Tighter Control over Foreign Capital

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Foreign investors in Malaysia were greatly disquieted when the Petroleum Development (Amendment) Act, 1975, and the Industrial Coordination Act were passed by the Malaysian Parliament. Both these enactments and the re-formulated Standard Conditions for Foreign Investments are indicative of the Malaysian Government's desire for tighter control over the national resources and over the foreign enterprises.

The Petroleum Development (Amendment) Act marks the most rigorous intervention to date in the hitherto very liberal investment climate of Malaysia. It applies to enterprises engaging in the production and distribution of mineral oils and petroleum chemicals in the widest sense and provides that the start-up and continuation of such activities require official authorization. Of particular importance is the general proviso that enterprises covered by the Act must issue Management Shares to the amount of at least 1 p.c. of the common or paid-up capital stock and sell these to the state oil company, Petronas. The Management Shares must be given the same voting rights as the ordinary shares but carry 500 votes each for decisions on the appointment of directors or other staff. In this way the Malaysian Government can assure itself of a substantial measure of control and influence without a large capital outlay.

The Industrial Coordination Act, 1975, extends the requirement of official authorization which had previously been confined to enterprises which applied for state assistance under the Investment Incentive Act to all native or foreign firms engaging in production. 1 Enterprises which have commenced production under previous legislation without such a licence must apply for this official authorization within a year from the promulgation of the new law. A licence will also have to be obtained in future for any extension of the production programme of an existing enterprise. The grant of a licence is conditional upon the submission by the firm in question of acceptable proposals showing how it intends to conform to the objectives of the New Economic Policy. The main aim here is to ensure greater Malaysian capital and personal participation in the enterprises. By 1990 70 p.c. of the national assets are to be Malaysian-owned, and 30 p.c. — the minimum prescribed already in the Standard Conditions for Foreign Investments 2 — are to be held by Malaysians. As regards personnel it is stipulated that Malaysians must be represented in the individual enterprises at the higher qualification levels in proportion to their numbers in the total population in the region in which the plant is located.

Cardinal Points of Malaysian Economic Policy

Beside these central stipulations the new laws and regulations contain quite a number of other provisions designed to extend the control over foreign enterprises. At the same time however the Government emphasizes that a further increase of foreign investment is essential for continuing economic development. 3 This dichotomy seems, at a first glance at least, to be contradictory. To understand it and to be able to judge it, one must give a little more thought to the problems of the country, on the one hand, and the role played by the foreign enterprises in the Malaysian economy, on the other.

Malaysia is facing two grave problems in its domestic policy — the persistent racial tension between Malaysians and Chinese and the operations of the guerrillas who have become again more active since 1974. Against the economic background of these two problems four tasks emerge as cardinal points of Malaysian economic policy:

- With an unemployment rate which even in boom periods failed to fall below the 7 p.c. mark the need is for the creation of many additional jobs. 4
- Diversification of the export structure is essential in order to avoid conditions of great instability. The five principal export commodities of Malaysia — rubber, tin, timber, palm oil, and mineral oil —

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2 Cf. (no author's name) Malaysia strebt stärkere Investitionskontrolle an (Malaysia aims at tighter investment control), Nachrichten für Außenhandel, June 25, 1975.
3 Cf. Dato Hamzah Abu S a m a h, Minister of Trade and Industry, Industrial Development and Opportunities for Investment, Speech to an international investment seminar in Kuala Lumpur, October 8, 1975.
accounted in the past 15 years for between 75.5 and 80.5 p.c. of total exports. Their combined share in 1974 (75.5 p.c.) was only 1 p.c. lower than it had been 10 years earlier. 5

□ The reduction of the big differential between the industrially developed and the purely rural regions: the gross domestic pro-capita product varied in the 11 West Malaysian states in 1965 between extremes of M$ 370 and M$ 1,490. 6 More recent information indicates a further widening of this differential. 7

□ Redistribution of the national wealth to the benefit of the Malaysians: although accounting for about 53 p.c. of Malaysia's total population, they owned only 1.9 p.c. of the capital of all limited companies in 1970; the Chinese owned 22.5 p.c. while well over 60 p.c. was in foreign hands. 8

It is important for a solution of these problems that they can be tackled in conditions of rapid economic growth. In Malaysia this prerequisite has been created. Real economic growth has proceeded since 1970 at annual rates between 5 and 10 p.c. The per-capita GNP of about US$ 700 in 1974 9 was surpassed in Asia only by Japan, Singapore and Hongkong. The influx of foreign capital under the stimulus of the very favourable investment climate in Malaysia probably made a fairly significant contribution to this development.

Amount and Origin of Foreign Capital

An accurate assessment of the magnitude of the foreign investments and their origin is possible only insofar as they have gone into pioneer enterprises - i.e. enterprises which are accorded a special priority and promotion rating. Only the investments in these are regularly recorded by the Federal Industrial Development Authority (FIDA) while the amount of foreign capital expended on projects which enjoy no or different forms of state assistance can be only partially ascertained. The investments of the pioneer enterprises certainly accounted for the bulk of all investment in the past few years. In 1974 M$ 327.4 mn were invested in pioneering projects, including M$ 127.7 mn from abroad. 10 The total capital invested in pioneering enterprises thereby rose to M$ 1,370 mn of which foreigners - who in 1973 provided for the first time less than 50 p.c. - had contributed M$ 604.3 mn. No less than one-quarter of this capital sum originated from Singapore. Expatriate Chinese and to some extent also non-resident enterprises are probably the main sources of capital for these investments from Singapore, as for those from Hongkong.

Great Britain, the former colonial power, plays traditionally a leading role in Malaysia which became an independent member of the Commonwealth as late as 1957. Japanese firms are however seen to develop their engagement in Malaysia with far greater energy. At the end of March 1974 the Japanese were leading the US and British firms in regard to the number of companies in which they held interests. The five mentioned countries accounted for over 85 p.c. of all foreign investments in pioneering enterprises. So they had already done in 1970.

European countries other than Great Britain play a relatively minor role in respect to pioneer projects. The amount of the investments in 1974 and the information concerning licences for new projects suggest however increasing interest on the part of European firms, especially from the Federal Republic of Germany and Switzerland. 11 This is a development which is being welcomed by the Malaysian Government; one of its reasons for this is that it wishes to limit or lessen the country's one-sided dependence on a few sources of foreign capital.

Creation of Additional Jobs

In spite of the relatively rapid growth of the economy Malaysia has been unable to provide enough job opportunities. The unemployment rate - 6.1 p.c. in 1965 - had by 1970 risen to over 7 p.c. 12 and it is not expected that a more favourable picture will emerge for 1975. Of the 600,000 new jobs which were planned for this quinquennium the agricultural sector and manufacturing industry were each expected to provide well over 160,000 although in 1970 52.6 p.c. of all employed persons had still been engaged in agriculture while manufacturing industry accounted for no more than 9.6 p.c. 13 These figures illustrate the central part assigned to this sector of the economy in solving the employment problems.

The manufacturing industry actually managed to create 19,000 new jobs in 1970 and as many as

15 Calculated from: Federal Industrial Development Authority (FIDA), Annual Report 1974, (place of publication not indicated) 1975, p. 126, Table IV.