Open Terrain: The Impact of the New Economic Policy on US Foreign Direct Investment in Malaysia.

Shakila Yacob
Department of History, Faculty of Arts & Social Sciences,
University of Malaya, 50603 Kuala Lumpur, Malaysia
shakila@um.edu.my

IEHC 2006 XIV International Economic History Congress
SESSION 94: Foreign Companies and Economic Nationalism in the Developing World after World War II

The introduction of the New Economic Policy (NEP) in Malaysia in the early 1970s and its concomitant process of "localization", referring to the efforts of newly independent countries to increase local self-determination and participation in the economy as well as national identity, has been the subject of numerous studies on post-colonial Malaysian economy. However, most of the literature focuses on the impact of localization on European-owned enterprises and the latter's role in promoting industrialization in Malaysia (Saruwatari, 1991; Jones, 2000; White, 1996, 1999, 2004; Martin, 2003). Thus, frequently overlooked are the effects of the new policy on the acquisition, transformation and incursion of former US-owned enterprises into new industries and their subsequent existence.

To fill in the lacuna in the corpus of knowledge on the impact of the NEP on foreign direct investment (FDI), this paper traces the trajectory of US FDI from colonial Malaya to post-colonial Malaysia. The aim is to ascertain to what extent the NEP was a manifestation of economic nationalism, to gauge its impact, with especial reference to the process of localization (also known in Malaysia as Malayanisation), on the growth and survival of foreign firms in general and US-owned firms in particular. The paper evaluates the reasons why US businesses divested from, or continued to invest in and form joint ventures with, Malaysian state-owned enterprises in Malaysia during the localization process.

Included are three case studies: Pacific Tin Consolidated Corporation and Uniroyal (formerly United States Rubber Company) in the resource sector, and Ford-Malaysia as a manufacturer. Pacific Tin relinquished its economic interests due to geographical distance from its home country head office, irrelevance to its then business portfolio and because of non-profitability. Uniroyal, on the other hand, was hit by the waves of mergers and acquisitions in the US tire industry in the early 1980s. Ford-Malaysia, however, decided to plunge into a joint venture with a Malaysian state-owned enterprise. The Ford Motor Company, like some European firms, such as Behn Meyer (German) and United Plantations (Danish), which opted to maintain their capital assets in Malaysia, all had their origins in the mid-nineteenth or early twentieth century in colonial Malaya. Such companies were able to survive the challenges of two World Wars, the Emergency, Malaya's independence from British colonial rule and post-independence administrative and policy changes.

This paper makes two assertions. Namely, that it was external factors and not the process of localization, that were the major factors in decisions for divestment of foreign capital and acquisition of foreign enterprises as the primary commodities sectors, or "sunset industries", declined and manufacturing and services sectors, the new "engines of growth", expanded. In addition, that a significant number of foreign firms that opted for localization managed to survive and prosper due to their willingness to share assets, knowledge, expertise, and human capital resources, thereby positively harnessing the potential of the emerging economy and simultaneously developing valuable capital assets.

First, this paper ascertains the meaning of economic nationalism in Malaysia, in terms of the introduction of the NEP and the rise of state-owned enterprises - now known as government-linked companies (GLCs)

- and the new policy's impact on the survival and expansion of colonial enterprises. An historical analysis follows of US FDI from colonial to post-colonial Malaysia and its fostering by the pro-business stance of both pre- and post-independence governments. The three case studies then help illuminate the effects of the NEP on US-owned firms, providing evidence to reach a conclusion on the reasons and outcome of US firms' decisions to divest from or continue to stake their capital in the newly emerging economy.

Malaysia's NEP: Manifestation of Economic Nationalism?

Within the context of imperial economic history and development studies, the term "economic nationalism" is used to describe a government's economic policies which are informed by a protectionist worldview. Many post-colonial states during the 1950s and beyond subscribed to the idea of "disengagement" from the metropolitan centers by acquiring foreign assets in order to restructure domestic capital ownership, human resources and consumption. Although these strategies limit capital, goods and labor flows across borders, and impose barriers to entry, it is deemed necessary in order to assert economic sovereignty after years, and often decades, of colonialism.

Participants in the major debates on decolonization and development tend to either view economic nationalism as a triumph of anti-colonialism, an assertion of post-independent nation-building and an expression of autonomy, self-determination and self-reliance, or as a tension between co-operation and conflict. Economic nationalism in the countries of the developing world is often perceived by critics of anti-colonialism and nationalism as a collection of "inward-looking development strategies" and quite "anachronistic" particularly in the age of globalization (Hobsbawm 1990, Palmer, 1999, Barber 1995). Helleiner (1997) and Helleiner and Pickel (2004) suggest that economic nationalism and globalism can and do happily co-exist. They often stress the importance of national identities and nationalism as key components for designing economic policies and strategies. Pickel (2002), for example, argues that economic nationalism is not the opposite of economic liberalism as perceived in the conventional view, but rather that economic nationalism "is itself a type of economic liberalism". He stresses that economic nationalism is more concerned about the nation, not the economy. Similarly, Nakano (2004, 226) assumes that "economic development requires nationalism and national unity" and as such "economic nationalists will choose economic policies which promote economic development without threatening national cohesion" (2004, 227).

In developing countries like Malaysia, the NEP, as an expression of economic nationalism, can serve as a unifying force of ideals such as national sovereignty, self-determination and domestic capital accumulation through new opportunities created for local entrepreneurs. The post-independence tendency among Malaysian leaders has been for the state to intervene in capital formation and development programs, as well as to play a key role in empowering local elite and, in so doing, to reduce the power of foreign capital. The preference for state intervention initially came about after the race riots of 13 May 1969 when Tun Razak Hussein took over from Tunku Abdul Rahman (ruled from 31 August 1957 to 21 September 1970). , whose administration, local critics like Jomo KS (1986, 1990), Lim Mah Hui (1981), Hua Wu Yin (1983) alleged, had maintained Malaysia as a quasi-independent nation and a neo-colony. The focus of the criticism was also on the impact of the NEP's pro-Bumiputra ("sons of the soil") policies and the alienation of the Chinese businesses. These were the main reasons suggested for Malaysia's heavy reliance on foreign investments for growth instead of harnessing existing Chinese knowledge-based assets, and exacerbated inter- and intra-ethnic disparities (Gomez, 1999; Gomez and Jomo KS, 1999).

While the NEP may be seen as a "protectionist ideology", due to its preoccupation with transforming the Malay underclass into entrepreneurs by reducing the share of existing foreign capital, the Malaysian government did pursue a liberal economic policy by offering favorable conditions to export-led and import-substitution industries. Perhaps, then, it can be claimed that in Malaysia certain degrees of both economic nationalism and economic liberalism have worked hand in hand to address the various political, economic and social integration issues of the nation.

The initial announcement of the NEP - which were still being defined by the Malaysian administrators and were, as yet, ambiguous - raised concerns among a number of public officials both in Britain (Ministry of Overseas Development, Foreign Commonwealth Office, Board of Trade, and Bank of England) and Malaysia (British High Commission). The stance of British officials on the consequences of the NEP for British firms was predominantly negative from the outset. They voiced concern over the possibility of discrimination against existing British firms in Malaysia. No clear policy guidelines, in particular pertaining to the localization process, were available and the different stances adopted by various groups of Malaysian ministers and officials led to much confusion (FCO 15/1928, FCO 15/2075).

Similar sentiments exist in the mid-1960s among British officials and commercial interests (for example, The Rubber Growers Association, Malayan Chamber of Mines, and Malaysian Commercial Association) on the subject of Malayanisation in the rubber and tin industries as well as other expatriate commercial interests. While some Malaysian ministers were adopting a soft approach and giving assurances that British businesses could proceed without any fear of nationalisation, other, generally " 'young turk' bunch of officials" with their hard approach "bears little relation to the ministerial assurances and declarations of policy" (DO 189/588).

The implementation of the NEP was within the broad socio-economic framework of the First Outline Perspective Plan (OPP) running from 1971 until 1990 with a two-pronged strategy of poverty reduction and capital restructuring of the Malaysian economy. To redress the problem of economic imbalance among the major ethnic groups, the government had to expand Bumiputera investment from a paltry 4 to 30 percent while slightly increasing the non-Bumiputera (Chinese and Indian) share from 34 to 40 percent. This exercise in Bumiputera capital restructuring required a shift from dependency on the vulnerable resource sectors - tin, rubber, and oil palm - to more profitable areas, such as manufacturing and services long neglected by the colonial government. There was also a restriction on foreign ownership of business enterprises from 62 percent in 1970 to 30 percent in the mid 1980s. As a result of this twin process of economic diversification and localization of foreign enterprises, some foreign firms already established during the colonial period were bought out, while others opted to co-operate with Malaysian GLCs as business partners.

It is possible to analyze the process of capital restructuring through the localization policies largely by evaluating the role played by the NEP in the dissolution of pre-independence social and economic structures. A major economic change came through the Malaysian government's efforts in promoting Bumiputera participation in commerce and industry which led to the formation of various public corporations and enterprises from the mid 1960s to the early 1970s. These public corporations such as Perbadanan Nasional Berhad (PERNAS), Permodalan Nasional Berhad (PNB), Food Industries of Malaysia (FIMA), Johor Port Authority (JPA) and Pahang Trading Company (PTC) were instrumental in promoting industrial development and became the government's vehicles for buying out foreign multinationals, particularly in the resource sector. Between 1973 and 1982, GLCs such as Pernas and PNB bought over shares, localized and finally acquired British-owned plantation and mining firms.[1]

Through these acquisitions, local enterprises faced the challenges of matching the managerial and business performance of their colonial predecessors, increasing Bumiputra equity in the economy, and pursuing expansion opportunities in the global market. Pernas, for example, used its subsidiary Pernas Securities Sdn Bhd to set up a new venture known as New Trade Winds to take-over London Tin Corporation, a large mining conglomerate. After the acquisition, New Trade Winds changed its name to Malaysian Mining Corporation Bhd and went on to form a global affiliation with Charter Consolidated Ltd, an Anglo-American group involved in financing mining ventures and holding mining interests in Malaysia and South Africa (Saruwatari, 1991, 377).

The acquisition of Sime Darby, a British plantation enterprise, by Pernas Securities, illustrates the rapid increase in Bumiputra capital ownership, from 5.6 percent shares in 1975 to 19 percent shares in 1977. By 1979, Pernas Securities had set up Sime Darby Berhad. Unlike the amicable take-over by Pernas, Perbadanan Nasional Berhad opted for a different maneuver when in 1981, the firm made a "masterful deal" within a few hours of buying 8 million or 50.41 percent of Guthries' shares on the London Stock Exchange and catching the company's British executives "with their pants down" (*Far Eastern Economic Review*, 16 February 1979, 20 March 1980, and 13 September 1981, See also Davenport Hines & Jones, 1989, 186).

Both inroads into the mining and plantation sectors reflect the rapid increase in Bumiputera participation from less than 1 percent to 34 percent in 1982 and 32 percent in 1984, and thereby achieving the 30

[1] Pernas, set up in 1969, is a wholly-owned government company with the Ministry of Finance, Bank Negara Malaysia (the Central Bank of Malaysia) and the Bank Bumiputra Malaysia Berhad as stakeholders while Perbadanan Nasional Berhad was founded in April 1978 as an investment unit for Malays.

percent target set by the NEP. The acquisition and capital restructuring in the manufacturing sector, which resulted in Pernas Sime Darby Holdings' (PSD Holdings) buy-out of Wearne Brothers Group in 1981 and a 29 percent strategic partnership with Ford-Malaysia in 1987, however, was a far more gradual process.

The introduction of the NEP led to the acquisition of mainly British-owned tin and mining interests through localization and, eventually, buy-outs, both conventional and unconventional (as in the case of Guthrie). Despite initial concerns, the take-over by Bumiputera-dominated state-owned enterprises saw these nationalized firms thrive and re-invent themselves to achieve spectacular growth (Saruwatari, 1991). Conversely, the British Agency House's refusal to participate in post-colonial economic development displayed "managerial weaknesses" and there was a strong "lingering of Orientalist, colonial cultures" in its "reluctance to embrace the possibilities of a Commonwealth commercial and financial partnership" (White, 2004, 215-216). There were opposing views between various British firms on the Malayanisation process with "large modern-minded, internationally organised" businesses such as Shell, Levers, and Malayan Tobacco, who largely supported the agenda and were highly critical of the resistance of the "old stagers" such as the plantation firms (Guthries included) and banks (DO 189/588).

US FDI in colonial Malaya to post-colonial Malaysia

This section traces the trajectory of the incumbent FDI by focusing on long-established US MNEs in particular, which came to Malaya from the late nineteenth or early twentieth century. They had survived the winds of change wrought by the two World Wars, the depression, the emergency and, finally, the challenges that followed independence and decolonization. The Malaysian government attempted to countervail any perceptions of nationalistic tendencies that might have arisen after the introduction of the NEP and could have deterred further foreign investments, by introducing new pro-business schemes that attracted new entrants.

US investment interests in colonial Malaya up to independence represent a marginal percentage of total FDI despite the British administration's liberal policies and excellent infrastructure coupled with Malaya's high growth rate. The nature of US investment in Malaya was more resource-seeking rather than market-seeking, meaning US MNEs were attracted to Southeast Asia's natural resources, political stability and infrastructure but not the country's potential as a destination for US goods and services. Although the US remained the major buyer of Malayan tin and rubber, the capital invested in both industries was relatively small compared to investments by British firms. However, a number of US MNEs such as Pacific Tin Consolidated, Uniroyal and Ford-Malaysia did make incursions into the Malayan market while some corporations like Firestone, Goodyear and Goodrich opted to invest in neighboring countries

In order to gain competitive advantage, the newly independent administration continued with the open economy promoted by the British colonial government. The economic roadmap outlined by the post-colonial government underscored Malaysia's locational attractions, making her a popular FDI destination not only for some US MNEs, but also for investors from the UK, Canada, Australia, West Germany, Japan, the Netherlands, Taiwan and India, and others. To counterbalance the protectionist stance of nationalization and localization, the government formulated national development policies that increasingly played an important role in attracting and maximizing the potential for FDI for economic development, and ensured political stability for the continued implementation of these policies. Other factors that gave Malaysia its competitive advantage include its professional human resources and skilled labor force, physical and commercial infrastructures as well as investment incentive schemes.

Post-independence pro-business policies and legislation, in the shape of the five-year development plans introduced in 1956, Investment Guarantee Agreement which superseded the Pioneer Industries Ordinance 1958, stimulated a new wave of FDI, particularly from the US. The Free Trade Zone Act, 1971 was introduced to further increase the participation of US MNEs in producing electronic goods for export purposes. The shift towards export-oriented and import substituting industries and the incentives provided, mainly in the free trade zones (FTZs), brought new entrants across the manufacturing sector, in a range of industries from electronics and electronic components, telecommunications, textiles, chemicals, car assembly and the heavy industries of iron and steel (Drabble, 2002).

The focus on FDI-driven export-oriented industrialization made Malaysia the primary supplier of electrical and electronic goods, textiles and rubber products with the FTZs ensuring that US capital in-flows rose to new heights. This resulted in US MNEs contributing 11.1 percent to the manufacturing sector in terms of output and value added products by 1973, the third largest foreign investor in the manufacturing sector after Singapore (29.9 percent) and Britain (26.5 percent) (Sieh Lee Mei Ling, 2000). The US MNEs involved in the electronics industry included National Semiconductor, Hewlett-Packard, Intel, Litronix (now Litronix Siemens), Monsanto Electronics, Motorola, Texas Instruments and Western Digital. The phenomenal growth in the manufacturing and high-technology industries transformed the Malaysian economy from an agriculture and mining base in the early 1970s to the world's major producer of the semiconductor chip in the 1980s mainly due to the presence of top US semiconductor MNEs in Malaysia (MIDA, 1987).

The US remained the top source of FDI in the electronics industry contributing 27 percent from 1996 to 2002. In 2005, the Malaysian-American Electronics Industry Association (MAEI) with 18 US-based member companies in semiconductor and non-semiconductor industries, some operating in Malaysia for the last three decades, contributed US$1 billion in investments, US$313.9 million in design and development, US$22.2 billion in exports (100 percent of the goods exported and mainly to the US market) with an employment of 55,000 workers (MIDA, 2006; *Business Times*, 2006). American ICT companies, Microsoft, Oracle, Sun Microsystems, and certain high-profile personalities, such as Bill Gates assumed a significant role in the development Malaysia's Multimedia Super Corridor. In the year 2004 alone, these MSC status US MNEs invested US$38.2 million in Malaysia (MIDA, 2005).

By 1997, the US became Malaysia's largest foreign investor and despite the 1997-1998 crisis, the US remained the lead investor in 1998. Investment from the US totaled RM6,534.3 million in 1997, a strong increase of 65.6 per cent from RM3,99.9 million. The US was consistently Malaysia's largest foreign investor from 1997 to 2002 but fell to third position in 2003 with estimated portfolio and direct investments of RM108.6 billion (US$28.5 billion). For the same year, US multinationals employed almost 120,000 workers with an estimated payout of RM5 billion in salaries and benefits. In 2004, US inward FDI accounted for RM 76 billion (US$20 billion). In the same year, RM26.6 billion (US$7 billion) went into the services industries (Fui K. Soong, *Ekonomika*, 2004).

There were significant US investments made in certain areas of the services sector, such as in the manufacturing related field with several types of regional establishments such as Operational Headquarters (OHQs), International Procurement Centers (IPCs), Regional Distribution Centers (RDCs), regional offices (ROs) and Representative Offices (REs). By 2004, there were 19 US OHQs in Malaysia, with the major ones including Du Pont, Conoco, American Express, PepsiCo, Amerada Hess, Intel, Agilent Technologies, Shields, and Sara Lee. There were also 13 IPCs from the US such as Gateway, Xircom, Flextronics, and Dell. US regional service companies now include, Lifecore Biomedical, Parsons

Global, Firecreek Global, Dell, Pepsico, Smart modular, and American Express. Representative offices of US banks and financial institutions currently established in Malaysia include the Union Bank of California, Wachovia Bank and Visa International (MIDA, 2005).

At present, there are 350 US companies in Malaysia - including 130 listed in the US Fortune 500 - with investments worth US$28 billion. These are in the areas of manufacturing, trading and services sectors, as well as oil and gas exploration. Since the 1980s, US MNEs have contributed significantly in the areas of research and development, training and skills advancement, and technological transfer. US companies have participated significantly in Malaysia’s growth initiatives, for example, in the areas of offshore financial services. Indeed these participations could be attributed to Malaysia’s locational advantages, as, according to A.T. Kearney’s Global Services Location Index 2005, Malaysia is the third most attractive location for “offshoring services” after India and China. There are currently 179 American MNEs, such as Bank of America, Citibank, JP Morgan, Chase Bank, and Morgan Stanley, operating in Labuan International Offshore Financial Services Center (IOFC). More significantly perhaps, US MNEs such as Intel, Monsanto, and Hewlett-Packard, have indigenized their entire Malaysian operations. Importantly, at present over 78 percent of American MNEs, including IBM, Agilent, Dell, Fairchild, Freescale, and Intel are managed by Malaysian Chief Executive Officers (MIDA, 2006).

Clearly US FDI has changed significantly from colonial to post-colonial Malaysia, necessarily adapting to economic and political challenges, but ultimately playing a significant role in Malaysia’s development. It is probably right to assert that it is through the economic roadmap laid out by the Malaysian government which promoted these US investments. It is worthy of note that the NEP’s concerns of localization and Malayanisation progressed relatively smoothly, and were largely embraced by these US firms.

Corporate Governance: A General Norm of Reciprocity

The selected case studies support the first of the main arguments that economic nationalism, which produced the NEP and the process of localization, was not necessarily a cause for divestment from Malaysia, signaled a new era in business partnerships based on trust, goodwill and mutually beneficial goals. Foreign firms contributed to colonial and post-colonial economic development in terms of capital formation, technological transfer, managerial capabilities, workforce welfare, marketing strategies and R&D. The pressure to comply with the process of localization did not necessarily lead to divestment of US capital, but, as can be seen below, at times resulted in greater co-operation, experimentation, innovative techniques and management methods, business strategies and best practices. However, and as noted earlier, there was divestment by some US MNEs, but significantly this was largely due to external factors caused by the changes in global economic condition and the need to accommodate shifts in business priorities.

Pacific Tin: Mutual Prosperity

The Yukon Gold Corporation was incorporated under the laws of the State of Maine in 1907, and was owned by the Guggenheim Brothers who were actively involved in the development of mining properties worldwide. Because of its association with the Guggenheims, the company benefited from managerial, technological, and financial advantages so essential to making a high-capital intensive venture successful. With their extensive prior experience in the gold fields of the Yukon and California, the Guggenheims, through PacTin, attempted to repeat these earlier successful mining projects in Malaysia. By 1933, tin mining in Malaysia became its sole venture, prompting a name change in 1938 to Yukon-Pacific Mining Corporation and, in 1939, to Pacific Tin Consolidated Corporation when it was listed on the New York Stock Exchange. This US

MNE continued to thrive in the Malaysian tin mining industry, surviving – as did the companies in all three case studies – the political and economic upheavals of the depression years, Japanese occupation (1942-45), communist insurgency (1948-1960), and independence.

One of the major players in the Malayan tin mining sector was Norman Cleaveland who started his mining career as a dredging engineer (1930-1932). He was appointed manager of Pacific Tin Consolidated Corporation (PacTin) in 1946, and eventually became the company's president until 1966. A consummate mining entrepreneur, Cleaveland immersed himself in advancing the sector while performing socially responsible tasks, such as increasing living standards among his workers in the squatter areas, as a conscientious corporate citizen,. His vast experience in the mining business, including the design, manufacture and operation of bucket elevator dredges contributed to innovative techniques in extracting tin, especially at his mining operations in Ampang, where large quantities of high grade tin ore were embedded in extremely firm clay. Cleaveland's appointment as a member of the State War Executive Committee during the commercially disruptive Emergency period (1948-1952), suggests that Anglo-American mining operators were not all simply detached capitalists preoccupied with protecting their investors' interests, but some at least were actively involved participants in overcoming the political and economic upheavals of colonial and post-independence Malaya.

The Yukon Gold Corporation adhered to the Malaysian government's pre- and post-World War II tin control schemes. The company, in resuming its post-war mining operations in 1946, was two years ahead of its British counterparts that were unable to continue operations until 1948 when mining equipment, fuel and regular power supplies became available. By then, the inflation rates had caused a threefold increase in the cost of production compared to pre-war levels. After becoming Pacific Tin in 1939, the company continued to prosper, and significantly owed its post-war growth to the efforts of its returning managerial staff and the co-operation of the British government in its buying of tin supplies and thereby stabilizing tin prices. The company's rapid rehabilitation was a shot in the arm for the Malayan tin industry and the Malayan economy in general after the Japanese occupation.

As manager of PacTin during the Communist Insurgency (1948-1952), and while a member of the State War Executive Committee, Norman Cleaveland played an instrumental role in resolving the squatter problems that had posed threats to his company's dredging operations as well as the overall interests of the Malayan mining industry. In implementing population control at the squatter settlements, Cleaveland was also ahead of the Briggs Plan announced in April 1950 to deal with the situation.[2] As the only US tin mining operation in Malaya during the Emergency, PacTin produced only 3 percent of the country's tin compared to Anglo-Oriental, a British company, which produced about 25 percent (Cleaveland,1973, 68). However, its contributions to the development of industry were significant, particularly in the areas of innovative techniques, management methods and R&D activities, and which undoubtedly contributed to the increase in Malayan tin production. In spite of the political turbulence following the Japanese surrender to the British Malayan Administration (BMA) and the Communist insurgency, Cleaveland observed that Malaya was "probably the most successful" case of transition from a colonized area into a self-governing nation in the post-war period (Cleaveland, 1973, 68). Although the local Chinese miners lacked the funds to invest in the capital

[2] General Sir Harold Briggs' initiative involved the drawing up of a systematic resettlement plan to undermine the communists whereby squatters were moved to heavily policed areas outfitted with lighting and barbed wire fences. Population control, according to Briggs, was a competition between the government and the Malayan Races Liberation Army for control of the local population, largely the Chinese rural population which included among the squatters, miners, and plantation workers. John Newsinger, 'Counter Revolution: The Malayan Example', *Monthly Review*, 45 (1994), 19-29.

intensive dredging technology as well as access to technological skills, PacTin assisted them via the tributary system through the 1960s and 1970s.

From the early 1970s, the company's management began discussing how they could fulfill the government's requirements on localization. PacTin was concerned that future mining leases may not be renewed if they did not participate in the Malayanisation or localization process when the mining leases of Anglo-Oriental were rejected; in fact PacTin was already assessing the candidates for local partners including a number of Chinese interests, Selangor Dredging and the Selangor State Development Corporation (SEDC). Other key concerns included Malaysian and US tax issues, stockholders approval and share pricing strategy (PacTin Annual Reports 1976-78).

A landmark event occurred on 5 March 1979 when an agreement was duly signed between Kumpulan Perangsang Selangor Berhad (KPS), a Malaysian corporation owned by the SEDC and Perangsang Pasifik Sdn Bhd - formerly known as Timah Pasifik (Malaysia) Sdn Bhd - PacTin's wholly owned subsidiary. KPS was given a 10 percent equity interest in Perangsang Pasifik and 10 percent royalty on tin sales in exchange for a mining sub-lease on all the currently mined areas for a period of 15 years. Eventually, KPS acquired 30 percent interest in Perangsang Pasifik, which in return was granted mining subleases subject to 5 per cent royalty on tin sales, and this equity arrangement continued until 1993. In 1992, Zemex sold off its 49 per cent stake in a tin mining firm, Sierra Mining Company Ltd, based in Thailand. This was due to losses suffered by the firm throughout the mid eighties and the non-operation of tin mining leases by 1992. This subsequent arrangement continued until 1993 (PacTin Annual Reports, 1992-93).

By 1985, tin output and prices had declined, partly due to imposition of export control by the International Tin Council (ITC) as well as the October tin crisis in the world market following the collapse of the tin price support system. However, Malaysia remained the world's largest producer of tin, accounting for 19 percent of the world's tin mine production. With the transition of the tin industry to a free market in 1986, despite an increase of tin ore sales due to the removal of export control, PacTin recorded a loss of US$198,000 compared with an income of US$222,000 in 1985. These losses can be attributed to the 47 percent decline in tin prices from $5.19 per pound to $2.73 per pound. With the decline of tin prices, production became uneconomic, causing many mines to stop operations around the world. PacTin, however, persevered in its Malaysian mining operations although commercial production was halted.

In contrast to its continued losses in Malaysia in the tin sector, business in the US was very successful, and in line with its new corporate identity and expanded shareholder group, Pacific Tin Consolidated Corporation in 1986 had a name change to Zemex Corporation and was headquartered in Delaware. The name change reflected the diversification of its then current business into other areas of industrial minerals operations (feldspar, kaolin, industrial sand, mica and high purity silica) with tin, in contrast to the early 1930s, forming the smallest percentage of its business (Zemex Annual Reports 1985-87).

Zemex's Malaysian head office continued to be Kuala Lumpur, although its subsidiary Perangsang Pasifik was located in Batang Berjuntai, Selangor, where most of its tin mining activities were located. The company, as it did previously, held leases on all its mining acreage. A turnaround in profits occurred in 1987 due to an increase in the price of tin, improvements in operating productivity, cost reductions and sale of accumulated mine byproducts, when Perangsang Pasifik reported an operating income of US$229,000 in contrast to an operating loss of US$697,000 in 1986 (Zemex Annual Report 1987).

In 1993, Zemex Corporation disposed of the remaining 70 percent share held by Perangsang Pasifik, because of their shift in strategic direction which relegated tin mining properties as non-core assets. This is not surprising as earlier, in light of Zemex's earlier selling off of its Thai stake in the Sierra Mining Company. Although there were undoubtedly localization pressures exerted through the NEP, the combined external factors, such as the declining global tin market and the shift in business priorities, probably carried greater weight in the company's decision to sell its stake in Perangsang Pasifik, particularly when considering that Zemex's selling of its mining stake in Thailand.

UniRoyal: Goodwill through Knowledge Sharing

UniRoyal, formerly known as United States Rubber Company (USRC), started as a merger of nine footwear manufacturers in 1892 and evolved into a tire producer in 1905. Its entry into Southeast Asia was precipitated by an intrepid entrepreneur, Edgar B. Davis, who, in 1910, succeeded in convincing USRC to invest in rubber holdings in Sumatra. By World War I, USRC had emerged as one of the four largest US rubber manufacturers, in the same league as Goodyear, Firestone, and Goodrich. Of the "big four", USRC paved the way as an industry leader to be the largest investor to venture into vertical integration from tire production to rubber plantations, which in turn enabled the corporation to achieve multinational status.

An initial attempt to integrate vertically, with competitor Firestone in pursuit, was made in 1916 and precipitated in main by shortages and failed investments in South America. Malaya offered access to adequate and cheap sources of supply[3], but a war-time imposition by the British

[3] The rubber established, and by 1911 it had become one of the largest producers in Malaya. Two American rubber companies in Malaya, The Pahang Rubber Company Ltd (Pahang) and Tanjong Olak Rubber Plantation Company (Johor) were established in 1906 and 1907 respectively. There were no political or legal barriers to American rubber investments prior to Word War I.

[3] The Rubber Lands (Restriction) Enactment effective 25 July 1917 in the Federated Malay States and with similar legislation in the Straits Settlements

government thwarted both companies' entry into the Malayan rubber industry. [4] When the Rubber Lands (Restriction) Enactment was revoked in 1919, USRC approached the local governments of Johor, Pahang, Perak and Kedah for fresh land concessions of 50,000 acres. A total of S$140,000 was spent on a greenfield investment plan in Pahang but the plan was abandoned in favour of a take over of 13,000 acres of existing rubber estates in Kedah. In the 1920s, the firm's Malayan properties totalled 29,690 acres. US Rubber Plantation Incorporated (USRPI) based in Penang managed these estates under a subsidiary known as the Malayan-American Plantations Ltd (MAP), which was incorporated into the Federated Malay States (FMS) in 1920. These acquisitions and the cost of their development were financed by revenue from the Sumatran plantations which, by 1919, were the largest rubber plantations in the world. With a total acreage exceeding 110,000 in both Sumatra and Malaya, USRC supplied 20 percent of its rubber needs from its own plantations in 1922. (Annual Report USRC, 1922, Lewis, 1938, 281-88). There were no further acquisitions beyond the 1920s.

---

and Unfederated Malay States stated that "No alienations over 50 acres were permissible except to British nationals, subjects of the Malay rulers, corporations registered in the United Kingdom, Dominions or locally in Malaya, and persons resident in the Peninsula for at least seven years and intending to so continue." John Drabble, *Rubber in Malaya, 1876-1922, The Genesis of the Industry* (Kuala Lumpur, 1973), 136.boom, which had just begun in Malaya during that time, attracted several US rubber firms to Malaya. In 1905, an American rubber company, the Malacca Rubber Company, was established, and by 1911 it had become one of the largest producers in Malaya. Two American rubber companies in Malaya, The Pahang Rubber Company Ltd (Pahang) and Tanjong Olak Rubber Plantation Company (Johor) were established in 1906 and 1907 respectively. There were no political or legal barriers to American rubber investments prior to Word War I.

[4] The Rubber Lands (Restriction) Enactment effective 25 July 1917 in the Federated Malay States and with similar legislation in the Straits Settlements and Unfederated Malay States stated that "No alienations over 50 acres were permissible except to British nationals, subjects of the Malay rulers, corporations registered in the United Kingdom, Dominions or locally in Malaya, and persons resident in the Peninsula for at least seven years and intending to so continue." John Drabble, *Rubber in Malaya, 1876-1922, The Genesis of the Industry* (Kuala Lumpur, 1973), 136.

However, these investments yielded wildly fluctuating returns due to unstable demand for rubber, rises in production costs, competition for available workers, the outbreak of war and increasing use of synthetics. The profit margins of all rubber growers, including USRC, were affected in 1921-1922 when overproduction caused a slump in rubber prices. The firm experienced heavy losses on stockpiled crude rubber as prices fell in 1928, and suffered further during the worldwide economic depression between 1929 and 1931.

Both the Rubber Growers Association and the Colonial Office implemented international voluntary and compulsory restriction schemes, such as the Stevenson scheme, to limit Malayan acreage and output from 1922-1928 (Martin, 2003, 38) so as to maintain optimal rubber prices. Although the Scheme was regarded as favoring plantation enterprises in the Netherlands East Indies and discriminating against the smallholders, it restored the profitability of existing rubber holdings, at least while the scheme lasted, and allowed planters to re-invest or diversify into other ventures.

Profits from plantation rubber cultivation decreased without artificial restrictions on smallholder competition in the 1940s and with the development of synthetic rubber that transformed and severely eroded the global demand for natural rubber after World War II. In addition, millions of rubber trees were destroyed during the Japanese occupation (1941-1945) to grow food crops, the priority of the Japanese military administration. Unlike the flourishing palm oil sector, the vulnerability of the natural rubber industry to turbulent economic and political contexts compelled the RGA to lobby for continuous colonial government support (Martin, 2003, 6). However, the stockpiling of rubber by the United States during the Korean War (1950-1953) temporarily boosted the price of rubber.

As a relative latecomer on the scene, USRC, which owned less than 2 percent of the world‘s rubber plantations, adopted a progressive policy to catch up with the British and Dutch pioneers, by financing quality research work by European rubber experts. USRC invested heavily in R&D activities that led to research collaborations with the RGA and the Planters Association of the East Coast of Sumatra (AVROS) and the establishment of its own R&D outfit headed by rubber expert, James Grantham.[5] This research station attracted world-class researchers, including British and Dutch scientists, agriculturalists, geneticists and mycologists, who shared expertise and generated knowledge on significant findings in budding, tapping, manuring, prevention and cure of rubber plant diseases. (Bauer, 1947, 274)

From the late 1920s through the 1950s, despite its small percentage of rubber investment compared to British interests, USRC's lead role in rubber research had a significant impact on the industry. Discoveries in growing practices, such as genetic selection and grafting, had increased and revolutionized rubber production and decreased production costs. Innovations were widely disseminated and adopted by large plantations, such as Dunlop, Harrisons and Crosfield, and Guthrie, which had the financial means to adopt the new techniques. The research carried out by these US MNEs was mutually beneficial both to the firm and to its host country and clearly had a positive impact on the rubber industry in Southeast Asia, Malaya included.

USRC was not only innovative in terms of research but also in its attempts to counter the volatility of the natural rubber market, for example by diversifying into reclaimed and synthetic rubber. The firm diversified into reclaimed and synthetic rubber. The firm displayed patriotic sentiments by co-operating with the US government in meeting

[5] In 1911 the RGA research station was established, and by 1924 it had spent more than S$600,000 on research. This research station operated until 1926. The much-awaited Rubber Research Institute (RRI), proposed in 1921, was finally set up in September 1925. Khoo Kay Kim, "Malayan Agriculture, 1920-21", *Journal of the Malaysian Branch of the Royal Asiatic Society*, 72 (1999), 30-1.

wartime demands. The venture into synthetics led to conflicting interests within USRC, between those involved in producing natural rubber in plantations in the host country and synthetic rubber in laboratories in the home country. [6] USRC, however, continued its R&D into synthetic rubber during the Second World War, when the firm displayed patriotic sentiments by co-operating fully with the US government in meeting wartime demands.

By 1945, USRC played a key role in the development of the US as the world's largest producer of synthetic rubber (by 1950 the US produced 42 percent of all synthetic rubber) and which, in turn, threatened the future of Malayan natural rubber and the Malayan economy (Tate, 1998, 563-4). However, USRC maintained and revived its plantations after the Second World War since the demand for natural rubber continued, mostly because synthetic rubber could not replace natural rubber in all applications. It is interesting to note then, that while the dissemination of USRC research innovations contributed to the host government economy, with the changing demand of global rubber industry it worked closely with the home government in synthetic rubber production which conflicted with the economic interests of the host country. Realizing the urgent need to protect its rubber industry, the post-colonial government in Malaysia took further independent steps into areas of R&D. Agencies like the Rubber Research Institute of Malaysia (RRIM) and the Rubber Industry Smallholders' Development Authority (RISDA) were established to achieve the three objectives of the Malaysian rubber industry: to maintain Malaysia's leading position as the largest producer and exporter of natural rubber; to restructure capital and increase local participation in estate ownership and production; and to guarantee non-discriminatory practices by the government towards smallholders.

[6] Report by Herbert E. Smith, President, USRC, Annual Meeting of Stockholders, 20 April 1948.

The firm changed its name from USRC to Uniroyal Inc in 1967 (registered in New Jersey, USA , and there followed a name change in Malaysia from Malayan American Plantation Sdn Bhd to Uniroyal Malaysia Plantations Sdn Bhd in 1968. The firm's focus on manufacturing meant that activities in production remained stagnant in the 1960s and 1970s, except for expansion into Liberia. Despite certain challenging policies of the new post-colonial government, such as the requirements of localization, as it had only a marginal role as a producer and buyer of its own output, USRC was largely unaffected. Only In 1984, did Kumpulan Guthrie Sdn Bhd acquire the entire assets of Uniroyal Malaysian Plantations Sdn Bhd, a subsidiary of Uniroyal Inc, for a total cash consideration of RM198,943,560. The principal assets of Uniroyal (later renamed Kumpulan Jerai Sdn Bhd) comprised the five estates acquired since the 1920s. The acquisition of the US enterprise consolidated Kumpulan Jerai's earlier take-over of the British plantations and related interests during the historic 1981 "Dawn Raid" of the London Stock Exchange through Permodalan Nasional Berhad. That spelled the end of Uniroyal's romance with rubber in Malaya. As the sole US corporation which continued to invest in rubber plantations in Malaya, USRC remained steadfast in the face of challenges to the local rubber industry. Since its rubber plantations produced only a small percentage of its manufacturing requirements, it should be remembered that rubber production remained marginal to its performance as a rubber manufacturer.

As a minor player in the natural rubber industry, the localization process did not impact Uniroyal's fortunes as much as the large British Agency Houses. Unlike the unconventional take-over of British plantation interests such as Guthrie Corporation Ltd in 1981, the company itself decided to dispose of its Malaysian rubber plantation business at a much later date (1984). Uniroyal was keen not to work with a local partner in its plantation venture, which led to its Malaysian rubber plantations divestment. This is further underlined in the statement made by Uniroyal's Chairman, Joseph P. Flannery, when he cited the Malaysian government new economic policy of giving Malaysians majority control of its rubber plantations venture as reasons behind the sale of its Malaysian company (Chemical Market Reporter,1984, Annual Report, Uniroyal Inc. 1984). The company continued to produce rubber at its Indonesian and Liberian plantations secured through concession agreements with the respective local governments (Annual Report, Uniroyal Inc. 1984). Yet, in 1985, because of lower rubber prices, Uniroyal sold its Liberian plantation (*New York Times*, 2006). [7] Nevertheless for Uniroyal, the sale of its Malaysian stake was much needed to offset large losses incurred in the early 1980s, although there was sizeable gain in profits in 1983 and 1984 because of the rise of automobile sales in the US (*Modern Tire Dealer*, 1984). In the early 1980s, with the wave of mergers and acquisitions hitting the US tire industry from 1982 to 1989, lower rubber prices and because of the urgent need for capital injection for the survival of its tire manufacturing operations forced Uniroyal to agree to a joint-venture with Goodrich. In 1986, Uniroyal Goodrich Tire Company (UGTC) was formed. In 1990, UGTC was acquired by Michelin. This development is not surprising as control of "traditional" US tire manufacturers, like Firestone, Goodrich, Armstrong, and General Tire, fell into the hands of foreign companies

[7] Uniroyal secured the concession agreement from a Liberian road construction company, Vianini, which obtained the 70 year rights from the government in 1959. Uniroyal began rubber planting in 1960 and set up a factory complex including a processing plant. First batch of processed rubber was produced in 1968. Uniroyal buyout in 1985 led to the transfer of these plantations into the hands of another American company, Keened Industries, which managed the plantation until the outbreak of the war in December 1989 until 1996. Due to heavy losses suffered amounting to US$20 million, Keene Industries sold its rights to Intercultures, a Luxemborg company which is the present owner of the plantation firm. "Human Rights in Liberia's Rubber Plantations: Tapping into the Future", United Nations Mission in Liberia, May 2006. www.stopfirestone.org/liberiarubber.pdf (Accessed 20 June 2006).

leaving US tire manufacturers representing only 17 percent of world production in 1991, as compared to 59 percent in 1971. (Rajan, Volpin, Zinghales, 1997).

Thus, these developments demonstrate that the localization process was not the sole, or even major reason for US capital flight in the case of Uniroyal. By the 1980s, the transformed global economy led to widespread restructuring of US businesses which compelled Uniroyal to focus on its core manufacturing activities. In fact the Uniroyal Annual Report of 1985, listed the company's Indonesian rubber plantations among its non-strategic assets being offered for sale. In retrospect, the decision to integrate backwards into rubber plantation did not serve the long-term interests of the MNE, which drew its main source of income from rubber manufacturing. Unlike United Plantations, for example, which focused on plantation enterprise, Uniroyal was not able to diversify and reinvest in new ventures such as coconuts and palm oil to offset the unreliability of rubber profits. By the 1980s, Uniroyal's leading role in R&D and its contribution to technological innovations was significantly diminished when funds dwindled to just 2 percent of total sales (Blackford and Kerr, 1996, 374).

Ford-Malaysia: The Spirit of Resilient Capitalism

Ford's entry into the Malayan automobile sector was initiated by Ford-Canada, which had appointed independent agents to penetrate into new market areas at the beginning of the twentieth century. Although it was independent of Ford-US, the Canadian parent company chose to closely monitor its Malayan subsidiary operations, as it did its other foreign subsidiaries. And as in Ford-Canada's other overseas subsidiaries, with the exception of Australia, Ford-Malaya's core business was assembling, not manufacturing. This proved to be a disadvantage when faced with European and Japanese competition that produced sleeker and more economical models.

Ford-Malaya's business strategy in facing the challenges of a relatively small market with stiff competition was through collaboration in car assembly with its main dealer, Wearne Brothers, which had already started its own assembly operations of Ford products in 1916. Thus Ford secured first mover advantage over other British automobile pioneers in colonial Malaya. The company also took a co-operative marketing approach by capitalizing on existing distribution networks provided by local merchant firms and Chinese entrepreneurs throughout Singapore and major cities in the Malay States. These strategic alliances served the long-term interests of the automobile corporation and contributed to its sales from the 1900s through the 1930s. In 1926, Ford Canada established its own "light" assembly plant in Singapore while its main dealer, Wearne Brothers, continued to assemble Ford products.

Despite such collaboration with local businesses and its first mover advantage in automotive assembly, Ford-Malaya began to lose market share to its European competitors, such as Morris, largely in the compact car market and particularly in the decades of the 1930s and 1950s, because of Ford's failure to fulfill a shift in demand for smaller passenger cars. Although constrained in its core activities to assembly and distribution, the company did manage to out perform its Indian counterpart and Ford-India's marketing services were transferred to Ford-Malaya in 1956. The Malayan enterprise was indeed a significant player within the framework of Ford-US's global operations, but particularly in Southeast Asia.

Ford continued its investment in post-colonial Malaysia, and retained its ties with Wearne Brothers which remained Ford's biggest Malaysian representative. Up until Singapore was ousted from Malaysia in 1965, Ford's Singapore plant had been supplying the Malaysian market. However, Ford elected not to relocate its assembly facilities to Malaysia and submit to the Malaysian government's directive to allow sale of only locally assembled vehicles in Malaysia. In 1967, Ford, Chrysler and British Leyland resolved this issue of “local assembly” by having their vehicles assembled by Wearne Brothers, which had entered into the assembly business in independent Malaysia through its subsidiary, Associated Motor Industries of Malaysia (AMIM). Meanwhile, the importation and distribution of European Ford vehicles was handled by another of Wearne’s subsidiaries, Universal Cars. Ford’s decision to deal exclusively with Wearne was not a prudent business strategy because it failed to capitalize on its former alliances with large Chinese firms in the Malaysian car market when it secured the Toyota franchise (although some Chinese dealers continue to market Ford products today and United Motor Works, which had been selling Ford spare parts since 1916, had become a major player in 1959).

In 1972, the Ford Motor Company of Malaysia Sdn Bhd (Ford-Malaysia), a wholly-owned subsidiary of the US company, was set up following an injection of RM$23 million (US$8.2 million) by Ford-US. Ford-Malaysia was only a marketing operation for Ford-England which focused on manufacturing, while the Wearne group concentrated on assembling. Ford-Malaysia sourced its products from Ford-England because the Malaysian market required right-hand drive vehicles. Earlier, in 1970, Ford-US had set up Ford-Asia Pacific Inc, headquartered in Australia, to co-ordinate manufacturing, marketing, sales and service in Thailand, Malaysia, Vietnam, Indonesia, Philippines, Taiwan, China, India, Japan, New Zealand and Australia.

Through the 1970s, Japanese companies successfully elbowed Western cars from the Malayan automobile market and made the strategic choice of shifting their alliances from Western trading firms to local Chinese firms. While Western firms failed to develop such relationships or, like Ford, had let them languish, the Japanese MNE late-movers aggressively penetrated the local automobile market as they continued to form alliances with local Chinese firms in the early 1980s. It is perhaps not surprising then, that the Japanese were the strategic choice of business partners when the Malaysian government embarked on a national car project with state-controlled enterprises in partnership with Japanese automobile manufacturers in the early 1980s and into 1990s. These projects that included Proton, a joint venture between HICOM and Mitsubishi in 1985, and Perodua, a joint venture in 1994 between UMW with the Toyota subsidiary, Daihatsu, came in the wake of the government's "Look East" policy, a conscious turning away from Western investors and technologies to Japanese and Korean FDI and product innovations.

In 1981, following the Malaysian government's localization demands, a joint venture was forged between Ford-US (in 1979 the company had acquired Wearne Brothers' local assembler, AMIM) and Pernas Sime Darby (a company taken over from the British), with the latter acquiring 49 percent equity in Ford-Malaysia, catapulting Ford from seventh to third position in the Malaysian automobile market. In 1984, in compliance with the NEP, Ford reduced its equity to 30 percent with Pernas Sime Darby becoming the majority shareholder. The affiliate's name was changed to AMIM Holdings Sdn Bhd in 1985. Already, by mid 1984, Ford had repositioned itself as the leader in the Malaysian light trucks market. Even as a minority shareholder, Ford-US participated directly in the affairs of the firm, by setting up a representative office in Malaysia in 1996, and appointed a General Manager from Ford-US in 1997. In 2000, Ford-US rescued AMIM Holdings from the debilitating effects of the 1997 Asian financial crisis when it increased its equity from 30 percent to 49 percent in AMIM Holdings with the latter subsequently renamed Ford-Malaysia Sdn Bhd.

To protect the fledgling national car industry, high excise taxes and import duties were imposed on non-national or foreign cars which made it extremely difficult for foreign automobile multinationals to compete, at least in terms of price, with the subsidized national cars quickly gaining monopoly position in car manufacturing and distribution in Malaysia. In addition, a perceived lack of transparency and inconsistency of the government national automotive policy, which seldom considered the views of foreign car companies with Malaysian interests, made it extremely difficult for these companies to plan their long-term investment strategies. This underlines the negative impact of economic nationalism on foreign car assemblers and distributors, such as Ford-Malaysia. The decision of the Malaysian government to joint-venture with the Japanese had alienated Ford-US which then chose Thailand to manufacture Ford products in 1996, retaining Ford-Malaysia only as an assembly plant. In 2002, Ford-Thailand became the headquarters of Ford's Asia-Pacific Marketing and Sales Division.

In the late 1990s, in reaction to declining passenger car sales, due largely to the dominance of national cars and Japanese assemblers as well as the economic turmoil surrounding the 1997 financial crisis in the region, Ford-Malaysia concentrated their local assembly and sales operations in the relatively less competitive light truck and pickup segments. These segments remained relatively small, unlike in the surrounding markets of Thailand and Indonesia, again because of favorable government policy toward national cars, but also because of consumer preferences for passenger cars. Following increased competition from the Malaysian national car projects and other, mainly Japanese automobile manufacturers, Ford performance has continued to languish below 1 percent of total industry sales in 2004 and 2005, although their performance in the segments in which they do compete has remained relatively strong – despite the entry of new models from Japanese and Korean competitors. This is in a market which enjoys the biggest passenger car market in the ASEAN region (Indonesia, Malaysia, Philippines, Singapore, Thailand, Brunei, Vietnam, Laos, Myanmar, and Cambodia).

The contemporary position of Ford-Malaysia is very much the legacy of how the company responded to Malaysia's decolonization, as well as the shifting parent company-subsidiary relations, and the interplay between foreign MNEs and domestic firms as well as the post-independent government. Ford-Malaysia, as an incumbent player in the local automobile sector, symbolizes the spirit of resilient capitalism by the multinational's capacity to reinvent and survive the challenges of localization and heavy industrialization. Ford stayed the course in spite of all the odds stacked against it because the company realized Malaysia's competitive advantage as the largest passenger-car market for the ASEAN region. However, it is probably true to say that the national car industry would probably have benefited from competition with another car manufacturer, for example if Ford-US had decided to set up its plant in Malaysia, instead of Thailand. This case study, nonetheless, shows that the US experience in colonial Malaya and post-colonial Malaysia could be a mutually beneficial venture with local firms, such as Sime Darby, in terms of management method, dealership networks, employment opportunities and technological innovation.

Conclusion

The above case studies challenge the assertion that economic nationalism is unfavorable to the economic growth of developing countries like Malaysia. The introduction of the NEP and the process of localization sustained and localized the imperial legacy of the Western enterprises by building on their capital assets, managerial expertise, technological innovations and the culture of R&D. Malaysia's experience in localizing foreign businesses evoked varied responses ranging from conventional to unconventional take-overs. It should be noted that Malaysia did not practice narrow nationalism based on confiscation of foreign assets, but relied on open market transactions as in the case of the acquisitions of British firms.

The three US multinationals which are the subjects of the case studies here, took a different route from their British counterparts.

Spurred by the decline of the world tin market, PacTin decided to relinquish its assets, to diversify and strategically redirect its corporations in new and profitable mining ventures elsewhere. Similarly, localization of Uniroyal assets was facilitated by losses incurred due to poor business performance of the parent company in the US coupled with decreasing demand for natural rubber. Ford-Malaysia's resilience in the automobile industry in the face of the national car offensive is shown in its sustained collaboration with local conglomerate, Sime Darby, in its building on local human capital, technology transfer and support of local corollary businesses. In the process, Ford-Malaysia has preserved its capital assets and successfully capitalized on smart market strategies.

Although economic nationalism and the NEP was perceived as an anti-colonial backlash, it was not necessarily hostile to foreign interests. On the contrary, Malaysia adopted a liberal stand on FDI through the introduction of pro-business legislation that brought in new entrants from various parts of the world to drive the "new engines of growth". This new set of business relationships was predicated on a fresh perspective of the newly emerging economy and the post-colonial government, thus generating business ventures on an entirely different footing from that of the former colonial enterprises.

References

Bauer, Peter T. *The Rubber Industry: A Study in Competition and Monopoly* (Longman, 1947).

Burnell, Peter. *Economic Nationalism in the Third World* (Wheatsheaf, 1986).

Cleaveland, Norman. *Bang! Bang! In Ampang: Dredging Tin during Malaya's Emergency (*Symcon Publishing Co, 1973).

Cunyngham-Brown, S. *The Traders: A Story of Britain's South-East Asian Commercial Adventure* (Newman Neame, 1970).

Davenport-Hines, R.P.T. and Geoffrey Jones (eds.) *British Business in Asia Since 1860* (Cambridge: Cambridge University Press, 1989).

Fui K. Soong, 'A Profile of US Companies in Malaysia', *Ekonomika*, 16 (2004).

Gomez, Edmund Terence and Jomo KS, *Malaysia's Political Economy: Politics, Patronage and Profits* (Cambridge University Press, 1997).

Helleiner, Eric and Andreas Pickel (eds.), *Economic Nationalism in a Globalizing World* (Cornell University, 2004).

Helleiner, Eric. *States and the Reemergence of Global Finance: From Bretton Woods to the 1990s* (Cornell University Press, 1997).

Hobsbawm, Eric J. *Nations and Nationalism since 1780* (Cambridge University Press, 1990).

Hua Wu Yin, *Class and communalism in Malaysia* (Zed Books, 1983).

Jomo, KS. *A Question of Class: Capital, the State and Uneven Development in Malaya* (Monthly Review Press, 1988).

_______ Whither Malaysia's New Economic Policy? *Pacific Affairs*, 63 (Winter 1990-91).

Jones, Geoffrey. *Multinationals and Global Capitalism: Form the Nineteenth Century to Twenty-First Century* (Oxford University Press, 2005).

_______. *Merchants to Multinationals: British Trading Companies in the Nineteenth and Twentieth Centuries* (Oxford University Press, 2000).

Lewis, Cleona. *America's Stake in International Investment* (Washington DC, 1938).

Lim Mah Hui. *Ownership and Control of the One Hundred Largest Corporations in Malaysia* (Pelandok Publications, 1986).

Martin, Susan. *The UP Saga* (NIAS Press, 2003).

Nakano,Takeshi. 'Theorising economic nationalism', *Nation and Nationalism* 10 (3), 211-229.

Palmer, Ronald D. Globalism vs. Economic Nationalism: The Southeast Asian Case, *American Diplomacy*, 4 (1999).

Pickel, Andreas, Explaining (with) Economic Nationalism, Working Papers, Trent international Economic Centre (TICEP), 02/01, 2002. Available Online: http://www.trentu.ca/tipec/2pickel6.pdf (Accessed Online 20 May 2006).

Saruwatari, Keiko. Malaysia's localisation policy and its impact on British-owned enterprises. *Developing Economies*, 29 (1991).

Sieh Lee Mei Ling, *Taking on the World: Globalisation Strategies in Malaysia* (McGraw-Hill (M) Sdn. Bhd., 2000).

White, Nicholas J. *Business, Government, and Empire: Malaya, 1942-1957* (Oxford University Press, 1996).

________. *Decolonisation: The British Experience since 1945*, Seminar Studies in History (London: Longman, 1999).

________. *British Business in Post-Colonial Malaysia, 1957-70: 'Neo-colonialism' or disengagement'?* (RoutledgeCurzon, 2004).

Tate, Muzaffar. *The RGA History of the Plantation Industry in the Malay Peninsula* (Oxford University Press, 1996).

Raghuram Rajan, Paolo Volpin, Luigi Zinghales, 'The Eclipse of the U.S. Tire Industry, Available Online: http://gsbwww.uchicago.edu/fac/luigi.zingales/research/PSpapers/tie.pdf (Accessed 15 June 2006).

Government Documents

Malaysia

'Investment from U.S.A. in the Manufacturing Sector in Malaysia', MIDA, 1987.

'Performance of the Manufacturing and Related Services Sector, 2004', MIDA 2005.

'Business Opportunities in Malaysia', MIDA, 2006.

National Archives, U.K.

DO 189/588, File No. AED 110/30/1

Malayanisation (including employment of expatriates in Business)

FCO 15/1928, File No. FAF 6/1

British Firms and Investment in Malaysia.

FCO 15/2075

UK Firms and Investment in Malaysia.

Annual Reports

Pacific Tin Consolidated Corporation
Zemex Corporation
United States Rubber Company
Uniroyal
Ford Motor Company of Malaya
Ford Malaysia

Newspapers and Magazines

'Uniroyal Sells Natural Rubber Company to Malaysians, Cites Government Policy', *Chemical Market Reporter* (31 December 1984).

Modern Tire Dealer, Volume 65 (August 1984).

'International Report; A Rubber Revival for Liberia', *New York Times*, 14 June 2005.