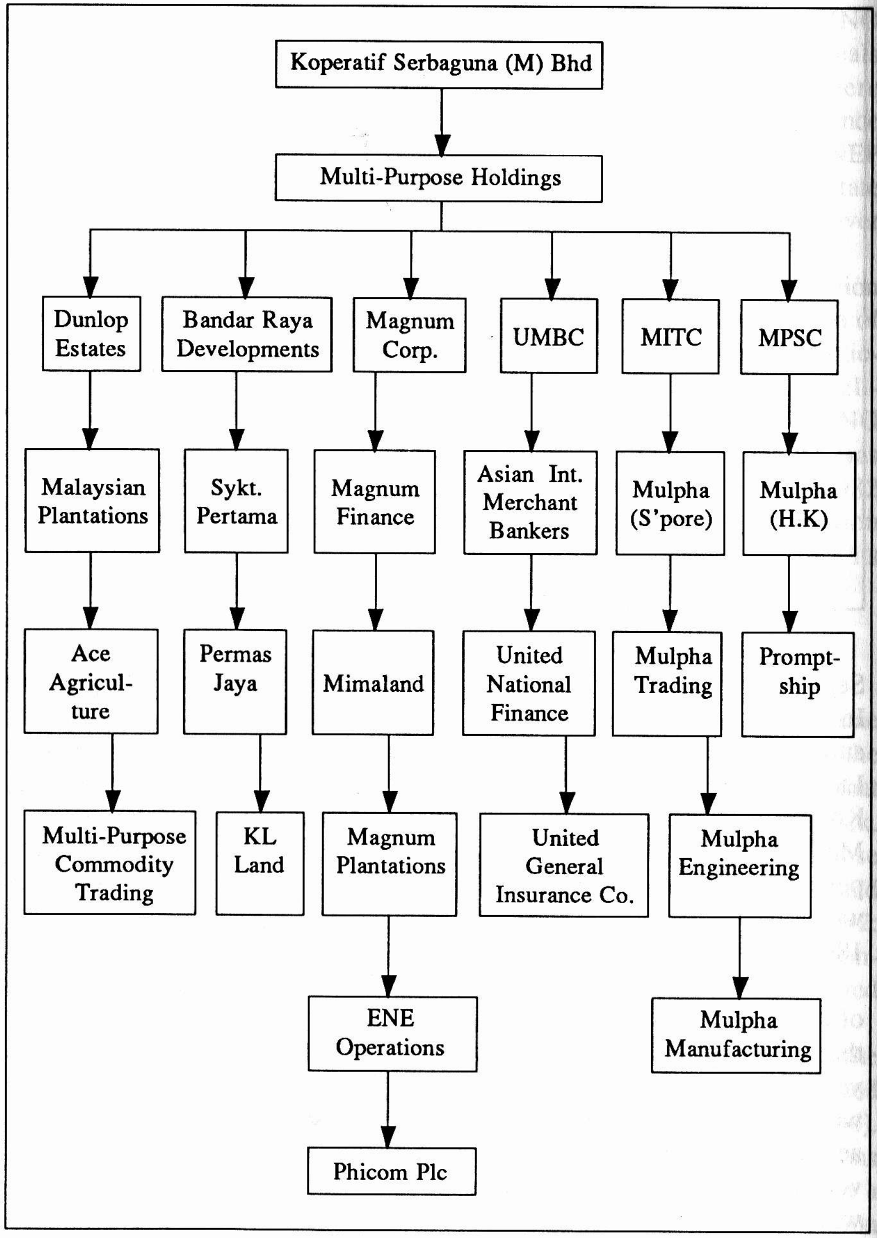
FIGURE 4.2
Manoeuvring of Promptship Shares



September 1983, MPSC raised its interests in Promptship to 75 per cent. In July, however, prior to this acquisition, MPHB had been involved in another complicated deal. MPHB had purchased a shell company, Stranson Ltd, which in turn acquired a 75.12 per cent shareholding in a listed Hong Kong company, New Star Development Company Ltd (later renamed Mulpha Enterprise (Hong Kong) Ltd). MPHB later hived off MPSC's 75 per cent stake in Promptship to Mulpha Enterprise (Hong Kong), after which MPSC became a dormant company (see Figure 4.2) (Gale, 1985: 186-90).

The Promptship acquisition was viewed with surprise not only because of the company's unimpressive financial state, but also because of the fact that its fleet of thirty-four ships had a high average age of only fourteen years (*FEER*, 15/5/86). Together with Mulpha International, Promptship was to become MPHB's flagship for the promotion of their trading activities, with Mulpha (Hong Kong) operating as its listed Hong Kong vehicle. This represented the last of MPHB's major acquisitions, after which a major rationalization exercise was undertaken to streamline these varied corporate holdings (see Figure 4.3).[47]

FIGURE 4.3
MPHB Corporate Structure in 1984



Source: *Yeoh, 1987: 248.*

By the following year, however, Promptship proved to be an ill-conceived investment since it began reporting heavy losses which placed a major financial burden on MPHB. Mulpha International, for its part, too began incurring massive losses through its own trading operations and those of its Singapore subsidiary. In 1985, Mulpha International posted a RM49.1 million loss, while Promptship had to write off RM132.2 million from the value of its vessels (*AWSJ*, 16/2/87).

MPHB's 1985 financial figures revealed that the company had posted a pre-tax loss of RM23.761 million which, after including extraordinary losses, had risen to a hefty RM191.9 million. The loss was the largest ever recorded by a publicly-quoted Malaysian concern. Promptship alone contributed RM132 million of this RM191.9 million loss.

By the end of 1986, MPHB's losses more than doubled to RM57.272 million; after taking into account extraordinaries, the losses registered RM228.4 million (*KLSE Annual Companies Handbook*, 1988: 495). Over the previous two years, 1985 and 1986, MPHB also had to write off almost RM420 million worth of investments (*NST*, 6/5/87).

MPHB's financial troubles were exacerbated by Koon Swan's arrest in late 1985 in Singapore following the collapse of Pan-Electric Industries Ltd, a quoted Singapore company.[48] Koon Swan resigned as MPHB's group managing director of operations in February 1986. It was later disclosed that Koon Swan had channelled RM23 million of MPHB funds into Pan-Electric in a desperate, but futile, attempt to rescue the Singaporean concern. The money was lost when Pan-Electric folded up (*AWSJ*, 16/2/87). Koon Swan served prison sentences in both Singapore and Malaysia for fraud involving the funds of Pan-Electric and MPHB. Several other MPHB directors also came under criminal investigation.[49]

The mismanagement of MPHB and the arrest of Koon Swan was a source of acute embarrassment to the MCA, eroding the party's electoral support in the 1986 General Elections. It is likely, however, that the MCA would have fared much worse if the elections had been scheduled later. A few days after the polls, in August 1986, the party's embarrassment reached humiliating proportions when MPHB's majority owner, the MCA-backed cooperative, KSM, along with a number of other cooperatives led by MCA members, was suspended from operating by Bank Negara. KSM, it was disclosed, had net liabilities amounting to a colossal RM330 million.

In an attempt to check mounting disillusionment with the MCA and to shore up confidence in MPHB, new MCA president Ling Liong Sik, in February 1987, removed the company's entire five-man board of directors,

all of whom were party stalwarts including former MCA president Lee San Choon, replacing them with non-politicians.[50] The new board had an impressive line-up; chaired by the Hong Kong-based Malaysian tycoon Robert Kuok,[51] it also marked the return of Lee Loy Seng, and included a prominent corporate lawyer, Chan Hua Eng. Lee Loy Seng, who had been chairman of MPHB at its inception in 1975, had resigned from the post in July 1983, following an apparent fall-out with Koon Swan, who took over the chairmanship. Eight months later, in what appeared to be a *quid-pro-quo*, Koon Swan relinquished his chairmanship of MPHB to San Choon, whose political support for Koon Swan was crucial in his MCA leadership struggle with Neo Yee Pan (*Business Times*, 17/2/87). Liong Sik also pledged that the MCA would not interfere in MPHB's operations and that the new board would "manage Multi-Purpose with the highest degree of professionalism" (*AWSJ*, 16/2/87).

Apart from various restructuring exercises, management, financial, and operational changes were instituted under the new leadership. The influential board's first task was to secure a US$20 million loan from government-owned Bank Bumiputra to repay long outstanding offshore loans due since 1985 (*Business Times*, 16/2/87). In 1988, MPHB managed to secure another RM100 million loan from a consortium of banks led by Bank Bumiputra's subsidiary, Bumiputra Merchant Bankers Bhd (*Business Times*, 25/1/88). Under its restructuring exercise, MPHB divested some of its unprofitable subsidiaries, such as Mulpha (Singapore) and Phicom, and strengthened its trading arm, Mulpha International.[52] MPHB's major loss-maker, Promptship, was slowly turned around by reducing the size of its shipping fleet and following improved conditions in the shipping industry. Other important factors contributing to MPHB's improved financial standing were stronger commodity prices — the leading money-earner for the Group were the plantation companies — and the recovering economy (*Business Times*, 9/4/88 & 21/4/88).

By the end of 1987, the MPHB Group reported an attributable loss of RM27.66 million, a dramatic drop from the previous year's figure of RM228.4 million (*KLSE Annual Companies Handbook*, 1988: 495). By mid-1988, when Robert Kuok and Lee Loy Seng resigned from the board, MPHB had recorded a profit of RM17.07 million for the half-year ending 30 June 1988; even the Group's major loss-making subsidiary, Promptship, reported a major turnaround with a profit of RM3.6 million (*NST*, 22/8/88). By 1989, MPHB's financial status had improved so remarkably that a number of takeover bids were made for the company.

4.3.4: Takeover of Multi-Purpose Holdings

Whereas MPHB's financial standing had experienced a recovery, the status of its major shareholder, KSM, had deteriorated to such an extent that Bank Negara had to place it under receivership. In an effort to save the cooperative and keep it under the control of the MCA, a proposal was submitted in early 1988 by Magnum Corporation — MPHB then had a 38 per cent stake in this listed entity — and its 55 per cent owned subsidiary, Magnum Finance Bhd, to take over the assets and liabilities of KSM. Upon completion of this rescue plan, both MPHB and Magnum Corporation would have controlling crossholdings in each other. The deal, however, failed to materialize (see Gomez, 1991a: 92-94).

On 12 April 1989, publicly-listed Hume Industries Bhd, a construction materials manufacturer controlled by the Singapore-based Quek family through its holding company, Hong Leong Co. (M) Bhd — another major Hume shareholder, with an 18 per cent stake, was the Danish-based F.L. Smidth (Far East Holdings) — made a RM1.13 billion takeover bid for MPHB's entire paid-up capital of RM751.30 million with a part-cash, part-loan stock offer (*NST*, 13/4/89). Despite Liong Sik's pledge that the party would no longer interfere in the affairs of MPHB, the MCA went on to declare the bid "hostile" to the interests of the Chinese community (*The Star*, 17/4/89).

The implicit reason for the MCA leadership's antagonism towards the takeover was its belief that the ultimate beneficiary would be an UMNO-related company. This was because, along with the takeover bid, Hume also announced that it had obtained a RM500 million supplies contract from UMNO-controlled United Engineers (M) Bhd (UEM) for the North-South Highway contract. This fed speculation that there would eventually be a tie-up between Hume and UEM, particularly since Hume had also proposed a 3-for-2 rights issue to facilitate the takeover bid, and its main shareholder with a 51.28 per cent stake, Hong Leong Co., had not announced whether it would take up its rights. This led to fears both among the MCA and other sectors of the Chinese community that Hong Leong Co. might renounce its rights in favour of a third politically-connected Bumiputera party which would dismantle MPHB's vast business interests.[53] There was little doubt that the Bumiputera party referred to by the MCA was UMNO.

When the Hume bid was made, KSM — through its subsidiary, Serita Development Sdn Bhd[54] — held a 28.9 per cent stake in MPHB. KSM also indirectly owned a further 19.7 per cent interest in MPHB through the KSM-Multi-Purpose Investment Fund, of which the cooperative was the

manager (*The Star*, 22/4/89). The KSM-Multi-Purpose Investment Fund was established by KSM in 1981 to enable members to invest in MPHB.[55]

Hume's bid for MPHB entailed an offer of RM500 in cash and RM1,000 in redeemable convertible unsecured loan stock (CULS) for every 1,000 MPHB shares. Interestingly, if all MPHB shareholders accepted the offer, including the block held by KSM, the shareholders, taking into consideration the 3-for-2 rights issue and the conversion of the CULS, would collectively hold about 47 per cent of Hume, with KSM alone controlling one-half of that, making it Hume's single largest shareholder (see Table 4.2) (*The Star*, 21/4/89).

This suggests that the MCA's strong objection to Hume's offer was solely based on its fear of UMNO's involvement in the control of MPHB through Hume, a concern so grave that the MCA even threatened to withdraw from the Barisan Nasional if the Hume bid were to go through (see *FEER*, 27/4/89). In the event, Prime Minister Mahathir had to intervene, referring to the takeover as "a commercial matter" which had

TABLE 4.2
Change in Shareholding of Hume after the Proposed MPHB Takeover and the Conversion of the Hume CULS

	Before the takeover	After the 3-for-2 rights issue	After conversion of the CULS
Paid-up shares	134.04 million	335.10 million	635.51 million
Stake of Hong Leong Co.	51.0%	20.8%	10.9%
Stake of FL Smidth (Far East)	18.5%	18.5%	9.8%
Stake of MPHB shareholders	–	–	47.3%
Stake of new Bumiputera partner	–	30%	15.8%
Stake of minority shareholders	30.5%	30.5%	16.1%

Source: FEER, 27/4/89.

been "politically motivated" by "certain quarters" to turn the bid into a "Malay-Chinese racial issue" (*Asiaweek*, 28/4/89).

In an attempt to counteract Hume's bid, the MCA sought the support of established Chinese business companies to make another bid.[56] Even while several proposals were being drafted by relatively large Chinese-led business concerns, Hume's bid for MPHB was foiled when, in May 1989, the toll-operating Kamunting Corporation Bhd, a minor publicly-listed company — MPHB had a market capitalization fifteen times that of Kamunting — made a counter-offer by proposing to acquire all of KSM's assets for RM592 million; this included KSM's 28.9 per cent MPHB stake, but not the 19.8 per cent equity held by the KSM-Multi-Purpose Investment Fund (*The Star*, 18/5/89).[57]

Kamunting, formerly known as Kamunting Tin Dredging, was incorporated on 19 November 1976 and went public on 23 March 1977. Until 1982, Kamunting was primarily involved in tin mining activities, after which it derived most of its income by renting its dredging equipment (*KLSE Annual Companies Handbook*, 1988: 316-18). Kamunting's near-moribund status was given a significant boost in August 1987 when 71 per cent of the company's equity was sold to Seri Angkasa Sdn Bhd by its majority shareholder, government-owned Malaysia Mining Corporation Bhd (MMC). Seri Angkasa had been the controversial recipient of the privatised Jalan Kuching-Jalan Kepong toll interchange project in April 1985.[58]

Incorporated in December 1981 as a RM2 company by the family of Lim Ah Tam, Seri Angkasa had never transacted any business before the award of the contract. Among Seri Angkasa's other shareholders with a 35 per cent stake was Sri Alu Sdn Bhd, in turn majority owned by Abdul Wahab Zainuddin, the brother of then Finance Minister Daim Zainuddin.[59] In December 1987, Seri Angkasa exchanged its rights to operate and maintain the Jalan Kuching-Jalan Kepong interchange for a substantial interest in Kamunting. By 1989, Lim and his family were claiming majority ownership of Kamunting after having bought out the interests of Daim's relatives in the company (see *AWSJ*, 31/5/88).

Despite Kamunting's indirect links with UMNO treasurer Daim and in view of the MCA's ostensible reason for rejecting the Hume offer, it was therefore surprising that the MCA president welcomed the Kamunting bid, describing it as a "white knight". It was disclosed later that although other counter proposals had been prepared by Chinese concerns much larger than Kamunting, the Lim family "gained the inside track with the help of Sen. David Yeoh Eng Hock, a confidante of MCA's president, Ling Liong

Sik" (*AWSJ*, 3/1/90). Some MCA leaders later claimed that David Yeoh owed his senatorship solely to Liong Sik, who had not consulted the party's executive committee on the appointment. It would also appear that the MCA should have objected to Kamunting's offer because, unlike the Hume bid, it left unresolved the question of the MPHB shares controlled by the KSM-Multi-Purpose Investment Fund.

Kamunting's RM592 million takeover of MPHB was to be financed in two parts. First, through the issue of 296 million new 50 sen Kamunting shares valued at RM1 each to KSM receivers, who could convert them into cash. Second, the issue of 296 million convertible unsecured loan stock (CULS) at RM1 each directly to KSM depositors. Half the CULS would carry one per cent annual interest, redeemable at RM1 each after a year, with the remaining half redeemable after two years. The loan stock was guaranteed by the government-owned Bank Bumiputra, and backed by Kamunting's toll collections and KSM assets (*The Star*, 29/1/90).

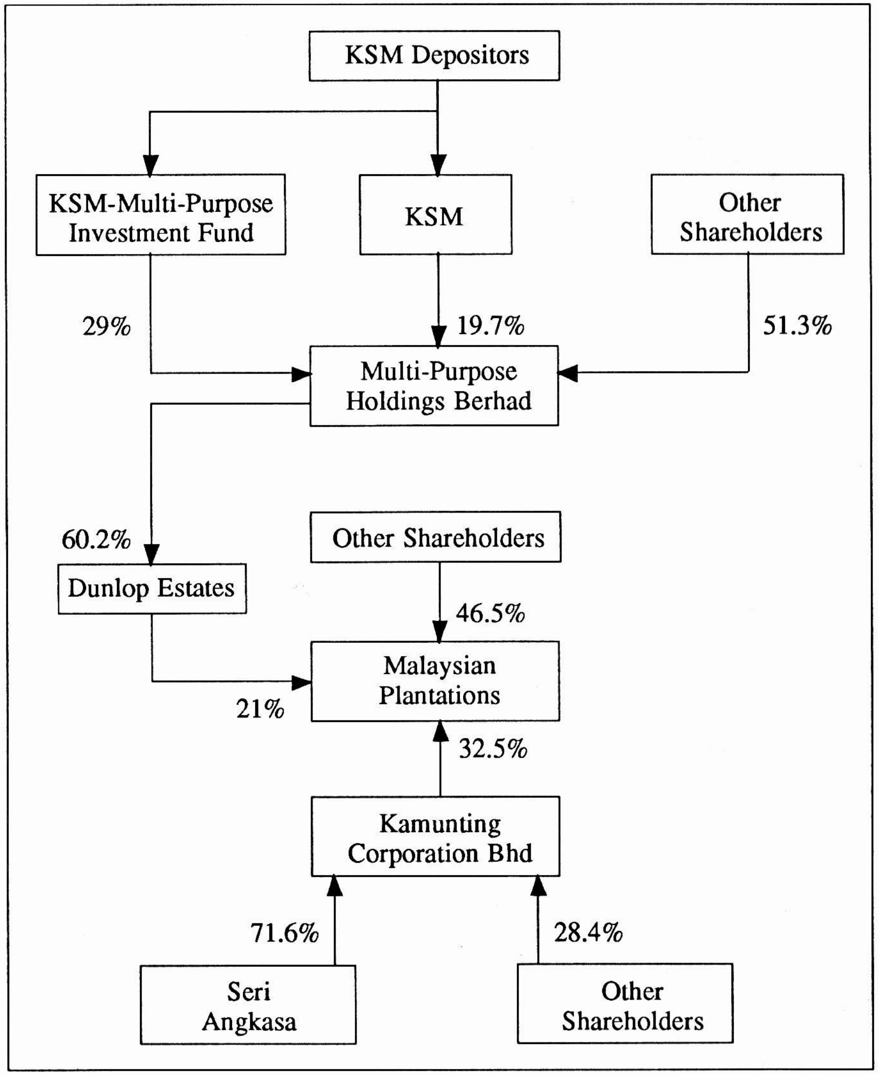
Whereas Hume's offer had valued each MPHB share at RM1.50, Kamunting's offer valued each MPHB share at RM2.05, but this did not include the shares held by the KSM-Multi-Purpose Investment Fund. Thus, if KSM's receivers had accepted Hume's offer, the Investment Fund unit holders would have received at least RM1.50 per unit, which was, however, much lower than their original RM2 investment. Also, KSM would be obtaining a 35 per cent higher price for its stake in MPHB with Kamunting's offer, which would enable the cooperative to repay its depositors in full (*Sunday Mail*, 25/6/89).

In December 1989, KSM's receivers, after concluding Kamunting's takeover of MPHB, announced a repayment scheme for the cooperative's depositors from the RM592 million that had been received. KSM would first retire a RM237 million loan taken from Bank Negara. RM50 million was due as a cash refund to those who had placed cash deposits with KSM. The cooperative's receivers also announced that 87 per cent of KSM's depositors had opted to sell their loan stock for cash; this amounted to RM253.49 million. Around three per cent of the depositors had decided to retain their loan stock, which amounted to RM10.61 million. The rest of the 10 per cent had not announced their decision. At least RM24 million was also due to the receivers for their services (*The Star*, 11/2/89; *NST*, 11/2/89).

Since most of the KSM depositors had opted to be paid in cash, this meant that by mid-1991, Kamunting, or its owners, had to repay the underwriters almost all of the loan stock issued during the MPHB takeover (*AWSJ*, 3/1/90). Kamunting also had to find a means to consolidate its

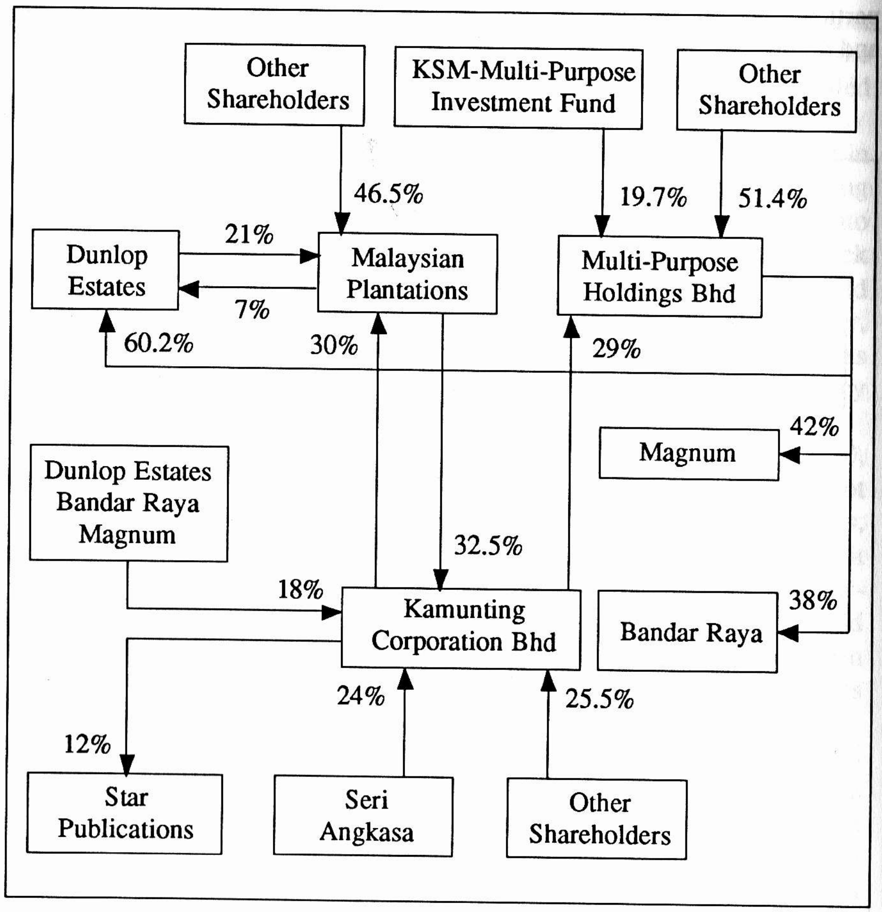
control over MPHB; if the nearly 20 per cent MPHB stake held by the KSM-Multi Purpose Investment Fund was sold to other, particularly hostile, parties, it could affect Kamunting's control of MPHB. (See Figures 4.4 and 4.5 for MPHB's shareholding before and after the Kamunting takeover.)

FIGURE 4.4
MPHB's Shareholding Structure Before the Kamunting Takeover



Source: Sunday Mail, 25/6/89.

FIGURE 4.5
MPHB's Shareholding Structure After the Kamunting Takeover



Source: Sunday Mail, 25/6/89; Malaysian Business, 16/3/90.

The problem of the KSM-Multi-Purpose Investment Fund, involving 50,398 unit holders, remained in the hands of the receivers. At the MCA General Assembly convened in July 1989, Liong Sik stated that he would focus his efforts on the Investment Fund so that the unit holders would "be able to redeem their investments" (*The Star*, 31/7/89). The party had also appointed an eight-man committee in March 1990 to study the possibility of reviving KSM (*NST*, 28/3/90).

Kamunting's takeover of MPHB was not its first business dealing with the company. In January 1989, Kamunting had paid RM62.4 million cash for a 32.5 per cent stake in Malaysian Plantations from Dunlop Estates, then a 60.4 per cent subsidiary of MPHB; Dunlop Estates still retained a 21.2 per cent stake in Malaysian Plantations (*Business Times*, 19/5/89). If Kamunting's bid for MPHB was successful, it would, after taking into account cross-holdings within the MPHB group, end up with 32.5 per cent equity in the company. This would be just enough to give Kamunting effective control over MPHB and yet keep it from making a general offer for the rest of MPHB's shares — the trigger-off point for a general offer is 33.33 per cent.

A few months later, in September 1989, it appeared that an attempt was made to concentrate most of MCA's assets in the Kamunting Group. Huaren Holdings, the MCA-owned investment holding company, proposed to sell a 39 per cent stake in Star Publications to Malaysian Plantations, thus increasing Kamunting's stake in Star Publications to 51 per cent. Kamunting had already secured a 12 per cent stake in the company following the takeover of KSM's assets. The sale of the Star Publications shares was a means to reduce Huaren Holdings' outstanding debts, which it had problems servicing (*The Star*, 11/10/89). Through Huaren Holdings, the MCA would still continue to hold a controlling 39 per cent stake in Star Publications (*AWSJ*, 6/10/89). The sale, however, was later called off because both companies "could not agree on the management set-up" of Star Publications (*NST*, 7/12/89).

In January 1990, Huaren Holdings found another buyer for its Star Publications equity — the publicly-listed, property-based IGB Corporation. Although IGB was under Chinese control, since the company was outside the Kamunting network, Huaren Holdings sold only 20 per cent of its 78 per cent equity in Star Publications; IGB's offer for each share (RM5.60) was also less than that of Malaysian Plantations' offer (RM6) (*NST*, 12/1/90). IGB later sold its stake in Star Publications to Berjaya Corporation.

4.3.5: MPHB Under Kamunting

The Kamunting takeover of MPHB had several ramifications, the most pressing of which was Kamunting's attempt to maintain control of the asset-rich conglomerate. Kamunting also had to reduce MPHB's enormous debt, which then stood at almost RM250 million. MPHB's need for capital could not be generated by Kamunting which was severely tied down with financing the MPHB takeover. This led to a series of in-house

cross-purchases, which resulted in an intricate cross-holding network (see Figure 4.5). Analysts had described these cross-purchases as "asset stripping", a fate which the MCA leadership had feared would befall MPHB.

From early October to December 1989, just months after Kamunting's takeover of MPHB, four of the latter's listed companies — Malaysian Plantations, Bandar Raya Developments, Magnum Corporation, and Dunlop Estates — were used to acquire Kamunting shares. Malaysian Plantations alone acquired 32.5 per cent of Kamunting's equity, while the combined interest of the other three listed companies' in Kamunting was almost 18 per cent; these four companies had collectively paid RM237 million for their interests in Kamunting (*The Star*, 29/1/90). Kamunting, in turn, owned a 32.5 per cent stake in Malaysian Plantations. These inter-linkages meant that Seri Angkasa could retain effective control over Kamunting (and thus MPHB) without owning a majority stake in the company. More important, by making MPHB-controlled companies acquire Kamunting shares, the Lim family could also reduce the debts they had incurred in their acquisition of MPHB.

In order to reduce MPHB's debts, Dunlop Estates, in November 1989, sold twelve of its key plantation holdings to Industrial Oxygen Incorporated Bhd (IOI)[60] for about RM480 million. This was a surprising divestment since plantations had contributed 94 per cent of the MPHB Group's pre-tax profit the previous year (*FEER*, 7/12/89). In January 1990, MPHB sold a 50.7 per cent stake in Mulpha International, long one of the weakest links in the MPHB group, for RM48.8 million in the open market, leaving MPHB with a 20.3 per cent stake in the company; while easing MPHB's cash strain, this sale also lightened the Group's debt load (*AWSJ*, 30/1/90; *The Star*, 26/1/90). By June 1990, MPHB had scaled down its interests in Mulpha International to 6.28 per cent (*NST*, 28/6/90). MPHB's wholly-owned subsidiary, Multi-Purpose Shipping Corporation Bhd, announced the sale of a fleet of eight ships for RM200 million (*The Star*, 21/1/90). In June 1990, MPHB's 40 per cent-controlled Magnum Corporation sold its wholly-owned property development subsidiary, Sri Damansara Sdn Bhd, via a share-swap worth RM200 million, to publicly-listed Land & General (formerly General Lumber), controlled by Wan Azmi Wan Hamzah, a close associate of Daim Zainuddin. The exercise gave Magnum Corporation a 20 per cent stake in Land & General (*The Star*, 7/6/90). In January 1990, MPHB had also proposed to sell for RM218.2 million its entire 41.75 per cent interest in Bandar Raya Developments to Dunlop Estates, then cash-rich following the divestment of its plantation holdings; this deal, however, was mutually rescinded in December 1990 (*NST*, 6/12/90).

The nature of some of these transactions lent weight to accusations that an attempt was being made to strip MPHB of its most important assets. Denying these allegations, Kamunting directors argued that MPHB's restructuring exercise was to divest the company's involvement in plantations, trading, and shipping, and to concentrate its activities on gambling, property development, and financial services (see *The Star*, 5/2/90). Of these transactions, it was the sale of Sri Damansara that was considered the most controversial.

4.3.6: Sale of Sri Damansara

Sri Damansara is the developer of a billion-ringgit housing project in Kepong, a Kuala Lumpur suburb. The land had originally been owned by MPHB in the early 1980s, and attempts to develop it then had failed because government approval could not be secured despite repeated requests over a period of almost seven years. It was only after MPHB had formed a joint-venture with Permodalan Bersatu Bhd (PBB), the holding company of UMNO's cooperative, Koperasi Usaha Bersatu Bhd (KUB), that the Selangor government finally granted permission for the development of the land.

The joint-venture company, then called Multi-Purpose Bersatu Development Sdn Bhd, was incorporated with PBB having a 49 per cent stake and MPHB the remaining 51 per cent. By May 1987, however, Multi-Purpose Bersatu Development's total equity was owned by Magnum Corporation; PBB's interest in Multi-Purpose Bersatu Development had been acquired for RM50.6 million. The company was renamed Sri Damansara (Gomez, 1990: 157-59). PBB and MPHB had probably sold their interests in the lucrative Sri Damansara to cash-rich Magnum Corporation to alleviate their financial problems. Magnum Corporation also owned a 44.54 per cent stake in West Country Estate Sdn Bhd, which owned 1,700 acres of land adjacent to the Kuala Lumpur-Seremban highway. West Country Estate was earlier co-owned equally by MPHB and PBB (Gomez, 1990: 158-59).

Prior to Magnum Corporation's sale of Sri Damansara to Land & General, there was an attempt to sell the company for a mere RM66 million to KL Land, then controlled by MPHB through Malaysian Plantations. KL Land had been marked for public-listing and the inclusion of Sri Damansara among its assets would have considerably increased the

value of its shares (The Star, 23/2/90).[61] This increased value would have benefited Malaysian Plantations and the Lim family when the company was eventually listed. The proposed sale, however, was not well accepted by Magnum Corporation's other major shareholder, the Inter-Pacific Industrial Group (*FEER*, 8/4/90).

The Inter-Pacific Industrial Group and its subsidiary, Sports Toto, controlled by Vincent Tan Chee Yioun, together held a 23.52 per cent stake in Magnum Corporation. These two companies — along with Berjaya Corporation, another publicly-listed company controlled by Inter-Pacific — later increased their stake in Magnum Corporation to 32.5 per cent; this fell short of the 33 per cent mark, after which a general offer would have been mandatory for the rest of Magnum Corporation's shares (*NST*, 17/7/90).

Inter-Pacific made it clear from the outset that its interest in Magnum Corporation was because of the latter's ownership of Sri Damansara and not because of its lucrative gaming operations. When Sri Damansara was sold to Land & General, Inter-Pacific had objected to the sale, insisting that the deal was unfavourable to Magnum Corporation.[62] This sparked a bitter feud between T.K Lim, MPHB's chairman, and Vincent Tan, which resulted in Inter-Pacific raising its stake in Magnum Corporation to almost 33 per cent. The dispute was only settled when Land & General agreed to sell a 25 per cent stake in Sri Damansara to Inter-Pacific.

In a surprising turn of events, Inter-Pacific and its two subsidiaries, in December 1990, agreed to sell their 32.5 per cent stake in Magnum Corporation to another company controlled by MPHB, the cash-rich Dunlop Estates, for RM310 million. In the process, Inter-Pacific made a capital gain of RM43.8 million (*NST*, 6/12/90). Dunlop Estates was then also used to buy MPHB's 39.8 per cent stake in Magnum Corporation for RM632 million. By early 1991, MPHB owned a 68 per cent stake in Dunlop Estates, while Kamunting held another 7.06 per cent of Dunlop Estate's equity (*NST*, 9/4/91). Later, Magnum Corporation hived off its lottery operations to a new holding company, Leisure Management Bhd, which was then publicly listed. Magnum Corporation has a 56.7 per cent stake in Leisure Management.

4.3.7: The KSM and MPHB Group in 1992

By May 1992, almost six years after KSM had been placed under receivership, the receivers proposed to dissolve the KSM-Multi-Purpose Investment Fund in a move to solve the long outstanding problem. In June 1992, the 147.98 million shares, amounting to a 19.7 per cent stake,

in MPHB owned by the Fund were distributed to the unit holders; this gave the unit holders the option to sell their MPHB shares (*The Star*, 26/6/92). KSM, meanwhile, remains under the control of the receivers.

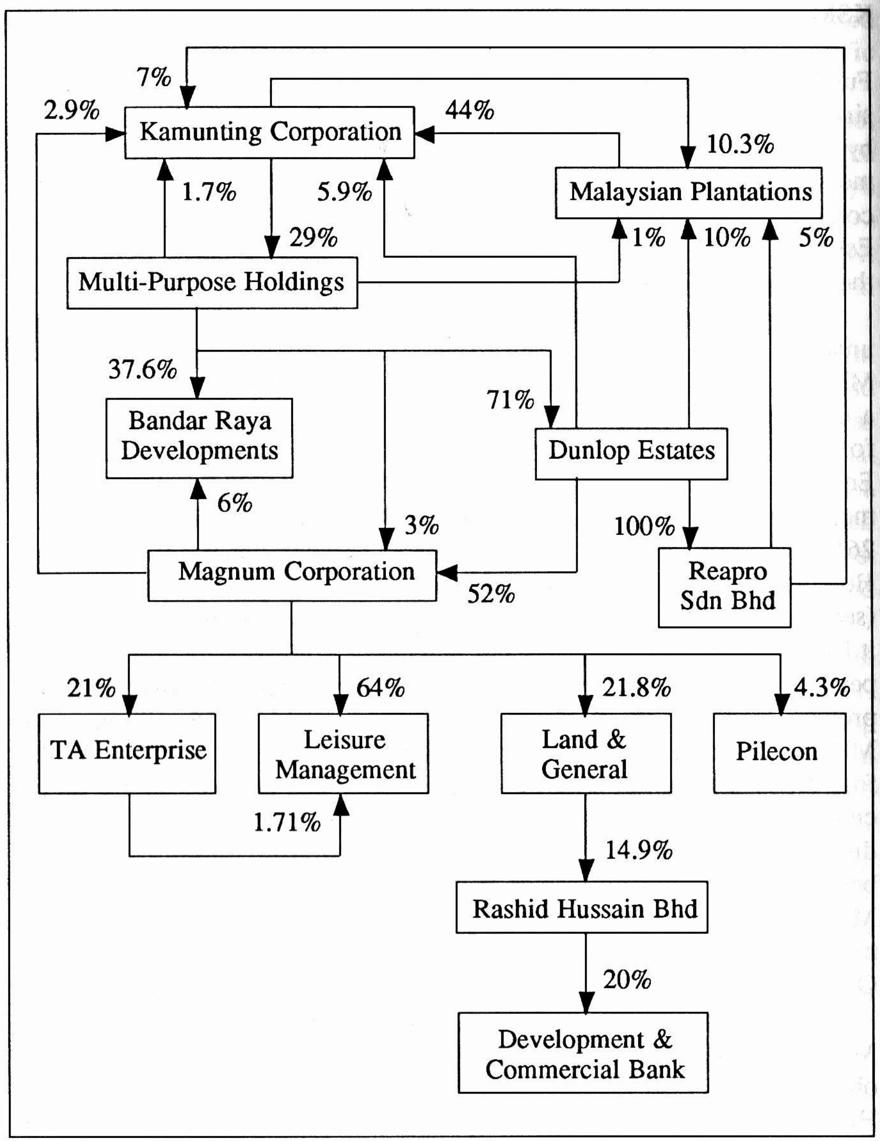
The distribution of this strategic 19.7 per cent stake in MPHB to the Fund's investors was probably welcomed by the owners of Kamunting, since it allowed the latter to retain control of the MPHB Group. In fact, by 1992, the Kamunting-MPHB Group had emerged as a major conglomerate which owned a significant interest in a number of publicly-listed companies — Malaysian Plantations, Bandar Raya Developments, Dunlop Estates, Magnum Corporation, Leisure Management, Land & General, and the Malaysian French Bank.

The MPHB group of companies, for their part, have continued, unabated, with their corporate forays. Through Magnum Corporation, MPHB obtained a 20 per cent stake in publicly-listed TA Enterprise Bhd, a company involved in stockbroking and property development. By the following year, in May 1993, MPHB had increased its stake in TA Enterprise to 26.44 per cent which it divested for RM238.2 million; the sale meant an extraordinary gain of RM118.13 million for Magnum (*The Star*, 26/5/93). MPHB reportedly invested in another listed entity, Samada Holdings Bhd, for a short while, before divesting its interests at a profit (see *The Star*, 24/4/92). In April 1992, the MPHB Group announced that it had, through Dunlop Estates and Magnum Corporation, acquired a 22.94 per cent stake in Pilecon Engineering Bhd, a major listed construction and property concern; the total equity, bought for RM64.256 million, made MPHB the single largest shareholder of Pilecon (*NST*, 23/4/92). Within four months, however, after the MPHB Group had amassed almost 28 per cent of Pilecon's equity, Magnum Corporation and Dunlop Estates divested 23.49 per cent of this stock for RM64.71 million, apparently because they could not secure a seat on Pilecon's board of directors. Magnum Corporation and Dunlop Estates, however, reaped a RM3.24 million profit from their brief investment in Pilecon (*NST*, 7/8/92). By October 1992, these two companies had totally divested their Pilecon equity.

Apart from this, by exchanging its stake in Sri Damansara through Magnum Corporation for a 20 per cent interest in Land & General, MPHB obtained an indirect interest in the major local stockbroking firm, Rashid Hussain Bhd, which owns a 20 per cent stake in the Development & Commercial Bank.

Despite criticisms in 1989 that the Lim family and Kamunting would be enmeshed in debt following their takeover of MPHB, which also had a major gearing problem, the Kamunting-MPHB conglomerate had by

FIGURE 4.6
The Multi-Purpose Holdings-Kamunting Group Corporate Structure



Source: The Star, 10/12/91; Malaysian Business, 16/10/92.
Note: By October 1992, Magnum Corporation had divested its stake in Pilecon, and by mid-1993 the company had also sold its entire equity in TA Enterprise.

1992 become one of the most important and profitable corporate holdings on the local bourse. In March 1992, Kamunting declared a pre-tax profit of RM41.39 million, a 87 per cent increase compared to the previous year (*NST*, 11/8/92). MPHB fared even better, registering a remarkable pre-tax profit of RM139.3 million for the financial year ending 30 June 1992 (*NST*, 9/9/92). Whereas MPHB's turnaround can be attributed to the efforts of Robert Kuok and Lee Loy Seng, who weeded out the most unprofitable concerns within the MPHB Group, a significant portion of MPHB's debt, however, was settled only after Kamunting took over the company. This, however, has mainly been due to the astute and deft manoeuvring of some of the cash-rich companies and assets in the MPHB Group. It is clear that Kamunting and the Lim family have effectively used cross-holdings as a means to maintain control and management over MPHB and its group of companies (see Figure 4.6).

4.4: The 1990 MCA Power Struggle

In July 1990, the MCA found itself embroiled in a leadership struggle when a dissident group, led by party deputy president Lee Kim Sai, attempted to displace Liong Sik from the presidency. The struggle was apparently precipitated by the MCA's continued involvement in business, particularly in the Kamunting takeover of Multi-Purpose Holdings.

Then MCA vice-president Kok Wee Kiat alleged that Liong Sik had acted on his own when he rejected Hume's bid for Multi-Purpose Holdings in favour of Kamunting. According to Wee Kiat, Kamunting had since been asset-stripping Multi-Purpose Holdings, and cited as examples the sale of all the plantations owned by Dunlop Estates, the divestment of Sri Damansara, and the reduction of Multi-Purpose Holdings' majority stake in Mulpha International. He drew particular attention to the fact that Sri Damansara, owned by Magnum Corporation and estimated to be worth RM1 billion, was sold for a mere RM200 million to a "non-Chinese" company (*NST*, 6/7/90). Also questioned was Liong Sik's role in the unsuccessful sale of Star Publications to Kamunting and the appointment of David Yeoh as a senator, whom Kim Sai described as "a middleman for Kamunting" (*The Star*, 7/7/90). Liong Sik was also described as dictatorial by his detractors and was accused of reneging on the "collective leadership" pledge he made after taking over the party presidency (*Malaysian Business*, 1/8/90).

It appeared from the allegations that, except for Liong Sik, most of the other MCA leaders had been uncomfortable with the close ties that

Kamunting had developed with some UMNO leaders. Their discomfiture was also apparent when Liong Sik's critics emphasized the abortive sale of Star Publications to Kamunting and the sale of Sri Damansara to Land & General, controlled by Wan Azmi Wan Hamzah, a close aide of Daim.

Wee Kiat also alleged that Liong Sik had failed to ensure that KSM, and hence the MCA, retained control of Multi-Purpose Holdings after the party had obtained a RM520 million government loan in 1987 to rescue the cooperative. The loan was supposed to be part of an offer by Magnum Corporation and its subsidiary, Magnum Finance, which were under the Multi-Purpose Holdings umbrella, and had been worked out before the Hume or Kamunting offers were made. If the Magnum Corporation offer had been accepted, it would also have resolved the problem of a full refund for depositors of both KSM and the KSM-Multi-Purpose Investment Fund. It was implied that Liong Sik was instead acting in Kamunting's interest since its offer allowed the company to obtain control of Multi-Purpose Holdings without having to make a general offer (see *NST*, 12/7/90).[63] "Flying letters" were even circulated alleging that Liong Sik had received huge kickbacks from the Kamunting takeover (*Malaysian Business*, 1/8/90).

Even more damaging allegations were to follow. The MCA president was accused of owning 5.02 million shares, or a 28 per cent stake, in Bolton Finance Bhd, in violation of the Prime Minister's directive that his ministers divest their business interests. Liong Sik had also not disclosed that he had been given a brokerage licence in 1984 (Gomez, 1991a: 97). The policy differences between Liong Sik and Kim Sai were later underscored when the latter stressed that it was alright for a political party to be involved in business, but not for a politician to own business interests (see *Watan*, 14/7/90). This was in clear contradiction of Liong Sik's 1987 assurance that the MCA would separate politics from business.

Liong Sik, however, denied most of these allegations, stressing that only the court-appointed receiver had the power to decide which bid to accept for Multi-Purpose Holdings (*The Star*, 2/7/90). Later, reinforcing his defence, Liong Sik countered that Hume's low bid for Multi-Purpose Holdings had disrupted MCA's plan to continue using the RM520 million loan given by the government. Prime Minister Mahathir Mohamad had apparently made it clear that since there was a private sector bid for Multi-Purpose Holdings, the government had to withdraw the loan. Hume's offer of RM1.50 per Multi-Purpose Holdings share was, in Liong Sik's opinion, much lower than the RM2.07 per share needed to achieve the MCA's twin objectives of receiving RM592 million to repay all that it owed the government "because we had already started using the loan" and of ensuring that

the KSM depositors were given a full refund (*The Star*, 14/7/90). Liong Sik, however, remained visibly silent on the fact that contrary to the Kamunting offer, Hume's bid did offer a solution to the KSM-Multi-Purpose Investment Fund issue. The MCA president also did not respond on David Yeoh's alleged involvement in the Kamunting offer.

On allegations that he owned an interest in Bolton Finance, Liong Sik admitted that he had bought the shares after he had been expelled from the MCA during the 1984 party crisis. He explained that he had not sold his interest in the company after his ministerial appointment in 1986 because "he would have had to sell at a loss during a recession", but that he would be selling his shareholdings soon because the "timing was right" (*NST*, 13/7/90). The buyer of Liong Sik's stake in Bolton Finance was Bolton Properties Bhd,[64] which had apparently given the MCA president the loan to purchase his stake in Bolton Finance after Ling, in his capacity then as Deputy Finance Minister, had aided Bolton Properties in its takeover of Bolton Finance (see *NST*, 13/7/90).[65]

In addition to this, Liong Sik also admitted to having obtained a brokerage licence in 1984 after he had been forced to leave the government. It was alleged that then Finance Minister, Razaleigh Hamzah, had given Liong Sik the licence. The MCA President went on to state that he had sold his brokerage company when he rejoined the government (*NST*, 16/7/90). Later that month, however, it was reported that the Inter-Pacific Group Bhd had "recently completed" the purchase of a 27 per cent stake in Pyemas Sdn Bhd, a foreign exchange money-broking firm, from Liong Sik and his wife, Ong Ee Nah, for RM1.516 million cash (see *NST*, 26/7/90).

Pyemas' files at the Registrar of Companies indicate that the company was incorporated on 9 November 1984, with Liong Sik and his wife as the first directors of the company. Within ten days of its incorporation, Pyemas' paid-up capital was raised to RM150,000. Although Liong Sik resigned as a director of the company on 6 June 1986, he remained a shareholder; by July 1987, he and his wife each owned 22,500 shares in the company. The other shareholders of the company were the Malaysian Kuwaiti Investment Co Sdn Bhd, with 105,000 shares, and Wong Kang Soon, the General Manager of the company, with 16,666 shares. Ong Ee Nah only resigned as a director of the company on 23 April 1990, amid the escalating MCA crisis. The records also indicate that the Inter-Pacific Group had acquired the Pyemas equity owned by Liong Sik and his wife.

Liong Sik's arguments on the sale of Multi-Purpose Holdings gained ground when KSM's receiver, the international auditing firm, Price Waterhouse, issued a lengthy five-page statement to "explain the factual

position of KSM and its affairs", following the charges made during the Liong Sik-Kim Sai leadership contest (*NST*, 19/7/90). In brief, the statement confirmed that the KSM rescue scheme involving Magnum Corporation and Magnum Finance making 50:50 payments of cash and equity to all KSM depositors required substantial government assistance in the form of soft loans and tax credits. Hume's part-cash part-equity offer for Multi-Purpose Holdings' entire share capital, however, involved no government aid. Kamunting's offer was the only cash offer received. In evaluating all the options, the receivers considered, among other factors, the likelihood of the depositors receiving a ringgit-for-ringgit cash repayment, the adequacy of the price to meet liabilities of about RM592 million, the degree of government support needed, the ability to repay government loans already received, and the time required to complete the scheme. Matched against the Hume offer, Kamunting apparently provided the best deal for KSM depositors, who eventually opted overwhelmingly for cash. In making the offer, Kamunting also made a commitment to keep the Multi-Purpose Holdings Group intact (*NST*, 14/7/90).

After making other allegations, which included Liong Sik's purported despotic leadership of the MCA, Kim Sai withdrew his candidacy for the presidency at the eleventh hour. Kim Sai was apparently uncertain of victory, and the Prime Minister's explicit concern over the recriminations of the challenge on the upcoming General Elections probably proved decisive. In the party elections, most of Lee's supporters, particularly the president's most vocal opponents which included MCA vice-president Wee Kiat, were not re-elected. During the 1990 General Elections, most of Liong Sik's critics, save for Kim Sai, were not nominated as Barisan Nasional candidates.[66]

4.5: Conclusion

Comprising a third of the population, but wielding disproportionately far greater business power, the Chinese form a vital economic and political bloc in Malaysia. The dilemma, however, of contemporary Chinese politics according to one MCA analyst, Michael Yeoh (1988: 22-23), is rooted in the Chinese tradition of individualism, which has resulted in "a history of disunity, factional squabbles and individualistic leadership". This would appear to account for the numerous political parties that represent the Chinese, ultimately, however, undermining their potential collective political strength. Such an individualistic nature is also reflected in Chinese business practices. It was only when these businesses began

to feel that their economic interests and prospects for business development were being increasingly threatened by the NEP that they began to look beyond familial and clan ties. The MCA's active involvement in business — strongly promoted by San Choon and Koon Swan, who through his business activities came to exemplify the close links between politics and business — was apparently a means for the party to unify the Chinese politically while trying to develop their economic interests.

The MCA was aided in the promotion of its business interests by the perception of most Chinese that the NEP was a policy hostile to their economic interests; state intrusion into the economy through public enterprises had narrowed competition, stifled entrepreneurship, and curbed Chinese economic expansion. Although the Razak government had assured all Malaysians that no community would experience a sense of loss or deprivation with the NEP's implementation, the reduced share of business opportunities available to the Chinese was inevitably equated with a reduction in the absolute size of their income and ownership.[67] Some Chinese businessmen even resorted to creating numerous and widespread cross-holding networks to conceal the extent of their corporate holdings, a strategy, however, which has not proven very successful (see Tan, 1993: 88).

Multi-Purpose Holdings represented a milestone in such an economic environment; it showed how Chinese business interests, aided by political power, could be corporatized as a self-strengthening measure to ensure that Chinese capital accumulation and development would not be impeded by the NEP. Thus, the basic premise of the corporatisation movement was that the ability to amass economic power was a precondition for enhanced political influence and, conversely, the failure to strengthen politically was integrally related to the failure to significantly influence economic policy. It was, after all, during the post-Independence period when the Chinese enjoyed greater political clout, mainly because they helped fund the Alliance through the MCA, that Chinese capital had benefited and expanded most significantly.

Brandishing the NEP as a tool to raise Chinese ethnic consciousness, the MCA urged the lower middle and middle class Chinese to effectively pool their resources under Multi-Purpose Holdings, whose incorporation, it was hoped, would consolidate Chinese equity control. It was, however, the MCA leadership who found in the company, and other such organizations which had sprouted during the corporatisation movement, a means for personal economic and political advancement. The politically ambitious in the MCA made political capital from expounding "Chinese

unity" themes through Multi-Purpose Holdings; for politicians in control of Multi-Purpose Holdings (and KSM), the company was also an important means for dispensing patronage and mustering support. This was quite evident during the Lee San Choon-Michael Chen and Tan Koon Swan-Neo Yee Pan power contests.

The unimpressive performance of Multi-Purpose Holdings, KSM, Kojadi, and other MCA-linked companies and cooperatives, together with the increasingly weakened position of the MCA, has meant that the Chinese business elite, traditional supporters of the party, have veered their support away from the MCA to the Malay political elite. Such links can be seen in the Hume Industries-Hong Leong relationship with UMNO companies and even Kamunting's link with family members of former Finance Minister Daim Zainuddin. Even more established and prominent Chinese business leaders, such as Khoo Kay Peng and Chang Ming Thien who have had business dealings with Multi-Purpose Holdings, have cultivated close contacts with politically powerful Malays. The Chinese business elite probably saw it as more advantageous to deal directly with Malay political leaders since the MCA had lost control of important Cabinet portfolios since 1969; this has also meant that since 1969 MCA leaders have not been able to influence policy decisions in favour of Chinese business interests (Lee, 1987: 90-91). Thus, with the rapidly loosening grip of the Chinese on key sectors of the economy and with the absence of political patrons to safeguard their economic interests, the cultivation of close contacts with Malay politicians and politically influential businessmen has become vital.

The links between the Chinese business elite and politically influential Bumiputeras also indicate the failure of both the MCA's corporatisation movement and the party to provide adequate protection to Chinese economic interests. Most of the companies that were products of the corporatisation movement have fared poorly, not only because of their inefficient business style, but because of the extensive involvement of MCA politicians in the operations of these companies. This does not mean, however, that the Chinese business elite have totally abandoned the MCA. When Multi-Purpose Holdings was on the brink of liquidation, it was some of the most prominent businessmen in the community who had agreed to help revive the company, probably expecting to enhance in the process their personal standing both in the party and the community.

Although Multi-Purpose Holdings has had business dealings with some of UMNO's top leaders such as Daim Zainuddin and Ghafar Baba, there is no indication that the MCA's listed company has benefited from state patronage or has had the support of Malay political leaders except perhaps in their joint ventures with the UMNO cooperative, KUB. In fact, on a number of occasions, UMNO Youth has stopped Multi-Purpose Holdings from effecting some major transactions. Even when the MCA's cooperatives faced the prospect of bankruptcy, and when Multi-Purpose Holdings was struggling to avoid liquidation, little assistance was provided by the government. The reduced state patronage for MCA companies is also evidenced in the dismal performance of the two major joint-ventures established between Multi-Purpose Holdings and UMNO's Permodalan Bersatu Bhd (PBB); on both occasions, the primary beneficiary of these joint-ventures was invariably the UMNO company.[68]

The lack of government patronage to the MCA to help develop its business interests and its minimal financial support to MCA-linked cooperatives to salvage their ailing operations reflect UMNO's hegemony and the MCA's marginalised status in the Barisan Nasional. Under the privatisation policy, the MCA, unlike UMNO and MIC-backed companies which benefited when equity in public enterprises was publicly-listed or when licences were issued, has not had access to such patronage. This probably could be due to the sentiments of UMNO leaders that Chinese control over the economy is already so extensive that it no longer requires state patronage. UMNO's hegemony was also evident during the MCA leadership crises; in 1990, for example, it was apparently Mahathir's preference for Liong Sik which ensured only token opposition to his presidency despite wide discontent within the MCA with Liong Sik's leadership. The MCA's limited access to state resources and rent opportunities and UMNO's influence in the party's affairs reflect the peripheral role played by the MCA in both the Barisan Nasional and the government. Since this limits the amount of patronage that the MCA can dispense, it could result in the party's increased dependence on UMNO for patronage opportunities to be dispensed to the Chinese.

The mismanagement and near bankruptcy of Multi-Purpose Holdings is another telling example of the consequences of mixing politics and business. Multi-Purpose Holdings' takeover by Kamunting, a company with apparent links to some Malay political leaders, and the successful restructuring of the Multi-Purpose Holdings conglomerate into a highly profitable entity have come to exemplify some of the ramifications of political involvement in business. While the party appeared to have learnt a lesson from this in 1987, with Liong Sik pledging that the MCA would no longer mix politics with business, the 1990 party power struggle has clearly highlighted the hollowness of that promise. Exacerbating this is the

continued defence by MCA deputy president Kim Sai of direct party involvement in business to ensure that the party benefits from the business opportunities available under Malaysia's privatisation policy. In Kim Sai's opinion, it is only party leaders, not the party, who should divest their business holdings (see *Watan*, 14/7/90). Implicit in this statement is the grouse that rent opportunities provided by the government to the Chinese have not been available to MCA companies, but rather to individual party leaders. Under such circumstances and in view of the MCA's continued ownership and control of companies such as Huaren Holdings and Matang Holdings, it would appear that the party's involvement in business is far from over.

NOTES

1. Out of a total population of 223,000 in the 1850s, there were approximately only 63,000 Chinese, primarily in the Straits Settlements (Snodgrass, 1980: 24). Table 4.3 indicates the increase in the Chinese population since then and the population ratio between the Malays and the Chinese between 1911 and 1957.

TABLE 4.3
Chinese-Malay Population Ratio between 1911 and 1957

Year	Malay population	Chinese population	Ratio of Malay to Chinese
1911	1,414,197	835,883	1.69
1921	1,627,108	1,173,354	1.39
1931	1,934,900	1,705,915	1.13
1941	2,277,352	2,377,990	0.96
1957	3,126,706	2,332,936	1.34

Sources: Limlingan, 1986: 57; Ratnam, 1965: 1.

2. In 1947, of the 2.6 million Chinese in Malaya, 827,411 were Hokkiens, 641,945 Cantonese, 437,407 Hakkas, 364,232 Teochew, and 157,649 Hainanese. The other dialect groups were Kwongsai (71,850), Hokchiu (48,094), Hokchia (12,754), Henghwa (17,065), and other groups (36,260) (Ratnam, 1965: 5).
3. Strauch (1978: 1281) described the majority Chinese attitude to politics as one that was "aloof [with a] low profile avoidance of formal politics".

4. Among the most prominent Chinese leaders who had major economic interests in the country were Tan Cheng Lock, his son, Tan Siew Sin, H.S. Lee, Yong Shook Lin, Leong Yew Koh, and Lau Pak Khuan (Heng, 1988: 49, 60).
5. Born in 1883 into an illustrious Malacca family which had its roots in the state for nearly two hundred years, Tan Cheng Lock was educated at Raffles College, Singapore. Employed first as a teacher, he then ventured into the rubber industry in 1908 through United Malacca Rubber Estate Bhd, a publicly-listed entity of which he was chairman. Within the short span of twenty-five years, he had become director of a number of other important business institutions including the Ho Hong Bank, Sime Darby, the Overseas Assurance Corporation, and the Malaysian Tribune Press (Tregonning, 1979: 25-46).
6. When the Alliance experiment was also put to the test during other municipal elections held nationwide during 1952 and 1953, the coalition received overwhelming support (see Table 4.4).

TABLE 4.4
Results of Municipal Elections, 1952-53

Town	Date	Seats	All.	IMP	Ind.	Other Minor Parties
Kuala Lumpur	Jan 52	12	9	2	1	–
Johore Bahru	Dec 52	9	–	–	–	
Batu Pahat	Dec 52	9	5	–	3	1
Muar	Dec 52	9	2	–	2	–
Malacca	Dec 52	3	2	–	–	1
Kuala Lumpur	Dec 52	4	3	1	–	–
Seremban	Aug 53	12	10	–	1	1
Alor Star	Aug 53	9	7	–	2	–
Sg. Petani	Aug 53	9	7	–	2	–
Kuala Bahru	Aug 53	9	6	–	3	–
Segamat	Nov 53	9	9	–	–	–
Kluang	Nov 53	9	9	–	–	–
Muar	Dec 53	3	3	–	–	–
Malacca	Dec 53	9	4	–	–	5
Kuala Lumpur	Dec 53	4	4	–	–	–

Source: von Vorys, 1975: 109.

7. During the time of the party election, the MCA was split into two major factions. One was led by Cheng Lock and included his son, Siew Sin, and Ong Yoke Lin. Chong Eu's faction comprised the powerful H.S. Lee, then the Finance Minister, but who, however, did not hold any major post in the MCA. During the presidential contest, Chong Eu polled 89 votes against Cheng Lock's 67. Yoke Lin was also voted out as the MCA's Secretary-General (Cheah, 1988: 92-95).
8. Following Chong Eu's resignation as MCA president, H.S. Lee also resigned from his cabinet post. For a more detailed account of this power struggle, see Cheah See Kian's *A Political Profile: Dr Lim Chong Eu.*
9. The interim acting party president, who took office after Chong Eu, was Dr Cheah Toon Lok (Heng, 1988: 257).
10. The MCA's improved performance in the 1964 General Elections was probably due to the confrontation with Indonesia (from 1963-66) which had aroused a nationalist fervour which heavily favoured the Alliance (Datar, 1983: 20-21).
11. For details of the MCA's electoral performance during the 1959, 1964, and 1969 General Elections, refer to Table 4.5.

TABLE 4.5
The MCA's Electoral Performance During the
1959, 1964, and 1969 General Elections

	1959		1964		1969	
	contested	won	contested	won	contested	won
Parliament	32	17	33	27	33	13
State Assemblies	78	58	82	65	84	30

Source: von Vorys, 1975: 301.

12. The Merdeka University proposal was first mooted in 1967; the university was to cater to students from independent Chinese secondary schools. The establishment of the university was the Chinese response to the government's announcement that only students with the overseas Cambridge School Certificate, or its equivalent, could go abroad for university education. This, in effect, barred students from Chinese medium schools from pursuing tertiary education (Hua, 1983: 208).
The Merdeka University proposal was supported by Chinese-based opposition parties. When the MCA's rank and file also gave the proposal their support, the party's leadership was compelled to help set up the university (Loh, 1981: 55). Later, the MCA withdrew its support from the project and proposed that the Chinese Studies Department in the University of Malaya be expanded and the Tunku Abdul Rahman (TAR) College be established. According to von Vorys (1975: 283), the MCA's change of stand indicated that the party was "too soft" on the Malays. Internal party pressure increased, but it was probably when the influential Chinese business community also began to support the Merdeka University project that concern within the party leadership mounted. Eventually, an MCA delegation even by-passed the party president, Siew Sin, and approached the Prime Minister directly to obtain approval for the project.

13. This was a significant change. Since the MCA had always been more inclined towards the needs of the Chinese business community, its rhetoric was now very much in favour of the lower middle class Chinese.
14. Lee San Choon was born in Pekan, Pahang in 1935. The son of an unlicensed dentist, he attended a Chinese-medium primary school in Pekan before moving to the Johore English College. He first worked with the government's Social Welfare Department in Johore Bahru and then as a clerk in a textile factory in Tampoi (Gale, 1985: 20-21).
15. Michael Chen had been closely associated with the Kheng Yaik faction in the MCA. As minister of the influential Housing & New Villages portfolio, he effectively used his position to develop a strong grassroots base. When the Merdeka University issue was revived in 1974 and when the MCA spoke against it in parliament, Chen dissociated himself from San Choon's stand. His position on this issue and his grassroots support made him a formidable opponent to the incumbent president (Hua, 1983: 168-69).
16. The impressive result belied some important facts. Although the DAP won only nine parliamentary seats, the party secured a significant 20 per cent of the popular vote. In the major urban constituencies of Kuala Lumpur, Ipoh, Seremban, Malacca, and Alor Star, the MCA was defeated by the DAP. The successes that the MCA registered were, in fact, attributed to Malay support that UMNO managed to secure for the party (see Hua, 1983: 153).
17. San Choon used a number of tactics to garner support; just ten days before the General Assembly, he appointed new Executive Secretaries in more than one hundred MCA divisions nationwide which provided important delegate votes for him. The traditional method of voting through secret ballots was cancelled, which favoured San Choon (Hua, 1983: 169). San Choon also effectively used his influence over KSM members, many of whom were also MCA members, to obtain crucial support (Gomez, 1991a: 49). In the contest, San Choon secured 901 votes while Chen obtained 686 votes (Means, 1991: 176).
18. It was, however, suggested that the MCA had spent huge funds in the Seremban constituency to secure victory. One estimate of the expenditure was between RM2 million and RM6 million (see Mauzy, 1983b: 515).

19. Neo Yee Pan obtained his doctorate in physics from the University of Saskatchewan and later became a lecturer at the University of Malaya. In 1968, he joined the MCA and in 1974, he won the Muar parliamentary seat; he defended the seat in the 1978 General Elections. In 1977, he won an MCA vice-president's post and in 1979, he was appointed Minister of Housing & Local Government. In 1982, San Choon appointed him Acting Deputy President of the MCA (Means, 1991: 176-77). When San Choon resigned the following year, Yee Pan was appointed Acting President. Yee Pan had, thus, obtained the party's top post through appointments rather than through election by MCA members.
20. Tan Koon Swan was born in Kuala Lumpur in 1940. His father was a hawker and his mother, a construction worker. At the age of seventeen, Koon Swan got his first job as a clerk with the National Electricity Board. Four years later, he joined the Income Tax Department, where he spent six years before accepting an appointment as a tax adviser to Esso (M) Bhd. In 1970, he left Esso to become the General Manager of the then fledgling Genting Bhd, controlled by Lim Goh Tong. Here, Koon Swan made a name for himself as a corporate maverick and is generally considered as being responsible for the growth and public-listing of Genting. During his tenure at Genting, he sold the shares he had acquired in the company for a huge profit in 1973 and used the funds to obtain control of Sungei Way Dredging Co., later renamed Supreme Corporation. The company became his publicly-listed vehicle which he utilized well to build up his personal conglomerate. In 1977, he left Genting to take up San Choon's offer to become General Manager of KSM and Managing Director of Multi-Purpose Holdings (Gomez, 1991a: 52).
21. During this period, however, Koon Swan was not very well known within the Barisan Nasional. He had only joined the MCA in 1977, after San Choon had appointed him to manage the MCA's business interests. Thus, his rapid rise within the party was due to San Choon's patronage, in particular, and his early success in developing the MCA's KSM and Multi-Purpose Holdings. In the 1978 General Elections, Koon Swan made his electoral debut when he contested and won the Raub parliamentary constituency in Pahang. In 1979, Koon Swan was appointed the MCA Federal Territory (Kuala Lumpur) chief. In the 1982 General Elections, he confidently contested and won the relatively less safe constituency of Damansara in Kuala Lumpur. This success was attributed to the fact that the Chinese community regarded him as an active proponent to safeguard their economic interests (*FEER*, 5/12/85).
22. Among the other prominent MCA leaders expelled were Ling Liong Sik and Lee Kim Sai, later to become President and Deputy President respectively.
23. It was even reported that some thought was given to establishing a new Chinese party as an alternative to the MCA. The new party was to be a temporary solution until a resolution to the MCA power struggle was found (see *FEER*, 31/10/85).

24. Mak Hon Kam and his running mate, Tan Tiong Hong, had boycotted the elections. They were, however, believed to have the support of only three per cent of the party membership (*FEER*, 5/12/85).
25. In percentage terms, the MCA obtained just 12.42 per cent of the popular vote, while the DAP secured 20.39 per cent (Sankaran & Hamdan, 1988: 54).
26. For a detailed account of the Deposit-Taking Cooperatives (DTC) scandal and the MCA's role in the affair, see Gomez (1991a: 47-104).
27. Apart from Kee Yong Wee and Wang Choon Wing, another prominent MCA leader charged with criminal breach of trust was Tan Tiong Hong. Tan, however, was acquitted after he turned crown witness (Gomez, 1991a: 95-96). Further details of those implicated in the scandal are given later in this chapter.
28. A detailed account of the allegations against Liong Sik is given later in this chapter.
29. A good example was when Kim Sai joined forces with the opposition DAP in 1987 to protest the Education Ministry's decision to appoint non-Mandarin speaking Chinese teachers as Senior Assistants in Chinese schools.
30. For a detailed account on the formation of KSM, see Gale (1985). A major portion of the information provided here on the cooperative and its promoters is based on his study.
31. KSM's venture into retailing, for example, proved most unprofitable. The cooperative established fourteen mini-markets nationwide which operated on a cooperative basis, but because of heavy competition and shoddy management, the enterprise had collapsed (Yeoh, 1987: 168-69). In fact, even both KSM Finance and KSM Insurance were initially neither well managed nor profitable. It was only after the appointment of Koon Swan as KSM's General Manager that the performance of these subsidiaries began to show some improvement (see Gale, 1985: 32-37).
32. The information on the Chinese corporatisation movement outlined here was primarily obtained from Yeoh's (1987) study of the movement.
33. The corporatisation movement was also affected by the bitter Lee San Choon-Michael Chen power feud. When Chen left the party in 1979, he was supported by a number of powerful Chinese educational groupings. These organizations were more concerned with cultural and educational issues, like the establishment of Merdeka University, than with economic issues (Gale, 1985: 122).
34. The highly publicized takeover of foreign-controlled companies by government-controlled Permodalan Nasional Bhd (PNB) and the controversies involving Multi-Purpose Holdings and UMNO politicians (dealt with later in this chapter) also helped to promote the corporatisation movement. Many Chinese businessmen were also worried about the implementation of the ICA.
35. Ka Yin Holdings was set up in February 1982 with a paid-up capital of RM10 million. By early 1983, the company had several subsidiaries and held investments in Multi-Purpose Holdings (Gale, 1985: 123).

36. Grand Ocean was established by the Hainanese Association in October 1981. It had a paid-up capital of RM30 million and an estimated 15,000 shareholders. The company was primarily involved in housing development and also owned a textile subsidiary (Gale, 1985: 122-23).
37. Among the companies owned by Lien Hoe Corporation were Peak Hua Plaza Sdn Bhd and Lien Hoe Land Sdn Bhd (property investment holding), Teroka Maju Trading Sdn Bhd and Lien Hoe Trading Sdn Bhd (trading of building materials), Lien Hoe Manufacturing Sdn Bhd (manufacturing of building materials), Peak Hua Construction Sdn Bhd (trading of building materials and property investment holding), and Lien Hoe Development Sdn Bhd (property development) (*KLSE Annual Companies Handbook*, 1988: 556-58).
38. As in the case of KSM, San Choon wanted Kojadi to primarily cater to the needs of the lower middle class. See Gale (1985: 125-28) for details on the establishment of Kojadi.
39. For a detailed account of the means used to save the cooperatives that were involved in the DTC scandal, see Gomez (1991a: 84-94).
40. Among the directors of Star Publications in 1979 were Tunku Abdul Rahman, Malaysia's first Prime Minister, Lee Loy Seng, a former MCA senator and director of Multi-Purpose Holdings, Lim Kean Siew, an MCA member, and Wee Hood Teck, a prominent Sarawakian business tycoon.
    In June 1992, Star Publications wholly-owned Star Publications (Singapore) Pte Ltd, Papyrus Printing Sdn Bhd, and In House Sdn Bhd.
41. According to Gale (1985: 106-06), another major entity owned by Huaren Holdings was its controlling interest in Southern Bank Bhd. The bank, Malaysia's tenth largest in terms of assets in the late 1980s, was established in Penang in 1965. Khoo Kay Peng of MUI Bhd, a close associate of Koon Swan, was believed to have sold his 22 per cent stake in Southern Bank to Huaren Holdings (Yeoh, 1987: 105-06). Huaren Holdings' company records, however, do not indicate ownership of this major bank.
42. In 1993, Vincent Tan, reputedly a close associate of Prime Minister Mahathir Mohamad, was also awarded a licence to operate a new English newspaper, *The Sun*. Tan was also involved in the late 1992 takeover of a Malay newspaper, *Watan*.
43. A detailed account of GB's reconstruction scheme is provided by Gale (1985: 186-89).
44. Apart from the 51 per cent stake in the Malaysian French Bank, the country's twelfth largest bank in terms of assets by the late 1980s, Daim's companies also paid MPHB RM125 million in cash to acquire the 41 per cent stake in UMBC. See Gomez (1990: 41-42) for a detailed account of Daim's takeover of UMBC and of his eventual sale of the bank to Pernas.
45. Pegi was incorporated in June 1913 as Malayan Colleries Ltd and originally operated as a coal dealer. In 1966, it ventured into engineering and manufacturing, and in 1984, it further diversified into rubber and oil palm cultivation.

    Pegi is currently led by Ghafar Baba's son, Mohd Asri bin Abdul Ghafar (*KLSE Annual Companies Handbook*, 1988: 560-62).
46. Promptship was an investment holding company incorporated in 1978 as a joint-venture between Hong Kong and Filipino parties (Gale, 1985: 187).
47. For a comprehensive view of the rationalization exercise conducted by MPHB to coordinate the management of its diverse corporate holdings, see Gale (1985: 178-214).
48. The Pan-Electric collapse was caused by a series of massive loans to support some major business deals. Most of these deals involved cross-investments in companies controlled by Koon Swan who also had an indirect major stake in Pan-Electric. Although the company owed foreign banks approximately US$225 million at the end of 1985, Pan-Electric had also committed itself to buying another US$50 million in forward contracts. When creditors began calling in these loans in the middle of 1985, Pan-Electric defaulted, which led to the suspension of trading of the company's shares. Pan-Electric was eventually placed under receivership (Clad, 1989: 132).
49. Another prominent MPHB director was allegedly involved in two fraud cases involving MPHB-related companies. In early 1984, Choo Ching Hwa was charged with criminal breach of trust for a RM9 million inter-company loan involving Bandar Raya Developments. Choo was also charged for the same offence involving a RM32 million loan given by Magnum Corporation to Serita Development Sdn Bhd, a company in which Magnum Corporation had a 19.5 per cent stake and which, in turn, had a stake in MPHB (*Business Times*, 25/1/88). When charged in court for both these offences, however, Choo was found not guilty.
50. Apart from San Choon, the other MCA-linked MPHB directors who were removed were Choo Ching Hwa, Onn Seng Lee, Teo Ah Kiang, and Loh Fook Yen (*Business Times*, 16/2/87). These men were then also senior officials of KSM (AWSJ, 16/2/87).
51. Robert Kuok had had previous dealings with MPHB, for example, the sale of his stake in the Malaysian French Bank to MPHB at a reportedly "friendly price" (see *FEER*, 13/2/86). Kuok was also believed to have been a close associate of Koon Swan, which he appeared to want to confirm when he personally posted bailed of S$20 million for Koon Swan when the latter was arrested in Singapore in 1986.
52. MPHB's entire stake in the British-based Phicom Plc was sold in 1987. Mulpha (Singapore) was also sold in 1987 for S$6.44 million cash. Mulpha (Hong Kong) was revamped and MPHB and MPSC obtained 100 per cent control of the company (*Business Times*, 1/4/88 & 7/4/88). MPHB and MPSC had previously held a 25.8 per cent and 54.4 per cent stake in Mulpha (Hong Kong) (*NST*, 26/2/88).
53. There was, however, a widely held view that another important motivation for Hume's bid to take over MPHB was the latter's majority stake in the

Malaysian French Bank. Quek Leng Chan, who headed the Malaysian Hong Leong operations, was known to have been unsuccessfully scouting around for a stake in a bank (see *Business Times*, 15/4/89).

54. As KSM found it increasingly expensive to hold on to its stake in MPHB, since the listed company had not been declaring dividends, the cooperative reportedly set up Serita Development "to spread the burden of holding the Multi-Purpose equity among other companies within the group" (*Business Times*, 10/7/86).
Company records indicate that since Serita Development, an investment holding company, was incorporated on 10 May 1978 and that the directors of the company had been leaders of the MCA who were also directors of KSM and MPHB. Among the most prominent directors were Kee Yong Wee, Oon Seng Lee, Choo Ching Hwa, and Loh Fook Yen. By June 1985, the main shareholders of Serita Development were KSM (14.699 million shares), Magnum Plantations (1.8 million shares), Bandar Raya Developments (5.85 million shares), Sykt. Anika Kemajuan (5.85 million shares), Everpeace Corporation (900,000 shares), and CSB Trading (900,000 shares).
It was evident that the ailing KSM was using its control over some of MPHB's subsidiaries to create a cross-holding over MPHB that would enable the co-operative to retain control over the company. By the end of 1985, however, Serita Development was also in a severe financial crisis, having accumulated losses totalling RM56.219 million. Serita Development's main asset was its 29 per cent stake in MPHB.
Sykt. Anika, a subsidiary of Magnum Corporation, had been used to channel RM32 million from Magnum Plantations (another subsidiary of Magnum Corporation) to Serita Development to enable it to acquire its 29 per cent stake in MPHB from KSM (*NST*, 22/4/91). This manoeuvring of funds within the MPHB group of companies led to charges of fraud being filed against Choo Ching Hwa, a director of Magnum Plantations and chairman of Magnum Corporation; he was acquitted of the charge in 1992.
55. When the KSM-Multi-Purpose Investment Fund was launched, 120 million investment units worth RM1 each were issued at RM2 per unit. These units were backed by MPHB shares. In 1984, the Fund made a 1-for-3 rights issue, following a bonus issue based on the original number of units (*The Star*, 9/4/92).
56. Among the Chinese companies reportedly approached to act as white knights were Unico Holdings Bhd, the investment arm of the Associated Chinese Chambers of Commerce and Industry (ACCCIM), and the Lion Group led by William Cheng (*The Star*, 16/4/89).
57. Apart from the MPHB stake, the other major assets of KSM were its 12 per cent stake in Star Publications and a 49 per cent stake in Dunlop Estates (*The Star*, 22/11/89).
58. Soon after the contract was awarded to Seri Angkasa, the company sub-contracted the project to a Japanese construction company, Mitsui Construction.

59. Apart from Daim's brother, his nephew, Mohd Amir Mohd Senawi, and one of Daim's close associates, Hassan Abas, were linked with Seri Angkasa, and thus Kamunting. For a detailed account of their involvement in Seri Angkasa, see *AWSJ*, 31/5/88.
60. At that time, the chairman of Industrial Oxygen was former MCA president, Lee San Choon (*The Star*, 11/12/89).
61. KL Land was also supposed to buy BR Property Holdings Sdn Bhd for RM20 million from Bandar Raya Developments and Syarikat Trimal Sdn Bhd for RM88.25 million through an issue of new shares (*The Star*, 23/2/90).
62. Inter-Pacific was not the only party that was upset over the sale of Sri Damansara to Land & General. Some MCA members had also criticized this divestment by MPHB. Further details are given later in this chapter.
63. In fact, another MCA parliamentarian, Chew Kam Hoy, went so far as to form a company that would safeguard the interests of the KSM-Multi-Purpose Investment Fund unit holders because of an alleged plot to "rip them off" (*NST*, 6/7/90). It, however, appeared to be just another attempt to discredit Liong Sik's leadership.
64. In April 1990, Bolton Properties was already the largest shareholder of Bolton Finance with a 36.36 per cent stake. In July 1990, Bolton Properties announced its intention to purchase Liong Sik's stake in Bolton Finance for RM11.06 million (*NST*, 18/7/90).
65. Liong Sik also admitted that he had been asked by Bolton Finance to help the company "untangle some technical problems" for them in 1984 (*The Star*, 17/7/90).
66. Among those removed as Deputy Ministers were Kok Wee Kiat, Ng Cheng Kuai, and Woon See Chin. Ng Cheng Kiat, then the Health Minister and MCA's Secretary-General resigned from his ministerial post. Only See Chin stood as a candidate during the 1990 General Election.
67. Despite the MCA's failure to increase Chinese ownership of the economy, the community, by 1990, still owned 44 per cent of the nation's corporate wealth.
68. Between both these joint-ventures, which were property development projects, it was Multi-Purpose Holdings which provided the land. Although Multi-Purpose Holdings' listed gaming concern, Magnum Corporation, obtained control of the first joint-venture, Sri Damansara, PBB was financially well compensated for relinquishing their stake in Sri Damansara. In the case of Bersatu Raya Development Sdn Bhd, PBB eventually obtained total control of the company. Refer to Gomez (1990: 157-60) for details regarding these two joint-ventures.

CHAPTER 5

THE MIC IN BUSINESS

5.1: The MIC's Political History

The Malaysian Indian Congress (MIC) is by far the weakest of the major partners in the ruling Barisan Nasional coalition. The MIC derives its support exclusively from Indians, who make up a heterogeneous community divided by religion,[1] ethnicity, caste, language, and place of origin. By 1990, Indians had constituted only about eight per cent of the population; most of them were situated on the West Coast states of the peninsula.

Almost 80 per cent of Malaysian Indians are Tamils; the rest comprise Malayalees, Gujeratis, Sindhis, Punjabis, and Telegus. The forefathers of a large number of Tamils were migrant labourers brought to Malaya from southern India by the British to work in the colonial administration and predominantly on rubber estates; many of their descendants are still employed in rural plantations. While a significant number of Tamils were also employed in urban public services, the non-Tamils, especially the Sri Lankan Tamils and Malayalees, usually held supervisory or clerical positions, ran minor businesses, or worked as professionals (Mearns, 1986: 77). Among the North Indians, quite a number of Punjabis were recruited into the security services, mainly the police force, while the Gujeratis and Sindhis were prominent in business, especially in the textile industry.

Their minimal involvement in capitalist ventures explains in part why Indians have not managed to develop into a major business group. The only ones actively involved in business were probably the Tamil Chettiars, principally in money-lending.[2] In fact, the Chettiars played a significant role in the economy as they helped to provide credit to almost all segments of Malayan society — European businessmen, Chinese traders and speculators, Malay peasants and even royalty (Arasaratnam, 1980: 92).[3] It was the Chinese, however, who managed to effectively utilize Chettiar capital

to develop their economic interests. Most of the Indians who arrived in Malaya, especially before World War II, considered the colony as a temporary place of residence, and thus repatriated most of their savings to India. Since there was evidently little effort made by the community to go into business, it was not surprising that by 1970, Indian ownership of the country's corporate wealth amounted to only a scant one per cent.

Despite being the most prominent Indian party, the MIC has, however, not enjoyed the support of a significant portion of the Indian electorate. Apart from the subcommunal stratifications which impair cohesion among Indians, it is party factionalism, a characteristic feature of MIC politics since the late 1960s, that has further diminished the party's electoral popularity, especially among urban, middle class Indians. Also, Malaysian demography is such that the MIC's political survival has been largely dependent on it remaining a member of the Barisan Nasional, which has the demographic strength of the Malays — who in most states and on most occasions support the coalition's leading partner, UMNO — to help return it and, hence, the MIC to power.

This, however, is not to suggest that the community's feeble economic and demographic standing has made the Indian presence redundant on the electoral scene. The important role played by Indians in the trade union movement, as well as in the plantation and professional sectors, has given the community some degree of political leverage (Leo, 1972: 30). In fact, Indian electoral votes are often decisive in a number of parliamentary and especially state seats. This has become more crucial with the emergence of new Indian-based opposition political parties like the Democratic Malaysian Indian Party (DMIP),[4] established in 1985, and the All-Malaysian Indian Progressive Front (IPF),[5] set up in 1990. The existence of Indian opposition parties has, ironically, served to increase the MIC's political clout within the Barisan Nasional.

The MIC was founded on 4 August 1946, making it the oldest party in the Barisan Nasional; UMNO, formed earlier in May 1946, was de-registered in 1988. By 1990, the MIC had a membership of almost 270,000 (*FEER*, 7/6/90). The party's formation was believed to have been inspired by the visit to Malaya in March 1946 of Indian nationalist leader and first Prime Minister, Jawaharlal Nehru, who called on Malayan Indians to form a broad-based organization that would protect the interests of the community. The failure of the British-proposed Malayan Union — which carried liberal citizenship provisions for non-Malays, and was therefore opposed, successfully, by the Malays — also indicated to the Indians the need to represent their interests collectively (Arasaratnam, 1980: 113).

Heavily influenced by Nehru's Congress Party of India — reflected in the MIC's name and its declared intention to help India secure independence from the British — the party was originally led by left-leaning, English-speaking non-Tamil reformists, and comprised mainly urban middle class Indians who strongly subscribed to non-communal politics. They called for a system of proportional representation with a specified number of seats reserved for minority members elected from their respective constituencies (Supernor, 1983: 178-79).

Since the political developments in India influenced the party's outlook, the civil strife and other traumatic events leading to the country's partition with Pakistan were among the reasons the MIC adopted a non-communal posture. MIC leaders were also aware that because of the small Indian population in the country, the possibility of the party ever coming to power was extremely unlikely unless it entered into a partnership with a multiracial coalition (Stenson, 1980: 178). As a result, the MIC first supported the All-Malayan Council for Joint Action (AMCJA)[6], a coalition of several left-leaning nationalist organizations, and then the Independence of Malaya Party (IMP), a multiracial party established by former UMNO president, Onn bin Jaafar. While the AMCJA was banned following the declaration of Emergency, the IMP had collapsed due to limited support.

In 1954, as much for political expediency as for its own survival, the MIC assumed a more communal stance and joined the Alliance, comprising the MCA and UMNO. This allowed the Alliance to project the semblance of multiracial cooperation (a condition stipulated by the British before Independence could be granted to the colony) and the MIC to play a more active role in advancing citizenship rights for Indians.

In 1955, several other events had a significant bearing on the MIC. There had been strong differences of opinion in the Indian community centering on the MIC's decision to join the Alliance. Many Indians grumbled that this would foist a middle class image on the MIC which would be at dissonance with the reality of the Malayan situation since a majority of Indians were from the lower middle and working classes. In addition to this, there was also considerable agitation from the Tamil segment of the community who wanted the MIC to be headed by a Tamil since they constituted 80 per cent of the Indian population;[7] a Tamil at the helm of the MIC would, they claimed, enable the party to be sympathetic to and identify itself with Tamil problems and aspirations (Rajoo, 1982: 64). These pro-Tamil arguments were understandable; by 1955, the MIC had seen four presidents — John Thivy (1946-47), Budh Singh (1947-50), K. Ramanathan Chettiar (1950-51), and K.L. Devasar (1951-55) — none

of whom were South Indian Tamils.[8] Following an intense four-cornered contest for the presidency that year, the post was eventually won for the first time by a South Indian Tamil. The new MIC president was V. T. Sambanthan, a wealthy estate owner from Perak and relative newcomer to party politics, who purged the party of its more left-leaning ideologues to secure his position (Subramaniam, 1974: 321).[9] The election of the conservative Sambanthan to the party's top post resulted in the MIC's concentration on sub-communal issues within the party and its acquiring a more communal stance within the Alliance.

As the struggle for Independence intensified in the early 1950s, foreign plantation owners in Malaya, increasingly worried that their companies would be nationalized or their profitability impaired, began to sell off their estates. Seizing the opportunity, speculators moved in, acquired large tracts of estate land, divided them into small lots, and indiscriminately sold them off for huge profits. This process greatly affected rural working class Indians, many of whom lost their traditional livelihood in the estates (*Berita Harian*, 1/4/83).

The MIC's middle class orientation meant that, till then, the party received only negligible support from the Indian working class, especially those in the plantation sector, whose workers constituted the bulk of the Indian community. Thus, the fragmentation of the estates provided Sambanthan with an ideal opportunity to muster support for the party from this vital group. As a solution to their problems, Sambanthan proposed the setting up of a cooperative, the National Land Finance Cooperative Society (NLFCS), that would pool the resources of plantation workers to enable them to eventually acquire the estates in which they were employed. The NLFCS's initial success appreciably bolstered Sambanthan and the MIC's appeal among the working class. The cooperative was the first of several business ventures set up by the party with the professed objective of helping to increase Indian ownership of and involvement in the national economy.

Despite the increasing popularity of the Sambanthan-led MIC among the working class, the party was still led by professionals, businessmen, and administrators at regional and local levels. This, however, did not mean that the party could be said to be one that represented the interests of Indian capital, or any section of it, even though Sambanthan himself owned several business interests. To the contrary, Sambanthan, who remained president of the MIC for almost seventeen years, ruled the party in an almost dictatorial style. He was reported to have weeded the MIC of its prominent non-Tamil English-educated leaders and accused of having "clos[ed] the doors of the party to the English-educated middle class

groups" (Rajoo, 1982: 77). By the late 1960s and early 1970s, he had even ceased to hold annual general meetings as factionalism within the MIC became acute following a feud between him and V. Manickavasagam,[10] Sambanthan's long-standing deputy (*Malay Mail*, 24/1/81). This period in the MIC's history was characterized as one when the party was "virtually stagnant.... Many, if not most, of the branches [were] defunct, the occasional brawl being the only sign of life" (quoted in Milne & Mauzy, 1978: 194). This factionalism and the party's Tamil communal identity ultimately led to an MIC that was both increasingly losing touch with the aspirations of the Indian middle class and perpetuating a patronizing relationship with the lower middle class and working class Indians (Arasaratnam, 1980: 197-98). Although its communal stance served to project the MIC as a party of the Indians and helped muster the community's votes during elections, increasingly disillusioned middle class Indians were drawn to more nominally multiracial opposition parties such as the Gerakan and the DAP.

While Sambanthan had developed a strong base among rural working class Indians, Manickavasagam had cultivated the support of railway and urban workers. Although Manickavasagam posed a serious threat to Sambanthan, the hostilities between the two men had to be contained, especially after the almost disastrous party outing in the 1969 General Elections.[11] By 1971, however, a visibly recalcitrant Manickavasagam decided to challenge Sambanthan for the party presidency. The contest, however, was subsequently postponed twice by the MIC's central working committee (*Malay Mail*, 24/1/81).

In addition to the personal conflict between the two leaders, other factors which contributed to the schism in the party were Sambanthan's conservatism and purported acquiescence to the demands of UMNO leaders, concessions which the MIC regarded detrimental to the interests of Indians. A common Indian grievance was that although Sambanthan was known to have had a close relationship with Prime Minister Tunku Abdul Rahman, he had not taken a strong stand on Indian citizenship and educational issues (Sellapah, 1988: 62). The dispute in the MIC was finally settled when UMNO president Abdul Razak convinced Sambanthan to retire in June 1973.[12] Just as there was a changing of the guard within UMNO when Razak took over its presidency, Razak secured the removal of most of the conservative elements within the other component parties of the Barisan Nasional. The MIC leadership crisis had, however, already deeply divided the party, the effects of which reverberated through the rest of the decade (*Malay Mail*, 24/1/81).

When Manickavasagam took office, he was confronted with the two-fold task of retaining the backing of the rural plantation workers, traditionally staunch supporters of Sambanthan, and repairing the MIC's tarnished image in the eyes of the middle class. To check the problem of dwindling support from the middle class, Manickavasagam began to recruit more educated Indians into the party. Among the emerging new leaders who were groomed by the MIC president were K. Pathmanaban, a Harvard-trained bureaucrat,[13] and S. Subramaniam, Manickavasagam's closest protege, who was among the earliest Indian university graduates with roots in the plantation sector.[14] Subramaniam was a particularly vital asset to Manickavasagam because of his estate background; the support of plantation workers was crucial since, at 45 per cent, they constituted the largest single ethnic community in the Malaysian Indian population (*The Star*, 1/1/84).

The ascension of Manickavasagam to the party helm therefore signalled a gradual but perceptible shift in party leadership with its top echelon increasingly dominated by Tamils with roots in the working class. Besides Subramaniam, another prime example of this new generation of leaders was S. Samy Vellu, who hails from an urban working class background;[15] Subramaniam and Samy Vellu are currently deputy president and president of the MIC respectively. Although the Tamil-dominated leadership was crucial in enhancing the party's Tamil identity and helped it to retain the support of the lower middle and working classes, the MIC did not appear to have enjoyed increased support from the middle class.

By the late 1970s, however, with Manickavasagam in visibly poor health and the party's succession line unclear following the sudden demise of deputy president Athi Nahappan in May 1976,[16] the president's endorsement of the relatively new and untried Subramaniam as his prospective successor resulted in another bruising succession battle in the MIC. In a bitterly-fought contest for the deputy presidency in 1977, Samy Vellu outpolled Subramaniam by a narrow margin of 25 votes, not only exposing how evenly the party had been divided, but further impairing the MIC's already tarnished image in the eyes of the community (*Malay Mail*, 12/1/81).[17] Manickavasagam's clear disapproval of Samy Vellu as his deputy stemmed from his belief that the latter was heading a faction within the party to undermine his position as president (Rajaretnam, 1987: 28). Despite this, Samy Vellu's deputy presidency was unopposed in the next party polls in early 1979, apparently over fears that another major contest would cause damage, this time irreparable, to the MIC. Subramaniam was re-appointed MIC secretary-general.

Upon Manickavasagam's death in October 1979, the MIC central working committee appointed Samy Vellu as Acting President. The decision, however, aroused the dissent of most party quarters, feeding speculation that Samy Vellu would be challenged for the presidency. By 1981, just before the party's presidential polls, the breach in the party widened after the central working committee met to expel Samy Vellu's rival and opponent, Subramaniam, from the party. In an eleventh hour compromise worked out by Pathmanaban, however, Subramaniam decided not to offer himself for the presidency, opting instead for the deputy presidency (*The Star*, 30/4/86).

It was, however, an uncomfortable truce and the continued feuding between Samy Vellu and the Subramaniam-Pathmanaban team divided the party into two main factions. Though there have been periods of relative calm in Samy Vellu's thirteen-year presidency of the MIC, his leadership has generally remained unacceptable to many quarters in the party. The most obvious indication of dissent surfaced in the late 1980s. In October 1989, Subramaniam, reacting to a challenge from Samy Vellu and backed by Pathmanaban, decided to make a bid for the party presidency (Chamil, 1990: 117-18). During the gruelling party campaign, allegations were made by both factions that "money politics" and "caste politics" were being used to marshall support (*The Star*, 5/10/89). Samy Vellu, however, succeeded in staving off Subramaniam's determined challenge by securing 62 per cent of the vote, but the bitter contest had strongly reinforced the split in the party.

In an obvious move to prevent further threats to his position, Samy Vellu dropped Subramaniam and Pathmanaban as party candidates in the 1990 General Elections, replacing them with his own favoured supporters.[18] Following the intervention of Prime Minister Mahathir Mohamad, however, Samy Vellu had to concede to Mahathir's appointment of Subramaniam as a senator and deputy minister. The extent of the UMNO president's influence over MIC party politics was especially evident when Samy Vellu even had to consent to accept Subramaniam as his deputy in the MIC, a gesture which was widely perceived as a "forced reconciliation" (see *Malaysian Business*, 1/2/91). Just before the party polls in 1991, however, Pathmanaban decided not to defend his vice-presidency, thus eroding Subramaniam's political strength in the MIC. Samy Vellu, however, helped ensure that Subramaniam was returned unopposed as deputy president, but the three newly elected vice-presidents were all strong supporters of the president, suggesting that Samy Vellu may well have consolidated his position in the MIC finally.

Samy Vellu's grip on the MIC was clearly seen during the 1992 leadership contest. Although he was then under investigation by the Anti-Corruption Agency — it was alleged that instead of channelling the shares of the privatised Sykt Telekom Malaysia (STM) into Maika Holdings Bhd (a public company established by the MIC), he had instead diverted them to companies controlled by his business proxies — Samy Vellu secured an unprecedented 95 per cent of the vote; his challengers in the presidential contest, however, were two minor party officials who were apparently said to be upset over Samy Vellu's autocratic leadership and his practice of nepotism in the party (see *Malaysian Business*, 1/11/92).[19]

5.2: MIC-Linked Business Ventures

During Sambanthan's seventeen-year presidency, the only business organization associated with the MIC was the NLFCS. With Manickavasagam's ascension to power, however, there was a mushrooming of MIC-linked cooperatives — the most favoured form of capitalization among the Indian community — which were controlled by various party leaders. The Syarikat Kerjasama Nesa Pelbagai Bhd (Nesa) was promoted by Manickavasagam in 1974; control of the cooperative was later passed on to Subramaniam (*Berita Harian*, 9/9/85). In 1977, the Koperasi Belia Majujaya (M) Bhd, a multi-purpose cooperative, was founded by former MIC vice-president Pathmanaban. Koperasi Pekerja Jaya (KPJ) was set up by Samy Vellu in 1979.

While not all of them catered to the needs of workers in the plantation sector, a common factor of these cooperatives, apart from their being a political base for their leaders, was that they sought the membership of and financial contributions from mostly working class and lower middle class Indians. Given their limited appeal with urban middle class Indians, the growth of these MIC-related cooperatives, except for the NLFCS, was not impressive.

The MIC has, in fact, displayed a great proclivity for setting up business concerns; in addition to the cooperatives, the party has also established the MIC Unit Trusts Bhd, which operates three trust funds, the Maju Institute for Educational Development (MIED) to improve the educational prospects of Indians, and an investment holding company, Maika Holdings Bhd, to increase Indian equity-ownership of corporate wealth and involvement in business.[20] Except for the NLFCS, all these business organizations were established after 1970, the year of the NEP's inception. Since the NEP permitted the UMNO-led government to inter-

vene directly in the economy to promote Bumiputera capitalism, the ostensible basis for the incorporation of these MIC-led business ventures was so that they too could play a similar role for the Indian community.

It was Manickavasagam who soon after being elected to the helm of the MIC in 1973 had begun initiating most of the plans and programmes to redress both the Indians' lack of economic development and their meagre ownership of corporate wealth. Following the trend set by UMNO in the mid-1960s, the MIC organized a major economic convention in 1974 to discuss and assess the economic problems of the Indians. The outcome of the convention was the "Blueprint for Economic Advancement" (Mauzy, 1983a: 82).

The "Blueprint"'s main thrust was the necessity to equip Indians with the skills, education, funds, and administrative expertise necessary for them to achieve economic parity with other Malaysian ethnic communities.[21] To achieve this, the "Blueprint" proposed the promotion of self-help measures to improve the Indians' economic condition. It also called for the government's involvement and support to strengthen the socio-economic standing of Indians (Rajaretnam, 1987: 78).

The objectives of this "Blueprint" became the basis for the MIC's direct involvement in business. The party's business involvement has intensified during Samy Vellu's presidency since the leader openly avows that private sector activity unbridled by political support would prove detrimental to the growth of a company (see *Watan*, 28/7/86). However, as with companies established by the MCA and UMNO, the MIC's business operations have since also become an important means for dispensing patronage.

5.2.1: National Land Finance Cooperative Society (NLFCS)

In the late 1950s, Sambanthan had suggested the establishment of the NLFCS specifically for the purpose of acquiring fragmented estates with financial resources pooled from estate workers. Sambanthan, who was then MIC President, was reportedly fearful that the Indian community was in "real danger" of being reduced to "an insignificant population" because the "continued fragmentation [of the estates] is throwing thousands out of jobs. Economic chaos has already started with the Indian community" (*Sunday Mail*, 23/10/60). The NLFCS was thus the MIC's solution to help resolve the twin Indian problem of landlessness and unemployment, or to quote one MIC leader: "Our idea is to make the ordinary peasant a land owner" (*Malay Mail*, 4/12/63). Since the MIC, however, did not have the support of the working class, Sambanthan was only too aware of the arduous task confronting him when he waged his nationwide campaign to convince impoverished estate workers that they could become plantation owners by investing only RM10 for ten months in the NLFCS. This would enable them to acquire the cooperative's shares worth RM100 each (*Berita Harian*, 1/4/83).

Contrary to general expectation, Sambanthan's proposal was received eagerly by plantation workers. On 14 May 1960, the NLFCS was established, with Sambanthan as its chairman (*Berita Harian*, 1/4/83). A month later, with a membership of 15,000 and accumulated capital of RM1.7 million, the cooperative, with help from bank loans, acquired its first estate — Bukit Sidim Estate in Kedah — for RM3.3 million. It was the first time that an estate was acquired on a cooperative basis (*Malaysian Business*, 1/8/85). By 1963, with a membership of 29,000 and accumulated capital of RM7.6 million, the NLFCS had become the largest cooperative in the country (*Malay Mail*, 13/12/63).

Since the cooperative was founded by the MIC, top party officials were also members of the board, and the NLFCS benefited from the government assistance and publicity that the MIC could secure for it (Arasaratnam, 1980: 158). These factors helped the NLFCS to expand rapidly during its early years. Arasaratnam (1980: 158-59) noted that productivity in NLFCS-acquired estates had improved, profits registered, and dividends approaching 10 per cent were regularly declared in the 1960s.

By the mid-1980s, the NLFCS, although now no longer the largest cooperative, was the largest plantation-based cooperative in the country with a membership of about 75,000, a share capital of RM90.87 million, and assets totalling RM212 million (*Business Times*, 21/6/88). Listed among its stable of assets were nineteen estates producing rubber, palm oil, coconut, and tea, which covered approximately 35,000 acres and employed almost 3,000 workers (*NST*, 3/1/90; *The Star*, 5/1/90). The NLFCS also owned a stake in several prominent Indian-based financial institutions — the Central Cooperative Bank (CCB), United Asian Bank (UAB), and Bank Buruh — and an interest in a number of companies involved in downstream activities of the plantation sector — Nalin Oil Industries Sdn Bhd, Nalfico Premier Oil Sdn Bhd, Kewalram Oil Sdn Bhd, Bhupalm Industries Sdn Bhd, and Plantation Agencies Sdn Bhd (*Business Times*, 21/6/88; *Malaysian Business*, 1/8/85). The NLFCS also has a small interest in Maika Holdings, another public company founded by the MIC. In addition to this, the cooperative is engaged in real estate development and manufacturing, and has even managed to build its own headquarters

— the RM60 million, 28-storey Wisma Tun Sambanthan situated in Kuala Lumpur — from which it receives rental income (*Business Times*, 21/6/88).

Despite its rapid development, the NLFCS faced several severe crises in the 1970s. According to Supernor (1983: 182), it appeared that by 1973, many NLFCS estates were being mismanaged by inept autocratic appointees; even though large sections of rubber plantations needed replanting, many of the workers were idle, while some were "let go" ostensibly for being "redundant". Living conditions in most estates had also deteriorated. Apart from this, the power struggle between Sambanthan and Manickavasagam had filtered down to the rather heavily politicized workers, dividing them into two factions. Supernor (1983: 182) also attributed the cooperative's overwhelming problems during this period to:

> "top-heavy management practices by urban business elites who sit (sic) on the board of directors and to the problems created by individual estate managers who were 'fleecing' the society. The final crushing blow came when a European management firm was asked to take over and standardize estate operations, an admission of failure on the part of Tamil leaders.... [This had left the workers] neglected, demoralized and disaffected by their worsening condition and the society in general was in disarray."

Polarization within the MIC was not the only factor that contributed to the NLFCS's woes. Another Indian-based organization, the National Union of Plantation Workers (NUPW) had been relentlessly critical of the MIC's control of the NLFCS, describing the cooperative as the MIC's "political baby" (Arasaratnam, 1980: 160). The NUPW, since 1954, has been the main representative of plantation workers, at one point even having a membership of 80,000.[22] The union's Secretary-General, P.P. Narayanan, was even more explicit about the NLFCS's political affiliations: "[W]e are very skeptical about political cooperatives. It is a well known fact the cooperative society is an arm of the MIC" (*The Straits Times*, 26/7/67).[23] A major reason for the differences between the MIC and the NUPW was that most NLFCS members were also members of the union and the party.

The conflict between the NLFCS and the NUPW was never resolved and came to a head in 1980, with an overt struggle between three factions for control of the cooperative. While two of the feuding factions comprised those who were affiliated to the MIC and the NUPW, the third group consisted of those NLFCS members who wanted to purge the cooperative of political and union interference. The NUPW argued that since NLFCS members were plantation workers, it was the union that should control the cooperative. The MIC, meanwhile, contended that given its influential position in the government, it could secure better living conditions for

members of the cooperative. So vehement was the dispute that the NLFCS's annual general meeting scheduled to take place late 1980 had to be postponed (*National Echo*, 6/12/80). The dissatisfaction with the NLFCS leadership probably stemmed, among other reasons, from the fact that dividends had not been declared for several years. In what appeared to be an attempt to placate disgruntled members, the NLFCS in January 1981 declared, for the first time, bonus shares (*Business Times*, 23/1/81; *Malay Mail*, 26/1/81). The MIC succeeded eventually consolidated its control of the NLFCS.

Although the NLFCS had turned in profits in the mid- and late 1970s, following the recession and fall in commodity prices in the mid-1980s, the cooperative again went through a period of decline, registering a loss of RM9.487 million in 1985, which edged up to RM13.247 million the following year (*Utusan Malaysia*, 9/8/87). During that period, the cooperative also incurred a massive debt of RM75 million, and had to dispose of some of its assets to trim its debt (*Business Times*, 21/6/88). Apart from this RM75 million debt, the cooperative also had an outstanding loan of RM27.5 million due to the now defunct Central Cooperative Bank,[24] in which the NLFCS also had an interest; the loan had been secured for the construction of the new NLFCS headquarters (*Business Times*, 22/6/88). Despite the economic recovery of the late 1980s, the cooperative continued to fare poorly, reporting losses of RM9.22 million in 1989, RM1.38 million in 1990, RM4.44 million in 1991, and RM4.38 million in 1992 (*The Star*, 20/6/93). The NLFCS has resorted to selling off some of its estate holdings to narrow its losses, a move which has considerably weakened its asset base.

Another contributory factor to the decline of the NLFCS is the Deposit-Taking Cooperatives (DTC) scandal of 1986.[25] Although the NLFCS was not implicated in the DTC affair, its deposit-taking activities were frozen due to the imposition of new regulations subsequent to the scandal. The cooperative also had to refund its members' deposits, aggravating its financial troubles (see *Business Times*, 21/6/88).

Although the NLFCS has not declared dividends since 1988 and numerous complaints have been voiced by some members that representation to the cooperative's general meetings is dominated by estate clerks and managers, rather than workers, there does not appear to be total dissatisfaction with the running of the cooperative. This is because NLFCS workers believe that they fare better in terms of working conditions and privileges than non-NLFCS workers.[26] By 1992, however, as the co-operative continued to chalk-up operational losses, some members began

calling for the management's resignation, a move which was eventually blocked, mainly because of the management's control over the selection of delegates for its annual general meetings (see *The Star*, 26/6/93). Part of the grievances was over the high wages and bonuses paid to NLFCS staff and management — staff bonus for 1992 alone amounted to a hefty RM686,009 (*The Star*, 24/6/93).

5.2.2: Syarikat Kerjasama Nesa Pelbagai Bhd

Following the release of the "Blueprint for Economic Advancement" in 1974, Manickavasagam suggested the formation of a cooperative to help low income Malaysians, in particular Indians, to obtain land for housing, farming, and business. Fuelled by the success of the MCA-led Koperatif Serbaguna (M) Bhd (KSM), and recognizing the NLFCS's rather narrow objectives, most of which were confined to the problems of plantation workers, the MIC launched Nesa as one of its economic development projects (Yeoh, 1987: 176).

The cooperative, according to Gale (1985: 36), was in fact a collaborative effort between the MIC and the NUPW. This was a rather surprising development given the NUPW's open hostilities with the MIC over the party's involvement in the NLFCS. It was believed that the turnabout in the NUPW's position regarding the MIC's involvement in a cooperative was due to Manickavasagam's close alliance with the union's long-standing secretary-general, Narayanan (Gale, 1985: 36).

As with the NLFCS, Nesa too, with the MIC's backing, appeared to be well supported; it had an almost 3,000-strong membership not long after its incorporation in 1974. By the mid-1980s, its membership had increased more than ten-fold to almost 38,000, most of whom were also MIC members (*Berita Harian*, 9/9/85). In 1987, Nesa had a share capitalization of RM10.8 million, deposits totalling almost RM27.5 million from 1,800 depositors, and assets amounting to RM21 million (*The Star*, 30//89).

Apart from housing development,[27] Nesa diversified swiftly, with a number of subsidiaries involved in various activities—Sri Nesa Credit & Leasing Sdn Bhd (credit), Valachi Sdn Bhd (property development and agriculture), Sri Nesa Holding Sdn Bhd (insurance and advertising), and NS Private Taxi Sdn Bhd (transportation). The cooperative also had investments in MIC Unit Trusts, owned a 3.5 per cent stake in Bank Buruh, and acquired an interest in Maika Holdings, United Oriental Assurance Sdn Bhd, and Timah Langat Bhd, a minor publicly-listed company (*Berita Harian*, 9/9/85; Rajaretnam, 1987: 82).

As with the NLFCS, several of the MIC's top leaders sat on Nesa's board of directors. Subramaniam, the deputy president of the MIC, took over the chairmanship of the cooperative following Manickavasagam's death. Other MIC leaders who have served as directors of Nesa include Pathmanaban, S.O.K. Ubaidulla, G. Vadiveloo (the current MIC secretary-general), and N.S. Krishnan (*Berita Harian*, 9/9/85).

Although Nesa grew rapidly, it ran into trouble over allegations of mismanagement and misappropriation of funds (*The Star*, 6/4/88). In April 1988, following a spate of heavy withdrawals which had contributed to severe cash-flow problems, the assets of the cooperative were frozen by Bank Negara, the central bank, to assess its viability. Investigations revealed some questionable transactions, among them Nesa's classification of almost 70 per cent of its loans to members as bad debts (*The Star*, 24/2/89).[28] The troubled cooperative was later found to be insolvent to the tune of RM8.6 million and, in June 1989, was placed under receivership by Bank Negara (*The Star*, 30/6/89 & 28/9/90).

It was only three years later, in early 1991, after repeated appeals by Nesa members, that they were assured of a full refund of their investment; the drawback, however, was that the refund would be stretched over five years, with 20 per cent being paid each year (*The Star*, 4/3/91). The rescue scheme was largely possible because of Nesa's strong asset base, which included its stake in Bank Buruh. Bank Negara, however, still retains control of the cooperative (*The Star*, 30/6/89).

5.2.3: Koperasi Belia Majujaya (M) Bhd

The idea of establishing Majujaya to raise the economic status of Indian youth was mooted by former MIC vice-president Pathmanaban (*NST*, 28/1/88). Together with the Tamil Youth Bell Club, he was instrumental in getting Majujaya registered as a national level multi-purpose cooperative on 16 April 1977; Pathmanaban was also Majujaya's first president (*NST*, 29/6/89).

Among the cooperative's objectives were to encourage its members, especially the youth, to venture into business; to provide employment opportunities; to encourage small businessmen to widen their business operations; and to involve the cooperative in joint-ventures in various businesses and industries. The range of activities that Majujaya has entered cover housing development, trading, insurance, and financial services. Like most other MIC business concerns, Majujaya also acquired a 3.5 per cent stake in Bank Buruh; the cooperative also had an interest in the Central Cooperative Bank.

Majujaya's development was comparable to that of Nesa, though its growth in terms of membership and investments was not as significant. By 1988, although Majujaya had 27,000 members, assets worth around RM12 million, a paid-up capital of RM2.8 million, and fixed deposits which totalled RM2.2 million, its activities were suspended by Bank Negara following severe cash-flow problems; Majujaya was also saddled by a number of unserviced loans.[29] In June 1989, Majujaya was placed — along with Nesa — under receivership by Bank Negara; the central bank later wrote off almost RM13.6 million of the shareholders' funds of both Nesa and Majujaya (*The Star*, 30/6/89 & 22/11/90). As in the case of Nesa, a rescue scheme was worked out by Bank Negara in 1991, which ensured that Majujaya depositors obtained a ringgit-for-ringgit return over a period of five years; this cooperative also remains under the control of Bank Negara (*NST*, 6/4/91).

5.2.4: Koperasi Pekerja Jaya

Koperasi Pekerja Jaya (KPJ) was set up in 1979 by Samy Vellu, then MIC deputy president, primarily for the purpose of acquiring land to build low-income houses for poor Indians. He is currently chairman of the 25,000-member cooperative (Business Times, 29/7/86).

By the mid-1980s, KPJ was involved in at least eighteen housing schemes all over the country.[30] Although KPJ, like other MIC co-operatives, displayed signs of rapid growth, complaints were lodged by KPJ members that the cooperative had not fulfilled most of its promises. In 1990, for example, there were allegations by KPJ members that they were not given refunds for the down-payments they had made on houses under the cooperative's scheme that had later been abandoned. Samy Vellu later stated that KPJ would be selling two of its landbanks worth nearly RM22 million to enable it to return funds to members who had withdrawn from the scheme (*Watan*, 1/2/90). In February 1990, Samy Vellu announced another strategy for KPJ to repay a RM14 million loan it had taken from the Central Cooperative Bank (which was also placed under receivership by Bank Negara after it had accumulated huge un-serviced and unsecured loans) and another RM6 million to depositors. Details of the strategy, however, were not mentioned (see *The Star*, 3/2/90).

The cooperative's most significant and controversial deal, however, was its exchange in July 1989 of two parcels of land in Seremban and Sungei Siput worth RM20.149 million for loan stock of the same value in publicly-listed Time Engineering Bhd which upon conversion would give the cooperative a 6.9 per cent stake in the company (*Business Times*, 3/7/89). Interestingly, this was part of a major deal which also involved UMNO-controlled United Engineers (M) Bhd (UEM) and Hatibudi Nominees Sdn Bhd.[31] Then Works Minister, Samy Vellu had been a central figure in the controversial award of the North-South Highway Project to UEM in 1986 (see Gomez, 1990: 127-34). It appeared that Time Engineering's loan stock, which was expected to appreciate in value because of its control over UEM, was to be sold to settle KPJ's outstanding financial commitments.

5.2.5: MIC Unit Trusts Bhd

The MIC Unit Trusts, incorporated on 28 June 1976 and launched in 1977, represented another effort by Manickavasagam to provide a means for Indians to pool their resources to raise their economic status under the MIC's "Blueprint". It was a rather ambitious project for the MIC because, as one party spokesman announced, the unit trust "hope[d] to reach 10 per cent ownership of the nation's wealth" within the span of four years! (see *Malay Mail*, 4/12/78).[32] Although the target group for the trust fund, whose chairman was Ubaidullah, was again the low income wage earners in rural areas, mostly from the plantation sector, the MIC Unit Trusts also attempted to pool the resources of middle class and upper middle class Indians (*Business Times*, 18/5/81; *Malay Mail*, 8/9/77). Utilizing the MIC party machinery, an active campaign was launched to draw subscribers to the unit trusts; many of its early subscribers were MIC members, a significant number of whom were also members of cooperatives such as Nesa and the NLFCS, which in effect limited the potential resources which could be channelled to the MIC Unit Trusts (*Business Times*, 9/1/78).

Despite this, the MIC Unit Trusts is probably the party's most successful project. By 1981, due to the buoyant Kuala Lumpur Stock Exchange (KLSE), the value of the trust's investments had appreciated by 106 per cent; these investments had been acquired through funds obtained from the issue of five million units valued at RM7.24 million. This prompted the launching of the Second Fund in 1981. Within a year, the Second Fund had attracted almost RM11 million from nearly 19,500 subscribers; this fund had to be broken up into the Second and Third Funds (*NST*, 22/2/82). The division was necessary because the trusts were protected by a RM5 million guarantee given by the MIC to the Public Trustee to ensure proper operation of the fund (*Business Times*, 3/3/81).

By the mid-1980s, however, the performance of the MIC Unit Trusts began to decline in the wake of a severe recession, which considerably lowered the dividends declared by the trust fund (see Table 5.1). Although the company has not been registering profits consistently — in fact, between 1978 and 1990, it had reported profits on only four occasions — respectable dividends have been declared by the three unit trusts, especially in the case of Fund One. One probable reason for the commendable performance of the unit trust funds is their management by merchant bankers; suggestions, however, have been forwarded that Maika Holdings should take over the management of the trust funds (see *NST*, 22/6/91). This has not yet been effected.

TABLE 5.1
Performance of the MIC Unit Trusts and
Dividends Declared by its Three Trust Funds

Year	Profit/(Loss)	Rate of Gross Dividend Per 100 Units		
		Fund One	Fund Two	Fund Three
1978	(RM108,045)	–	–	–
1979	(RM105,501)	RM12	–	–
1980	(RM87,081)	RM12	–	–
1981	RM462,460	RM15	–	–
1982	RM290,767	RM15	–	–
1983	(RM69,979)	RM15	–	–
1984	(RM202,582)	RM15	RM10	RM10
1985	(RM136,326)	RM15	n.a.	RM10
1986	RM109,046	RM10	RM5	RM6
1987	(RM65,678)	RM15	n.a.	RM4
1988	RM32,337	RM12	RM4	RM6
1989	(RM49,521)	RM10	RM4	RM5
1990	(RM27,596)	RM10	RM4	RM5

Source: MIC Unit Trusts company records.
Note: n.a. – Not available.

As with other MIC-related ventures, the board of directors of the MIC Unit Trusts has been dominated by MIC leaders. Company records indicate that the two original directors of the company were Ubaidulla and Pathmanaban, who were later joined by another MIC leader, T. Subbiah, former Penang MIC chairman and state assemblyman. Among the other original directors were prominent businessmen Kishnu Jethanand of Globe Silk Store and C. Selvarajah, a former senator and close confidante of Prime Minister Mahathir, who was later also given charge of another MIC project, Maika Holdings. Other MIC leaders who have served as directors of the unit trust include M. Mahalingam, currently an MIC vice-president and a deputy minister, D.P. Vijandran, a former MIC secretary-general, member of parliament, and Deputy Speaker, and G. Pasamanicam, the MIC Johore state leader and current chairman of Maika Holdings.

5.2.6: Maju Institute for Educational Development (MIED)

When Samy Vellu took over the leadership of the MIC in 1979, he argued that one of the most acute problems facing Indians in the field of education was the meagre facilities and funds available to them for furthering their studies (*The Star*, 22/5/83). As one solution to these problems, Samy Vellu proposed establishing the MIED to finance educational opportunities and to raise funds to either purchase or construct vocational and technical schools to cater for poor youths and school drop-outs (*NST*, 18/110/81).

Incorporated as a holding company on 29 February 1984, MIED records filed at the Registrar of Companies indicate that the company's first chairman was Samy Vellu. Among the other original directors of the company were MIC Deputy President Subramaniam, Mahalingam, and K.S. Nijhar, currently the party's treasurer-general; R. Selvendra, a Maika Holdings' director and reputedly a close Samy Vellu ally, was also an original director of MIED. Another MIC leader appointed to MIED's board of directors in 1988 was Vijandran.

The MIED's annual accounts also reveal that most of the company's income was derived from donations. MIED's main investment was its wholly-owned subsidiary, Vanto Organization Sdn Bhd, acquired for RM350,000, which owned Vanto Academy. In 1989, the MIED also invested RM97,699 in the Institute Technology Negeri, a college set up by the MIC.[33]

In 1986, the MIED conducted the country's largest private lottery, its

most significant campaign to date, which helped generate RM16 million, out of which a net profit of RM10 million was made (*Utusan Malaysia*, 2/3/87). The lottery committee, under the chairmanship of Pathmanaban, was responsible for raising funds for the MIC's two academic institutions, Vanto Academy and Institute Technology Negeri (*The Star*, 25/2/89).

The huge success of the lottery was marred by allegations of mismanagement of the lottery funds. During the 1989 leadership struggle in the MIC, Samy Vellu gained political leverage from Pathmanaban's decision to invest RM250,000 of MIED funds in Nesa despite his knowledge that the cooperative was financially unstable and heading for receivership (*The Star*, 25/2/89). Pathmanaban was a director of Nesa while his close ally, Subramaniam, was the cooperative's president. Nesa's operations were suspended a few weeks later, and the MIED subsequently sued Pathmanaban and Subramaniam for the return of the funds. In 1992, Samy Vellu also claimed that he had submitted to the police a list of MIC leaders who had defaulted in submitting income generated by the MIED lottery; a total of RM1.5 million was still outstanding (*The Star*, 6/6/92).

The allegations by Samy Vellu in 1989 were apparently sparked by rumours that supporters of Subramaniam and Pathmanaban had leaked information to the opposition DAP that Samy Vellu had sold MIED tickets to UMNO-owned UEM; the MIC president, then Works Minister, had been responsible for the controversial award of the multi-billion ringgit North-South Highway contract to the company (*Malaysian Business*, 1/7/88). The DAP subsequently alleged impropriety and conflict-of-interest against Samy Vellu.[34]

In June 1991, Samy Vellu announced the MIC's plans to establish another trust fund, tentatively called the Indian Trust Fund, and a new education fund, the Malaysian Indian Education Fund, as further attempts by the party to increase the Indian community's share of the economy (*The Star*, 28/10/91). The trust fund, which hopes to obtain another RM100 million from Indians, will be similar to the government-owned trust agency, Amanah Saham Nasional (ASN), and proposes to invest in publicly-listed companies and government agencies to be privatised (*NST*, 30/6/91 & 16/9/91, *Malaysian Business*, 16/10/91). The Malaysian Indian Education Fund, in the form of a cooperative, similar to the MCA's Kojadi, will help poor Indian students pursue tertiary education. The cooperative is supposed to complement the MIED in its objectives (see *NST*, 17/2/92 & 24/2/92; *The Star*, 24/2/92). These projects have still not left the drawing board.

5.3: Maika Holdings Bhd

By 1980, more than ten years after the implementation of the NEP, government statistics revealed that the Indian community's ownership of the Malaysian corporate sector had stagnated below one per cent. This figure implied that in relative terms the economic position of the Indians had not improved since the 1960s; indeed, relative to population and economic growth since then, the figure in fact represented a regression. It was obvious that the MIC's targetted ten per cent Indian ownership by 1990 was far beyond reach. More disturbing were the 1981 estimates, revealed by Samy Vellu himself and his economic advisers, that 65 per cent of the Indian population was living below the poverty line and that for the community to reach a minimum corporate ownership target of six per cent by 1990, Indian investments would have to grow by 0.5 per cent a year over the next ten years (*Business Times*, 18/5/81).

As forms of business operations became more sophisticated, it became increasingly obvious that the cooperative mode of investment advocated by the MIC had decidedly failed to promote Indian capitalist development to any appreciable extent. The narrow objectives and functions of cooperatives, their limited investors and modest capital, their collective style of management, and the strict supervision of their activities by the Cooperative Societies Act all impeded active participation in the economy. The functions of the trust funds were also limited in that money collected could only be used for investment purposes.

Thus, in 1982, as a reaction to the Indians' lack of corporate ownership, the MIC proposed the establishment of a public holding company. From the outset, it was agreed that Maika Holdings would emulate the MCA's Multi-Purpose Holdings in that it would attempt to pool the resources of Indians for investment in the corporate sector.[35] The MIC's arguments for its active participation in business were almost identical to those of the MCA since the predicament of the Chinese and Indian communities was viewed as being comparable in the face of alleged NEP-inspired ethnic discrimination. Like the Chinese, though on a much smaller scale, the dispersed, unconcentrated business power of the Indians and their propensity to run small-capital, family-based business operations — which were overly cautious and often ignorant of modern management and marketing techniques — kept the Indians back from becoming a major economic force. Thus, the MIC argued that just as the Chinese had done through Multi-Purpose Holdings, if the economic resources of the Indians too were combined under one major company, the problem of meagre

Indian ownership of the country's economic wealth could be rectified. The formation of a holding company would not just permit investment, but would also allow for better management of business operations and more active participation in corporate sector through various ventures, takeovers, and mergers. With this in mind, it was proposed that Maika Holdings commence operations with a paid-up capital of at least RM30 million (see *NST*, 22/2/82).

Maika Holdings Bhd was incorporated on 13 September 1982 and commenced business on 31 January 1983 (*Malaysian Business*, 1/7/86). The MIC promoted Maika by describing it as "adopting the structure and investment strategies of Multi-Purpose Holdings with the capital-raising and savings strategy of the Amanah Saham" (*FEER*, 26/7/84). Envisioning Maika as the symbol of Indian socio-economic advancement, Samy Vellu initiated an intensive promotion exercise through every MIC branch and personally spearheaded a nationwide campaign to solicit investments in the company; given Samy Vellu's control of the Tamil language press, Maika received widespread publicity. Eventually, although 50 million RM1 shares had been allocated, Maika shares were heavily over-subscribed following an intensive share subscription exercise. By 1984, contrary to expectations and despite the fact that the country was heading into recession, Maika had raised its paid-up capital to a phenomenal RM106 million from its almost 66,400 shareholders (*Nanyang Siang Pau*, 23/5/85). A number of Maika's low income-earning shareholders had, in fact, borrowed funds from the United Asian Bank (UAB), then still an Indian-controlled bank, to invest in the company (*FEER*, 6/8/85). Maika's largest individual shareholder was MIC President Samy Vellu, who held around 2.6 million shares (*Malaysian Business*, 1/8/87).

Despite Maika's rather spectacular debut in the business world and its aim to function as the vanguard for Indian capitalism as well as Samy Vellu's dream to make the company "a giant conglomerate with several subsidiaries" (*NST*, 17/5/85), Maika was unusually cautious about investing in the corporate sector. In the first year of its operation, Maika had established a few minor subsidiaries involved in construction (Sykt Pembinaan Maika Sdn Bhd) and property development (Sri Vijaya Development Sdn Bhd), and acquired a piece of land at Teluk Panglima Garang, near Port Kelang; its most important investment was a RM1 million stake, or 10 per cent interest, in the newly formed private television network, TV3 (*Business Times*, 17/5/85). Even from these few acquisitions and business involvements, it was becoming evident that Maika's political affiliations would play a significant role in the affairs of the company. Samy Vellu was

believed to be responsible for Maika's decision to purchase a stake in TV3 and the land at Teluk Panglima Garang (*The Star*, 3/6/85). The other prominent shareholders in TV3 were UMNO's holding company, Fleet Group, and Daim Zainuddin, UMNO treasurer and then soon-to-be appointed Finance Minister.

Apart from this, it was also clear that Maika would become an important patronage tool for the MIC. Samy Vellu, for example, although never having served as a director of Maika, was known to have great influence over the appointment of directors and the management of the company. According to company records, prominent MIC leaders who have sat on Maika's board of directors include Vijandran, Pasamanicam, and Dr S. Subramaniam, a Kedah MIC leader; other familiar names include Selvarajah and Selvendra, who were directors of MIC Unit Trusts, and K.R. Somasundram, the chief executive of the NLFCS. Vijandran, a former MIC vice-president and once a protege and close ally of the party president, was appointed Maika's chairman in 1985.

The large financial base available to Maika also proved beneficial when other ailing MIC-business ventures needed assistance. In 1985, for example, ostensibly for the dual purpose of housing development and tourism, Maika acquired an oil palm estate near Morib — Tumbuk Estate Sdn Bhd — from the MIC-related NLFCS for an apparently inflated price of RM13 million (*The Star*, 30/7/85).[36] When queried over the purchase, then Maika chairman, Vijandran, admitted that one of the reasons for the acquisition was that the NLFCS "needed cash" (see *The Star*, 28/6/86).

The MIC, however, was soon to discover, as did the MCA, that this mix of business and politics could prove detrimental to their cordial relations with Malay politicians. The most controversial case arose when the company attempted to acquire a majority stake in UAB in 1985.

5.3.1: The Maika-UAB Controversy

The United Asian Bank (UAB), Malaysia's sixth largest bank in 1985 with assets of RM1 billion and 32 branches, was established on 30 December 1972 following the amalgamation of three Malaysian-based Indian national banks — the Indian Overseas Bank, the Indian Bank, and the United Commercial Bank.[37] After the amalgamation, the Indian government owned a 33.33 per cent stake in UAB. By the end of 1984, apart from the Indian government's stake, 30 per cent of UAB's equity was held by various Bumiputeras, with 6.9 per cent held by the then Tengku Ariff Bendahara, brother of the present Pahang sultan and chairman of the bank

(*NST*, 1/8/85). UAB also had a 20 per cent stake in an insurance company, United Oriental Assurance Sdn Bhd.

As in the case of other politically-linked holding companies, one of Maika's primary aims after its inception was to obtain a banking licence. Despite its political connections, however, Maika was not able to procure a licence since the central bank had then felt that there were already too many banks in Malaysia; in fact, a new banking licence has not been issued by Bank Negara since 1979 (*Asiaweek*, 7/8/85).

Thus, when the Indian government announced its interest to divest its UAB (and United Oriental Assurance) stake in 1985, Samy Vellu led a delegation of Maika officials to India to negotiate a takeover. The issue, however, erupted into a political controversy when the Tengku Ariff Bendahara voiced strong opposition to the proposed takeover, arguing that Samy Vellu had no right to negotiate the takeover without consulting the bank's board. The Tengku felt that "any change in the UAB share structure should benefit existing Bumiputera shareholders", thus implying that the UAB takeover contravened the NEP's objectives (*NST*, 5/8/85; *Asiaweek*, 7/8/85). Although the chairman was wrong on both counts — as a likely corporate raider, Maika did not have to inform the UAB board, and the Malaysianization of foreign-held equity was in conformity with the NEP as then understood — certain sections of UMNO Youth, picking up the cue, protested the takeover. Although the combined Bumiputera stake in UAB would have amounted to nearly 37 per cent had the takeover been affected, Maika would have become UAB's single largest shareholder, thus wresting management control of the bank (*The Star*, 14/5/86). The protest by UMNO Youth was similar in intent to the one it waged against Multi-Purpose Holdings' takeover of the United Malayan Banking Corporation (UMBC) in 1981.[38] In the event, although Samy Vellu claimed that he had the backing of Prime Minister Mahathir to proceed with negotiations on the UAB acquisition, he had apparently been asked to drop plans on Maika's takeover to avoid further escalation of the controversy (see *Nanyang Siang Pau*, 15/7/86).

Attempting a different strategy, Maika tried to acquire UAB by purchasing the shares held by local investors. A year later, around May 1986, Maika secured ownership of an investment holding company, Asian Holdings Sdn Bhd, which held 6 per cent of UAB's equity. Maika later picked up further UAB shares in the open market, increasing its stake to almost 8 per cent. Maika was believed to have paid an average of RM2 per UAB share, much lower than the RM6 quoted by the Indian government in 1985. Since early 1986, Maika had also been acquiring a direct stake

in United Oriental Assurance; by May that year, its equity in the insurance company had risen to 20 per cent.[39] Although Maika acquired its interest in the bank at a reduced price, this time however, its acquisition of UAB came under heavy attack from its own shareholders because the bank's less than favourable financial state was then already common knowledge (*Business Times*, 26/6/86).

Around the time that Maika was buying into UAB, the bank's share price had begun to fall because of market jitters following a major revamp of the bank's top management and board of directors. UAB's chief executive officer, Ismail Abdullah, for example, was said to have resigned under pressure (*Business Times*, 26/6/86). Bank Negara had also held back UAB's financial results for 1984 and 1985 because of the management reshuffle and to facilitate details for a rights issue to bail out the ailing bank. UAB was then encumbered by a considerable number of non-performing loans — the outstanding total was RM100 million; with doubtful loans included, the figure increased to RM200 million. UAB's reserves were nearly wiped out and the bank no longer met Bank Negara's capital-adequacy ratio (*FEER*, 24/4/86). Among these outstanding loans were those given by UAB to Maika shareholders to purchase the company's shares when they were first issued in 1984; most of these loans had been guaranteed by the MIC. Around RM40 million was believed to have been lent out for this purpose, of which only half was estimated to have been repaid (*Business Times*, 26/6/86).[40]

When the two-for-one UAB rights issue was announced in November 1986, Maika did not take up the full tranche allotted to it even though a favourable share-purchase assistance scheme had been worked out on its behalf by Bank Negara (*Business Times*, 13/8/88). Under the scheme, the shareholders were given the benefit of opting to initially subscribe to only 25 per cent of their rights entitlement. They could acquire the remaining 75 per cent over a period of three years, with a holding charge levied on them based on UAB's base lending rate (*FEER*, 3/10/86).[41] Most of UAB's other shareholders did not subscribe to their rights; the reason was obvious — UAB had suffered losses totalling RM20.9 million in 1984, which increased more than four-fold to RM89.9 million in 1985. Bank Negara was forced to take up RM135.5 million in unsubscribed rights, giving it a 59.6 per cent stake in UAB (*FEER*, 10/12/87).

Despite the cash injection, UAB continued to perform poorly. By the end of 1986, UAB losses had risen to a colossal RM350.5 million, which again wiped out the bank's shareholders' funds. Another one-for-one rights issue was announced to bail out the bank; once more, Bank Negara

was forced to take up most of the rights, raising its stake in UAB to almost 79 per cent (*FEER*, 11/8/88). Maika, however, did not take up its rights; by 1989, its stake in UAB had diluted down to only about 4 per cent (*Business Times*, 1/9/89). UAB had, by now, irrevocably lost its identity as an Indian bank.

5.3.2: Growth of Maika Holdings

As Maika's portfolio of investments increased, its dependence on its political connections became more conspicuous. In fact, Samy Vellu made no attempt to conceal his views on the important role played by politics in business. In July 1986, he made his infamous retort: "If there is no political influence, even a company with a paid-up capital of RM2 million will not be able to earn twenty cents" (*Nanyang Siang Pau*, 15/7/86).[42] He also confirmed speculation that the only reason Maika had managed to obtain a stake in TV3 and in the corporatized Malaysia Airlines System (MAS) was because of "political power" (*Nanyang Siang Pau*, 15/7/86). Since then, Maika has also acquired an interest in other privatised entities such as Malaysian International Shipping Corporation Bhd (MISC), Syarikat Telekom (M) Bhd (STM), and Edaran Otomobil Nasional Bhd (EON).

By the end of 1985, Maika's portfolio of investments was made up of 34 per cent in financial services, 21 per cent in plantations, 16 per cent in quoted shares, 9 per cent in computer technology, 7 per cent in hotel and tourism, 4 per cent in leisure, 4 per cent in property, 3 per cent in commodities, and 2 per cent in unquoted shares (*Business Times*, 12/8/88). The more prominent of these assets, apart from UAB, were a 22 per cent stake in United Oriental Assurance, in which UAB also had 20 per cent equity, a majority stake in Anthonian Book Stores, and a 12.75 per cent interest in a minor publicly-listed company, Tongkah Harbour Bhd. Maika had a footing in commodity trading through its wholly-owned subsidiary, Maika Commodities Sdn Bhd, in rubber glove production through Maika Rubber Products Sdn Bhd, and in international commodity trading through M & P Overseas Trading Corporation, a joint-venture in which Maika had a 49 per cent stake and Patel Holdings the remaining equity (*Malaysian Business*, 1/8/87; *Business Times*, 15/1/88).

Maika later diversified further, moving into an assorted range of activities through a number of its subsidiaries, among them Maika Systems Sdn Bhd, Maika Manufacturing & Marketing Sdn Bhd, Maika Underwriting Agency Sdn Bhd, and Maika Corporate Services Sdn Bhd (see Table 5.2). Apart from these companies, Maika, at the end of 1989, owned shares in

TABLE 5.2
Companies Controlled by Maika Holdings in 1989

Company	Activity	Interests
Asian Holdings	Investment Holding & Property Management	94%
Anthonian Store	Book Retailers	89.9%
Maika Commodities	Commodity Brokers	100%
Maika Systems	Developing & Marketing of Computer Software	100%
Maika Manufacturing & Marketing	Manufacturing of Soft Drinks	100%
Maika Underwriting Agency	Insurance Underwriters	100%
Suriavathi	Investment Holding & trading	100%
Sykt Pembinaan Maika	Construction	100%
Maika Corporate Services	Consultancy	100%
Maika Rubber Products	Manufacturer of Rubber Products	100%
Sykt Pembinaan Mars Maju	Investment Holding	100%
Asian Holdings Agencies	Dormant	94%
Asian Industrial & Marketing	Dormant	94%
Maika Trading Corporation	Dormant	100%
M&P Overseas Trading Corporation	Dormant	51%
Petromic	Dormant	100%
Penerbit Tunas (M)	Dormant	89.89%
Anthonian Distributors	Dormant	89.9%
Anthonian Publishing	Dormant	79.1%
Anthonian Family Circle	Dormant	89.9%
Anthonian Educational Centre	Dormant	89.9%
Anthonian Management	Dormant	89.9%
Anthonian Paper Products	Dormant	89.9%
Pusat Bahan Sumber	Dormant	53.9%
Advista	Advertising	100%
Woodvision	Manufacturing of chopsticks	100%
Hybrid Ventures*	Construction	100%

Source: Maika company records.
*Note: * An associate company. The company's equity is held by one of Maika's wholly-owned subsidiaries.*

quoted companies which had a market value of RM36.162 million; however, almost RM9.6 million of this amount had been invested in Batu Lintang Rubber Company Bhd, whose shares had been suspended from trading on the KLSE. Listed among its assets were two plots of land — in Sepang, Selangor and in Batu, situated near Kuala Lumpur — both of which had been acquired in 1986.

Despite its foray into a wide array of ventures, it was obvious that Maika had neither made any significant acquisition nor participated in any major venture. Its most important asset was still its huge cash reserve totalling almost RM26 million at the end of 1987. Not surprisingly, the overall performance of the Maika Holdings Group of companies has been rather dismal (see Table 5.3). Although the Group managed to earn after-tax profits during the first three years of its operation, Maika has been sinking further into the red after 1986. This also resulted in dividends being declared only three times between 1984 and 1990, the total of which amounted to only RM0.11 per share (*NST*, 19/6/91).

In 1992, the Maika board of directors declared a four per cent dividend, amounting to RM2.6 million, although the company's accounts for the year 1991 indicated that it had registered its worst ever pre-tax loss — RM5.29

TABLE 5.3
Maika Holdings Group Performance Since Inception

Year	Profit/(Loss)	Dividends Declared
1984	RM4.2 million	–
1985	RM9.2 million	RM0.03
1986	RM3.17 million	RM0.05
1987	(RM532,025)	–
1988	(RM521,000)	RM0.03
1989	(RM3.09 million)	–
1990	(RM4.69 million)	–
1991	(RM5.29 million)*	(RM2.6 million)**
1992	(RM5.62 million)*	–

Sources: Nanyang Siang Pau, 17/5/85; NST, 19/6/91, 19/10/92 and 18/6/93; The Star, 10/10/92.
*Notes: * Pre-tax loss.*
*** Total amount of dividends declared.*

million. It was believed that the funds used to pay out the dividends came from the sale of equity in publicly-listed companies owned by Maika such as MAS, TV3, and STM (*NST*, 19/10/92; *The Star*, 23/10/92).

It is highly probable that the four per cent dividend declared by Maika was to pacify shareholders who were upset both with the company's persistently poor performance and disclosures regarding the Maika-STM share controversy earlier in April. It was revealed that only one million of the ten million privatised STM shares awarded by the government to Maika in 1990 had been acquired, although a loan had been approved for the acquisition of all the STM shares. Following allegations of fraud, Samy Vellu revealed that he had, in his capacity as MIC President, decided to channel the remaining nine million STM shares to three obscure companies, two of which had a paid-up capital of only RM2. The STM shares were to be sold for profits which would be used to develop the MIC-sponsored TAFE College (see Lim Kit Siang, 1992a).[43]

In 1993, Maika's accounts revealed that its performance and that of its subsidiaries had continued to slide — the group's losses for 1992 had risen to RM5.62 million. Despite the increased losses, Maika's directors declared a five per cent dividend, larger than even the four per cent declared the previous year. The dividend, amounting to RM3.3 million, was to be paid, as in the previous year, through the sale of company assets, particularly its interests in quoted companies (*NST*, 18/6/93).

At a rather obstreperous general meeting, where Samy Vellu had described Maika chairman Pasamanicam as "incompetent", the proposed dividend was resoundingly rejected by members (*The Star*, 19/6/93). In an apparent attempt to soothe disgruntled shareholders, Pasamanicam disclosed new plans for the company — Maika would be involved in a reverse takeover of a publicly-quoted company and was to also diversify and broaden its overseas operations in India. Competent non-Indian directors would also be appointed, ostensibly to promote multiracialism, although, Pasamanicam maintained, Indians would continue to hold control by owning a majority stake in the company. According to the Maika chairman, the presence of Bumiputera investors was important to obtain government contracts and business opportunities, an implicit acknowledgement that Maika's future development depended on state patronage, particularly through UMNO (*The Star*, 19/6/93). Interestingly, the Bumiputera director appointed to Maika's board was Ismail Abdul Rashid, who had served as a director of a number of UMNO companies, both private and publicly-listed, including Time Engineering and UEM, companies with which MIC-linked KPJ and MIED had had previous dealings.

There are several reasons for Maika's abysmal state of affairs. Apart from its business caution and reluctance to acquire and use any publicly-listed entity as its flagship, as well as the mid-1980s recession that probably hastened its decline, the potential of some of Maika's subsidiaries was underutilized. For example, the performance of Anthonian Store, a major acquisition by Maika, was below par, despite it having eight outlets; its operations had to be reviewed to curb losses which totalled almost RM12 million in 1992. United Oriental Assurance (UOA) had been registering declining revenues and had accumulated losses of RM5 million in 1992. Maika's RM32 million worth of equity in UAB had shrunk to a mere RM3 million. Its foray into rubber glove production — another major activity with a high profit potential given sharply increasing international demand for gloves in the wake of the AIDS crisis — also did not perform to expectations. Maika's acquisition of Tumbuk Estate, carried out as a favour for the NLFCS, turned out badly — the estate mill was closed down and its staff and employees retrenched (*The Star*, 11/6/91 & 25/2/92).[44]

Some of Maika's other important investments have also turned out to be either untimely or effected for the wrong reasons. Apart from its ill-timed acquisition into UAB, the wisdom of Maika's decision to acquire shares in some minor publicly-listed companies — for example, United Asbestos Cement Bhd (UAC), Tongkah Harbour Bhd, and Batu Lintang Rubber Company — was highly questionable. Maika's equity-acquisition in these minor listed entities indicated that, despite its over-cautious business approach, the company had a tendency to be involved in speculative trading on the KLSE. Batu Lintang, in particular, provides a good example of Maika's irrational investments in the stock market.

5.3.3: Acquisition of Batu Lintang

In October 1986, Maika made a surprising investment of RM9.59 million in Batu Lintang, a Kuching-based property development concern controlled by Sarawak tycoon Wee Boon Ping; the company was then also involved in rubber and palm oil production. Batu Lintang's shares had been suspended from trading since February that year (*The Star*, 20/6/91).

The suspension came about following a complicated deal in late 1985 when two companies controlled by Wee — Kim Chuan Seng Holdings Sdn Bhd (KCS) and Kenaman Jaya Sdn Bhd — had entered into an agreement with Kuala Lumpur Kepong Bhd to acquire 12.7 million shares, or a 72 per cent stake, in Batu Lintang for RM82.9 million. KCS and Kenaman

were to undertake a mandatory general offer for the remaining Batu Lintang shares at RM6.50 per unit. The next part of the deal involved Batu Lintang's agreement to resell its entire assets, that is, all its plantation land, to Kuala Lumpur Kepong for RM102.9 million. Now cash-rich Batu Lintang then agreed to buy two property development companies, Nagapura Realty Sdn Bhd and Sadong Development Sdn Bhd, from KCS and several other vendors for RM32 million and RM18.8 million respectively. The purchase of the two companies, however, would be effected on condition that the vendors guaranteed pre-tax profits of RM32.6 million for Nagapura by 30 April 1987 and RM40.6 million for Sadong by 31 July 1987. Trading of Batu Lintang shares on the KLSE was suspended on 6 February 1986 until conclusion of these transactions. Batu Lintang could, however, apply for a lifting of the suspension after having completed its acquisition of the two companies.

The deal, however, ran into problems when KCS and Kenaman failed to implement the general offer for the remaining Batu Lintang shares as they were unable to obtain the required financial resources. Batu Lintang was also unable to secure from the vendors of Nagapura and Sadong the shortfall of RM17.4 million in profit guarantees (*NST*, 5/8/91). Another contributory factor for the breakdown of this deal was the depreciation of the value of the properties owned by Nagapura and Sadong by almost two-thirds their original value. It was later claimed that the value of the property was overstated during the negotiations for the takeover (see *NST*, 3/7/91 & 5/8/91).

Maika directors later disclosed that the Batu Lintang shares had been bought on the assumption that when Batu Lintang's new owner implemented the general offer, Maika would accept it and reap a huge capital gain. Since the general offer was not made, Maika instead found itself burdened with the shares of a suspended, loss-making entity (*NST*, 19/6/90).[45]

Batu Lintang's suspended status remained for the next five years. In February 1991, Batu Lintang showed some signs of recovery when an obscure company, Suasana Dinamik Sdn Bhd, announced its acquisition of Wee's 22.57 per cent stake in the company for RM13 million. When it was disclosed that the politically-influential Ahmad Sebi Abu Bakar was an equal co-shareholder of Suasana Dinamik, speculation on Batu Lintang's future prospects increased, particularly after his appointment as executive chairman of Batu Lintang (*The Star*, 27/4/91).[46]

Soon after taking control of Batu Lintang, Ahmad Sebi made clear his intention of reviving the ailing listed company through a massive

diversification exercise. By August 1991, Batu Lintang was negotiating the acquisition of twelve companies, including a 96 per cent stake in a finance company, Visia Finance Sdn Bhd, and 70 per cent equity in the Pulau Langkawi-based Kedah Marble Sdn Bhd, which was owned by the Kedah SEDC and involved in the production of marble products. The other acquisitions included companies involved in property development, timber production, and hotel management (*NST*, 15/8/91).

Apart from these acquisitions, a massive restructuring scheme was announced to return Batu Lintang to profitability. The restructuring involved, among others, purchasing two companies, issuing RM6 million irredeemable convertible unsecured loan stock (ICULS), requoting Batu Lintang's 17.7 million shares on the KLSE, and increasing the authorized capital from RM20 million to RM25 million (*The Star*, 3/8/91). In line with its revamp and diversification exercises, Batu Lintang, in April 1992, changed its name to Advance Synergy Bhd (*The Star*, 15/4/92).

5.3.4: The Future of Maika Holdings

Although Maika's speculative acquisition of Batu Lintang shares in 1986 proved to be a poor decision, the investment was not a major embarrassment following the listed company's ownership change in 1991 and its requotation on the KLSE. Notwithstanding the fact that Maika's stake in Batu Lintang had diminished following the restructuring, the value of its investment appreciated significantly. By November 1992, Maika had totally divested its stake in Batu Lintang, probably in an attempt to raise funds to meet the dividends declared by Maika that year (*The Star*, 16/11/92).

Maika's acquisition into UAB, another unwise investment decision, turned profitable following a takeover of the bank by a politically-linked company. In September 1990, publicly-listed Bank of Commerce Bhd (BCB), controlled by UMNO through the Renong Group, announced the purchase of Bank Negara's 79 per cent stake in UAB. It essentially involved a share-swapping exercise which saw the merger of BCB and UAB, making the enlarged entity the sixth largest bank in Malaysia. The merged banking operations, for which the name Bank of Commerce Bhd was retained, were held by a new holding company, Commerce Asset Holdings Bhd. Although the quantum of Maika's investment in Commerce Asset Holdings was reduced, the value of its stake in the bank entity increased substantially. Maika, however, has increased its stake in the bank; in June 1991, it acquired 11.166 million of the bank's shares for RM55 million (*The Star*, 22/6/91). With the listing of the newly enlarged

banking entity on the KLSE, Maika's stake in Commerce Asset Holdings may, indeed, turn out to be one of its most important investments.[47]

UAB and Batu Lintang, two of Maika's most ill-planned and badly-timed acquisitions, are not the only companies which are showing signs of revival. Maika's investment in Tumbuk Estate may become very profitable in future for no other reason than its location. Since the estate is situated near the town of Sepang, which has been earmarked as the site for Malaysia's new international airport, the value of the land is set for massive appreciation in the near future (*NST*, 19/6/91). Apart from this, in 1991, Maika acquired a stake in EON, one of Malaysia's most lucrative privatised entities.[48] Since Maika has still not obtained a controlling interest in a bank, it has been showing keen interest in acquiring a major stake in a small bank, Bank Buruh. In another effort to improve its business performance, Maika appointed an international consulting firm, Stanford Research Institute International, to undertake a study on the company (*The Star*, 16/3/92).[49]

Although some of Maika's near disastrous investments, like Tumbuk Estate and UAB, were made for covert political reasons and the likelihood that fortuitous subsequent developments will enhance Maika's future performance, the Group still has its problems. Loss-registering entities like Anthonian Store and several other Maika subsidiaries are in dire need of revamping. This is also reflected in the fact that Maika has not appeared to have benefited from the economic upswing enjoyed by the country since the late 1980s.

The politics of patronage, which still plays a part in the affairs of the company, appears to be one reason for Maika's less than successful performance. When businessman Selvarajah replaced Deputy Speaker Vijandran as chairman of Maika — Vijandran had relinquished the chairmanship following allegations of his involvement in pornographic videotapes — Selvarajah reportedly tried to secure the removal of Vijandran and Selvendra, both close allies of Samy Vellu, from Maika's board; the MIC president vetoed the proposal (see *NST*, 31/5/92). In April 1991, Johore state MIC leader, Pasamanicam, was appointed Maika chairman, replacing Selvarajah (*The Star*, 10/4/91). The fact that Pasamanicam has no financial background or any business experience of the kind required to lead a company of Maika's size, and that he is known to be a strong supporter of Samy Vellu, has fuelled speculation that his appointment was based solely on political considerations. Pasamanicam, a former MIC-appointed senator, who was reportedly displeased with the party leadership for not nominating him as a candidate for the 1990 General

Elections, had strengthened his ties with dissenting forces within the party and been an unbridled critic of Samy Vellu's leadership. In an apparent move to accommodate the incensed leader, the Maika chairmanship was offered to Pasamanicam (see *FEER*, 23/5/91). Since the MIC was facing an impending internal election for the second echelon leadership, and Samy Vellu was keen to use the elections as a means to position his close supporters as party vice-presidents, it was pertinent that he not lose the support of the powerful Johore state leader.

In mid-1992, the Maika-STM share issue was exposed, which exemplified the extent of the MIC's control over Maika and its abuse by party officials for their personal agendas. The scandal also exposed the regular practice of political patronage and the extent of the political power vested in the hands of Samy Vellu.

5.3.5: The Maika-STM Share Controversy

In October 1990, under Malaysia's privatisation policy, the Telecoms Department, which had been corporatized and renamed Sykt Telekom Malaysia Bhd (STM), was publicly-listed. The government had apportioned to Maika ten million of the two billion STM shares, on the ostensible grounds that it represented the interests of the Indian community. Maika's investment in STM was not the only occasion when it obtained an interest in a privatised entity. Maika had a 10 per cent stake in TV3 when it was established, and was also allocated a stake in MAS, MISC, and EON when these companies were privatised through the local bourse. The shares of privatised corporations — especially of monopolies like STM and MAS — were known to be highly profitable and, when bought at par value, were expected to fetch huge premiums when sold. For example, the two billion STM shares were allocated at RM5 each and, when first traded, fetched a price of RM6.15, despite a bearish market. By mid-1992, the STM share price was hovering around RM11-RM13 (Gomez, 1992).

In early 1992, allegations began to emerge from certain quarters within the MIC that there may have been some discrepancy in the award of the STM shares to Maika. At an MIC economic convention in February 1992, Samy Vellu tried to put an end to rumours about his role in the affair by stating that he "had made arrangements with banks to buy up the shares on behalf of the community. The shares were later sold for a profit of RM8 million", which was channelled to MIC-sponsored Technical and Further Education (TAFE) College (*The Star*, 25/2/92).

The issue, however, was given extensive coverage by the smaller and

more independent press, particularly *Watan* and a Tamil magazine, *Thoothan*, reportedly controlled by MIC dissidents. The papers disclosed that only one million of the ten million STM shares allocated by the Finance Ministry to Maika in 1990 had been acquired. Samy Vellu again offered an explanation through the *Tamil Nesan*. The MIC president is believed to have control over this Tamil daily; his wife, Indrani, chairs the company's board of directors. Samy Vellu also explained at MIC meetings that Maika was then facing cash flow problems and could not therefore afford to acquire all of the ten million shares. The issue took another controversial turn when Samy Vellu's former ally, Vijandran, then still a Maika director, issued a statement insinuating that the truth may not have been told (see *The Star*, 13/4/92). In July 1992, Vijandran was promptly sacked from Maika's board for his alleged involvement in pornographic videotapes. Although the videotapes issue had been put to rest, its re-emergence coincided with Vijandran's implicit confirmation of some of the allegations surrounding the STM share allocation controversy (*The Star*, 8/7/92).[50]

When queried in parliament in April 1992 on the STM share allocation, Finance Minister Anwar Ibrahim disclosed that subsequent to Maika's decision to take up only one million STM shares, the remaining nine million were allocated to three companies proposed by Maika. The Finance Minister defended the government's decision to rechannel the STM shares because to his "ministry's knowledge, the three companies represented the interests of the Indian community" (*The Star*, 30/4/92). The Finance Minister at the time of the share allocation was Anwar's predecessor, Daim Zainuddin, whom Samy Vellu claimed he had approached for an allocation of ten million STM shares, a request which subsequently was approved (see *NST*, 16/5/92).

The statements made by Anwar and Samy Vellu set the stage for a fresh twist to the controversy. Maika chairman Pasamanicam declared that the company had neither rejected the Finance Ministry's offer nor suggested the allocation of the nine million STM shares to any other company. He further disclosed that Maika had, in fact, raised a RM50 million loan facility for the acquisition of the STM shares before the Finance Ministry had withdrawn its offer (see *NST*, 14/5/92). Later, Rama Iyer, then Managing Director of Maika, confirmed that the Finance Ministry had informed Maika that it had been allocated ten million STM shares and that preparations were underway to obtain the loan to facilitate the acquisition. Rama Iyer claimed that when Samy Vellu was informed of the STM share offer, he had replied that the "offer to Maika should be for only 1 million

and... the remaining 9 million shares were for allocation to 'other MIC bodies'" (*Aliran Monthly*, 1992: 12 [5]). Rama Iyer further claimed that no explanation was given for the Finance Ministry's subsequent retraction of the ten million STM share offer to Maika and its new offer of only one million shares (see *Aliran Monthly*, 1992: 12 [5]).

Other major allegations revolved around the channelling of the nine million STM shares to the three companies in question — SB Management Services Sdn Bhd, Clearway Sdn Bhd, and Advance Personal Computers Sdn Bhd. The first two were RM2 companies and it was strongly rumoured that Samy Vellu's son and brother-in-law were directors of these companies. A Maika director also reportedly sat on the board of one of the companies.

Company records indicate that Clearway was incorporated as a RM2 company on 10 September 1988. Originally controlled by two Malays, Haji Hood bin Ahmad and Osman bin Mohd Zain, the company remained inactive throughout 1989 and most of 1990. On 27 September 1990, Muniandy Sudayan and Raman Subramaniam were appointed directors, replacing Clearway's two original directors. On 27 July 1991, following Muniandy's death, Baharudin bin Mohd Arip was appointed a director. According to one report, Baharudin was employed as a driver for Robert Tan Hua Choon, who was the chairman of Jasa Kita Sdn Bhd,[51] which was allegedly involved in the sale of STM shares that had been obtained by Clearway (see *The Star*, 17/7/92). Tan is reportedly a close associate of Daim Zainuddin (see *Malaysian Business*, 16/7/93).

SB Management Services was incorporated on 18 December 1989 as a RM2 company. The company's shareholders and directors were Sothinathan Sinna Goundar and Balasubramaniyam M.S. Servai; the latter was also company secretary of SB Management Services (Lim Kit Siang, 1992b: 92-93).

Advance Personal Computers' company records disclose that it was incorporated on 11 January 1989 with an issued capital of RM250,000. The company had three directors — R. Selvendra, a current director of Maika, Balasubramaniyam M.S. Servai, and Sothinathan Sinna Goundar.[52] Balasbramaniyam and Sothinathan, who were also directors of SB Management Services, each held 124,999 shares in Advance Personal Computers, while Selvendra and Isphara Kumar Kandasamy each held one share. Advance Personal Computers, a company involved in the distribution of computer system peripherals and other electronic equipment, was a loss-making concern; its accumulated losses by December 1990 totalled RM369,192.[53]

Hounded by allegations of impropriety, Samy Vellu opened his files

to newsmen, claiming that 8.92 million of the ten million STM shares in question had been sold for a profit of RM7.168 million. The proceeds from the sale, according to Samy Vellu, were channelled to the MIC's education investment arm, the MIED, which was to use the funds for setting up the RM25 million MIC-sponsored TAFE College. Of the remaining 1.08 million shares, Maika held one million, while Advance Personal Computers retained the balance; Samy Vellu did not offer an explanation on why Advance Personal Computers retained ownership of the STM shares (*NST*, 16/5/92).[54] He was also unable to furnish any evidence to support his claim that the profits from the sale of the STM shares had been channelled to MIED and TAFE College; "the files", said Samy Vellu, had been taken away by the Anti-Corruption Agency" (*FEER*, 28/5/92).

Samy Vellu also contended that Maika had been advised against utilizing the RM50 million loan facility given to it to acquire the ten million STM shares because such a move would have been financially crippling for the company; it would apparently cost Maika RM375,000 a month to service the loan. Samy Vellu made it quite clear that he personally decided to allocate only one million shares to Maika: "I could have given all the shares to Maika Holdings if not for their past business record. They don't deserve 10 million shares because of the dismal performance of the Maika management. They have to learn to do business on their own and not depend on shares and hope to make money out of it" (*NST*, 16/5/92). His statement was reflective of the autocratic style with which he ran the affairs of the MIC and his power over allocation of state resources meant for the Indian community.

The STM share controversy and Samy Vellu's subsequent explanations unquestionably demonstrate both the increasing factionalism that has come to characterize the MIC and the centralization of power in the hands of the president. This, in turn, has led to a situation where there appears to be little accountability on the part of party leaders. Such factionalism and the resulting centralization of power are probably why Maika directors and the MIC's central working committee were unaware that the nine million STM shares had been channelled to three obscure companies.

Pandithan — a former MIC vice-president and current leader of the opposition IPF — cast a pall over the MIC President's arguments by alleging that the company that owned TAFE College, Kolej Tafe Sdn Bhd, may in fact be controlled by Samy Vellu since the MIC had not determined Kolej Tafe as a party project. Pandithan further alleged that Samy Vellu had transferred MIED's application to operate the TAFE College to Kolej

Tafe (see *Media Islam*, 12/6/92). Opposition leader Lim Kit Siang (1992b: 83-84) later confirmed that Kolej Tafe, a RM2 company incorporated on 3 July 1990, was owned by Samy Vellu and Mahalingam, an MIC vice-president; they were also directors of Kolej Tafe. The Anti-Corruption Agency later revealed that TAFE College had been operating without a permit (*NST*, 30/5/92).

The problem of accountability is also obvious at national level. The improper implementation of the privatisation policy was again reflected in the blatant misallocation of privatised STM shares to three obscure companies. The thin explanations given by the Finance Minister suggest that no attempt had been made by his ministry to trace the background of the three companies before they were allocated the STM shares meant for Maika. It also appeared that Finance Ministry officials had raised no query on the offer of the STM shares to companies which had only RM2 in capital each. Also, the extent of political dominance over the bureaucracy was disturbingly clear.

Even Prime Minister Mahathir Mohamad's response when queried on the issue suggested a lack of accountability on the part of government leaders. When asked why he did not question Samy Vellu's decision to decline, on behalf of Maika, the allocation of shares for the Indian community, Mahathir's astonishing reply was: "I cannot interfere in this matter because I also don't want non-Bumiputeras to question how we distribute the shares among our community" (*The Star*, 14/5/92). His statement implied that there was a tacit understanding among the various Barisan Nasional ethnic leaders which entailed mutual non-interference over intra-ethnic and intra-party allocation of wealth resources.

Despite this, the Anti-Corruption Agency investigated the allegations and Samy Vellu and his son as well as officials of the MIC, Maika, MIED, and Kolej Tafe were called in for questioning. Samy Vellu and some of the MIC's top leaders were also asked to declare their assets by the agency.[55] By mid-1993, however, the results of the Anti-Corruption Agency's investigation had still not been made public.

5.4: Conclusion

Although the inability of the Indians to raise their ownership of the corporate sector to a significant level has been the ostensible reason for compelling the MIC to venture into business, the party's commercial involvement has done very little to improve the community's economic status. By the end of 1990, Indians owned less than one per cent of the

country's corporate wealth compared to their one per cent in 1970. The Indians' limited ownership of corporate wealth appears even more conspicuous when compared to the Chinese who have been able to almost double their share of the corporate sector within the same period. According to one estimate, the working class accounted for 70 per cent of the Indian population in 1990, while only 20 per cent belonged to the middle class; professionals and businessmen accounted for the remaining 10 per cent (see *FEER*, 7/6/90). Even government policies, such as the NEP with its twin objectives of poverty eradication and wealth redistribution, have had a minimal impact on redressing the pressing economic problems faced by the Indian community.

In view of this, the MIC has been trying to get the government to classify the Indians as a separate and distinct group so that their problems can be addressed separately from other non-Bumiputeras, like the Chinese. The MIC has also gone on to suggest that the government provide soft loans to Indian businessmen and more opportunities for Indians to acquire shares in companies that are in the process of being restructured (see *The Star*, 22/5/83). Both requests, to date, have not been heeded by the government, suggesting the MIC's limited influence in the Barisan Nasional.

One cause emphasized by MIC leaders for the lack of Indian ownership in the corporate sector is the community's resistance to the idea of combining its resources to form large corporations, professing a preference instead for small-scale business ventures. This, ironically, is a criticism that can be attributed to the MIC's business ventures. Since 1960, when the MIC helped to incorporate the NLFCS, the party has been responsible for the establishment of three other cooperatives, a trust fund, a company to raise funds for educational purposes, and a holding company. The business record of all these ventures has been far from inspiring; more important, these entities have also contributed to the dispersion of the meagre funds owned by working class Indians whose resources have been tapped. Despite this, the MIC continues to express plans to launch other similar cooperatives, funds, and companies (see *NST*, 24/2/92; *The Star*, 9/3/92).

One possible reason for the numerous MIC-related businesses, especially cooperatives, set up and controlled by different party leaders, is their view of these entities as important means for mustering political support. In fact, Sambanthan, through the NLFCS, illustrated how a business entity initially established to cater to important needs — land ownership and employment — could be exploited to garner mass support for a leader. This explained the sprouting of cooperatives and other businesses especially during the 1970s when there was intense infighting

within the MIC. The need for these business organizations as a means for dispensing patronage is also crucial since the MIC receives only a very small share of the Barisan Nasional's nominations during the general elections. This has also been one reason for the intense intra-party competition for the presidency since 1955 (Ratnam, 1965: 40).

Since the MIC's business entities have become important means for dispensing patronage, allegations of mismanagement and abuse of funds have been rampant. While most of these allegations have, in fact, been made by contending intra-party factions, there appears to be some justification for these allegations since two of these cooperatives have been placed under receivership by Bank Negara. In the case of Maika Holdings, however, while there is considerable evidence of patronage, particularly in terms of directorial appointments, and while some of its business decisions do not seem to have been made in the interests of the company (the purchase, for example, of Tumbuk Estate from the NLFCS), there is no evidence that Maika Holdings has contributed to the coffers of the MIC. It is, however, obvious that these business organizations have been badly affected by the constant infighting within the party. As the Maika Holdings-STM share controversy also indicates, there are other avenues through which the company can be abused for the vested interests of individuals or institutions.

Although Maika Holdings has benefited from rent opportunities provided by the government, especially through the privatisation policy, the company has not been able to use these to its advantage. This is due not solely to the political, rather than business, affiliations and objectives of its top officials. Rather, given its curious combination of speculative stock-trading on one hand and predilection for overly cautious and hesitant business investments in small-scale ventures on the other, Maika Holdings has under-utilized the extensive resource base provided by the Indian community.

The concentration of decision-making powers in the hands of the MIC President has not only resulted in increasing authoritarianism, but has, given the close links between the party's leadership and the directors of these entities, also inevitably affected the business organizations controlled by the party. There have also been numerous instances when these professedly non-political platforms have been exploited to serve the political objectives of contending intra-party factions, particularly to tarnish the credibility of the rival group. Samy Vellu, for example, did not hesitate to allege mismanagement of funds in MIED and Nesa to discredit Subramaniam and Pathmanaban during the MIC power struggle in 1989.

All three MIC presidents since Sambanthan have recognized the need to uplift the condition of the majority of Indians and to increase the community's participation in and ownership of the Malaysian economy. Their reactions have been almost identical — the setting up of MIC-controlled business ventures which will act on behalf of the Indians since political power can be used for capital accumulation. Due to the weightage of political considerations over business profitability, however, and because these entities are usually dependent on the MIC leader's influence to obtain business opportunities, they have generally failed to develop independently. The MIC Unit Trusts is probably the most successful MIC-backed company to date only because it is managed by independent merchant bankers. Furthermore, the power available to MIC leaders to intervene in major business decisions, including the choice and size of projects to be undertaken, has affected the companies' performance.

While Sambanthan and Samy Vellu have shown — through the NLFCS and Maika Holdings — that it is possible to pool the resources of Indians for large-scale investment, it is evident that as long as such companies remain under the auspices of political parties, they will continue to pander to the interests of the party and its leaders rather than serve the community at large.

NOTES

1. Around 81 per cent of Indians are Hindus, 8 per cent Christians, 6.7 per cent Muslims, 3.1 per cent Sikhs, and 0.5 per cent Buddhists.
2. The Chettiars, among the most important communities involved in credit in India, later ventured out not only to Malaya, but also to Myanmar (formerly Burma), another British colony (see Kochanek, 1974: 23).
3. The Chettiars became major landowners when they called in their loans to Malay rulers and peasants, particularly after the economic depression of the early 1930s; this eventually left many Malays landless. Legislation such as the Malay Reservation Act 1933, had to be drawn up, in part to curtail the amount of land being taken over by the Chettiars. In 1938, most of the four per cent Indian control of rubber acreage was held by Chettiars. Much of the Chettiars' assets in the country, however, were lost when a number of them fled back to India following World War II and the Japanese Occupation of Malaya (Arasaratnam, 1980: 36-38).
4. The DMIP was formed in 1985 by V. Govindaraj, a former MIC vice-president, who had been expelled from the party by its president, S. Samy Vellu. After a rather ineffectual existence — it contested the 1986 General Elections, but fared miserably — the DMIP began forging close ties with the MIC in 1989

(*Aliran Monthly*, 1989: 9 [10]). That year, after Govindaraj had played an active part in helping Samy Vellu secure the MIC presidency, there was even a suggestion by the DMIP Supreme Council to join the MIC, a plan which did not materialize. In 1992, however, when the MIC and Samy Vellu became embroiled in a series of embarrassing events, the DMIP emerged as a strident critic of the MIC and its president (see *The Star*, 28/7/92).

5. The IPF was formed by another former MIC vice-president, M. G. Pandithan, who was also expelled from the party after a fall-out with Samy Vellu. During the 1990 General Elections, the IPF combined forces with other major opposition parties to form Gagasan Rakyat. Although the IPF contested thirteen constituencies — five parliamentary and eight state seats — none of its candidates were successful, though a few lost only narrowly (Khong, 1991, 45).
6. The AMCJA was formed in December 1946. Although it was originally inter-communal in character, it was gradually dominated by the Chinese. Apart from a number of trade unions, the prominent parties that had formed part of the AMCJA were the Malayan Democratic Union and the Malay Nationalist Party (see Means, 1970: 83-88).
7. See Table 5.4 for the dominance of Tamils over the other Indian communities during the period 1921 to 1957.

TABLE 5.4
Indian Population in Malaya, 1921-57

Community	1921	1931	1947	1957
Tamils	387,509	514,778	460,985	634,681
Malayalees	17,190	34,898	44,339	72,971
Telegus	39,986	32,536	24,093	27,670
Other South Indians	–	–	15,968	–
North Indians	25,495	39,635	54,231	84,934

Source: Arasaratnam, 1980: 48.

8. John Thivy was a Perak-born Christian lawyer. Budh Singh, a Sikh, worked as a railways clerk. Ramanathan, born in South India and a lawyer by profession, was also involved in the Chettiar's Chamber of Commerce. Devasar was a Hindu Punjabi lawyer (see Ampalavanar, 1980).
9. Sambanthan, born in Perak in 1919, graduated from Annamalai University, India (Ampalavanar, 1980: 218). He contested and won the first general election in 1955 under the Alliance umbrella in Kinta Utara in Perak. He was later appointed Labour Minister by Tunku Abdul Rahman (Sellapah, 1987: 53).

10. Manickavasagam was born in Kuala Selangor. Like Sambanthan, he too was involved in business (Ampalavanar, 1980: 216).
11. The lack of Indian support for the Alliance during the 1969 General Elections was obvious. Of the three MIC candidates who stood in parliamentary constituencies, only two won, and both very narrowly. Both of them, Sambanthan and Manickavasagam, were Federal Ministers.
12. It was believed that Razak had worked out a compromise with Sambanthan; the latter was to serve as president for another year and then retire in favour of Manickavasagam (see *Malay Mail*, 12/1/81).
13. Pathmanaban was reportedly brought into the MIC at the request of Razak (Rajoo, 1982: 77).
14. Subramaniam was born on 26 October 1944 in Lima Belas Estate in Slim River, Perak. In 1965, he graduated from the University of Malaya; he also obtained his Masters degree in 1974 from the same university. Subramaniam joined the MIC in 1962 and was named the Executive Secretary of the party in 1969. In 1974, Manickavasagam appointed Subramaniam Secretary-General of the MIC; that same year, he made a successful debut in electoral politics by winning the Damansara parliamentary constituency. Also making their maiden electoral outing that year were Samy Vellu and Pathmanaban. Following this, Subramaniam was appointed a parliamentary secretary and in 1976, he was appointed as deputy minister by Prime Minister Hussein Onn. Following his defeat in the 1978 General Elections, he was appointed a senator. In the 1982 General Elections, Subramaniam was re-elected to parliament (*National Echo*, 22/10/81).
15. Samy Vellu was born on 8 March 1936 in Kluang, Johore, before moving to Selangor, where he received his early education. The son of a lorry driver, he worked as an office-boy before becoming an apprentice architect. In 1959, he joined the MIC, and by 1967, was secretary of the Selangor state MIC. By the early 1970s, he was MIC Youth leader. In 1974, he made his electoral debut, standing as a parliamentary candidate in the constituency of Sungei Siput Utara in Perak. In 1975, he was elected one of the party's three vice-presidents, securing the highest number of votes (Rajaretnam, 1987: 29-30; *Malay Mail*, 24/1/81).
16. Athi Nahappan was a former editor of a Tamil newspaper, *Tamil Nesan*, and served in the Dewan Negara as a senator. A staunch ally of Manickavasagam, he served as deputy president of the MIC from 1973 until his death in 1976.
17. Under Manickavasagam, Subramaniam had been rapidly promoted in the MIC although it was Samy Vellu who had apparently played an influential role in mobilizing support against Sambanthan. Thus, the feeling by many MIC members that Samy Vellu was being victimized helped him garner enough support to secure victory over Subramaniam (see Rajoo, 1982: 68).
18. In fact, of the six parliamentary candidates nominated, only two were incumbents. Apart from Subramaniam and Pathmanaban, Pandithan had been

expelled from the MIC and was running under the Gagasan Rakyat banner, while D.P. Vijandran had been dropped following allegations of his involvement in pornographic videotapes. Although the MIC managed to retain all six seats, the decision to drop Subramaniam and Pathmanaban apparently cost the MIC some electoral support. It was believed that some of the supporters of these two leaders went on to support opposition candidates.

19. A more detailed account of Samy Vellu's role in the Maika Holdings-STM share controversy is provided later in this chapter. See also Lim Kit Siang's *Samy Vellu and Maika Scandal.*
20. Apart from these business ventures controlled at national level, there were also commercial entities controlled by the party at state level. The economic wing of the Negeri Sembilan MIC, for example, was the Koperasi Serbaguna Negeri Sembilan Bhd (*Malay Mail*, 25/8/87). In May 1992, the Johore MIC announced its intention to establish a multi-purpose cooperative (*The Star*, 2/5/92).
21. In 1970, 47 per cent of Indians were engaged in agriculture. Of this number, 74 per cent were in the plantation sector. Only around 10.6 per cent of Indians were involved in commerce, and that too primarily in petty trading (see Suryanarayan, 1982: 37).
22. The NUPW was an amalgamation of various small plantation unions which combined forces in 1954, giving it a total membership of 56,000, to secure better wages, benefits, and living conditions for estate workers (Ampalavanar, 1981: 65-66). Despite its influence, the union was increasingly criticized for being conservative and subservient to British interests.
23. The NUPW was not the only critic of the MIC's close link with the NLFCS. In 1963, Karam Singh of the Socialist Front had alleged in parliament that the MIC's leaders were "financial agents of the Chettiars" since they were actively promoting the NLFCS (see *Malay Mail*, 13/12/63).
24. The Central Cooperative Bank (CCB) was Malaysia's largest deposit-taking cooperative. Formed in 1958, CCB was owned by two hundred and sixty five other cooperatives and more than 380,000 individuals. In 1988, Bank Negara applied to place CCB under receivership; investigations later revealed mismanagement and corruption in the cooperative bank's operations. According to a Bank Negara statement (8/1/88), CCB's accumulated losses by the end of 1986 were RM329 million, leaving the shareholders' funds in deficit by almost RM251 million. In 1987, the bank registered a further loss of RM407 million, thus bringing its accumulated losses to a massive RM726 million. CCB's most important asset was its 58.7 per cent stake in Bank Buruh (*Business Times*, 20/3/89).
25. For a detailed analysis of the DTC scandal, see Gomez (1991a: 47-95).
26. This information was obtained from a discussion with plantation workers who were members of the NLFCS.

27. The cooperative had undertaken at least twelve housing projects — in Perak, Pahang, Negeri Sembilan, and Johore (see Rajaretnam, 1987: 81).
28. Nesa had loaned approximately RM50 million to about 17,000 members. Of this amount, RM17 million had been classified as bad debts (*The Star*, 24/2/89).
29. Majujaya had about RM6 million in outstanding loans given to around 350 people. About 50 of them were believed to owe Majujaya RM3.5 million (*The Star*, 24/2/89).
30. KPJ has housing schemes in Perak, Negeri Sembilan, Selangor, and Pahang (see Rajaretnam, 1987: 88-89).
31. See Gomez (1990: 132-34) for details on this share-for-property swap; Chapter 3 also deals with the controversy surrounding Hatibudi Nominees' control of UEM.
32. Quoted by then MIC Executive Secretary, A. Durairaj (see *Malay Mail*, 4/12/78).
33. Apart from Vanto Academy and the Institute Technology Negeri, the MIC has also set up TAFE College in Seremban. In February 1992, the party proposed to establish another two academic institutions, specifically concerned with technical and professional services, in Sungei Siput, Perak, and Johore.
34. See Chapter 3 for details on the controversial award of the North-South Highway contract to UEM.
35. There were some suggestions at first that the company should take the unit-trust approach that closely followed the distributional format of the Permodalan Nasional Bhd (PNB) in which initial capitalization would come from other sources. The idea was later dropped (see *FEER*, 19/4/84).
36. The NLFCS had bought Tumbuk Estate from Landmarks Holdings Bhd for RM14.5 million just the previous year. This meant that the cooperative had incurred a loss of RM1.5 million. The reason for the sale became even more confusing when it was disclosed that Tumbuk Estate was projecting a profit of RM1 million for the coming year (see *The Star*, 2/10/85).
37. Since the Indian government had nationalized these three banks, they were no longer able to operate under Malaysian law (*Asiaweek*, 9/11/86).
38. Multi-Purpose Holdings was then under the control of MCA leaders. See Chapter 4 for details on the controversy surrounding the takeover of UMBC by Multi-Purpose Holdings.
39. It was reported that Maika acquired most of the insurance company's equity from two of its India-based shareholders, the Life Insurance Corporation of India and the General Insurance Corporation. These companies, which formerly held a 40 per cent stake in United Oriental Assurance, were owned by the Indian government. The remaining shareholders were UAB (20 per cent), Bumiputera individuals (30 per cent), and other Malaysians (10 per cent) (see *Business Times*, 27/5/86).
40. In November 1989, UAB instituted legal action against 12,000 people to

recover RM18 million in loans taken to acquire Maika shares. That same month, UAB obtained a court judgement against the MIC for the payment of RM500,850. The MIC had undertaken to buy back the Maika shares in the event of default (*The Star*, 25/1/90).

In an effort to raise funds and retain control of Maika, the MIC requested a RM100 million loan from the government. The balance was ostensibly to be spent on socio-economic projects for the Indian community (see *The Star*, 17/2/90). Later, the MIC decided to sell the Maika shares of the defaulters, probably to friendly parties, to raise the necessary funds (*The Star*, 30/6/90).

41. The share-purchase assistance scheme was open only to Malaysians and locally incorporated companies which had at least 51 per cent Malaysian ownership (*FEER*, 30/10/86).
42. Samy Vellu went on to add that politics and business could not be separated and that the extent of political influence in business would determine the success or failure of a company (*Nanyang Siang Pau*, 15/7/86).
43. The Maika controversy involving STM shares and Samy Vellu is dealt with in some detail later in this chapter.
44. The losses registered by Anthonian Store and United Oriental Assurance and the decline in Maika's investment in UAB were revealed by Samy Vellu (see *The Star*, 25/2/92).
45. In fact, Maika's acquisition of another minor publicly-listed company, Tongkah Harbour, was for a similar reason. In 1987, Maika bought a 12.75 per cent stake in the company at a price believed to be in the region of RM3 per share. Maika, it appears, acquired the shares because it believed that it could be sold at a later date at a price at least 12 per cent higher than the purchase price (see *Malaysian Business*, 1/8/87).
46. Ahmad Sebi had once been closely associated with a number of UMNO-linked companies such as TV3, Kinta Kellas Investments plc, The New Straits Times Press, and Kampung Lanjut Tin Bhd. Although he was rumoured to have had a fall-out with some UMNO leaders, he was believed to have resolved his differences by 1990 and was again becoming an active participant in the corporate sector.

    Suasana Dinamik, according to company records, was incorporated on 24 May 1990 as a RM2 company. Almost a year later, on 2 April 1991, Ahmad Sebi was appointed a director of the company. By August 1991, Ahmad Sebi, along with Nor Azah binti Awin, was equal co-shareholder of Suasana Dinamik which now had a paid-up capital of RM2 million. Nor Azah later emerged as a director of Far East Asset Bhd, another ailing, minor, publicly-listed company which bought over the Sports Toto gaming operations, then owned by Vincent Tan Chee Yioun's Inter-Pacific Group. Another director of Far East Asset is Adnan Tengku Mansur, treasurer of UMNO Youth (*Malaysian Business*, 1/9/92). As indicated in Chapter 3, Ahmad Sebi had been involved with Vincent Tan in a number of companies.

47. Since UAB owned a substantial 21.1 per cent stake in United Oriental Assurance, following the merger between Bank of Commerce and UAB, the insurance company came under the control of UMNO-linked Renong Group; Bank of Commerce was controlled by Renong through Fleet Group and The New Straits Times Press.

    Using this majority control, The New Straits Times Press transferred the United Oriental Assurance's entire life insurance business to the former's wholly-owned subsidiary, Quick Makers Sdn Bhd, for RM30 million cash. Through American Malaysian Insurance, The New Straits Times Press already had an interest in the insurance industry (*NST*, 29/1/92).
48. Maika was offered 100,000 EON shares when the government-owned company went public (*NST*, 7/8/90). Although Maika voiced its interest in acquiring between RM30 million to RM50 million shares in Tenaga Nasional Bhd (formerly the National Electricity Board) when it was publicly-listed in mid-1992, Maika was not allocated any shares in the company (*The Star*, 22/6/91).
49. Samy Vellu later revealed that the recommendations of the consultancy firm were not implemented (*NST*, 31/5/92).
50. When the pornographic videotapes scandal first emerged in late 1989, Vijandran had stepped down as chairman of Maika, but remained on the board because of Samy Vellu's patronage. Thus, Vijandran's sacking in 1992 was noteworthy because according to Maika chairman Pasamanicam he was removed because "the current (pornographic videotapes) controversy surrounding Vijandran had tarnished the corporate image of Maika" (*The Star*, 28/7/92).
51. Jasa Kita, a manufacturing concern, was listed on the second board of the local stock exchange in March 1993.
52. Selvendra, as mentioned earlier, is a close ally of Samy Vellu, while Sothinathan and Balasubramaniyam are allegedly business trustees of the MIC president. It was disclosed later that Sothinathan was also an official with KPJ, another MIC-related entity whose chairman is Samy Vellu (*The Star*, 18/7/92).
53. As in the case of Clearway, Advance Personal Computers' annual financial statement for the year ended 1990 does not indicate its acquisition and sale of the STM shares. The accounts for 1991 had not yet been filed at the time of this research.
54. Samy Vellu claimed that he had instructed the Finance Ministry to channel the shares to these three companies. Clearway, SB Management Services, and Advance Personal Computers had each paid RM15 million for the three million STM shares they were each allocated on 9 October 1990.

    Clearway had sold its three million STM shares for RM17.85 million on 7 November 1990; after settling brokerage fees, stamp fees, and other expenses, Clearway had made a profit of RM2.318 million. SB Management Services and Advance Personal Computers had sold five million STM shares for RM32.637 million, making a profit of RM2.1 million after clearing expenses. The two companies then acquired three million shares in Renong Bhd, a

company controlled by UMNO; Samy Vellu offered no explanation for the acquisition of the Renong shares. The following year, in March and April 1991, another 420,000 STM shares were sold for a profit of RM4.75 million. Advance Personal Computers still retains 80,000 STM shares (*NST*, 16/5/92). It was also disclosed that Advance Personal Computers had provided a RM2 million loan to Nikmat Sdn Bhd, another MIC-linked company, to purchase a piece of land (*NST*, 17/6/92).

55. The MIC leaders who were asked to declare their assets included Mahalingam, who is a director of MIED and a shareholder of Kolej Tafe, Pasamanicam, and K. Kumaran, an MIC vice-president and parliamentary secretary. Samy Vellu's son, Vell Paari, Balasubramaniyam, and Sothinathan were also asked to declare their assets (*The Star*, 5/7/92 & 14/7/92; *NST*, 17/6/92 & 3/7/92).

CHAPTER 6

CONCLUSION

6.1: Summary of Conclusions

Historical analyses of the corporate involvement of UMNO, MCA, and MIC have pointed to UMNO's overwhelming dominance over the state. As state involvement in the economy intensified following the implementation of the NEP, the operations of all three parties were modified in response to the changing circumstances. UMNO's hegemony over the state facilitated the development of vested economic interests both at individual and party level. For the MCA and MIC, their declining influence in the governing Barisan Nasional and their diminishing electoral popularity have been primary reasons for their involvement in corporate activity. As ruling ethnic-based political parties involved themselves in what were essentially rentier capitalistic pursuits, they also became increasingly aware of the influence and power they could exert over their constituents in developing and furthering their business interests. This was especially evident in the case of UMNO whose political hegemony, aided and buttressed by the NEP's implementation for two decades since 1971, has contributed to the domination of the Malaysian economy by a select group of Bumiputera and non-Bumiputera capitalists with close ties to the party.

Such circumstances have inevitably contributed to an environment where class differences are distinct. Given the ethnic constitution of the three dominant political parties, class considerations, however, have tended to become intertwined with and perceived in terms of ethnicity. Furthermore, since all three parties neither made appeals to nor actively denied class differences, it was ethnicity, rather than class, that has been of fundamental and immediate significance in party politics. Political issues in Malaysia have thus mainly assumed ethnic dimensions.

Thus, although class analysis has aided the inquiry into political party involvement in business, it has proved inadequate in the task of analyzing

ethnic relations and institutions; this inadequacy becomes more obvious when other fundamentals are addressed — the unequal distribution of power among the three parties, UMNO's dominance over the state, and the increasing centralization of power in the hands of the executive, specifically the Prime Minister. Such inequality among the ruling parties is reflected in their varying levels of access to state largesse and the impact non-Bumiputera parties have on promoting policies to advance the interests and welfare of their constituents. Exclusive emphasis on class analysis thus tends to ignore the importance of the other central concepts of hegemony, patronage, and rent-seeking. These concepts are crucial for analyzing political party involvement in the Malaysian corporate sector and to help focus attention on important developments such as inter-ethnic elite cooperation, conglomeratization, and money politics.

6.1.1: UMNO Hegemony and Inter-Ethnic Political Cooperation

The preceding chapters have demonstrated that although power in all three parties has increasingly come to be vested in the hands of their presidents, it is the UMNO president who has hegemony over the other parties, both through the Barisan Nasional and in a personal capacity. With UMNO hegemonic, the pattern of class formation in the Malaysian political context has become more skewed through the abuse by Malay politicians of the NEP's redistributive intent. NEP-sanctioned state participation in the economy to redress uneven wealth distribution has enabled UMNO leaders — who enjoy political dominance of the kind that has allowed executive action, legislation, and policy to change ethnic ownership patterns — to take advantage of the opportunities provided by the state for private wealth accumulation. While this has led to unequal concentration of capital in the hands of a Bumiputera elite, there have also been numerous non-Bumiputeras with links to politically influential Bumiputeras who have benefited. UMNO's hegemony has been so secure that whenever there were business disputes between Malay political leaders and companies controlled by either the MCA or MIC, it was Malay interests which generally took precedence over those of the other component members of the Barisan Nasional.

These inter-party conflicts indicate that the Barisan Nasional is by no means a cohesive and unified multiracial coalition which makes collective decisions on vital issues. Power is centralized in the hands of the UMNO leadership, particularly its president. Although the MCA and MIC have been able to retain segments of the non-Bumiputera vote, their combined

voting appeal is still insignificant compared to the electoral support that UMNO has been able to procure. UMNO's hegemony in the Barisan Nasional has been enhanced by the massive decline of support over the years for the MIC and especially the MCA, both of which have been further weakened by infighting and party rivalry. This has meant that it is UMNO's top leadership, and not the cabinet, that is the ultimate arbiter and decision maker. Such power has also nurtured the growth of politically-linked Bumiputera and non-Bumiputera capitalists.

To preserve and advance their economic interests in the face of increasing state, specifically political party, domination of the economy, the Chinese business elite has become a major source of funding, not to the MCA, but to UMNO politicians, both individually and collectively. This has meant that one of the greatest problems affecting the MCA's image has been its apparent inability and powerlessness to influence the course of the NEP's implementation. The Chinese community has come to consider the MCA as a party unable to check or even influence UMNO, a sentiment which appeared to have been justified by the speedy implementation of legislations such as the ICA. The negative and disparaging view of the MCA held by large sections of the Chinese community was aggravated when Chinese business interests began to be adversely affected by the encroachment of public enterprises on business sectors they once dominated. The corporatisation movement and the incorporation of Multi-Purpose Holdings were among the MCA's efforts to counter the impact of the NEP on Chinese business interests.

Multi-Purpose Holdings' active acquisition of corporate assets, however, inevitably ran into conflict with state or UMNO politicians. While UMNO's attack of some of Multi-Purpose Holdings' business deals boosted the image of the MCA in the eyes of the Chinese community, disclosures that the company and other MCA-linked cooperatives were abused by party leaders for their vested interests considerably weakened the party's popularity, further diminishing its role and influence in the Barisan Nasional. The Chinese business elite, no longer able to rely fully on the MCA to protect their business interests had to look elsewhere, eventually seeking the cooperation of either the state or UMNO-related businessmen to promote their business interests. The bonds forged by these relationships, however, are tenuous and fragile since any change to UMNO's leadership, particularly with the existence of contending intra-party factions, may adversely affect the business prospects of those Chinese capitalists who had supported the defeated faction.

In this respect then, the MCA's corporatisation movement was a

failure, diminishing the MCA's ability to act as a power broker between the state and the Chinese. This has severely curtailed the political patronage that the MCA can wield. The current Chinese business leaders are those who still run family-based companies; examples are the Quek, Kuok, Lee Loy Seng, and T.K. Lim families. The Lim family now controls Kamunting and Multi-Purpose Holdings, the only major survivor of the corporatisation movement. In fact, companies led by such Chinese tycoons are known to have close linkages with powerful Malay leaders, and it is by virtue of these ties that they remain major corporate players (Heng, 1992: 132). Such affiliations have become an important means for the Chinese business elite to maintain their influence in government.

6.1.2: Political Patronage and Money Politics

Several factors have been responsible for shaping the political character of Malaysian capitalism. These include the political hegemony of UMNO, the decision-making structure within the ruling Barisan Nasional, and the implementation of certain public policies, professedly to ensure more equitable distribution of wealth. The interests of non-Bumiputera business groups in general have been held in check by the NEP's implementation. Apart from having successfully been used to transfer capital ownership to an indigenous elite, the NEP was also effectively exploited by the Malay political elite to marshall support for UMNO. This has resulted in the marked propensity of the Bumiputera electorate to lean heavily towards to the state for solutions to their problems. Thus, control over the state appears to have become a necessary prerequisite in the race for political power. This, in turn, has led to a growth in the politics of cliques and of personal networks and associations critical to building a power base. The communal nature of Malaysian politics has been responsible for enhancing this tendency towards patron-client relations to garner political support.

UMNO's vast patronage machinery has been pivotal in enabling the party to win and maintain the electoral support of rural Malays, its primary power base. Under the Mahathir regime, patronage networks have begun to play a more crucial role in party politics. One reason for most UMNO politicians wanting access to the government or other funds is so that they may be able to disburse favours to their followers to consolidate their power base. Under such a patronage system, UMNO politicians have been able to exploit their position in the power centre for their own economic and business agendas. For example, UMNO politicians have increasingly fallen back on their political influence to secure contracts, licences, and

other resources for themselves and to reward their supporters. There exists a growing circle of Malay businessmen whose corporate holdings have been considerably bolstered by opportunities made available through such government concessions. This has led to the burgeoning of a capitalist class with close links to UMNO. The rapid development of this elite group is also attributable to Mahathir's unabashed use of political patronage, ostensibly to encourage Bumiputera capitalism. This group has grown so immensely in strength and influence that it has now emerged as a major force in the Malaysian corporate landscape. Such patronage, however, has also contributed to enormous capital concentration and jagged wealth distribution which suggest that efficient resource allocation has been inhibited, probably impeding overall economic growth.

The significant role played by patronage in UMNO politics and the popular conception that politics is an easy avenue for monetary gain are important factors that have led to the spread of a money ethos in the party. The growth of this culture has facilitated the procurement of support by dispensing money and wealth-generating opportunities; patronage has now become a norm in party affairs. This, however, has also had a debilitating effect on UMNO. The use of political patronage to establish power bases reaching down to grassroots level has led to rancorous infighting and bickering that have left UMNO deeply divided. In vying for power, each money-based intra-party faction — with its own source of funding and own set of business proxies — operates independently of the party centre. The fact that corporate power can so easily be translated into political power has also meant that control over state resources and business organizations has become the object of struggle. There is growing evidence of business groups led by politicians linked to Anwar Ibrahim, who leads a major faction in UMNO. Ghafar Baba, who heads another, but less cohesive, faction in the party, also enjoys close linkages to corporate circles, partly through his businessmen sons, Tamrin Ghafar, Mohd Asri Ghafar, and Mohd Sofi Ghafar. Apart from this, UMNO's main corporate assets, specifically the Renong Group, are controlled by Halim Saad, a representative of the new generation of Bumiputera businessmen who has admitted holding business interests in trust for UMNO. Halim is also a trusted aide of Daim Zainuddin who appears to endorse Anwar's bid to replace Ghafar as Mahathir's deputy. Since the Renong Group had exerted a stranglehold over important broadcasting and publishing companies, there was clearly a struggle by the major factions in UMNO for control over these companies; Anwar's faction has been successful in obtaining control over Renong's media companies, The New Straits Times Press and TV3. With

the Renong Group still influential in the construction and finance sectors, and now that it is legally beyond the jurisdiction of the party, Daim is probably in a strong position to influence the outcome of struggles between contending factions for control over the party, and the conglomerate, especially if Mahathir does not secure a smooth transition of the party presidency.

At a more general level, the spread of this money culture within UMNO has attracted even more opportunists than might otherwise have been the case, casting a degenerative pall over the party in the long run. Votes have become a marketable commodity during party elections, and the selection of leaders contesting top posts does not depend primarily on their leadership abilities, ideology, or even advocacy of specific social and economic programmes, but on the amount of patronage each can disburse. The loyalties of members in search of wealth opportunities will be to leaders who have developed important power bases, and in the course of that pursuit, they may realign themselves, depending upon the prevailing configuration of power. This, given UMNO's dominance over the corporate sector, can have a destabilizing effect on the economy,

Political struggles within parties connected to business are not common only to UMNO. The dominance of a business elite in the MCA from the time of the party's inception acquired new implications with the ascendancy of Tan Koon Swan to the party helm. The power struggle between Ling Liong Sik and Lee Kim Sai also highlighted the business interests of the former and the extent of his influence in determining the affairs of Multi-Purpose Holdings, even after the company was no longer under MCA control; this served to underscore Liong Sik's close affiliations with prominent members of the Chinese business community, particularly T.K. Lim.

The MIC, however, due to the rather limited power it commands in the Barisan Nasional, has basically remained heavily dependent on UMNO's patronage. By being a constant and loyal UMNO supporter, the MIC has been retained in the ruling coalition and its leaders rewarded with important political appointments. The MIC's various cooperatives, trust funds, and holding companies, notwithstanding their marginal success, have proven to be ideal avenues for patronage in return for political support.

Besides forming an important means for accumulating largesse, dispensing favours, and buying new loyalties, the corporate empires built by politically-linked companies, given their substantial economic power, have also become a means for containing political opposition. The management-buy-out of The New Straits Times Press and TV3 was apparently to ensure that one UMNO faction could control media coverage.

The difficulty faced by Idris Hydraulic's management, controlled by the opposition Semangat 46, in obtaining approval from the relevant authorities for its restructuring exercises apparently facilitated the company's takeover by UMNO businessmen. Such politically-inspired interventions in the market, be it to undermine the influence of a rival faction or to gain greater corporate power, can jeopardize long-term economic growth, since they disrupt normal business operations and divert attention away from genuine entrepreneurial concerns and objectives.

Such disclosure of the association between influential political and business circles supports the belief that business groups have become important means for funding both politicians and their parties, especially since election costs have escalated over the years, partly because services once voluntarily provided are now often only rendered for a fee. In fact, declared political contributions and expenditure during elections probably constitute only a small fraction of the total amount spent. The prevalence of money politics in Malaysia was clearly evident in the 1990 national elections. According to one conservative estimate, the Barisan Nasional had spent approximately RM360 million to secure re-election in 1990, which far exceeds the amount approved under the Elections Act (*FEER*, 5/7/90).

6.1.3: Development of Conglomerates and Rent-Seeking Activities

One outcome of the NEP and privatisation policies has been the emergence of a number of large business organizations or conglomerates. These conglomerates have become a means by which much economic power has been concentrated and controlled by a politically well-connected business elite of Bumiputeras and non-Bumiputeras. During the early phase of the NEP, non-Bumiputera and foreign capitalists had to work with the state to develop their corporate assets; by the 1980s, however, they found that they increasingly had to work with and through Bumiputera political leaders and their business associates or proxies to attain their corporate goals. Organized business has now arrived at a stage where it has become subservient to politics. Commenting on this, McVey (1992: 17) stressed that as "the role of the state expanded, the once inter-elite cooperation that existed dissipated and the Chinese were increasingly marginalised and Chinese businessmen found themselves at the mercy of Malay politicians".

The rise of the large corporation, where an inordinate amount of economic and political clout is concentrated in the hands of a select few, has inhibited the private sector from operating according to proper business

norms; political rather than purely business objectives tend to condition market operations and transactions. Furthermore, the development of most of these conglomerates is not attributable to their active and profitable participation in the production process. Rather, their swift rise — in a span of less than a decade in some cases — has been accomplished through intricate mergers, share-swaps, and takeovers. Apart from having a major effect on the distribution of stock ownership, such growth of these conglomerates has resulted in their increased market power. This has led to the oligopolization or even monopolization of important sectors of the economy, which has helped these conglomerates to dictate market conditions and influence future business policies. Given that the development of conglomerates through methods such as share-swaps and mergers does not generate economic growth, the productive deployment of the rents accruing from the process of conglomeratization is probably very negligible. Rather, the sort of capitalism that is being promoted will continue to be one which is highly dependent on political patronage.

Rents given by the government to party-owned companies and business proxies have been used to build up conglomerates such as the Renong Group. The controversial award of the North-South Highway contract to UEM, now controlled by Renong, transformed both these ailing publicly-listed concerns into attractive and highly lucrative counters almost overnight. UEM's profitability — and that of its subsidiary, PLUS — has helped to revive other ailing UMNO companies such as Faber Group, and has also created numerous business opportunities that have increased the profit potential of other companies in the Renong Group, for example, Hume Industries, Ho Hup Construction, and Time Engineering. Although these rents have been effectively utilized to further consolidate the conglomerate, the execution of the contracts has not usually been directly undertaken by UEM; most contracts have, in fact, been sub-contracted to various other companies, mostly joint-ventures with foreign and Chinese interests. Another example is the award of the Jalan Kuching-Jalan Kepong inter-change contract to Seri Angkasa, which now provides Kamunting with a constant source of funds from toll collections (Seri Angkasa, a company controlled by Daim's relatives, has been taken over by Kamunting). This inter-change project was, however, built by a Japanese company. The steady supply of funds through tolls enabled Kamunting to obtain bank loans to acquire Multi-Purpose Holdings, a company almost five times Kamunting's size in terms of capitalization. Such business methods indicate that though rents can be used productively, they can also be abused to corner the market and to monopolize profitable business activities.

Another source of rent which has aided the process leading to the concentration of corporate assets in conglomerates, particularly in the case of UMNO-related companies, is bank loans. Such loans, however, have often been abused, notably when they have not been serviced, in the case for example of two of UMNO's holding companies, Permodalan Bersatu Bhd (PBB) and Waspavest. This poses the strong likelihood of liquidation, another instance of how politically-motivated opportunities for obtaining wealth have resulted in non-productive and wasteful economic activity.

The pursuit of pecuniary rent-seeking opportunities is one reason for the dominance, since the early 1980s, of businessmen at UMNO's general assemblies. A large and growing public sector, over which UMNO has much sway, in collaboration with a party which has consciously maintained close links with the Bumiputera business elite that has emerged through state and party patronage, has contributed to the inundation of businessmen at UMNO's annual assemblies. Since the implementation of the NEP has led to tight state control over the economy, and since state policy tools for managing the economy have been plentiful, the state has had the power to directly interfere with many business decisions. Bumiputeras pursuing rent opportunities, only too aware of UMNO's dominance in the state apparatus, know too well the influence wielded by the party's leadership in directing future state policies.

UMNO's capitalist orientation has been enhanced since its dominance over the state has meant that the party need not apply much pressure on the government for certain kinds of rents. As a consequence, UMNO-related companies enjoy easier access to government contracts; they can also direct government spending to areas beneficial to the party's business interests and even propose legislative action and tax reliefs that work in their favour. The pursuit of these various rents, however, may not necessarily add up to policies in the general interest of capital, particularly if such pursuits lead to monopolization of economic sectors and to speculative market activities.

During Daim Zainuddin's stewardship of UMNO's treasury, key sectors of the economy have come under the control of Renong, controlled by the party's business proxies. These proxies have established numerous investment holding companies — Cantuman Bahagia, Sepakat Ganda, Tellic, Gallio, Mediacover, Hanuma, Hanurai, and Pacific Fleet — that may have been given easy access to bank loans to aid the process of concentrating major companies under one group; in some cases, such companies have also enjoyed access to government contracts. While the award of such rents may theoretically have been to promote the develop-

ment of Bumiputera capitalists, it eventually resulted in serious distortion of proper market operations. Instead of the development of entrepreneurial practices, it is speculative activities and paper creation and shuffling that have become the norm. The rise of such a group of politically-associated Bumiputera businessmen has threatened the interests of big businesses in the country, especially those belonging to the Chinese. Key sectors of the economy — such as the construction, finance, property development, and gaming industries, once long dominated by the Chinese — are falling under ultimate Bumiputera control.

As for the MIC, its close association with UMNO has enabled the party's commercial arms to savour token access to government contracts and business opportunities. In implementing the privatisation policy, the MIC's Maika Holdings has, through allocations ostensibly made on an ethnic basis, been given the option to acquire, at par value, shares of corporatized companies allotted to the Indian community. Other MIC-related investment arms have also benefited from opportunities to acquire interests in UMNO-related companies; the cooperative KPJ, for example, has acquired an interest in Time Engineering, which is involved in the privatised North-South Highway project, while Maika Holdings has a stake in the UMNO-controlled television network, TV3, another privatised entity. Notwithstanding these opportunities, the development of MIC's numerous companies continues to be highly dependent on UMNO's influence and patronage through the government's allocative powers.

With the development of major companies controlled by politically well-connected Bumiputeras, Chinese capitalists have become politically less influential collectively even though the MCA professes to represent their interests. Their direct access to rents in the form of subsidies, loans, and contracts is limited and usually based on access through politically-influential Malays, for example by incorporating them as business partners or company directors. This is not to imply that the political dependency of Chinese capitalists on UMNO or influential Malay politicians has reached crippling proportions. Since the Chinese have almost 45 per cent ownership of the Malaysian economy, they are still a major economic force and a principal source of domestic investment capital. The Chinese have shown in the past, notably during the mid-1970s, when the NEP was actively being implemented, that by withholding investments or capital flight, they can impede development of the economy, forcing the government to solicit investment from abroad. Furthermore, as Cheong's (1992) study of Chinese controlled industrial companies listed on the KLSE has indicated, even though Chinese capitalists may have been compelled

to incorporate well-connected Bumiputeras into their board of directors, or may have sold them a percentage of their equity in compliance with NEP stipulations, it is they who still retain controlling interests in these companies.

The rise of politically-linked conglomerates has also led to a concomitant change in the political and commercial order since the growth of firm size alters a company's business power. In addition, the emergence of monopolies, oligopolies, and imperfect competition from biased implementation of policies like the NEP and privatisation, means that in such an economy, where competition is limited, the market mechanism to distribute rents through the competitive process is greatly compromised.

Rowley, when discussing the practice of rent-seeking, has pointed out that when it "occurs in institutional settings where individual efforts to maximize value generate social waste rather than social surplus, not infrequently as a consequence of government-imposed entry barriers and market regulation", such form of interventions generally "do not occur in a political vacuum, but arise rather in response to effective political rent seeking by special interest groups, who recognize their significance for market rent seeking. The political basis, once granted, may not easily be wrested back from successful rent seekers even by a determined majority government" (Rowley, 1987: 133). Under these circumstances, companies will tend to expend much resources to find new avenues to obtain rents; under different circumstances, such resources could have been used for more productive activities. The pursuit of rents in this context also tends to provide little benefit for proper development of the economy (Shapiro, 1990: 127). While this is not to imply that there will not be any economic development, the form that such a development will take, however, will hardly be dynamic and the quality of the capitalistic tendencies that emerge will not be of the type that can help sustain a more progressive form of capitalism.

6.2: Conclusion

The close alliance between politics and business has led to the emergence in Malaysia of an elite minority in whose hands a disproportionate amount of the country's economic wealth and political power is vested. Equity-based power and hegemonic political position appear to have reinforced each other. With its control of the government through political power, and given the considerable mix between business and politics, this select group has had the capacity to adopt political and economic strategies that ensure the perpetuation of its dominant power base.

Since there is already evidence that concentration of economic power has occasionally strained the relationship between the UMNO-dominated state and big business, both local and foreign, this may, in the long run, impair Malaysian capitalism or exacerbate the already jagged state of wealth distribution. The increasingly felt need by government leaders to accommodate the capitalist elite and the close affiliation between ruling political parties and business circles may be other factors which may make it more difficult for the state to impose or implement policy preferences in future.

In view of these circumstances, the relationship between business and government should be structured in a such a manner so as to minimize the risk of the government adopting policies which may either constrain the proper operation of the private sector or inadvertently hurt business activity. While the government may well be concerned with attaining certain political goals through its policies, it cannot at the same time overlook economic factors, such as the fiscal basis of government activity or the destabilizing effect of unregulated market forces on community cohesion, except at their peril or that of society. The initial involvement of non-Bumiputera political parties in Malaysian business was after all a response to promote the integration, into the fabric of corporate life, of a large segment of the population threatened or marginalised by national economic policies. Furthermore, the close relations between politics and business will continue to render ruling parties and their leaders open to criticisms that they are susceptible to corruption, or that they are implementing policies to serve their vested interests. The steady incursion of ruling parties into the business sector may result in an even more deeply entrenched symbiotic relationship between business and government; business considerations may become a major and pressing concern of government, while government policies may become the prime interest of organized business.

The inter-play of politics at both party and governmental levels strongly suggests that the distribution of power is heavily tilted in favour of UMNO, the Prime Minister in particular. This accentuates the dominance of the national leader over his followers, both in UMNO and the Barisan Nasional. Lying at the heart of this relationship is the promise of political positions and access to government resources as well as political support during general elections. Such a pattern of power with UMNO hegemonic has propagated money politics which has rendered its members victims of corruption and ugly factionalism in their struggle to attain power. Such factionalism and power struggles within political parties, given their considerable control over the corporate sector, will, in turn, have a disruptive impact on business activities.

Furthermore, if the major communal political parties continue to develop their corporate holdings, there may be more conflicts within the ruling elite over a clash of business interests. This is because the primary goal of each communal party is to protect and develop its economic base and to obtain control over major corporate institutions in the country. The communal orientations of UMNO, MCA, and MIC have meant that disputes over business transactions and takeover bids have and can contribute to ethnic tension. Although there was little tolerance and encouragement shown by UMNO leaders to the development of Chinese business interests in the 1970s and 1980s, the scenario, however, has altered dramatically in the late 1980s, and especially in the early 1990s. There is now less tolerance among the non-Bumiputeras and increasing fear, even among MCA leaders, that some important companies and assets controlled by the Chinese are being taken over by Bumiputeras. This was evidenced during Hume Industries' attempted takeover of Multi-Purpose Holdings and the sale of Sri Damansara to Land & General. The poor performance of Maika Holdings and other MIC-linked businesses, however, has proven that they are no threat to the Bumiputeras or Chinese.

Although the MCA, and to a much lesser extent, the MIC, may have objections to the manner in which UMNO's corporate empire appears to be developing, their limited influence in the Barisan Nasional, however, has rendered them powerless to prevent such wealth accumulation. UMNO's dominance both in the Barisan Nasional and the state and the inherent weaknesses of the opposition parties will accelerate the allocation of government contracts to the party's companies or to businessmen closely aligned to UMNO. This will continue to open new and numerous opportunities for corruption and conflict-of-interest situations, but given UMNO's hegemony over the state, it is unlikely that there will be any accountability by the national leadership.