BRITISH BUSINESS IN POST-COLONIAL MALAYSIA, 1957–70

‘Neo-colonialism’ or ‘disengagement’?

Nicholas J. White

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British Business in Post-colonial Malaysia, 1957–70

This book explores the limits of the idea of ‘neo-colonialism’—the notion that in the period immediately after independence, Malaya/Malaysia enjoyed only a ‘pseudo-independence’, largely because of the entrenched and dominant position of British business interests allied to indigenous elites. Although British business did indeed occupy a strong position in independent Malaysia, local politicians and administrators were able to utilise British business for their own ends. At the same time, British firms were frustrated by Malaysian decision-making, and pessimistic about Malaysia’s future political and economic prospects. Moreover, indigenous businesses and foreign, non-British competitors were gathering strength under the Alliance regime.

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5.1 Area under oil palm estates and smallholdings, West Malaysia, 196–72 166
5.2 Sources of called-up capital for pioneer industries in the Federation of Malaya, 1958 to June 1962 167
This is the first full-length study of the experiences of a British imperial business network in the aftermath of decolonisation. It re-examines the ‘neo-colonial’ interpretation of Malaysia’s contemporary economic and political history. In other words, we re-visit the notion that independence for the Federation of Malaya in 1957, followed by the creation of Malaysia six years later, represented a ‘pseudo-independence’, largely because of the entrenched and dominant position of British business interests allied to indigenous elites. Under the premiership of Tunku Abdul Rahman (1957–70), British business did indeed occupy a strong position in the successor state. Not only in the long-established rubber and tin industries, but also in the new fields of secondary industry and oil palms, British business groups showed themselves at the forefront of developments and capable of considerable dynamism, without the colonial crutch. But, drawing upon a wealth of newly released business and government papers in both the UK and Malaysia, the following chapters reveal that Malaysian politicians and administrators were able to utilise the expatriates for their own ends. British businesses were relatively weak vis-à-vis the determined post-colonial state, while the constant fears of expatriate managers and directors about Malaysia’s political, economic and social future hardly points to a situation akin to ‘neo-colonialism’. At the same time, indigenous businesses and foreign, non-British competitors were gathering strength, and frequently had more solid and influential governmental contacts than their British counterparts. Although both Conservative and Labour governments in London were concerned to maintain Britain’s world role through the Commonwealth, UK firms in Malaysia also received limited backing from the post-imperial state. Indeed, in the second half of the 1960s, an accelerated ‘disengagement’ between Britain and Malaysia impacted negatively upon the UK’s financial, commercial and industrial nexus in Commonwealth Southeast Asia.

The book tells us much therefore about events crucial to the early years of Malaysian independence—such as the split with Singapore, the growing roles of the state in economic development and the beginnings of ‘crony capitalism’, the origins of industrialisation and the diversification of the export base, and the reorientation towards the Asia-Pacific trading and investment realm. At the same time, however, the focus on British business interests in Malaysia, and their
relations with British officials and ministers, allows us to dissect the UK’s post-imperial economic position, straddled between the Commonwealth and Europe. As Frank Heinlein has argued, the issue of how British interests in the ‘états d’âmes’ of the Commonwealth were defined, and the degree to which these were protected by British governments during the 1960s and the 1970s, is yet to be properly assessed.² Hopefully, therefore, this book will be read as a significant contribution both to Malaysia’s contemporary history and to a new field of post-imperial, Commonwealth history.

Notes

1 The formation of Malaysia involved the fusion of the independent Malaya with the former crown colonies of Sarawak, North Borneo (Sabah) and Singapore. Singapore, however, left the enlarged federation in 1965. As such, developments on the island are only discussed in this book when they have a bearing for the rump Malaysia—e.g. during the ‘Greater Malaysia’ debacle (Chapter 1) and the military withdrawal from ‘East of Suez’ (Chapter 3).

I have incurred many debts of gratitude in researching and writing this book. The British Academy Committee for South-East Asian Studies generously sponsored the research project, and I am particularly grateful to the Committee’s chairman, Professor Ian Brown. Professor Tony Stockwell has once again proved an indispensable source of support and inspiration, although now in a post-supervisory capacity. Other UK-based academic colleagues who have helped through conversation and correspondence are: Professor Andrew Porter, John Gullick, Dr Tim Harper, Dr Catherine Schenk and Dr David Clayton. In Japan, meanwhile, Professor Shigeru Akita deserves a special mention for his encouragement and friendship. For providing a supportive research environment, I am also indebted to my colleagues in the History Section at Liverpool John Moores University; not least Dr Frank McDonough, who, although sceptical about my writing ‘another book on rubber and tin’, supplied much bonhomie. In Malaysia, the hospitality and encouragement of Professor Lee Kam Hing, Professor Loh Wei Leng and Raja Nazrin Shah is gratefully acknowledged. Once again, Henry Barlow offered advice and allowed me access to his family’s papers in Cambridge. Many of the ideas in this book have been developed at academic gatherings—the History of Southeast Asia Seminar, SOAS, March 2001; the Economic History Society Conference, University of Birmingham, April 2002; the Post-Imperial Britain Conference at the Institute of Contemporary British History, London, June 2002; the International Economic History Association XIII Congress, Buenos Aires, July 2002; the Economic History of Africa, Asia, and Latin America seminar, LSE, March 2003; and the Association of Business Historians Conference, Cambridge, May 2003. I am most thankful to participants at these forums for their comments on my presentations. Meanwhile, parts of the book have been published in the Asia Pacific Business Review (Winter 2000), Twentieth-Century British History (2003) and Modern Asian Studies (forthcoming).

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## Abbreviations and acronyms

Note: for specific source references, refer to the Bibliography.

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<td>ACCC</td>
<td>Associated Chinese Chambers of Commerce</td>
</tr>
<tr>
<td>AGM</td>
<td>Annual General Meeting</td>
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<tr>
<td>AMCMMA</td>
<td>All-Malay[si]a Chinese Mining Association</td>
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<tr>
<td>ANM</td>
<td>Arkib Negara Malaysia</td>
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<td>AR&amp;A/Cs</td>
<td>Annual Report and Accounts</td>
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<tr>
<td>ASA</td>
<td>Association of Southeast Asia</td>
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<tr>
<td>Barbeal</td>
<td>Barlow Boustead Estates Agency Ltd</td>
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<td>BAT</td>
<td>British American Tobacco company</td>
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<tr>
<td>BBTC</td>
<td>Bombay Burmah Trading Corporation</td>
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<td>BCL</td>
<td>Borneo Company Ltd</td>
</tr>
<tr>
<td>BDM</td>
<td>Board of Directors’ Minutes</td>
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<td>BEA</td>
<td>British European Association</td>
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<td>BICC</td>
<td>British Insulated Callender Cables</td>
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<td>BMC</td>
<td>British Motor Corporation</td>
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<tr>
<td>BOAC</td>
<td>British Overseas Airways Corporation</td>
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<td>BoE</td>
<td>Bank of England Archive</td>
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<tr>
<td>BRPRA</td>
<td>British Rubber Producers’ Research Association</td>
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<tr>
<td>CBI</td>
<td>Confederation of British Industry</td>
</tr>
<tr>
<td>CCO</td>
<td>Clandestine Communist Organisation (Sarawak)</td>
</tr>
<tr>
<td>CDC</td>
<td>Colonial/Commonwealth Development Corporation</td>
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<tr>
<td>CO</td>
<td>Colonial Office</td>
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<tr>
<td>CRO</td>
<td>Commonwealth Relations Office</td>
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<tr>
<td>CSAS</td>
<td>Centre of South Asian Studies, Cambridge</td>
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<tr>
<td>CTS</td>
<td>Consolidated tin Smelters Ltd</td>
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<td>Cambridge University Library</td>
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<td>CWO</td>
<td>Commonwealth Office</td>
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DAP Democratic Action Party
ECGD Export Credit Guarantees Department
EDB Economic Development Board
EEC European Economic Community
EOI Export-oriented industrialisation
EPU Economic Planning Unit
ESC Eastern Smelting Company
FBI Federation of British Industries
FCO Foreign and Commonwealth Office
FELDA Federal Land Development Authority
FIDA Federal Industrial Development Authority
FMSCC Federated Malay States Chamber of Commerce
FMSCM Federated Malay States Chamber of Mines
FO Foreign Office
FTZ Free trade zone
GCL Guthrie Corporation Ltd
GSA General Services Administration
H&C Harrisons & Crosfield Ltd
HMG Her Majesty’s Government
HSBC Hongkong and Shanghai Banking Corporation
IA Inchcape Archives
ICI Imperial Chemical Industries
IDFC Industrial Development Finance Corporation
IIA Industrial Incentives Act (of 1968)
IMF International Monetary Fund
ISC Internal Security Council (Singapore)
ISEAS Institute of Southeast Asian Studies (Singapore)
ISI Import-substitution industrialisation
ISRC International Synthetic Rubber Company
ITA International Tin Agreement
ITC International Tin Council
JICH Journal of Imperial and Commonwealth History
JSEAS Journal of Southeast Asian Studies
LME London Metal Exchange
LTC London Tin Corporation
MAL Malay[sil]an Airways Ltd
MARA Majlis Amanah Rakyat (Council of Trust for the People)
<table>
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<th>Acronym</th>
<th>Description</th>
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<td>Mardec</td>
<td>Malaysian Rubber Development Corporation</td>
</tr>
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<td>MARDI</td>
<td>Malaysian Agricultural Research and Development Institute</td>
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<tr>
<td>MAS</td>
<td>Modern Asian Studies</td>
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<tr>
<td>Maybank</td>
<td>Malayan Banking Ltd</td>
</tr>
<tr>
<td>MCA</td>
<td>Malay[si]an Chinese Association</td>
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<tr>
<td>MCAGB</td>
<td>Malay[si]an Commercial Association of Great Britain</td>
</tr>
<tr>
<td>MCI</td>
<td>Ministry of Commerce and Industry</td>
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<td>MCM</td>
<td>Malayan Chamber of Mines</td>
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<td>MCP</td>
<td>Malayan Communist Party</td>
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<tr>
<td>MCS</td>
<td>Malayan Civil Service</td>
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<td>MEAGL</td>
<td>Malayan Estate Agency Group Ltd</td>
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<td>MIC</td>
<td>Malay[si]an Indian Congress</td>
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<td>MICC</td>
<td>Malaysian International Chamber of Commerce</td>
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<tr>
<td>MIDFL</td>
<td>Malay[si]an Industrial Development Finance Ltd</td>
</tr>
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<td>MISC</td>
<td>Malaysian International Shipping Company</td>
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<td>MMM</td>
<td>Merseyside Maritime Museum</td>
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<td>MNE</td>
<td>Multinational enterprise</td>
</tr>
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<td>MOPSP</td>
<td>Malay[si]an Oil Palm Selling Pool</td>
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<td>MRF</td>
<td>Malayan Rubber Fund</td>
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<td>Malaysia-Singapore Airlines</td>
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<td>MSCA</td>
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<td>NBCC</td>
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<tr>
<td>NEP</td>
<td>New Economic Policy</td>
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<td>NICs</td>
<td>Newly Industrialising Countries</td>
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<td>NOC</td>
<td>National Operations Council</td>
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<td>NRPRA</td>
<td>Natural Rubber Producers’ Research Association</td>
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<td>NUPW</td>
<td>National Union of Plantation Workers</td>
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<td>NYK</td>
<td>Nippon Yusen Kaisha</td>
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<tr>
<td>OCBBC</td>
<td>Oversea-Chinese Banking Corporation</td>
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<td>ODM</td>
<td>Ministry of Overseas Development</td>
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<td>OGM</td>
<td>Ordinary General Meeting</td>
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<td>OPGC</td>
<td>Oil Palm Growers’ Council</td>
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<td>OTC</td>
<td>Overseas Trade Corporation</td>
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<td>PAP</td>
<td>People’s Action Party</td>
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<td>PCC</td>
<td>Penang Chamber of Commerce</td>
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<td>PERNAS</td>
<td>Perbadanan Nasional Berhad (National Trading Corporation)</td>
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<td>Abbreviation</td>
<td>Full Form</td>
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<tr>
<td>Pertamina</td>
<td>Perusahaan Pertambangan Minyak dan Gas Bumi Negara (State Oil and Natural Gas Mining Enterprise (Indonesia))</td>
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<td>PKI</td>
<td>Indonesian Communist Party</td>
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<td>PMIP</td>
<td>Pan-Malayan Islamic Party</td>
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<td>PRB</td>
<td>Party Rakyat Brunei</td>
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<td>PRO</td>
<td>UK National Archives (Public Record Office)</td>
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<td>REAL</td>
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<td>RGA</td>
<td>Rubber Growers’ Association</td>
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<td>Rubber Research Institute</td>
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<td>RTAL</td>
<td>Rubber Trade Association of London</td>
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<td>RTZ</td>
<td>Rio Tinto Zinc</td>
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<td>SBHEU</td>
<td>Singapore Business Houses Employees’ Union</td>
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<td>SICC</td>
<td>Singapore International Chamber of Commerce</td>
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<td>SMA</td>
<td>Singapore Manufacturers’ Association</td>
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<td>States of Malaya Chamber of Commerce</td>
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<td>SMR</td>
<td>Standard Malaysian rubber</td>
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<td>SPA</td>
<td>Selangor Planters’ Association</td>
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<td>SPA</td>
<td>Singapore Peoples’ Alliance</td>
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<td>Straits Steamship Company</td>
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<td>Standard Vacuum Oil Company</td>
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<td>STC</td>
<td>Straits Trading Company</td>
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<td>STD</td>
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<td>SUPP</td>
<td>Sarawak United People’s Party</td>
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<td>TAB</td>
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<td>Telcon</td>
<td>Telegraph Construction and Maintenance Company</td>
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<td>UMNO</td>
<td>United Malays National Organisation</td>
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<td>UPAM</td>
<td>United Planting Association of Malay[s]a</td>
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States of Malaysia

Introduction
Dependence, interdependence and disengagement in the Malaysian context

‘Neo-colonialism’ revisited

The release of the British feature film, *Windom’s Way*, coincided with independence for the Federation of Malaya in 1957. It is the story of a remote, post-colonial Malayan village. Based on the novel by James Ramsay Ullman and scripted by Jill Craigie, wife of left-wing British Labour MP Michael Foot, the film suggests that Malaya’s decolonisation has its definite downside. The villagers depicted tap rubber on a British-owned plantation, but they also wish to grow their own rice. The British manager of the plantation, however, quashes this legitimate aspiration on the grounds that food production will be a distraction from rubber tapping. The villagers strike, and the reactionary planter enlists the support of the post-colonial authorities in the form of a brutal local police chief, a Malay district commissioner, and finally a detachment of the Malayan army. The strike is suppressed, forcing the labourers into the arms of a band of ruthless and unsavoury communist guerrillas, encamped in the highlands. In *Windom’s Way*, the post-colonial state is inclined to suppress its own populace rather than challenge the demands of long-established British capital, and those sympathetic to the tappers—notably Windom, the heroic, liberal English medic—are castigated and dubbed ‘fellow travellers’ by the Malayan authorities.

This fictitious representation of Malaya’s post-colonial political economy finds its academic expression in more recent and more cerebral writings by Malaysian social scientists. Malaya, and the enlarged Federation of Malaysia after 1963, have been regarded as classic ‘neo-colonial’ states. As Hua Wu Yin argued in the 1980s, the Malaysian ‘ruling class’ remained under the domination of a British ‘metropolitan bourgeoisie’ as the latter continued to monopolise control of the commanding heights of the economy, particularly the rubber and tin industries. A continuity of ‘imperialist domination’ and the ‘colonial character’ of the post-independence export economy was epitomised by a lack of diversification into secondary industry; in the late-1960s, less than one-tenth of the labour force was employed in the manufacturing sector. In leftist polemics of this kind, the conservative Alliance government in Kuala Lumpur emerges as the ‘neo-colonial’ collaborator *par excellence*. Headed by the Anglophile, racehorse-owning Tunku
Abdul Rahman, and with a Cabinet made up of Malay aristocrats and Chinese towkay (business leaders), the Malay[si]an governments did not fundamentally challenge the principles of the ‘open’ economy or the presence of British capital until the 1970s. Indeed, it is alleged that Bapa Merdeka reached an ‘unwritten accord’ with British officials to protect British business interests as a quidpro quo for swift independence.\(^2\) In addition, it would appear that the Alliance government connived with Britain’s neo-colonial strategy for the merger of independent Malaya with the crown colonies of Singapore, North Borneo (Sabah) and Sarawak to form the Federation of Malaysia in September 1963.

For Malaysia’s leading radical political economist, Jomo K.S., the popular Malayan saying of the 1960s—‘politics for the Malays, the economy for the Chinese’—was essentially false because it obscured the ‘domination of the national economy by foreign capital, the influence of capital over political decisions, and the systemic constraints on the scope for state intervention’. In other words, once in power, the policies of the leading nationalist party, the United Malays National Organisation (UMNO), and its coalition partners, the Malay[si]an Chinese Association (MCA) and the Malay[si]an Indian Congress (MIC), were clearly constrained by the local bourgeoisie’s alliance with British overseas business:

In the early years after independence, the post-colonial state continued to serve the interests of British capital in particular, and foreign capital in general. The governing stratum, spawned by the colonial state, had little reason to be distrusted by the hegemonic fraction of the bourgeoisie, i.e. foreign (‘expatriate’) capital: the Malay ‘administocrats’, as represented by UMNO, were in alliance with Chinese capital, or at least with its dominant groupings represented through the MCA, and partly derived their initial position of dominance in the post-colonial order from compromises and arrangements acceptable to the colonial state, and British as well as Chinese capital. This stratum therefore had a stake in and, consequently, a respect for the capitalist status quo…\(^3\)

On discovering in the mid-1970s that 67 per cent of directors in Malaysia’s top 100 companies were still non-Malaysian, and that 30 per cent remained British, economist Lim Mah Hui also pointed to his country’s quasi-independence:

Malaysia has attained its political independence without substantive economic independence. Politicians find themselves unable to meaningfully determine the level of employment or unemployment, to change the distribution of income, to determine the types of investment or to use societal resources the way they want to in their own society.\(^4\)
Only after the Tunku stood down as prime minister in 1970, and the New Economic Policy (NEP) allowed the government to take on a more proactive role in the economy to raise the living standards of the Malay or bumiputera population, did this subservience to big British business start to end.

Here was the Malaysian version of the neo-Marxist dependency theory of the 1950s and 1960s associated with Latin America and Africa, and which metamorphosed into Wallerstein’s more fluid world-system approach in the course of the following two decades. In the manner of Humpty Dumpty, Marxist social science was a potentially fatal casualty of the fall of the Berlin Wall. Yet dependency paradigms have been ‘put back together again’ and have resurfaced in debates about the pros and cons of globalisation. As Hettne has pointed out, critics of the global economic interdependence of the late twentieth and early twenty-first centuries continue to emphasise the overbearing influence of Western-based multinational enterprises (MNEs), and the intensified erosion of the powers of the Afro-Asian sovereign state, as well as the inherent economic imbalance between developed and developing worlds whereby ‘the passengers on the [global] boat…do not travel in the same class, nor do they have the same access to lifeboats’. By the 1990s, Malaysia, in contrast to post-colonial Africa, may have broken out of dependency, teamed up with the streak of Asian tigers or Newly Industrialising Countries (NICs), achieved a national income per capita equivalent if not greater than the UK’s, and thus by Wallerstein’s criteria reached the semi-periphery of the world economy. Even so, the continued fragility and vulnerability of the Malaysian economy was demonstrated by the ease with which international currency speculators picked off the ringgit during the Asian financial calamity of 1997. If, as Niall Ferguson claims, the British empire was the progenitor of globalisation through unleashing worldwide flows of capital, commodities, peoples, technology and institutions on an unprecedented scale, then the neocolonial discourse would still seem to be central to any interpretation of the contemporary history of Malaysia (or, indeed, of the Commonwealth more generally).

The survival and revival of British business in post-colonial Malaysia

The neo-colonial view in the Malaysian context undoubtedly has its attractions, not least because it emphasises that ‘independence’ was rarely ‘a moment at which [for both the old colony and the former mother-country] history [began] anew’. In the aftermath of empire, there remained a huge British investment stake in the Malaysia region, far outstripping domestic capital or the investments of any other foreign country, and this might suggest that British companies exercised a stranglehold over post-colonial regimes. Soon after the creation of the Malaysian Federation, the UK’s Trade Commissioner in Kuala Lumpur estimated that £400–500 million of British capital was invested in the area. In supporting a continued UK defence presence in Southeast Asia in the summer of 1963, Britain’s
Commissioner-General, Lord Selkirk, pointed out to his prime minister, Harold Macmillan, that ‘we have greater investment in Malaysia than we have in India’. Some three-quarters of that Malaysian investment was to be found in Malaya (West or peninsular Malaysia) alone, and 70 per cent, in turn, remained sunk in Malaya’s primary production, overwhelmingly in the long-established rubber and tin industries. As late as the mid-1960s, and notwithstanding widespread buy-outs by Malayan Chinese entrepreneurs, as well as diversification into oil palms, one Japanese scholar has calculated that over 180 British companies owned in excess of 800,000 acres of rubber trees, representing 59 per cent of total rubber estate acreage in the peninsula. Concurrently, some two-thirds of West Malaysia’s bucket-dredging tin mines remained in British hands, producing 45 per cent of the Federation’s tin output. Moreover, these dredges were largely under the control of two mining groups, the Malaysian subsidiary of the London Tin Corporation (LTC), Anglo-Oriental, and the Tronoh-Malayan Dredging clique of interconnected firms. The processing of tin ore, meanwhile, was a virtual British monopoly through control of multimillion-pound smelters at Penang (operated by the Eastern Smelting Company (ESC), controlled by the London-based Consolidated Tin Smelters Ltd (CTS)), and at Butterworth and Singapore (run by the Singapore-registered Straits Trading Company (STC)). STC also invested in dredging companies on the peninsula, while CTS was connected to the LTC.

Indeed, as James Puthucheary first noted in the 1950s, what appeared to make British investments in post-colonial Malaya all the more domineering was the tendency for most of the British rubber and tin companies to be clustered together through networks of interlocking directorships and managerial arrangements. This allowed a dozen or so British trading and investment companies—known as agency houses—to control vast assets in primary production. At merdeka (independence), the most important of the agency houses were: the Anglo-Thai Corporation Ltd; Barlow & Co.; the Borneo Company Ltd (BCL); Boustead & Co.; Guthrie & Co.; Harper, Gilfillan & Co., Harrisons & Crosfield Ltd (H&C); William Jacks & Co.; Jardine Waugh Ltd; MacLaine, Watson & Co.; McAlister & Co.; Paterson, Simons & Co.; the Rubber Estate Agency of London (REAL); Sandilands Buttery & Co.; Sime Darby Ltd; and James Warren & Co. The origins of many of these firms can be traced back to the early nineteenth century, when they became the Southeast Asian agents for European, usually British, manufacturers and, at the same time, marketed the primary exports of the region in the West. By the mid-1950s, Puthucheary estimated that the twelve largest houses did between ‘a quarter and a third of both the export and import trade of the country’. But merchanting was only one of the functions of the agency house. From the 1900s, the traders had also taken on a secondary role as promoters and as the managing agents of direct investments in commodity production, particularly rubber. The leading firm by the end-of-empire epoch was Guthries (although closely followed by its bitter rival, H&C). Through a group of companies, usually chaired by Guthries’ managing director, Sir John Hay, the firm oversaw some 150,000 acres of planted rubber, palm oil and tea, plus two tin mines.
an investment stake in Malaya estimated at M$300 million (about £35 million) in 1958. The firm also continued to maintain a huge merchanting business, worth over £600,000 annually to the firm at the beginning of the 1960s. As importers of manufactured goods and exporters of Malaysian commodities, the agency houses also held the agencies for British shipping companies which dominated the coastal and international carrying trades to and from the peninsula’s major ports: Singapore, Penang and Kelang (Port Swettenham). The most important of these shippers was the Liverpool-based Ocean (or Holts) group (encompassing the international shipping lines Blue Funnel and Glen, the Malayan shipping agents Mansfield & Co. and the regional feeder services of the Straits Steamship Company (SSC)). The fast large cargo and passenger ships of the Edinburgh-based Ben Line increasingly threatened Ocean’s pre-eminence from the late 1950s, however.

To complete the integrated network of British business operations in Malaya, the agency houses were linked to the exchange banks. Like the traders, the bankers retained their regional headquarters after Malayan independence in the island colony of Singapore, but they also had a network of branches throughout the peninsula, not only in Kuala Lumpur but also in the other commercial centres. The ‘big four’ British banks were the Chartered Bank of India, Australia, and China, the Eastern Bank, the Hongkong and Shanghai Banking Corporation (HSBC) and the Mercantile Bank of India. But the British financial sector was further concentrated during the early years of Malayan independence as the Chartered took over the Eastern in 1957, while HSBC came to fully control the Mercantile by 1959. Agency house directors often sat on the boards of the exchange banks: for example, in 1957 the chairman of Bousteads, G.R.Roper Calbeck, joined HSBC’s London Committee, while the managing director of BCL, Ian MacEwen, became a director of the Chartered. This was symptomatic of the symbiotic relationship between the banks and the merchant houses: the British banking groups provided short-term finance to fund exports and provided loans for new ventures while the agency houses held sterling accounts with the banks in Kuala Lumpur as well as in London. This latter phenomenon was made possible by Malaya’s continued membership of the sterling area after independence, and the linking of the Malayan dollar to the pound sterling (until 1972). The ease of capital transfer within the sterling area certainly allowed for a new wave of direct investment from the late 1950s in import substitution industrialisation (ISI) in the Federation, in which British multinationals—such as Imperial Chemical Industries (ICI) and Dunlop (often in partnership with their traditional distributors, the ubiquitous agency houses)—took the lead in setting up local plant. Indeed, according to British official estimates, some 80 per cent of Malaysia’s private long-term capital inflow originated in the UK between 1961 and 1965 alone.

Although on a lesser scale and largely devoid of industrial development, the incestuous nature of British colonial capitalism, and the resulting dominance of the commanding heights of local economies, was replicated in Sabah and Sarawak,
and continued after northern Borneo’s post-colonial fusion with Malaya in 1963. Before the Pacific war, the idiosyncratic rule of the White Rajahs and the Chartered Company had restricted opportunities to BCL in Sarawak and H&G in North Borneo, and the two firms generally agreed to keep out of each other’s domains. The final advent of direct colonial rule in North Borneo and Sarawak in 1946, with a new emphasis on state-assisted economic development, and a more liberal attitude towards concessions, prompted Guthries, Bousteads, Harper Gilfillan and Sime Darby to establish local branches and/or subsidiaries during the 1950s. Inevitably, HSBC and the Chartered Bank expanded banking facilities. The largest trading company in Commonwealth Borneo remained BCL, however, and in the 1960s its activities there spanned vehicle and tractor distribution, general merchandising, shipping, airways and insurance agencies, timber extraction and saw milling, and land and property development. This was in addition to a network of branch trading and interests in primary and secondary production throughout the Malayan peninsula, making BCL one of the largest pan-Malaysian firms.

In North Borneo, however, BCL did not break into the colony’s most important export by the end of the 1950s: timber. Nonetheless, when North Borneo became Sabah, three large British companies continued to dominate logging in the long-term concessions of the interior: the Sabah Timber Co. (effectively a subsidiary of H&G), the Bombay Burmah Trading Corporation (BBTC) and North Borneo Timbers Ltd (jointly owned by BBTC and its London affiliate, Wallace Brothers). Once the tropical hardwood forests were cleared, British plantation interests such as H&G, Unilever and Barlows, as well as the vast River Estates Ltd, owned by its manager, R.G.Barrett, were quick to plant rubber, oil palms and cocoa on the enormous areas of highly fertile alluvial and volcanic soils, inducing a huge primary export boom in 1960s Sabah. Meanwhile, the Anglo-Dutch conglomerate, Shell, dominated oil production in East Malaysia. In 1964 Shell estimated that it had £48 million of its capital tied up in oil production, refining and offshore exploration activities in Sarawak and Sabah. The refinery at Lutong in Sarawak also processed the vast majority of Brunei’s oil output, and Shell controlled assets, excluding oil in the ground, in the tiny British-protected sultanate worth £40 million. The centrality of British firms to the East Malaysian economy, well into the post-colonial period, is indicated by the discovery of the British government’s shipping representative in the Far East in August 1968 that H&G and BCL had virtual monopolies of shipping agencies (of all countries) in Sabah and Sarawak respectively. As late as 1972 and for the Malaysian federation as a whole, the Confederation of British Industry (CBI) estimated that British interests continued to control about two-thirds of total foreign capital.

The emergence of the Malayan Stock Exchange in the early 1960s might suggest that British business interests were increasingly being edged out by a local bourgeoisie, principally Chinese. Certainly, there was increasing Malaysian participation in the ownership of public companies: for example, in 1954 some 77.7 per cent of the shares of tin dredging companies registered in Malaya were foreign-owned while only 22.3 per cent were held by indigenes; ten years later...
the position was nearly reversed: 35.9 per cent of shares were foreign-owned against 64.1 per cent held locally. Yet, as Yip concluded, this did not bring about any fundamental change in British control of these companies, since Malayan shareholdings were typically held in small parcels by individual speculators, and the agency houses and major mining agencies, such as Anglo-Oriental, still had the power to select the boards of directors and the senior management of the dredging companies. From the late 1940s, the shares of the Singapore-registered STC fell increasingly to Malayan investors, and particularly the mighty Chinese financial institution, the Oversea-Chinese Banking Corporation (OCBC), associated with prominent towkay Tan Chin Tuan, Lee Kong Chian, S.Q. Wong and the family of Malay[s]i[a]’s finance minister between 1959 and 1974, Tan Siew Sin. Yet for much of the period under review, OCBC was content to take a back seat in the actual running of the huge tin-smelting business, and the Scottish businessman Sir Ewen Fergusson retained operational control as managing director and chairman until 1965. OCBC also became a major player in the ownership of Sime Darby in the post-colonial period, despite the ‘British’ agency house registering a new holding company in London in 1958. (Indeed, Tan Siew Sin’s family had been associated with the firm since the 1920s.) But, as Lim argues, the management of Sime Darby remained ‘essentially British’ and, as late as 1967, the chairmanship was assumed by a Briton, Dennis Pinder, who ‘set the company on an incredible path of expansion—in seven years the profits of the group multiplied ten-fold’. The Pinder example illustrates that British business interests in Malaysia hardly stagnated with the ending of empire. According to the calculations of economists at the University of Cambridge, the post-tax profitability of UK capital in Malaysia between 1955 and 1964 was 19.8 per cent per annum, making the country the second most profitable destination for British investments after West Germany. Indeed, the agency houses proved adept at ‘reinventing’ themselves in the post-imperial era as promoters of secondary industry in Malaysia while simultaneously transforming themselves from Southeast Asian merchants into multinationals, operating within the Pacific Rim as a whole. Considerable dynamism and adaptability was also exhibited in the traditional spheres of the agency houses: trading and investment management.

After independence, Britain retained its colonial status as the main supplier of imports to the Malaysian territories, with British manufactured goods continuing to account for around 20 per cent of the region’s supplies up to the mid-1960s—an annual trade worth over £80 million in 1963. After 1966, however, with the withdrawal of Commonwealth preference on most British goods combined with increasingly vigorous foreign competition, particularly from Japan, the market for British manufactures in Malaysia declined rapidly, slumping to just under 14 per cent in the peninsula (representing an overall value of about M$388 million or £52 million) in 1969. Japan, as a consequence of the increasing supplies of rubber, tin and iron ore flowing to its rapidly expanding factories, was West Malaysia’s main trading partner by 1965 (see Figures I.1 and I.2). And, across the South
China Sea, Japan had actually become Sabah’s main trading partner some two years earlier, accounting for nearly 55 per cent of the state’s exports. In such an environment, one might have expected a major area of agency-house activity—the import-export business—to have taken a drastic hit. However, from the 1950s, the British investment groups in Malaysia increasingly divorced themselves from stagnating industrial Britain. When Sir Norman Kipping, director-general of the Federation of British Industries (FBI; the precursor of the CBI), visited Malaya and Singapore in early 1959, he discovered that ‘The old established British merchant houses have an international spread of agencies and many of them have found their foreign or continental principals more competitive than their UK opposite numbers’.

The managers of BCL in Malaya and Singapore boasted of their great success ‘post-war in attracting new agencies’, but this entailed a ‘steady drift of our business away from the UK as the principal source of supply’. The US, Sweden, Switzerland, France and Germany yielded the best new lines, and the firm was seeking expanded links with Australia. Out of a sense of patriotic duty, the agency house was anxious to respond to Harold Macmillan’s export drive of 1960–61 by developing new business with UK industrialists. Yet London was reassured that ‘attractive “aliens”’ would not be ‘cold-shouldered’: ‘We give all visitors a cordial welcome, particularly those with fat franchises in their pockets!’ This was certainly the case with Japanese manufacturers, which were increasingly wooed by BCL during the 1960s. The firm’s motor group was impressed by the quality of vehicles on display at the Tokyo Motor Show of 1962, and thereafter a Japanese franchise for Malaya was actively sought, despite the inevitable negative reaction from the British Motor Corporation (BMC). BCL also secured the agency to sell Sanyo’s electrical products throughout East Malaysia. From as early as 1955 the British firm had acted as the Malayan agents for Japan’s premiere shipping line, the Nippon Yusen Kaisha (NYK), and by the early 1960s BCL managers were scouting round for suitable primary exports—such as Kaolin from Johor and the Borneo territories—which could be carried by NYK vessels on their return voyages to Japan. Moreover, with the growth of import substitution, the agency houses were busy picking up distribution rights for Malaysian manufacturing companies—both British and non-British-controlled.

Hence, while British goods were losing their allure in Southeast Asia, the British investment groups ‘on the spot’ were able to maintain their central position in the local economy as the leading importers and distributors of manufactures. In the plantations, meanwhile, prudent policies of diversification into palm oil allowed large profits to be maintained while rubber prices declined (see Chapter 4).

At the same time, the agency houses strengthened their investment networks through the formation of tightly controlled conglomerates. Typically, pyramid-shaped edifices of companies were constructed. Malaysian subsidiaries usually had a separate corporate identity but were tied to a UK-based holding company through interlocking shareholdings. Following merdeka, political uncertainty, synthetic competition and the consequent under-valuation of estate assets meant
that the smaller companies in the rubber industry were highly vulnerable to takeover from speculators. Concerned that British investments were increasingly falling into the hands of Malayan Chinese asset-strippers, the Bank of England encouraged agencies, such as Barlows and REAL, to amalgamate small, loosely controlled rubber firms into single holding companies (Highlands & Lowlands in the case of Barlows; KL-Kepong for REAL). Similarly, through complex webs of cross-shareholdings, H&C had organised three distinct groups of rubber firms, known as the ‘Three Sisters’, before independence: Golden Hope, Pataling and London Asiatic. In 1965, meanwhile, most of the Guthrie group, again with the backing of the Bank of England, was unified under a new holding company known as the Guthrie Corporation Ltd (GCL). A tighter degree of financial and directoral control over the plantation companies managed by Guthries was thus made possible. There were mergers of agency houses too. To prevent ‘the European firms…dissapating [sic] their energies in competing against each other while the Chinese were making considerable inroads’, particularly in shipping agencies, Bousteads and Barlows merged their import-export businesses to form Boustead (1960) Ltd. In 1966, the two firms’ plantations were also brought together in the Barlow Boustead Estates Agency Ltd (known as Barbeal).

Additional to the survival, nay revival, of individual British companies in post-colonial Malaysia, the expatriate commercials retained their own business associations, which acted as potentially powerful institutions for collective bargaining with the Tunku’s government. In the rubber industry, British plantation managers and the representatives of the agency houses continued to find a voice through the United Planting Association of Malay[s]ia (UPAM), with its offices on Jalan Ampang in Kuala Lumpur linked to the European planters ‘in the field’ through an extensive network of state and district planting associations. UPAM maintained connections with the Rubber Growers’ Association (RGA) in London. But the rubber barons in the City had also strengthened their local organisation in Malaysia through the appointment of a series of special representatives, ex-Malayan civil servants in the guise of Leslie Davis, 1957–63, and Sir Edgeworth David, 1963–66, and the celebrated former inspector-general of the Royal Malaysia Police, Dato Sir Claude Fenner, from 1965 into the post-Tunku era. UPAM’s equivalent of the British-owned tin dredges was the Federated Malay States Chamber of Mines (FMSCM), with its headquarters in the heart of the Malayan tin fields at Ipoh. The FMS Chamber of Commerce (FMSCC; renamed the States of Malaya Chamber of Commerce (SMCC) in 1963 and the Malaysian International Chamber of Commerce (MICC) in 1969), meanwhile, brought the import-export managers of the agency houses, as well as the British bankers and industrialists of Kuala Lumpur, together. The Penang merchants retained a separate chamber in the northern port until 1965, when a merger with Kuala Lumpur’s SMCC took place. Since many of the trading companies and exchange banks kept their head offices for Southeast Asia in Singapore, the Singapore Chamber of Commerce (SCC; Singapore International Chamber of Commerce (SICC) after 1964) remained an important lobbyist on pan-Malaysian issues.
The expatriate business associations had traditionally been afforded privileged representation on colonial legislative and executive councils. These arrangements came to an end in 1959 when Malaya finally gained fully elected legislatures in the various states and in the federal capital. But considerable contact with government continued, since in rubber matters the UPAM and the RGA special representatives were members of the multiracial Rubber Producers’ Council (RPC), which had been established by the late-colonial state as the principal consultative body for the Malaysian industry as a whole. Likewise, during 1968 steps were taken to form an Oil Palm Growers’ Council (OPGC) with RGA and UPAM representation alongside the government-controlled Federal Land Development Authority (FELDA), which represented the indigenous smallholders, and the Chinese-and Indian-dominated Malayan Estate Owners’ Association. To administer the Malayan end of the International Tin Agreement (ITA), the late-colonial government had formed a Tin Advisory Committee in 1956 on which sat representatives of the FMSCM and the All-Malaya Chinese Mining Association (AMCMA). Likewise, the FMSCC joined its Malay, Indian and Chinese counterparts to form the United Chambers of Commerce in 1962 as a means of voicing common concerns to the Federation’s Ministry of Commerce and Industry (MCI) and the Ministry of Finance.

Moreover, it was quite usual for the UK-based heads of the agency houses to have talks with ministers and officials on their annual winter tours of Southeast Asia. Indeed, on one such visit to Kuala Lumpur in 1962, Tan Siew Sin told Tom Barlow, joint head of the Barlow group, that ministers were ‘always available to discuss matters of local policy’. And, on a personal level, business leaders often

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**Figure I.1** Imports into West Malaysia (Federation of Malaya) by Britain and its principal industrial competitors, 1958–71

enjoyed close relations with Malaysian policy-makers. On a visit to the UK in 1970, for example, Finance Minister Tan was entertained to a weekend’s grouse shooting on Lord Inchcape’s Scottish estate. British business leaders were even honoured by the independent state—for example, Sir John Hay was made a Dato with the Order of the Panglima Mangku Negara by the Yang diPertuan Agung in 1961.

**British business and the British state: the pursuit of ‘informal empire’**

To add further credence to the neocolonial thesis, the UK government’s decolonisation strategy had been predicated on the principle that a significant degree of metropolitan influence would be preserved in the successor states of the new Commonwealth. As John Darwin tells us, ‘the later phases of British colonial policy were frequently geared…to making sure that the emerging state would be a useful and stable partner for Britain after independence’. In the economic realm, ‘development was to be encouraged along lines compatible with British interests and in cooperation with British overseas enterprises’. The making of the Malaysian Federation itself in 1963 was a classic example of how ‘independence, far from terminating British influence, would give its exercise a streamlined efficiency, shorn of the old causes of friction and conflict’. The ‘underlying theme’ of the Macmillan government’s policy in Southeast Asia was ‘not the rapid liquidation of colonial or extra-European commitments preparatory to embracing a European
destiny’. Rather, here was an attempt ‘to stabilise Britain’s world position, to retain its basic elements, not to abandon it altogether’ (emphasis in original). John Subritzky concurs: ‘British intentions…in creating Malaysia were to maintain rather than end Britain’s historic interests in the region’ and ‘Macmillan’s administration pursued its vision of informal empire, hoping that influence could be retained’. This author’s previous work has stressed that there was not a close relationship between British businesses and British governments in the decolonisation of Malaya, and British firms generally feared the consequences of too rapid a transfer of power along the lines of Burma or Indonesia. Meanwhile, the Tory government refrained from insisting on a guarantee against the expropriation of British assets in Malaya’s independence constitution, negotiated between 1956 and 1957. But in a broad sense, British official strategy was concerned to preserve the UK economic stake in Southeast Asia as far as possible, particularly through a friendly and tension-free transfer of power to ‘moderate’ nationalists, so encouraging post-colonial Malaya’s continued membership of the Commonwealth and its economic expression, the sterling area. In a general review of late-colonial policy shortly after merdeka, the Cabinet secretary, Sir Norman Brook, concluded that ‘the economic dangers to the UK of deferring the grant of independence, for her own selfish interests after the country is politically and economically ripe for independence would be far greater than any dangers resulting from an act of independence negotiated in an atmosphere of goodwill such as has been the case with Ghana and the Federation of Malaya. P.J. Cain and A.G. Hopkins have argued that the most powerful and politically well-connected segment of British capitalism, the merchant bankers and insurers—the so-called ‘gentlemanly capitalists’ of the City of London—liberated themselves, with the assistance of their allies in the Treasury and the Tory party, from the sterling area through decolonisation to take advantage of more remunerative economic opportunities emerging within the global growth triangle of Europe, North America and Japan. Yet they still concede that ‘in moving with the nationalist tide, Britain hoped to benefit from informal ties with the Commonwealth while simultaneously promoting sterling’s wider, cosmopolitan role’. In the Malay[sil]an case, there was certainly no incompatibility between close Commonwealth economic ties and Britain’s edging towards the European Economic Community (EEC) during the 1960s. On Harold Macmillan’s application to join ‘the Six’ in 1961, for example, the government of the Federation was not ‘unduly worried’ since rubber and tin entered both Britain and the Community duty-free, and it was hoped that Malaya would benefit from Western Europe’s growing prosperity. News of the second approach to the EEC, under the Labour government of Harold Wilson in 1967, was also received calmly by the Malaysian political and business elite on the grounds that membership would strengthen the British economy and thereby the sterling area. Indeed, Wilson proved as Commonwealth-minded as Macmillan, famously declaring on a visit to New Delhi in 1965 that Britain’s frontiers were on the Himalayas. On the economic front, the Labour government was probably more Commonwealth-oriented than
its Tory predecessors—up to 1965, at least, the rejuvenation of sterling-area food and raw material supplies, trade preferences and aid programmes were central features of plans for the modernisation of the UK economy.\(^{58}\) Even after the Labour government’s reluctant announcement of military withdrawal from ‘East of Suez’ in January 1968, the Cabinet accepted the contention of the Foreign Office (FO) and the Commonwealth Office (CWO) that Britain still had substantial economic interests in Australasia, the Persian Gulf and Southeast Asia well worth upholding. In attempting to revive British economic strength, these extra-European footholds gave the UK a considerable head start over ‘say German or Italy’. Indeed, Britain could not ‘afford to lose such influence’ since it would be at least five more years before the UK would be ‘fully inside’ the west European bloc. In Southeast Asia specifically, this called for a renewed emphasis on technical assistance, trade promotion and capital aid.\(^{59}\) On the whole, Wilson expected that a modernised economy with a small but credible nuclear capacity would underpin a revitalised British mission in the post-decolonisation world.\(^{60}\)

This continued emphasis on extra-European strategies would suggest that there should have been considerable support from post-imperial governments for the upkeep of Britain’s commercial, financial and industrial complex in Malaysia. On his retirement, Sir Michael Walker, the UK High Commissioner in Kuala Lumpur between 1966 and 1971, told the leaders of the British business community there that ‘one of the primary purposes of British missions overseas’ was the development of ‘an effective working association between the High Commission and British commercial interests’.\(^{61}\) The UK’s diplomatic establishment was certainly substantial in Malaysia after independence, and from 1958 was expanded to compensate for the loss of ‘back stairs influence’ as expatriate officers increasingly retired from the Malayan Civil Service (MCS).\(^{62}\) Particularly important here for British firms was the support provided by the UK Trade Commissioner and the economic and financial advisers to the High Commissioner (all merged into the Economic Section of the embassy after 1965). There were also High Commission offices in Penang, Kuching and Kota Kinabalu (Jesselton), while, to 1963, there existed the ‘miniature Whitehall’, which encased the UK Commissioner-General for Southeast Asia based in late-colonial Singapore. In the economic realm, this involved representatives from the British Treasury, Ministry of Transport, Board of Trade and the Ministry of Labour. Ministerial visits to Kuala Lumpur also allowed plantation, mining and industrial interests ‘on the spot’ opportunities to lobby key policy-makers. Furthermore, the huge British military presence in Singapore (Britain’s largest overseas military base by the early 1960s), as well as a number of smaller emplacements dotted around the peninsula and the Borneo states, for example at Penang and Labuan, appeared to guarantee that the Tunku would not nationalise British assets.\(^{63}\)

Concurrently, in the former ‘metropole’, the City heads of firms connected with Malaysia had access to leading politicians and bureaucrats concerned with upholding British influence in the new multiracial Commonwealth. As Malaya approached independence, an overarching association was formed in the Square
Mile to represent the UK end of British business operations, known as the Malayan Commercial Association of Great Britain (MCAGB; Malaysian Commercial Association after January 1964 and the Malaysia-Singapore Commercial Association (MSCA) after November 1967). By the mid-1960s, over 100 UK-registered firms, representing the full gamut of commercial, financial and industrial activities in Malaysia and Singapore, were members, while the older City-based business associations, the RGA and the Malayan Chamber of Mines (MCM), enjoyed special corporate membership. Matters relating specifically to rubber and tin were usually dealt with by the RGA and the MCM, leaving more general concerns to the MCAGB. The latter’s energetic and enthusiastic secretary, the former MCS man, W.C.S.Corry, produced a lively newsletter every month, which reported on Malaysian (and UK) political and economic developments as they affected members’ interests. The MCAGB enjoyed indirect contact with the Kuala Lumpur authorities through the local chambers of commerce, and visiting Malaysian dignitaries—such as the Tunku—were entertained to lavish lunches, receptions and dinners in top London hotels. But the MCAGB’s principal function was to keep in close touch with the ex-imperial government departments in Whitehall. This ordinarily meant the Commonwealth Relations Office (CRO) (which, through a merger with the Colonial Office (CO), became the CWO in August 1966; the CWO in turn merged with the FO in October 1968 to become the Foreign and Commonwealth Office (FCO)). But the MCAGB also lobbied the Treasury and the Board of Trade, and, after 1964, the Ministry of Overseas Development (ODM). The MCAGB’s Council was frequently informed prior to important discussions between the UK and Malaysian governments or before the departure of ministerial and officially backed trade and investment missions to the territory, while the Commonwealth Secretary often attended the association’s official functions.

Anglo-Malaysian business interests could also rely on noteworthy parliamentary links up to the late 1960s. Sir John Barlow, elder brother of Tom Barlow and the other senior partner in the Barlow group, was a Tory MP until 1966. RGA member and former Guthries executive Major Ian Fraser also held a Conservative seat between 1959 and 1966, serving as parliamentary private secretary to the colonial secretary, Reginald Maudling, during 1962. Even under the Labour government of 1964–70, Malaysian business interests in Britain were not without powerful friends at court. Lord Shepherd, a junior minister in the CWO during the late 1960s, had spent some ten years as a businessman in Malaya after the Pacific war. Perhaps more important in the policy-making milieu, however, were the connections of the agency houses to the ‘gentlemanly capitalists’ of the City. The quasi-official Bank of England kept a close watch on the commodity markets through its connections with the Rubber Trade Association of London (RTAL) and the London Metal Exchange (LME) (the latter remained the main market for Malaysia’s tin until the 1980s). Through the mergers and consolidations craze of the 1950s and 1960s, the aristocratic merchant banks—whose heads constituted the Court of Directors in Threadneedle Street—emerged as advisers
to the Malaysian investment groups. Hence, in the *de facto* absorption of BCL by Inchcape in 1967, the latter had the backing of Barings, while BCL was advised by Kleinwort Benson, where the BCL director, R.A. Henderson, served as a director. H&C was close to Hambros, while Sime Darby turned to Rothschilds to assist in its business expansion in the late 1960s/early 1970s. The reorganisation of the Guthries stable of rubber companies between 1963 and 1965 involved not only Lord Cromer, the governor of the Bank of England, but also the Association of Investment Trusts, as well as Barings. Sir Edward Reid, a senior partner in Barings and a Bank of England director, additionally served on the London Committee of the HSBC. By the mid-1960s, meanwhile, Tom Barlow was a director of Barclays Bank (Dominion, Colonial and Overseas) as well as a number of insurance companies in the City.

This all points to the tendency for the UK’s business leaders in Malaysia to become more ‘gentlemanly’, more integrated with the British financial and political establishment as empire ended. The gentrification process is best illustrated in the case of two of the largest Anglo-Malaysian groups, BCL and Guthries. In 1958, Lord Ranfurly, educated at Eton and Trinity College, Cambridge, a Lloyds Member since 1947 and governor of the Bahamas between 1953 and 1956, joined BCL’s London board. A year later, Lord Inchcape purchased a 17 per cent holding in BCL. To reflect this interest, an Inchcape director and former chief general manager of the Chartered Bank, Howard Morford, was made chairman. On his retirement from BCL in 1963, Morford was succeeded as chairman by Ranfurly, at which time Lord Inchcape, who also held a directorship at the Chartered Bank, formally joined the board. Moreover, three years earlier, Field Marshall Sir Gerald Templer, the former High Commissioner and director of operations in Malaya (1952–54), had become a director of BCL. There then followed the merger with the Inchcape group in 1967, a director of which was Sir Gilbert Laithwaite, formerly a permanent under-secretary at the CRO. At Guthries, the rough and ready, self-educated Scot Sir John Hay was ousted in 1963 and replaced as chief executive by Sir Eric Griffith-Jones, a former colonial administrator who had spent the first half of his official life in Malaya and, during the 1950s, had served in Kenya. Through Griffith-Jones, therefore, Guthries enjoyed connections with CRO/CWO/FCO officials, such as John Moreton, the assistant Under-Secretary of State, 1966–69, who had previously worked in the CO and had been seconded to the government of Kenya between 1953 and 1955. Indeed, the Guthries’ executive became a safe haven for prematurely retired colonial administrators: Sir Richard Catling (formerly of the Malayan and Kenyan police forces) was appointed security adviser by Griffith-Jones, while James Fulton, formerly of the Commissioner-General’s Office in Singapore, was made responsible for reinvestment policy. Furthermore, as Malayan secondary industry took off from the late-1950s, some of the largest British industrial firms became more deeply involved in Southeast Asian affairs as they established local factories. This also entailed the CBI—probably Britain’s most powerful business lobby—becoming increasingly concerned with future
economic and political prospects in Malaysia. Indeed, in 1968, the CBI was officially supported in a mission to encourage British investment in Malaysia and Singapore as a means of preserving British influence in the region following Albion’s military withdrawal.\textsuperscript{70}

‘Disengagement’

Yet for all the fantasising about maintaining global economic sway through the reconstructed ‘informal empire’ of the Commonwealth, the powerful British business presence in post-colonial states, and the close contacts between British overseas business interests and powerful UK public and private agencies, it could be argued that what actually occurred in the course of the 1960s was a discernible loosening of economic ties between Britain and its ex-colonies, a post-colonial ‘disengagement’ between ‘metropole’ and ‘periphery’. Declining British industrial competitiveness, and the growing financial difficulties of the UK, made it impossible to maintain an ‘informal empire’ by the latter half of the 1960s, most visibly evinced by the military rundown ‘East of Suez’.\textsuperscript{71} At the same time, the value of exports to western Europe began to exceed Commonwealth markets and, in percentage terms, the main growth in British overseas investment tended to be with EEC countries as well. Recognising these trends from the early 1960s, the FBI became increasingly more positive about the prospects of integration with western Europe.\textsuperscript{72} As Britain became a less reliable source of consumer goods, private capital and technical aid, Commonwealth ‘client’ states looked increasingly to more generous ‘patrons’ in the form of the US, Japan, the International Monetary Fund (IMF), and even the Soviet Union and Communist China. Moreover:

The open economy throughout most of the ex-colonial world was replaced by policies of ‘para-protectionism’: import substitution; exchange control; and a ‘licence-raj’. Expropriation and nationalization destroyed old commercial immunities. Multinationals and branch plants replaced agency houses, concessions and absentee proprietors as the characteristic form of foreign enterprise.\textsuperscript{73}

In this, the real beneficiaries of decolonisation were not established British firms but expanding American, Japanese and German transnationals.\textsuperscript{74} Malaysia did not become a ‘closed’ economy for British firms in the manner of 1960s India.\textsuperscript{75} Yet the essential argument of this book is that political decolonisation did have its consequences for long-established economic relations and modes of business operation. Neo-colonial analyses have tended to overlook the ability of the post-colonial sovereign Malaysian state to direct expatriate business activities to meet national economic objectives in both primary and secondary production. Moreover, a concentration on quantitative analysis—for example, levels of corporate profitability, ownership and control—to characterise
Malaysia’s political economy under the Tunku paints an ultimately bowdlerised picture. Such sources do not reveal how British business leaders in Malaysia envisaged and reacted to the political and economic environments they were facing. Nor do they tell us anything about the degree to which expatriate enterprises were able to influence or constrain government policy-making (in either Kuala Lumpur or London), let alone whether or not the UK government was able or willing to put pressure on the Alliance regime on behalf of British firms. The approach of this study follows Collingwood’s dictum ‘all history is the history of thought’. Through the use of a wide range of recently opened qualitative business and government records, particularly the correspondence of key players (both British and Malaysian), it reassesses the ‘neo-colonialism’ and ‘disengagement’ paradigms. This interrogation surrounds five major issues—three largely political, two concerned with economic development:

- the degree to which the creation of Malaysia reflected the needs of British business interests;
- the role of expatriate enterprise in the post-colonial political machine and how economic nationalism affected British business operations;
- the ways in which the security (or, more correctly, the insecurity) environment—both domestic and regional—impacted upon and was perceived by British firms in Malaysia;
- the influence of the British agency houses and mining groups on the development of, and international markets for, Malaysia’s two staple primary industries, rubber and tin; and
- the role of British capital in the diversification of the post-colonial economy—both into oil palms and secondary industry.

Because of the strictures of the revised Malaysian Official Secrets Act of 1986, the majority of the sources drawn upon in the study are British—whether official papers from the UK National Archives (Public Record Office) in Kew or business records deposited in the Guildhall Library, London, etc. This might be criticised for producing a sanitised and distorted ‘[neo-]colonial records history’. But, as John Gullick, the doyen of historians of Malaysia, has observed, ‘one has to do what one can with the source material available for the purpose [or give it up altogether].’

Notes


11 UK National Archives (Public Record Office), Kew, London (hereafter PRO), DO 187/19, Minute by Jasper Cross for Acting High Commissioner, 17 October 1963. This figure was, however, subject to a considerable margin of error. The Bank of
England was more cautious, putting UK investment in the mid-1960s at £200 million (book value), producing an annual return of £20 million: PRO, T 317/1086, enclosure in Stone to Hedley-Miller, 9 August 1967. The Board of Trade, on the other hand, believed that total net British investment in peninsular Malaya and Singapore, excluding oil, insurance and banking, amounted to just £150 million in 1963: PRO, DO 189/449, Minute by Twist for Tilney, 16 January 1964. Yet, as British business interests frequently pointed out, such figures, based largely on issued capital, took no account of substantial ploughing back of profits: Guildhall Library, London, Rubber Growers’ Association Council Minutes (RGACM), MS 24863/74, 27 July 1964, Report of Malaya Committee. Hence, the Singapore International Chamber of Commerce reckoned in 1968 that British investments in Southeast Asia as a whole amounted to £700 million, producing an annual return of at least £75 million (see Chapter 3).


14 The latter firms were sometimes referred to as the ‘Cornish’ given the geographical origin of many of their founding engineers-turned-directors, or as the ‘Cheapside Boys’ due to the location of the firm’s head offices in the City of London.


16 Ibid., p. 50.

17 Straits Times, 4 February 1958.

18 See material in Bank of England Archive, Threadneedle Street, London (here after BoE), G 1/183.

19 Malcolm Falkus, The Blue Funnel Legend: A History of the Ocean Steam Ship Company, 1865–1973, Houndmills: Macmillan, 1990, pp. 261–3. The Peninsular and Oriental (P&O) also had interests in Southeast Asia, but most of its tonnage was engaged with India and Australia trade whereas over 50 per cent of total Blue Funnel and Glen trade, both outward and homeward, was focused on Malaya and Singapore in 1957: ibid., p. 324.

20 As late as March 1960, the British exchange banks had 53 per cent of total deposits in the Federation of Malaya against 32 percent in Chinese banks (Singaporean, Hong Kong and local) and just 0.2 percent controlled by Japanese institutions: BoE, OV 65/6, ‘Table of Deposits Classified by Location of Head Offices of Banks’.


22 HSBC Group Archive (hereafter HSBC), Chief Manager’s Private File: Singapore (Personal & S/O OUT), January 1957–December 1960, Lydall to Turner, 25
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February 1957; Guildhall Library, Inchcape Archives (hereafter IA), MS 27178/25, Board of Directors’ Minutes (hereafter BDM), 2 October 1957.

23 PRO, FCO 24/13, Brief No. M25 for the Commonwealth Secretary’s Visit to the Far East, February–March 1967.

24 Cambridge University Library (hereafter CUL), Barlow papers, 63/854, Sir John to Tom Barlow, 5 September 1959; BoE, OV 65/15, ‘Note on the Borneo Territories’, 18 February 1959.

25 IA, MS 27185, Annual Report and Accounts (hereafter AR&As), 1965, p. 6. The market value of the company’s property alone in the Federation of Malaya, Sarawak and Sabah was estimated at about M$16.8 million (just under £2 million) in 1964: IA, MS 27302, C.H.Williams to the Directors, 5 October 1964.


27 PRO, DO 189/449, Minute by Twist for Tilney, 16 January 1964.

28 PRO, OD 39/90, enclosure by J.E.M.Beale in Wenban-Smith to Deare, 30 September 1968.


32 Lim, Ownership and Control, p. 98. According to Junid, British interests could control a Malaysian company when as little as one-eighth of the equity was in British hands: Industrial Investment, p. 2.


35 PRO, DO 189/449, Minute by Twist for Tilney, 16 January 1964.


39 IA, MS 27298, Donald to Managing Director, 16 November 1959, enclosing copy of Chaplin to Young, 14 November 1959; Young to Simpson, 26 July, 26 August, 19 and 22 September 1960.
40 IA, MS 27189, Minutes of Group Committee, 9 November and 8 December 1962, 27 February and 2 November 1963.
42 IA, MS 27281, Stovold to Pearson, 30 January 1962.
45 PRO, DO 35/9730, Note for Alport by Jasper, 25 February 1958; The Times, 20 June 1958; CUL, Barlow papers, 63/856, Tom to Sir John Barlow, 12 February and 12 March 1958; BoE, ADM 14/73, Notes by Thompson-McCausland for Hawker, 26 September and 6 December 1960.
47 BoE, ADM 14/82, Note by Thompson-McCausland for the Goveraor and Deputy Governor, 10 March 1965.
48 CUL, Barlow papers, 57/781, Sir John to Tom Barlow, 26 and 27 January 1960.
49 A lingering expatriate business presence continued, however, in the form of veteran planter Jim Crawford, who became a nominated member of the new Malayan senate (the Dewan Negara).
50 Centre of South Asian Studies, University of Cambridge (hereafter CSAS), Malayan Visits, 1960–64, Note of 5 March 1962.
51 PRO, FCO 24/838, Minute by Munro for Le Breton, 9 September 1970. The second Lord Inchcape, the shipping and commerce baron, with extensive business interests in the Indian subcontinent, the Middle East and East Africa, had been a director of BCL since 1959, and his firm fully took over the Malaysian agency house in 1967: Stephanie Jones, *Two Centuries of Overseas Trading: the Origins and Growth of the Inchcape Group*, Houndmills: Macmillan, 1986, pp. 269–73.
54 Nicholas J.White, ‘Goverament and business divided: Malaya, 1945–57’, *JICH* 22 (1994): 251–74; *idem, Business, Government and the End of Empire; idem*, ‘Gentlemanly capitalism and empire in the twentieth century: the forgotten case of
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57 BoE, OV 65/19, ‘Note for Mr.Ismail’s visit’, 4 September 1962; PRO, FCO 24/11, Brief No. G. I for Commonwealth Secretary’s tour of the Far East, February-March 1967.


59 PRO, CAB 148/35, OPD (68) 14th Meeting, 26 July 1968; CAB 148/37, OPD (68) 44 (Revised), 24 July 1968, ‘Non-Military Means of Influence in the Persian Gulf, South East Asia and Australasia’.


61 CUL, Barlow papers, 58/786, copy of speech of 8 January 1971.


64 In 1963, the RGA alone represented a further 160 plantation companies in Malaysia, with an issued share capital of £56 million, a planted acreage of 1,039,400 acres and an output per annum of 291,000 tons of latex: RGACM, MS 24863/74, 1 February 1965, appended memorandum.

65 Although also concerned with stabilising Third World polities, and informed by a genuinely altruistic desire to alleviate poverty on a global scale, the formation of the ODM again illustrates the continued emphasis into the Wilson years of maintaining British interests in Commonwealth ‘spheres of influence’. The new Cabinet-ranking department was headed by the able and energetic Barbara Castle and attracted talented and idealistic civil servants such as Sir Andrew Cohen, a former head of the CO’s Africa division.


67 See material in BoE, G 1/183.

68 See e.g. PRO, DO 189/588, Moreton to Bottomley, 23 June 1966.

69 PRO, FCO 24/294, Minute by Scanlon for Blair, 29 December 1967.

70 The agency houses enjoyed links to industrial interests anyway. For example, Sir John Barlow was a director of the Calico Printers Association Ltd. Through the
textile trade, Bousteads had strong connections in Yorkshire and Lancashire also. As one BCL manager commented, the Barlow-Boustead merger had a “made in Manchester” stamp about it!': IA, MS 27298, Young to Simpson, 19 September 1960.


76 The philosopher and historian R.G.Collingwood argued that it is the task of the historian to rethink the thoughts of individuals in the past to understand the reasoning behind events or actions: *The Idea of History*, Oxford: Clarendon Press, 1946. This might be seen as an unnecessarily restrictive definition of the discipline. But, as John Tosh has observed, ‘it is certainly true that the evaluation of documentary sources depends on a reconstruction of the thought behind them; before anything else can be achieved, the historian must first try to enter the mental world of those who created the sources’: *The Pursuit of History: Aims, Methods and New Directions in the Study of Modern History*, 3rd edn, Harlow: Longman, 1999, pp. 115–16.

77 This amended legislation makes it impossible for scholars to access files marked *rahsia* (confidential) or *sulit* (secret) in the Malaysian National Archives (Arkib Negara Malaysia). Since the post-colonial Malaysian state inherited British bureaucratic conventions, virtually all paperwork generated by government departments is so classified, and the rulings have also been applied to private papers such as those of Tan Siew Sin.

Moments of anguish
The making and unmaking of ‘Greater Malaysia’

A neo-colonialist plot?

In May 1961, Tunku Abdul Rahman first publicly announced his desire to bring Malaya ‘closer together’ with Singapore, Sarawak, North Borneo and Brunei in ‘a political and economic co-operation’.¹ For President Sukarno of Indonesia, the ‘Greater Malaysia’ project was nothing more than a ‘neocolonialist plot’. In justifying his policy of Konfrontasi (‘Confrontation’) against the new state, the veteran anti-colonial revolutionary declared that Malaysia was designed to secure tin, rubber and oil supplies ‘for the imperialists’.² For socialist and Islamicist opposition politicians in the Federation, the Tunku’s plans were merely a cloak under which Britain would continue to dominate Southeast Asia through a sinister shift of imperial technique from ‘divide and rule’ to ‘unite and rule’. Independence, it was claimed, ‘made no sense if [Malaysia’s] economic heart’ remained lodged in London.³ Writing in the 1980s, Hua Wu Yin also regarded the final creation of Malaysia in September 1963 as a triumph for British ‘neo-colonialism’. Although Singapore split from the Federation in August 1965 while Brunei never joined, Malaysia ‘was the ideal solution to enable British imperialism to maintain its hold on the rich resources of the North Bornean states…and at the same time deal with the left-wing threat in Singapore’.⁴ In a similar vein, a more recent study by Greg Poulgrain views the Malaysia scheme as propelled primarily by British economic interests. The making of Malaysia proved a ‘masterstroke of…decolonization’ because it allowed Britain to secure its investments while appearing to transfer power. Brunei’s decision to stay out of the Federation was hardly disastrous since the Anglo-Dutch oil monopoly in the sultanate was secured from the end of 1962 by troops of the former colonial power. As such, ‘the dominant policy in the saga of British decolonization in Southeast Asia stemmed…from an unidentified amalgam of oil-company executives and British intelligence personnel’.⁵

Greater integration of the Malaysia area under the leadership of the pro-Western, pro-capitalist Alliance government in Kuala Lumpur certainly made sound ‘neo-colonial’ sense and, as the first part of this chapter shows, we can identify broad support from British business interests on both economic and political grounds for the ‘grand design’. However, British firms exercised little influence over
official decision-making on the ‘Greater Malaysia’ project and the interests of expatriate business were not uppermost in the minds of either British or Southeast Asian policy-making elites. Moreover, Malaysia’s final format—with the failure to incorporate Brunei, the separation of Singapore, and the subordination of Sabah and Sarawak—disappointed significant sectors of the British business network and illustrates the autonomy of local political actors from seemingly omnipotent foreign investment.

The lure of ‘Greater Malaysia’

The economic attractions

As a means of integrating the various economies of Commonwealth Southeast Asia, the Malaysia project had considerable attractions for British firms. Indeed, the big business groups had been disappointed by the postwar administrative reorganisation, which brought together the Malay States and the settlements of Penang and Melaka for the first time but left Singapore as a separate colony (despite the long-standing economic interconnections of the island and the mainland). Shipping interests complained in May 1946 that ‘our official dealings are made immeasurably difficult by our having…to approach two governments instead of one’.

The long-term ‘grand design’ of British officialdom since the Second World War was the creation of a ‘Dominion of Southeast Asia’. Yet progress towards ‘closer association’ between Malaya and Singapore, let alone between Malaya and Singapore and the more distant and less-integrated Borneo territories, proved protracted. Moreover, in economic development, full independence for the Federation of Malaya in August 1957, while Singapore retained its colonial status, appeared to tear the two territories further apart. In 1959, the British exchange bankers and merchants were soothed by the preservation of monetary union between Malaya, Singapore and the Borneo territories when a central bank with limited powers (the Bank Negara) was created in Kuala Lumpur. But the increase in protective tariffs introduced by the Federation government to assist industrialisation on the mainland was a ‘severe blow’ to Singapore’s nascent manufacturers who relied on the ‘up country’ market. The Singapore Manufacturers’ Association (SMA)—which included as members the subsidiaries of British multinationals and agency houses—complained that it was ‘difficult to reconcile the Federation Government’s much-publicised desire for economic co-operation with other countries in this area with their unsympathetic attitude towards Singapore manufacturers’. The heads of the agency houses in Singapore blamed the fall in trade with the Federation by some M$38 million between 1957 and 1958 partially on Kuala Lumpur’s tariff policy. Meanwhile, the North Kelang Straits port facilities at Port Swettenham and plans to develop an east coast road from Kuantan to Kota Bharu were further evidence
that long-established complementarities between island and mainland were breaking down.10

With the prospect of further divergence when Singapore achieved a further dose of self-government after elections in May 1959, the leaders of the SCC met secretly with the island’s chief minister, Lim Yew Hock. The British businessmen emphasised that even if a political merger was impossible, ‘surely there was a crying need for some sort of economic fusion and a common understanding on economic problems’. Lim’s government was set to introduce its own pioneer industry legislation, suggesting that both governments were ‘now indulging in a mad scramble for such new capital as was likely to come in, and to pursue this on a unilateral basis must be harmful to both’. Hence, the taipans became increasingly attracted to Lim’s moderate Singapore Peoples’ Alliance (SPA) when the chief minister suggested that his close relationship with the Tunku would permit Singapore’s political incorporation into the Federation, and hence the development of a common economic policy between the two governments. However, if Lee Kuan Yew’s left-wing People’s Action Party (PAP) came to power there would be ‘no hope of a merger’.11 European commercial interests may have directed funds to the SPA,12 but the PAP triumphed in the elections for internal self-government. As such, business anxieties about economic divergence only intensified: in March 1960, A.W.Scott, the head of Sime Darby in Singapore, appealed for the ‘maximum degree of co-operation with the Federation together with the establishment of…[a] common market’.13

Hence, the Tunku’s encouragement of closer association was welcomed in expatriate commercial circles. In February 1962, the editor of the pro-business Straits Times saw the distinct economic advantages of linking ‘the Five’ politically. The four primary commodity producers—Malaya, Brunei, Sarawak and Sabah—would be united with their principal port at Singapore. Competitive development would be potentially ruinous to Singapore, especially if the Federation continued to develop port facilities to rival the island’s and came to operate its own currency system.14 UK financial interests had indeed been alarmed during 1960 and 1961 by the possibility that the Federation would ditch the agreement (dating from 1952), which, despite merdeka and the creation of a central bank, continued to permit the operation of a common currency throughout Malaya, Singapore and the Borneo territories. But, as the Federation’s finance minister, Tan Siew Sin, pointed out in January 1962, the creation of Malaysia would resolve independent Malaya’s currency dilemma: when Malaysia came into being, the Bank Negara would issue currency over all the existing currency area.15

Yet the principal economic attraction of ‘Greater Malaysia’ for the British agency houses lay in the prospects for the expansion of secondary industry. During 1962 and 1963, the SCC viewed ‘the economic benefits of Malaysia’ as being primarily in the development of a ‘common market’. A free trade zone would provide a ‘fillip…to industrialization in all the participating countries’. Nascent industrial projects—for example, at the Jurong development zone on Singapore—would expand in a politically stable Malaysia with unified tariffs and a ‘judicious
blending’ of commerce, manufacturing and shipping. Not surprisingly, the managers of the agency houses in Kuala Lumpur agreed: ‘One of the most important economic advantages of Malaysia’, according to the president of the SMCC, ‘is the opportunity for accelerated industrial development as a result of the creation of a larger domestic market’.

The larger agency houses could certainly capitalise on this wider, pan-Malaysian market because, as we noted in the introductory chapter, during the 1950s many of them had expanded from Malaya and Singapore into the colonial states of northern Borneo. BCL, H&C and Sime Darby were also to be found in the Brunei protectorate. ‘Greater Malaysia’ might also serve as a means of offsetting economic stagnation in Sarawak and Brunei. Certainly, the firms in Borneo supported a federation of the three Borneo territories, as advocated by the British governors of the region after February 1958. North Borneo, with expanding agricultural estates, considerable timber resources, and important strategic and military value, had healthy economic prospects. But Sarawak’s resources were limited while its population was increasing and its education policy was ‘out of balance, with the Chinese forging ahead of the numerically equal but educationally backward tribes people’. Brunei, having obtained a large measure of internal autonomy in 1959, appeared to be ‘grinding to a halt’, and unless the government got ‘cracking soon’ with constructive development schemes and secondary industries, there would be ‘trouble before long’. The sultanate’s oil production had passed its peak, and Brunei had no other resources, while there were 10,000 children at school ‘now beginning to look for jobs which don’t exist’.

Under the late-imperial mission after the Second World War, there had been an upsurge in publicly funded economic development in British Borneo. Between 1946 and 1963, M$291 million (about £34 million) was spent on projects in Sarawak alone, largely financed from UK Colonial Development and Welfare grants. In parallel with tropical Africa, however, much of this development push can be classified as a failure. Cash crop exports declined, imports of rice increased, bauxite production proved short-lived and nothing commercially viable was found to replace the declining Miri oilfield. On British withdrawal, Sarawak still had no road network connecting the major population centres. Hence, once a wider federation became a possibility, the economic attraction for the agency houses, as for the Bornean politicians, was the prospect of a net transfer of development funds from Singapore and Malaya to the less developed, Bornean states. The M$300 million dollars (about £35 million) promised by Kuala Lumpur in 1963 for development over five years in Sabah and Sarawak was particularly welcome.

The political attractions

As the above discussion suggests, the investment groups saw the federation of the former British territories in maritime Southeast Asia in political as well as economic terms. As a means of diluting Singapore’s radicalism in a conservative-dominated Federation, the Malaysia scheme had obvious advantages. The early
1960s in Singapore witnessed a struggle for political power in which a battle for the control over unionised labour was a key feature. The principal problem for British firms in a semi-independent Singapore was expected to derive from the policies of the PAP regime. As early as the autumn of 1958, Lee Kuan Yew was predicted to defeat Lim Yew Hock. In an interview with the PAP leader, Sir John Barlow was shocked to discover that Lee ‘could not imagine anyone investing new money in Singapore and certainly would not do so himself if he had any’. After taking office, the PAP hoped to ‘retain what capital there is in Singapore and the accrued profits as far as possible’. When the PAP’s election victory of May 1959 was even more overwhelming than the boxwallahs anticipated, it is no surprise that HSBC’s manager in Singapore reported on ‘a general feeling of depression’ and much speculation regarding the ‘burdens’ which were sure to be imposed on the commercial community. As it turned out, however, a remarkable concordat was reached between the expatriate business community and the anti-communist PAP. The opening of the new Legislative Assembly was accompanied by promises that no restrictions would be placed on the activities of foreign investors. Moreover, in introducing his first budget in November 1959, the PAP’s finance minister, Goh Keng Swee, proposed the formation of a limited common market with Malaya and an industrialisation strategy which would be integrated with that of the Federation.

Thus, in May 1961, Ian MacEwen, the managing director of BCL in London, wrote to Singapore that ‘one needs a sense of humour to appreciate that British businessmen...are anxiously hoping for the survival of the PAP’. The abilities of Lee and Goh were now beyond doubt, and, ‘If anything happened to these two men, we would...be in for difficult, if not troublesome times’. Two months later, troublesome times seemed imminent. PAP left-wingers—alienated by Lee’s pragmatic socialism and frustrated by Singapore’s slow progress towards full independence—chose to form a breakaway radical party, the Barisan Socialis (Socialist Front). This campaigned for immediate independence but outside the Malaysia bloc. The PAP’s majority in the general assembly was now dependent upon the speaker’s vote, and the chances of Lee winning the next general election looked very slim. For British business, merger with the Federation came to be seen as a means of bolstering the de-radicalised PAP. ‘If the Tungku’s [sic] proposals for a merger...can be seen as a real possibility’, wrote MacEwen to Singapore in August, ‘Lee may yet survive his present difficulties’.

What made propping up the PAP through ‘Greater Malaysia’ even more pressing was the appeal of the Socialist Front to organised labour: shortly after the split, forty-three unions in Singapore publicly aligned themselves with the new party. Freddie Erroll, the minister of state at the Board of Trade, who was poised to lead a trade mission to Southeast Asia, was informed by the MCAGB that its members in Singapore were faced with ‘rampant Trade Unionism’ as well as a ‘most confused political situation’. In March 1962, a British overseas director in the textiles industry reported from the semi-colony that the Barisan was ‘the mouthpiece of extreme Left Wing Trade Unionism and supposedly in close contact
with Communist circles and with Russia’. As such, *Barisan* labour leaders ‘have set up a very clever campaign of developing strikes, picking off large firms literally one by one’. Through a combination of ‘promises’ and ‘threats’, staff were enrolled in the Singapore Business Houses Employees’ Union (SBHEU) and demands on management soon followed. ‘[H]ordes of Chinese loafers’ would subsequently ‘swarm into the offices and corridors creating a disturbance and completely preventing business of any kind’. Without any physical violence on the part of the unions, the police were reluctant to intervene. All the big banks and many of the large agency houses had been subjected to this treatment by March 1962.30 Moreover, the successes of the left-wing unions such as SBHEU served to encourage those unions which remained loyal to the PAP, such as the Singapore Manual and Mercantile Workers’ Union, also to resort to strikes to secure benefits for their members. Lee’s government—with an eye on the need to retain the support of the non-communist trade union leaders—was often reluctant to use its powers to refer disputes to arbitration, involving a long delay, when there was a possibility of results being obtained by letting a strike continue.31

Hence, British businesses increasingly looked to the imperial government to intervene in Singapore both to quell the labour unrest and to bring about the Malaysian Federation, in which the no-nonsense approach of the Kuala Lumpur regime would prevail in Singapore also.32 The City-based MCAGB sought an interview with the colonial secretary, Reginald Maudling, to argue that the *Barisan* members were ‘having considerable success in their campaign to kill the Merger plan’ through forcing Lee ‘to resign in their favour, or to ask the CO to suspend the Constitution’.33 In November 1961, the Chartered Bank had approached the Bank of England concerned at ‘go slows’ and ‘work to mles’ and unhappy about the ineffectual conciliation provided by the Ministry of Labour. An anxious Threadneedle Street in turn approached the CO. The Whitehall mandarins pointed out, however, that it was impossible for Her Majesty’s Government (HMG) to intervene formally since labour disputes were an internal matter and constitutionally lay within the PAP government’s own field of responsibility.34 Yet, as the leading lights in the SCC had been told by a senior CO official back in February 1959, the British government, in concert with the Malayan and Singaporean members of the Internal Security Council (ISC), could act in areas which were deemed prejudicial to the island’s internal security.35 Hence, in exchanges with Maudling in March 1962, Sir John Barlow implied that the ‘Tripartite arrangement regarding the security of Singapore between the UK, Singapore and the Malayan Governments’ might be exploited to clamp down on ‘this gross intimidation’.36 Maudling had earlier confessed to his Tory colleague that the prospects for the creation of Malaysia were not great given a likely shift of Singapore further to the left on top of hardening opposition in the Borneo territories. Sir John’s security solution, interestingly, arose from a ‘very cordial’ discussion in Kuala Lumpur between Tan Siew Sin and Sir John’s younger brother, Tom. The finance minister had suggested that the Alliance regime ‘would
obviously be grateful if the British Government took the lead and cleared out the ring leaders [in Singapore].

In February 1963, a round-up of suspected communists, including the Barisan’s leader, Lim Chin Siong, took place in Singapore. It seems unlikely that there was an explicit link between the Maudling-Barlow-Tan nexus, or the earlier lobbying of the MCAGB and the Chartered Bank, and this action on the part of the security services. Along the lines of the declaration of the Malayan Emergency back in June 1948, there was such a long lag time between business demands and the final clampdown on the communists that clearly other political imperatives were at work in British decision-making. But the agency houses were immediately relieved by the ‘welcome improvement’ in the labour situation and, no doubt, were convinced that Singapore’s internal security should not be entirely left to Singaporeans. If independence had to come for Singapore, involving *inter alia* the end of British involvement on the ISC, it was best that the island be absorbed into an established federation where ultimate responsibility for security would pass to the hardline, anti-communist regime in Kuala Lumpur. In November 1962, Howard Morford, the chairman of BCL, ‘happily’ reported that uncertainty about Singapore’s political future ‘now appears to have been dispelled by the prospect that Malaysia will come into being’.

The transfer of power to a regime with a less squeamish attitude than HMG’s towards the suppression of left-wing radicalism also had appeal to British businesses operating on Borneo. The moderate leaders of the Chinese-dominated, anti-Malaysia Sarawak United People’s Party (SUPP) were, according to the intelligence of the BCL, increasingly unable to control ‘the red element’ of their party. It was judged that ‘[a]fter Malaysia when British control no longer exists’, the local government would crack down ‘heavily on the Communists’. Indeed, the first chief minister of Sarawak, Stephen Kalong Ningkan, promised stringent actions against local radicals once Malaysia was created, stating that ‘even if my own brother were a Communist, I would have him arrested’. For the British companies in North Borneo, Brunei and Sarawak, the Malaysia bloc also provided a means of preventing takeover by an unpredictable and increasingly left-wing and expansionist Indonesia. This was particularly the case after the abortive Brunei rebellion at the end of 1962. For J.P. Pearson, BCL’s general manager in Kuching, Indonesian influence on Borneo now appeared widespread. The Sukarno regime was suspected of schooling the hard core in the Brunei disturbances; after the revolt, one thousand Sarawakian radicals were being trained in Indonesian Borneo; communists from Kalimantan were infiltrating the agricultural estates in the Tawau area of North Borneo; Indonesian propaganda broadcasts could be heard all over the island; and, in the last days of colonial rule, Sukarno was interfering in the work of the United Nations (UN) mission sent to gauge Bornean opinion on the merger with Malaya. Malaysian officials could do no worse in resisting Indonesian irredentism than the last of the colonial administrators who were merely ‘marking time, waiting for the day when they get their Golden handshake, and depart the scene’, and who had been ‘caught so flat-footed’ by the Brunei
uprising.43 Hence, at a luncheon meeting with the Sarawak Chamber of Commerce in March 1962, Lord ‘Kim’ Cobbald, the British chairman of the Anglo-Malayan commission of enquiry in Borneo, was told that ‘the sooner Malaysia came into being the better’.44 From the vantage point of Kuala Lumpur, the political aspects of ‘Greater Malaysia’ also had considerable appeal. G.E.M.Jones of ICI (Malaya) Ltd opined in April 1963 that The political union of the five territories must surely make for stability in this area of the world, and stable conditions are essential if trade is to flourish.’45 ‘We need not fear the changes’, concluded the secretary of the MCAGB in October 1961, ‘they could well strengthen non-Communist elements in the area, and act as a deterrent to possible future Indonesian adventures in Borneo.’46

Official policy and ‘Greater Malaysia’

*The British view*

Yet if the concept of ‘Greater Malaysia’ had British commercial backing, it does not necessarily follow that governments—whether in the UK or Southeast Asia—were influenced by business dictates in the genesis of the scheme. In October 1963, the CO minister, Lord Lansdowne,47 justified the recent creation of the Federation in a speech to business leaders in London. Lansdowne did emphasise the economic benefits. The larger unit would make best use of resources; duplication of all sorts of services would be avoided and the best use made of trained manpower. It would make for greater prosperity through a larger home market. Malaya would benefit from the skills and know-how of Singapore, the use of the port and ancillary facilities. The economies of Singapore and Malaya would finally be ‘properly dovetailed’ through political union; ‘their present separation is economic nonsense’. Lansdowne also stressed the prospects for political stability, which appealed to British business leaders: ‘Malaysia being prosperous, stable and democratic [with a much higher standard of living than in general in Southeast Asia] will be a focus of stability in troubled areas.’ If Singapore, Sarawak and North Borneo had not joined Malaysia, their future would have been bleak. None of the three territories were viable on their own, and once British rule had ended they would have been prey to Chinese communism and/or Indonesian and Philippines irredentism. For that reason, it was very much hoped that Brunei would ‘sooner or later’ accede to the enlarged Federation. Yet, additionally, there existed a wider international power-political dimension to Lansdowne’s exoneration of Malaysia. Singapore, Sarawak and North Borneo—like Malaya before them—would be secured for the Commonwealth. Moreover, the minister underlined the Malayan government’s commitment to British bases and the military alliance with the UK. Britain would thus be able to use the Singapore bases not only to help defend Malaysia but as Britain thought
'necessary’ for the defence of Australia and New Zealand ‘and for the preservation of peace in South East Asia’.48

Indeed, an interrogation of the official record reveals an obsession with geopolitical and strategic concerns in Britain’s attempt to homogenise the patchwork quilt of ex-colonial territories. Containing Indonesia and China through a pro-Western Malaysia was vital in maintaining Commonwealth solidarity with Australasia, while a continued British military presence in Southeast Asia was a vital element in securing a worldwide strategic partnership with the US. The making of Malaysia can thus be interpreted as part of a broad, last-ditch attempt to maintain Britain (with the Commonwealth) as a ‘third force’ in global politics.49 British influence in maritime Southeast Asia would be preserved not by bolstering British investments but through an extension of the Anglo-Malayan Defence Agreement of 1957.50 Negotiations in London during November 1961 produced formal agreement between British and Malayan governments on the formation of ‘Greater Malaysia’. ‘[T]he real issue for us’, confessed Prime Minister Harold Macmillan to the Tunku in the course of the talks, ‘was our need to enjoy unfettered use of our bases and facilities in Singapore.’51 Likewise, the political stabilisation of Singapore, while undoubtedly benefiting British banks, manufacturers and trading companies, primarily attracted British policy-makers because industrial chaos on the island would cripple what was now Britain’s largest overseas military emplacement.52 British official objections to Brunei’s independence (outside Malaysia and with the treaty of protection of 1959 abrogated) were based partially on the view that British forces would be unable to protect the valuable Shell oil monopoly except by invitation. Yet Lord Selkirk was also reminded in January 1963 that ‘An independent Brunei would be a focus for subversive operation against Malaysia in general, and its Borneo components in particular.’53

On a visit to Malaya and Singapore in early 1962, a Bank of England official came to appreciate the overwhelmingly politico-strategic, rather than financial-commercial, dimension to ‘Greater Malaysia’:

In South East Asia a battle is being fought out, the consequences of which will be of the greatest significance, not only for the areas immediately involved…but for the western world generally, and in particular of course for Australia and New Zealand…

The urgent theme preached by the protagonists of ‘Malaysia’ [notably the British High Commissioner for Malaya, Sir Geoffroy Tory]…is that…unless a larger and more stable area could be brought quickly into being, followed by the neutralisation of the dangerous elements in Singapore, not only would the Federation be faced with open violence again but the outlying areas would hang like apples ripe for the plucking either by Communist China or Indonesia…54
Even the UK Exchequer saw British interests in largely political terms. ‘Greater Malaysia’, according to one Treasury mandarin in the summer of 1962, would secure ‘our tenure of the Singapore base for some years’, relieve ‘us of internal security responsibilities’ and thereby ‘enable us to reduce our forces in the area’, and establish ‘stability in an area which is susceptible to cold war infiltration’. An honourable exit from the Borneo territories would also reduce Britain’s vulnerability to anti-colonial criticism in the UN. The ‘crucial point’ for Treasury ministers lay not in protecting raw material supplies, investments or trade, but in ‘whether…the expatriate officers serving in Borneo…have the right to retire with compensation’.55

This Treasury indifference to the economic advantages of the ‘grand design’ reflects the fact that the legendary ‘land of milk and honey’—as rubber planters liked to call Malaya—was becoming decidedly less appetising in Whitehall circles. The Malayan area’s dollar earnings, once crucial to the bolstering of the pound sterling and the British economy generally, were on the decline by the early 1960s. One reason for this was the loss of market share for Malaysian rubber in the US. Consumption of natural rubber in America declined from 40 per cent of total world production between 1946 and 1950 to just 20 per cent in 1961, and the US, through the development of a large synthetic industry since the Second World War, had emerged as the third largest rubber exporting country in the world.56 Even the UK had its own synthetic rubber capacity from the end of 1958, and, as will be expanded upon in Chapters 4 and 5, there were severe doubts about the future of Malaysia’s other major exports, palm oil and tin, given the challenges of reclamation, conservation and replication in Western consuming countries. East Malaysia did possess oil, but in the early 1960s the industry’s future in northern Borneo was quite unclear and uncertain. As we have seen, both Sarawak’s and Brunei’s inland outputs were on the decline. At the end of 1957, Shell surrendered 37,000 square miles of oil mining leases in Sarawak, and when the ‘Greater Malaysia’ project was first mooted, the Bank of England still believed that the Brunei fields were becoming ‘exhausted’ and the prospects of new strikes ‘poor’.57 In 1963, Shell did announce new finds, but the commercial possibilities remained exceedingly vague. As the oil group’s executives explained to Whitehall mandarins, their multimillion-dollar exploration programmes had produced successful drillings off Seria (Brunei) and Miri (Sarawak), which were expected to lead to commercial production from 1964. Brunei’s giant offshore field, known as Southwest Ampa, was predicted to be the most productive, halting and eventually reversing Brunei’s declining oil production. Drillings in the deposits off Bintulu (Sarawak), however, were encouraging but not yet up to commercial production standards, while the results of exploration activities off Sabah remained disappointing. Even the new Brunei discoveries were not expected to have a life of more than twenty years, and only in 1968 was the commercial viability of the Miri offshore finds confirmed, while Sabah would have to wait until the 1970s for the beginnings of profitable petroleum output.58
Meanwhile, British officials were aware that UK trade might be threatened rather than enhanced by the ‘Greater Malaysia’ project. As J.N. McKelvie, the UK’s Trade Commissioner in Malaya, reported to the Board of Trade, the transfer of sovereignty from Britain to Kuala Lumpur in northern Borneo would probably result in those territories following economic trends already evident in independent Malaya: namely, the loss of inbuilt sympathy for British goods and services with the departure of expatriate officials; a political desire to expand sources of supply and show less reliance on Britain, combined with an inclination to encourage trade with Asian countries, especially Japan; more aggressive selling tactics from European competitors; and an increasing use of international tenders. The unification of tariffs might also adversely affect British preferential entry if the enlarged Federation chose to follow Singapore’s example where there was no tariff preference in favour of UK goods.59

The view from Malaya and Singapore

As Stockwell has argued, the British government had largely lost control over the decolonisation process in Southeast Asia by the 1960s. As such, the key governmental actors in the ‘Greater Malaysia’ drama were to be found in Kuala Lumpur and Singapore.60 Malaya’s prime minister, Tunku Abdul Rahman, did have an eye on the economic and financial implications of the ‘grand design’. He told Harold Macmillan at the successful conclusion of the Anglo-Malayan talks in November 1961 that ‘the outcome would be particularly welcome to businessmen and especially to foreign business whose capital investment…was so vital’.61 Yet the Tunku and his ministers were reluctant and cautious aggrandisers, largely indifferent to the alleged economic advantages of a wider market and resource base, or industrial, commercial and financial coordination.62

By 1958, in response to British proposals for a merger of northern Borneo, the Tunku was thinking about the creation of a ‘super Federation’ to include the Borneo territories, but only ten to twenty years hence when Sabah, Sarawak and Brunei would reach ‘political maturity’.63 Moreover, the Tunku’s enlarged state would not include Singapore. In January 1959, the Malayan prime minister informed Britain’s commonwealth secretary, Lord Home, that he hoped the island would remain a permanent colony of the UK, underpinned by visible military strength. A merger was not feasible for ‘as far as one could see ahead’ precisely because ‘the Federation could not cope with the addition of the Singapore Chinese to an already difficult Chinese problem’.64 Even the PAP’s limited ideas on an economic union between Singapore and Malaya were greeted coolly in Kuala Lumpur. As High Commissioner Tory discovered in early 1960, whatever the economic merits of a common market between mainland and island, Federation ministers were reluctant to agree to any arrangement, or even to discuss it, in case this should be taken as the first significant step on the path to full political merger. Even the possibility of coordinating motor vehicle assembly between the Federation and Singapore—in which British manufacturers and distributors had
a central interest (see Chapter 5)—was out of the question. As Malaya’s minister of commerce and industry, Khir Johari, openly pointed out, the model provided by ‘the Six’ in Europe was not necessarily applicable to Commonwealth Southeast Asia. Far from integrating economic development with Singapore, the Federation continued into the 1960s with strategies—such as the development of stock and rubber exchanges in Kuala Lumpur and the development of Port Swettenham (Kelang)—aimed at making Malaya as economically autonomous as possible from the old colonial business capital.

Once the merger plans were publicly floated, the Tunku did emphasise to Chinese entrepreneurs that ‘the economy of Singapore and the Federation…cannot be separated. If Malayan rubber and tin do not go through Singapore at all, Singapore will be in difficulties.’ But a full economic union was still not enthusiastically embraced. The Alliance government did agree to a visit from World Bank experts—known as the Rueff Mission—to advise on a pan-Malaysian common market in the summer of 1961. However, the senior Malay civil servant in the MCI, Raja Mohar, told the UK’s economic adviser in Kuala Lumpur that his ministers remained to be convinced that a common market with Singapore ‘or indeed any other form of closer association offers them any economic advantage’. On the contrary, the MCI head stressed the economic risks for the Federation in any such association, including loss of new industrial investment to Singapore and potential loss of revenue through the difficulty of securing an equitable distribution of duties collected at Singapore on imports for ultimate use or sale on the mainland.

Consequently, the Tunku’s decision to take on the British burden in Southeast Asia had little to do with the demands of expatriate or indigenous business, or more general economic considerations. Rather, Kuala Lumpur’s sub-imperialism represented a general continuity in the Alliance’s thinking about the communist threat from Singapore. As the Tunku confessed to British ministers in November 1961,

He would have much preferred to leave Singapore well alone as hitherto and concentrate on keeping Malaya free from communism, as at present: but he could not help fearing that, when the Singapore constitution came under review in 1963, Britain might feel obliged to grant separate independence. This would inevitably lead to Singapore becoming a communist state and he had decided that the only way of avoiding that danger was to accept the merger…

In February 1958, the Tunku publicly stated that a union with northern Borneo ‘would be good financially. They have oil.’ Yet, in addition to providing a further barrier to communist penetration of the Malay peninsula from Indonesia, Kuala Lumpur’s coveting of the Borneo territories had more to do with the politics of race than the politics of business or resources. The Federation could avoid a Chinese majority by bringing in the Malays and indigenous peoples of British Borneo. Macmillan was informed in August 1961 that if Malaya was to absorb
Singapore, it would be necessary first to strengthen its own position, and this could only be achieved through merging with Sabah, Sarawak and Brunei. This ‘would correct the imbalance in the population’, since ‘the Malays and the Dayaks’ were regarded by UMNO leaders as being ‘of the same racial origin’ while ‘the Chinese in those territories have not as yet been seriously penetrated by Chinese Communist politics’.  

As the Tunku reassured Lord Lansdowne at the Ritz Hotel in London on 1 August 1962, his government did not have ‘any territorial ambitions, they had nothing to gain from North Borneo and Sarawak’. Malaysia was being promoted by the Alliance government merely as a means of ‘establishing effective resistance inside Southeast Asia against the spread of communism’.  

Singapore’s premier, Lee Kuan Yew, did view Malaysia as a common market essential for the island’s economic survival (especially since the British military presence could not be counted on indefinitely). Lee, however, was far from the stooge of British capital or concerned about the future of post-colonial investors per se. In the assessment of Sir John Martin, deputy Under-Secretary of State in the CO, the ‘ardently anticommunist’ prime minister saw that the solution to Singapore’s principal and interlinked problems—the radical left-wing threat and the ‘feeding’ of its exploding population—lay in closer relations with mainland Malaya. The quasi-colonial regime, as far as Lee was concerned, could not inspire loyalty in its people. Full independence, on the other hand, would only be viable through a merger with the Federation, since Singapore was too small to stand alone.  

Frustrations with ‘Greater Malaysia’

Objections from Sabah and Sarawak

In addition to being largely irrelevant in government policy-making, British companies, commercial associations and business leaders were to be frequently frustrated with the final shape taken by Malaysia. In Sabah, the British-dominated North Borneo Chamber of Commerce (NBCC) emerged as a vociferous opponent of full union with the peninsula. As a means of controlling communism and reducing North Borneo’s vulnerability to external aggression, the Malaysia concept seemed acceptable in principle to the colony’s business leaders. But in its petitions and representations to the Cobbold Commission in the first quarter of 1962, the NBCC and individual business grandees, such as R.G.Barrett, the rubber and timber estate owner, and A.W.Paton, the manager of the BBTC, argued for a loose form of political association in which the federal government would control defence, external affairs, anti-subversion operations and currency. Sabah, however, would retain control over its own revenues and resources and would pay the federal authorities a grant towards centrally provided services (instead of vice versa). Barrett was ‘fully aware of the dangers of communism in Singapore,
Sarawak and elsewhere’, but this seemed to suggest that the ‘answer is that even if this appalling precipitancy is inevitable…the form of association should be the loosest possible that will permit of integrated control of internal security i.e. suppression of communists’.76

There were two main reasons for this ambivalence towards the Malaysia scheme. First, as Henry Hall of the Commissioner-General’s Office appreciated in 1962, North Borneo business was liable to be lukewarm to tariff revisions because the colony’s financial secretary, Howard Davidson, had been an avid advocate of low rates of taxation to encourage economic development. The ‘unofficial financial pundits’—as Hall described Barrett and Paton—sat on the Legislative Council and, in turn, the Standing Finance Committee under the chairmanship of Davidson, which controlled all government expenditure.77

Secondly, and a reflection of this low-tax policy, was the boom in North Borneo’s export economy. Between 1955 and 1960, the value of Malaya’s exports had modestly increased by 23 per cent, whereas North Borneo’s exports dramatically soared by 112 per cent. Recovery from the destruction of the Japanese occupation and the liberalisation of concessions meant that the output of rubber, timber, cocoa and palm oil in Sabah was set to grow exponentially into the future. The NBCC expected the value of North Borneo’s exports to increase over four times from the 1960 figure of M$233 million to some M$971 million by the mid-1980s. Therefore, Sabah’s expatriate business leaders argued that ‘Economic integration or unification with Malaya and Singapore could jeopardise the rate of North Borneo’s development.’ Moreover, as far as the eastern side of the colony was concerned, this boom was associated with connections to Hong Kong and Japan, not to the Malayan peninsula.78

In the short term, Sabah’s representatives on the Intergovernmental Committee agreed with the expatriate business lobby in demanding that the new state in the Federation should ‘retain control of its own finance, development and tariff, and should have rights to work up its own taxation and to raise loans on its own credit’. For the CO, however, ‘this proposition made a nonsense of Malaysia’.79 Cobbold had told Barrett that there were dangers in making currency a federal subject while leaving budgetary finance under the control of the Borneo states. For the exgovernor of the Bank of England, ‘sound finance was the basis of a sound currency and division of power would be troublesome’. There was support from the three British commissioners for a gradual alignment of tariffs and taxation throughout the enlarged Federation. But the permanent secretary at the Federation’s Ministry of External Affairs, member of the commission and close associate of the Tunku, Mohamed Ghazali Shafie, was determined to transfer as many federal responsibilities to Kuala Lumpur as soon as possible.80 Moreover, Malaya’s deputy prime minister, Abdul Razak, was able to persuade North Borneo’s political leaders, Donald Stephens and Datu Mustapha bin Harun, to abandon their economic parochialism through offering Sabah generous allocations in terms of functions in the federal and state lists and representation in the federal parliament and Cabinet. This meant that by the end of 1962, Sabah had fallen into
line with Sarawak in accepting that monetary policy, foreign exchange and central banking would be federal subjects. Taxation would also be under the control of Kuala Lumpur (albeit with some safeguarding of state interests—the revenues from export duty on timber, for example, would be assigned to the Borneo territories). In January 1963, further concessions from Kuala Lumpur on development grants, the retention of revenues and immigration control produced final unanimity on Malaysia amongst the political leaders of Malaya and Borneo.81

Yet this was far from the limited political and defence union envisaged by Sabah’s expatriate business leaders. In July 1969, British shippers, planters and bankers concluded to the Acting High Commissioner for Malaysia that ‘for defence and general political support, the Federation was worthwhile’, but only so long as ‘Sabah was not too much interfered with’.82 The standardisation of tariffs and taxes across the Malaysian territories after October 1965 had certainly not been welcomed in Kota Kinabalu, Sandakan and Tawau. After suffering four years of Malaysian duties, Sabah’s planters, led by Barrett, appealed to Khir Johari, back as the federal minister of commerce and industry, for special relief from export duties and payroll tax together with some moderation of protective tariffs. The economic union with the mainland, it was claimed, had increased the costs of production on the plantations. The new taxes had not taken account of Sabah’s higher freight and wage rates vis-à-vis the rest of Malaysia, while protective tariffs on goods exported to Sabah via Kelang ‘may benefit some small manufacturers in Petaling Jaya but they are a serious disincentive to investment in the incomparably more important primary industries’.83

In Sarawak, the largest agency house, BCL, had supported the ‘Greater Malaysia’ scheme for geopolitical reasons. As in Sabah, however, from a strictly commercial point of view, the bigger Federation appeared a ‘lamentable business’. Greater Malaysia seemed to reflect US Cold War interests rather than UK economic designs, and Sarawak was expected to be swamped by Singapore Chinese settlers to the detriment of indigenous inhabitants and long-established British firms. When a delegation from the MCAGB put these concerns to CO mandarins in February 1962, BCL’s long-serving managing director, Alec Malcolm, was horrified by Sir John Martin’s dismissive response: ‘HMG’s best endeavours were being used to incorporate the Borneo territories in the Malaysian Federation scheme’ irrespective of ‘whether or not they were politically mature enough’.84

As the likelihood of ‘Greater Malaysia’ approached, there were also business fears in Borneo about the possibilities of post-colonial administrative collapse. Given generous early retirement packages, BCL feared a ‘big exodus [of expatriate personnel] from Police, Lands and Surveys and Medical Department’ in Sarawak, leaving a ‘very unsatisfactory’ position. While European planters in the Papar district of North Borneo agreed that ‘ultimately Malaysia was the only answer’, Henry Hall reported that they feared a breakdown in administration if expatriate officers did not stay on and intercommunal violence if Malaysia was forced through too quickly.85 A.E.Phillips, a former timber company chairman in North
Borneo and lately owner of the Tuaran Rubber Estate, told the Cobbold Commission: ‘A collapse is…probable in the event of any administrative change.’ Sri Lanka and Indonesia provided clear examples of how ‘The large investment interests of the European companies would be hazarded [sic] if left to the mercy of immature budding politicians’ and Sabah’s ‘local hotheads who have been echoing parrot-wise some speeches of Malayan leaders, do not show evidence of maturity’.86

On the conclusion of his mission to Borneo, Cobbold suggested that ‘for the next few years the highest posts [in the Borneo territories]…should be held by expatriate officers, that these officers should retain their present authority over domestic affairs [bar internal security]…and that a high proportion of expatriate officers should remain in the service’.87 Confusing Cobbold’s views with those of the British government, the Tunku was incensed and threatened not to come to London for further talks. But in Whitehall and Westminster, political exigencies took precedence over investor confidence (or the legitimate concerns of the Borneo peoples). Desperate to keep Malaya committed to the ‘grand design’, and fearing that Lee’s government might fall in Singapore, or that the Philippines and Indonesia might take their respective territorial claims to the UN, it was imperative for the Macmillan government to oversee the swift creation of Malaysia. Moreover, as the British prime minister knew only too well by the summer of 1962, division of authority was paralysing administration in the ultimately ill-fated Federation of Rhodesia and Nyasaland. In the event, the Tunku did accept that expatriate officers—as in independent Malaya previously—would retain their posts in the short term.88 Once again, though, this was not the limited and gradual federation that the British commercial interests in Borneo had hoped for.

**The Singapore-Malaysia debacle**

In Singapore and Malaya, British firms were increasingly disappointed with the planning for Malaysia as well as the final form that the Federation took. By way of contrast to Borneo, however, the concern here was with the lack of economic integration between the constituent parts of Malaysia and, particularly, the failure to economically unify Singapore with the mainland. The Alliance government in Kuala Lumpur, and particularly its finance minister, Tan Siew Sin, did not share the view of the British agency houses or of Lee Kuan Yew’s government that the chief advantage of ‘Greater Malaysia’ lay in the prospect of some form of common market arrangement. Indeed, Alliance ministers continued to suspect that coordination of industrial policy would result in all the new factories in ‘Greater Malaysia’ settling in Singapore, given the island’s existing status as a developed industrial and commercial centre with a key geographical position between Malaya and the Borneo states, good communications and a plentiful supply of labour. The new industrial areas at Petaling Jaya, Ipoh, Perai and Johor Bahru would be bypassed.
Lord Selkirk reported in January 1963 that ‘There is little evidence at present of co-operative economic planning between the Federation and the Singapore governments. The tendency is rather towards a jealous rivalry in economics and industry. Whether with justification or not, the Singapore Government are apprehensive that the Federation intend to exclude them from Malaysian Common Market arrangements.’ The expatriate commercial community was irritated by the uncertainty that this economic rivalry induced. In April 1963, G.E.M. Jones of the FMSCC argued that ‘full development of the [economic] potential’ of the union requires ‘forward planning’. But this could not be put in hand until an authoritative statement was made regarding ‘the conditions under which goods will move between the territories’. Shortly before the merger, the Rueff Mission did recommend that priority be given to the establishment of a common market in Malaysia, permitting the free movement of goods internally with external tariffs set at the existing Malayan levels. The long-established entrepôt trades, of Singapore and Penang particularly, could be preserved in special free trade zones in the ports, and a policy of differential incentives could be implemented if excessive industrial concentrations developed. Yet Lee Kuan Yew’s government had to engage in some hard bargaining to gain economic concessions in the merger terms. In return for the Federation’s assent to the ‘progressive establishment’ of a common market, Singapore agreed to surrender 40 per cent of its revenue to the central government in Kuala Lumpur, to allow the federal Ministry of Finance control over the approval of Singapore’s pioneer industries, and to provide a loan of M$150 million for the development of the Borneo states. As Tan Siew Sin boasted to the visiting chief manager of the Mercantile Bank, Charles Pow, the finance minister had driven ‘a favourable bargain with the Singapore government’ and ‘did not think they knew how much power they had given up to him’.

Furthermore, once Malaysia was inaugurated in September 1963, the progressive establishment of the common market proved extremely protracted. A Tariff Advisory Board (TAB) was immediately established to advise the federal government on the creation of a customs union. But six months later, A.J.M. Ramsay, president of the SMCC and head of William Jacks in Kuala Lumpur, was frustrated by the failure to appoint a chairman to the TAB. A further year on, Ramsay was pleased to report that a chairman from New Zealand had finally taken up his duties, but the common market still had not materialised. As Ramsay asked: ‘Is it not time that the first steps to actually bring the concept of a Common Market to fruition were taken? Surely this would be an effective stimulant to local manufacture and an aid to further investment.’ Worse still, the British agency houses in Malaysia became immediately caught in the cross-fire of a struggle between Lee Kuan Yew’s PAP and Tan Siew Sin’s MCA for the pan-Malaysian Chinese vote. As Charles Pow discovered, Tan had a ‘fervent dislike and distrust’ of Lee, describing the Singapore leader as a ‘gangster’ and ‘double crosser’ and suspecting him of ‘trying to push his PAP party in place of the MCA’. Lee sought a ‘social revolution’, and his regime in Singapore had adopted a state-led, ‘guided capitalism’ approach to economic development. This contrasted
with the ‘social evolution’ and free-enterprise-led growth strategy espoused by Alliance ministers. Nevertheless, the British business groups were known to be impressed by the efficiency of the Singapore government in promoting industrial development as opposed to what the British High Commission in Kuala Lumpur described as the ‘the ineptitude’ of the Malayan MCI. Since the MCA controlled the key economic ministries at the federal centre, Tan and his colleagues were incensed. As one senior official in Kuala Lumpur told a British journalist, the big British firms would have to learn ‘that the Federal Government, not Mr Lee Kuan Yew, controls the finances of Malaysia, holds the power to impose taxes, and should therefore be treated with respect’.97

Intercommunal tensions and ideological differences, exacerbated by the personal animosities of leading politicians on island and mainland, are usually cited as the principal reasons for the departure of Singapore from the Federation in August 1965.98 Research for this project, however, suggests that more attention should be given to the failure to relieve the economic tensions between Kuala Lumpur and Singapore. As the UK’s commercial attaché in Singapore appreciated after the split, there had developed a suspicion on the island during the Malaysia years that the federal government had no intention of recognising Singapore as the business capital of the Federation. On the contrary, it appeared that the thinking north of the Causeway might well be to reduce the island’s economic status. Irritation with the failure to establish a common market and growing concern about the 60:40 split of Singapore’s revenue were exaggerated by the controversial turnover and payroll taxes introduced by the federal government in January 1965, which were likely to bear down more heavily on Singapore-based businesses. Liquidity ratios had also been extended to Singapore banks, causing a shortage of bank money on the island. Meanwhile, there was a suspicion that Kuala Lumpur was poaching prospective industrialists from Singapore. Finally, Confrontation with Indonesia hit Singapore’s trade far more than the mainland’s, and this loss, it was believed, was not taken fully into account in the policies of the federal government.99

Yet if Singapore’s economic marriage with Malaysia had been an unhappy one, the potentially dire financial and commercial consequences of divorce seemed even worse as far as British businesses were concerned. The political estrangement of August 1965 opened up the prospect of separate monetary and banking systems, which set alarm bells ringing in the British exchange banks. The head of HSBC for Malaysia and Singapore was disturbed by the prospect of a separate Singapore currency being unable to long remain hard or stable, and it would be unlikely to be capable of maintaining parity with its Malaysian counterpart. Operating a joint currency between two independent countries would prove difficult, but anything was better than ‘Singapore having to operate her own currency’.100 During 1966, various deputations to both governments from British and Chinese bankers, as well as chambers of commerce and manufacturers’ associations, argued that the combined currency, which had been in use for sixty years, would command more respect externally than two separate currencies. A monetary split would also
mighty shake internal business confidence. In November 1965, the currency agreement, allowing for the operation of a joint currency board in Malaya, Singapore and the Borneo territories, had been extended to June 1967. But talks between the finance ministers in August 1966 broke down. HSBC bosses again fretted that Singapore would not be able to retain currency parity in view of a trade deficit of M$400 million for 1965. With Confrontation at an end, the Commonwealth bases would run down, thus depriving Singapore of invisible earnings, and Malaysia would ‘endeavour to squeeze’ the island through attempts to make Kuala Lumpur a financial centre and through fuller utilisation of west coast ports. Increased Indonesia trade would help Singapore, after the embargoes of Confrontation, but long-term credits would be required to get this moving again. ‘[U]nless the [Singapore] government has some unknown card in its hand’, the prospects to HSBC looked extremely grim. Tan Siew Sin, however, was ‘perfectly…satisfied’ with the economic viability of the rump Malaysia, and in announcing the unlikelihood of a resumption of negotiations, the finance minister was characteristically unsympathetic towards the remonstrations of big business. British commercial and financial leaders had not adjusted themselves ‘adequately to the new changed conditions’ and continued to ‘regard Malaysia and Singapore as one unit economically as it was in the…days of colonialism… [T]hose days are gone…and the longer they cherish this delusion, the more difficult will be the eventual and inevitable re-adjustment.’ From the summer of 1967, British businesses were thus faced with the operation of three separate currencies for Malaysia, Singapore and Brunei where previously only one had knit Commonwealth Southeast Asia together as an economic unit. For the exchange banks in Singapore, this represented a new set of inconvenient transaction costs.

Together with a hankering after a joint currency, British business interests, somewhat naively, continued to encourage the formation of a customs union between Malaysia and Singapore (in spite of the acrimonious political separation). In the immediate aftermath of the split, British businesses were encouraged by the Kuala Lumpur government to engage in a minor trade war with the island. At a meeting on 16 August, Tan Siew Sin and Lim Swee Aun, the minister of commerce and industry, suggested a number of measures, such as banning the export of logs and pineapples to Singapore, in retaliation at the Lee government’s decision on 9 August to place restrictive licensing and quotas on items scheduled for the common market. The agency house representatives, with interests on both sides of the Johor Straits, made it plain, however, that they had no wish to encourage any adventures of this type and pressed that the pre-split status quo be restored. In the short term, the rational business view prevailed: when representatives of the Malaysian chambers of commerce saw the Tunku, Tan and Lim on the following day, the prime minister overrode his hawkish Chinese economic ministers, making it plain that he wished to see no retaliation against Singapore, and the economic peace was restored through intergovernmental negotiation. But the chambers and manufacturers’ associations on either side of the Causeway also
demanded the eventual achievement of the common market as recommended by 
the Rueff Mission back in 1963.105

However, this business interest was not reflected in the attitudes of politicians. 
The Singapore government continued to call for a joint agreement on a common 
market. Yet, in Kuala Lumpur, Tan Siew Sin, now chair of the economic 
committee concerned with Singapore, retained his bellicose attitude towards the 
PAP regime, overruled the more conciliatory approach of the MCI and, while 
advocating a common market with East Malaysia, the finance minister remained 
hostile to the extension of any economic union to Singapore. The fundamental 
difficulty for Tan—as in the years of ‘Mighty Malaysia’—was if Singapore 
remained essentially a free port, its costs of imported materials would be much 
lower than those in Malaysia. For example, within a Malaysia-Singapore 
zollverein, it might still be possible for Singaporean factories to ship garments 
made from imported cloth—which bore a 25 per cent duty in Malaya—up to the 
mainland duty-free. In 1963, Lee Kuan Yew and Goh Keng Swee had been 
prepared to effectively surrender 5 per cent of federal revenue collected in the 
island for the privilege of having a common market. They were also prepared to 
accept, as recommended by the World Bank, the equalisation of production taxes 
where costs differed. But with the very different political circumstances after 9 
August, nothing approaching either of these devices could be implemented. 
Similarly, Kuala Lumpur’s economic nationalists would not long tolerate a 
situation where Malaysian primary production continued to be processed and 
exported through a port in a neighbouring country.106

Two months later, the Alliance government did introduce a limited customs 
union within which goods ‘made in Malaysia’ moved freely. The arrangement 
included the Borneo states but excluded Singapore. Understandably, Lee Kuan 
Yew’s regime retaliated with the introduction of tariffs on 155 Malaysian-
manufactured articles. Industrialists and chambers of commerce in both countries 
expressed concern at the inability of the two governments to settle their economic 
differences; the executive secretary of the SICC, for example, argued that 
commercial logic should have dictated a tariff wall being built around Malaysia 
and Singapore, without any barriers between the two countries.107 Relations only 
worsened, however, and at the end of 1965, Goh Keng Swee announced the 
beginning of Singapore’s export-oriented industrialisation (EOI) strategy aimed 
not at Malaysia but at Western markets. Meanwhile, the minister of transport in 
the Federation, Sardon Jubir, informed major rubber companies of plans to divert 
Malaysian sheet rubber, palm oil and latex from Singapore to Port Kelang—a 
move which Jasper Cross in the British High Commission in Kuala Lumpur—a 
move which Jasper Cross in the British High Commission in Kuala Lumpur 
appreciated would ‘make Malaysian industry just a little less economic and add 
to the problems of Singapore’. Raja Mohar confirmed to Cross that ‘absolutely 
no practical steps were being taken towards cooperation on the common market 
or other subjects’.108 Tan Siew Sin’s budget in 1966 was further evidence that 
Malaysia wished to develop its own ports and industries separate from Singapore. 
Business circles were worried by increased export duties on rubber and timber
designed to encourage processing within Malaysian borders, and by the reduction of railway freight rates and port duties at Kelang to encourage the export of the mainland’s primary production through that port.109

How did the British government view these developments, and the threat to the traditional position of British investment in Singapore and Malaysia (based upon the economic interconnectivity of island and mainland)? On the currency question, the CWO saw little point in intervening, since the obvious lack of mutual trust and confidence between the two independent countries and the unlikely prospect of close coordination of fiscal, monetary and economic policy would render a joint currency unworkable.110 On the common market, Alan Brown, head of the Far East and Pacific Department, counselled against any official action in favour of British firms. As ever, HMG’s interest was viewed largely from a geopolitical and strategic perspective: the Malaysian government would take any intervention as a demonstration of the Wilson government’s partiality for socialist Singapore and for Lee Kuan Yew in particular. An alienated Malaysia might subsequently seek a rapprochement with Indonesia and ask Britain to withdraw its forces from Malaysia, leaving Britain ‘holding the Singapore baby’.111

By 1967, although the common currency and the common market had been jettisoned, there were some signs of cooperation in economic planning—a double taxation agreement was concluded in 1966, the Malaysia-Singapore Airlines (MSA) charter was maintained, and there were positive assurances that the new Malaysian and Singaporean dollars would be held at parity with each other, would each be permitted to circulate freely within Malaysia and Singapore112 and within the sterling area, and would be readily convertible. Yet for Guthries’ number one in the Far East, T.M.Walker, this was simply ‘not enough’. There was ‘ample evidence’, he claimed in March 1967, ‘to show, on the one hand, that the inflow of capital to finance the essential development of new private enterprise is hesitant and, on the other, that some of those who came in on the tide of original market expectations [for “Greater Malaysia”] have been sadly disabused. Moreover, in certain fields, there has been permitted replication that has given rise to profitless overproduction.’113 A report drawn up for the leading agency house concluded in September 1967 that Guthries would be unwise to assume that it would be able to access the facilities of Singapore from peninsular Malaysia over the next ten years without major financial deterrents and obstructions. Given political uncertainty, and the threat of intercommunal violence combined with low rubber prices, Guthries’ executives in London informed officials in the CWO that they now wished to substantially disinvest from Malaysia.114 During 1967, accepting that ‘it would not be practicable in the foreseeable future to administer trading in Malaysia from Singapore and vice versa’, the Anglo-Thai group split its pan-Malayan trading and manufacturing business into two separate subsidiary companies.115

Indeed, economic anxieties were compounded by the political uncertainties arising from the unmaking of ‘Greater Malaysia’. Even if genuine economic partnership could be achieved, constitutional separation seemed poised to suck
Commonwealth Southeast Asia into the political maelstrom consuming other parts of the region. In Kuala Lumpur, it was feared that the Tunku would not be able to control the extremist Malay chauvinists in his own party. A ‘Malay xenophobia’ threatened interracial harmony and political stability at a time when crisis also loomed over the issue of the national language. The pro-Western orientation of the Malaysian state additionally seemed threatened by a possible realignment in foreign policy towards a more Afro-Asian and pro-Indonesian stance. In this, it was feared that the Tunku would not be able to hold Sabah and Sarawak to Malaysia.\textsuperscript{116} In Singapore, a remarkable alliance would spring up between the expatriate agency houses and Lee Kuan Yew to preserve the British military presence in Southeast Asia (see \textit{Chapter 3}). But in the immediate aftermath of the split, the old fears in expatriate business circles about Lee’s radicalism and Singapore’s vulnerability in an unstable region resurfaced. The PAP government appeared poised to take a lurch to the left and establish closer relations with Communist China and/or Sukarno’s Indonesia. Lee denounced US policy in Vietnam and also allowed a local branch of the Bank of China—banned during the Malaysia years—to reopen.\textsuperscript{117} Meanwhile, repeal of Article 13 of the Malaysian constitution gave rise to fears that the PAP government was planning confiscation and nationalisation of land without adequate compensation.\textsuperscript{118}

\textbf{The future of Brunei}

As in the Singapore-Malaysia debacle, the failure to incorporate Brunei into Malaysia illustrates how local power-holders could frustrate the plans of both British governments and British businesses. The confidence of expatriate firms in Borneo generally had been severely shaken by the Brunei rebellion, which broke out on 8 December 1962. This was a popular rising by A.M.Azahari’s left-wing Partai Rakyat Brunei (PRB), directed against the Malaysia concept and in favour of a Brunei-led confederation of \textit{Kalimantan Utara} (northern Borneo). In the appreciation of BCL, the revolt was ‘completely amateurish and quite hopelessly mismanaged’, while British Gurkha troops (from Singapore) did ‘a fine job in putting down the rebels with a minimum loss of life to the civilian population’.\textsuperscript{119} Despite occupation of the oil installations at Seria by the insurgents, damage to British property was minimal. However, the two major British concerns in Brunei—BCL and Shell—were worried by the longer-term implications of the disturbances. At an audience with BCL personnel shortly after the revolt, Sultan Omar Ali claimed that he had no contact with Sukarno and had no inkling of Indonesia’s future policy towards Brunei. But it was generally believed by British managers on the spot that the sultan was fully aware in advance of the allegedly Indonesian-backed revolt. If the rebellion succeeded, Omar Ali would have remained sultan at the PRB’s invitation. The sultan would bend whichever way the wind was blowing, and, to add further to the confusion, Omar Ali declared that ‘he had not yet made up his mind’ about Brunei’s entry into Malaysia.\textsuperscript{120} In London, the BCL board appreciated immediately that the rebellion had contributed
further to the ‘difficulties of forming Malaysia’. The Tunku’s plans had clearly ‘received a serious setback and no-one now seems to assume with any certainty that Brunei will be included’. Azahari’s absentee leadership from Manila and the failure of the revolt generally had reduced the PRB’s cachet in Brunei. Yet, in the opinion of Managing Director MacEwen, ‘the Asian mind does not necessarily react as one might expect, and it may be that he will in due course make a come back’.121

Poulgrain claims that the PRB rising was engineered by a shadowy conspiracy of oil executives and intelligence operatives. The intention was to deliberately keep Brunei out of the Malaysia Federation to preserve Shell’s special relationship with the sultan and guarantee favourable oil agreements in the future. The Anglo-Dutch oil monopoly would now be backed up by British military protection. Moreover, support for the revolt from the Clandestine Communist Organisation (CCO) within neighbouring Sarawak and the beginnings of Confrontation in January 1963 subsequently supplied the perfect casus belli to clamp down on Sarawak’s pro-Indonesian, left-wing Chinese. A further threat to Shell’s dominance of northern Borneo was thus eliminated; namely, the prospect of a SUPP controlled Sarawak.122 Through Lord Rothschild, Shell certainly did have links to Her Majesty’s Secret Service.123 When the BCL branch in Kuala Belait near Seria was denied an application to import shotgun ammunition at the beginning of December, the manager learned from the authorities that ‘trouble’ was ‘expected’ from ‘the rowdy elements’ of the PRB. But this was predicted ‘within the next few months’, not the next few days as it turned out.124 Shell reported to the MCAGB council that it was aware of the intention of the PRB to hold demonstrations, ‘even to the extent of parading in quasi-military uniforms’, to coincide with the holding in early December of the Legislative Council meeting in which Brunei’s entry into Malaysia was to be opposed by Azahari’s party. Nevertheless, ‘the timing and the intensity of the rebel action came as a surprise’ to Shell’s executives—particularly since the indications were that Azahari would try to achieve acceptance of his opposition to Malaysia by democratic means rather than resorting to open rebellion.125

Poulgrain’s conspiratorial analysis is further discredited by the genuine anxieties felt by Shell executives concerning Brunei’s political future once the rebellion was quashed. In July 1963, fearing a repeat of the PRB revolt, and willing neither to share the oil revenues or sovereignty of his state nor to accept a junior status within the pantheon of Malay rulers, Sir Omar Ali refused to sign the Malaysia agreement.126 In financial terms, it is clear that Shell had been wary since 1961 of Brunei’s entry into Malaysia lest merger merely landed it with taxation on the Federation scale instead of the low Brunei oil royalty of 12.5 per cent and company tax equal to 30 per cent of net profits.127 In June 1963, however, Tan Siew Sin insisted that control of Brunei’s oil revenues would pass to the federal government after ten years. The sultan’s negotiators opposed this ultimatum.128 According to Sultan Omar Ali’s biographer, the issue of oil revenues ‘lay at the heart of Brunei’s refusal to join Malaysia’.129 Immediately prior to the June talks,
Brunei Shell announced the discovery of the substantial Southwest Ampa deposits. As Ranjit Singh suggests, the company was engaging in machiavellian ‘oil politics’ to scupper the negotiations given its aversion to federal taxation. At the end of 1963, Shell negotiated a new 50:50 split of profits with the Brunei government; in Indonesia, by contrast, Shell’s operations were governed by a 60:40 agreement in favour of the government. The less generous, Indonesian-style model was also expected to be the outcome of upcoming negotiations with the Malaysian regime. Superficially, therefore, it would appear that Shell was in a better financial position with Brunei outside Malaysia.

Viewed, however, from the perspective of the oil producer’s long-term political security, Shell was deeply concerned at Brunei’s isolated and vulnerable status. The presence in the sultanate of the British army and the active hostility from 1963 of Sukarno’s regime towards Malaysia and its ally, Britain, implied increased, not decreased, dangers to Shell’s business in a conspicuously exposed colonial enclave. What worried Shell’s manager in Brunei, P.M. Linton, as well as his directors in London, was HMG’s apparent lack of long-term policy for the political and economic development of the sultanate. The strategy of Commonwealth Secretary Duncan Sandys seemed to be based on leaving Brunei to its own devices in the hope that the sultan’s government would eventually ‘see the light’ and join Malaysia. As Linton saw it, however, Brunei’s self-serving politicians were merely concerned with grabbing power and getting ‘their hands into the till’ rather than democratic political change and integration with Malaysia. A repetition of the events of December 1962 appeared likely, but this time intensified by a deeper social and political penetration by a violently anti-British Indonesia. Shell directors in London were also disappointed by the absence of any initiative from the CO, in terms of personnel or aid, to infuse Brunei’s administration with a more proactive development policy to relieve political and social tensions. Instead, therefore, the executives proposed that Shell take a direct part in Brunei’s agricultural development and road-building projects. In the words of a sceptical CO, this would ‘divert the minds of the people—particularly the unemployed—from the lure of the political agitator’. A similar tack was taken by Shell directors in discussion with CRO mandarins at the end of 1963. The oil executives were ‘seriously worried about the general situation’. The presence of British troops was ‘comforting in the short term…but did nothing to avert the underlying threat’ from Malay and Chinese populaces impatient with ‘the lack of any apparent political or economic progress’.

Conclusion

The anxieties of Shell in Brunei confirm that British businesses in Commonwealth Southeast Asia felt less rather than more secure during and following the ‘Greater Malaysia’ debacle. Lee Kuan Yew famously described Singapore’s split from Malaysia as a ‘moment of anguish’. For British business, however, the ‘Greater Malaysia’ fiasco represented a whole series of angst-ridden episodes. In the
whittling down of the ‘Greater Malaysia’ ‘Five’ to the ‘Little Malaysia’ ‘Three’, the dominant theme was the propensity of local political actors to frustrate British ‘grand designs’ (whether official or commercial). Even after August 1965, British business hankered after a reunion between Kuala Lumpur and Singapore. In March 1967, for example, Joe Lever, HSBC’s manager in the region, was encouraging Singapore officials to re-engage with the mainland. One year later, however, the British chargé d’affaires in Kuala Lumpur, Sir Michael Walker, reported that a steady policy of diverting trade from Singapore continued, the latest move being Tan Siew Sin’s measure to stop Singapore banks profiting from Malaysia’s foreign exchange earnings.134

British financial or commercial interests had clearly not dictated government policy, either in Malaysia or in the UK. For the Tunku, probably the most important decision-maker in the Malaysia region, the overriding concern was to prevent Singapore becoming a satellite of Beijing on Malaya’s doorstep, and as Tan Siew Sin’s phobias about the common market emphasise, the Alliance ministers in Kuala Lumpur viewed Malaysia as a mere political union. As such, the incorporation of the Borneo territories served the purpose of making the Malaysia scheme appear more palatable—from a racial point of view—to the peninsular Malays. For Lee Kuan Yew, Malaysia offered the best prospects for the economic and political survival of his microstate. In London, meanwhile, the swift creation of ‘Greater Malaysia’ would solve Singapore’s political problems, thereby contributing to Western interests in the Cold War. It offered the best long-term prospects for stability in the Borneo territories, and it would relieve Britain of a heavy and costly military burden in the field of internal security (and possibly also external defence) in Southeast Asia.135 Three years after the Singapore separation, the CWO remained committed to keeping the slimmed-down Federation together. But, again, this was not based on concerns about British trade and investment; rather, Britain’s prestige and moral responsibility for ex-colonial peoples, regional stability and the independence of Brunei would all suffer in any dismemberment of the last surviving experiment in decolonisation through federalisation.136

That British business leaders were frequently frustrated by the specifics of Malaysia illustrates that they were largely divorced from the decision-making process. Being a Tory MP, Sir John Barlow was perhaps a little more ‘in touch with the situation’ than most of the heads of the agency houses in London. But he also admitted to a concerned resident of Kuching that, ‘unfortunately’, he did ‘not know what [was] happening in official circles’.137 In November 1965, BCL’s chairman, Lord Ranfurly, frankly told shareholders in London that his intelligence concerning the future course of economic relations between Malaysia and Singapore was based on ‘what one reads in the papers’.138 There is no more striking example of the almost complete lack of control exercised by British business over the ‘Greater Malaysia’ project. As will be further revealed in the next chapter, the expatriate investment groups suffered a general isolation and marginalisation within the post-colonial political system.
Notes

1 PRO, DO 169/114, ‘Text of speech at the Foreign Correspondents’ Association of Southeast Asia, Singapore, 27 May 1961’.


3 PRO, DO 189/225, Inward telegram from Kuala Lumpur to CRO, 20 October 1961, reporting parliamentary debate on merger.

4 Hua, Class and Communalism, p. 135.

5 Greg Poulgrain, The Genesis of Konfrontasi: Malaysia, Brunei, Indonesia, 1945–1965, London: Hurst, 1998, pp. 6, 291. There were also rumours in expatriate circles that Shell representatives persuaded North Borneo’s leading politician, Donald Stephens, to support the Malaysia scheme: PRO, CO 1030/991, copy of letter from I.F.G. Pringle to Tony Abell, 13 April 1962. Stephens founded the first political party in North Borneo, the United National Kadazan Organization, in the summer of 1961. At the same time, the Eurasian politician took the initiative in forming the Malaysia Solidarity Consultative Committee. He swiftly swung from scepticism to open advocacy of a merger with the Federation.


9 Singapore National Archives, PRO 171/54, Secretary, SMA, to Director, Department of Information, Singapore, 9 May 1959, enclosing ‘Annual Report of the Committee for year ended 31 December 1958 by V.D.J. Vincent, Acting Vice-Chairman, 25 April 1959’.

10 Singapore International Chamber of Commerce Library, Singapore (hereafter SICC), SCC Annual Report 1957, Chairman’s Address, pp. 17, 19.

11 IA, MS 27259/5, Donald, BCL General Manager, Singapore, to Malcolm, Managing Director, London, 28 November 1958.


14 Straits Times, 8 February 1962.

15 BoE, OV 65/17, copy of Rampton, Kuala Lumpur to Mackay, Treasury, 29 September 1960; copy of Allen, Office of the UK Commissioner-General for Southeast Asia to Galsworthy, CO, 4 November 1960; Appendix II to dossier prepared for Haslam’s trip to Malaya and Singapore, 31 January 1962; see also material in PRO, DO 189/153.

17 Arkib Negara Malaysia (hereafter ANM), AE/97/A, SMCC Year Book 1963, President’s Address, 27 March 1964, p. 10.
18 This would deal initially with defence, external relations, internal security and communications but later also trade, customs, banking and currency.
21 See e.g. IA, MS 27295, Pearson to MacEwen, 4 March 1963.
23 CUL, Barlow papers, 63/855, letter to Tom Barlow, 22 September 1958.
25 PRO, DO 35/9864, copy of Woodruff to Reynolds, 2 July 1959; Tory to Hunt, 6 January 1960.
26 IA, MS 27260, letter to Young, 18 May 1961.
29 IA, MS 27260, Malcolm to Donald, 29 August 1961.
30 PRO, CO 1030/997, Mr Cowen, Calico Printers Association Ltd, quoted in Sir John Barlow to Maudling, 28 March 1962.
31 This had been the experience of the British communications multinational, Rediffusion, eventually resulting in a 30 per cent increase in wages: PRO, CO 1030/1246, Moore, UK Commission, Singapore to Martin, CO, 5 June 1962.
33 IA, MS 27260, Malcolm to Donald, 15 December 1961. The meeting subsequently took place in January 1962: see PRO, CO 1030/1009, Minute by Roberts for Eastwood, 9 January 1962. According to this reference, a note of the meeting was filed on CO 1030/1246 but no such document resides there. Unfortunately, a search by the Records and Historical Department of the FCO drew a blank: letter to the author from Penny Prior, 26 October 2000.
PRO, CO 1030/876, West to Wallace, 14 February 1959, enclosing note of ‘Informal meeting with representatives of the Chamber of Commerce and the British European Association, 6 February 1959’.

PRO, CO 1030/997, Barlow to Maudling, 28 March 1962.

CSAS, Barlow papers, Malayan Visits, 1960–4, Sir John to Tom Barlow, 7 February 1962, and reply of 1 March 1962.


IA, MS 27185, AR&A/Cs, 1961, Chairman’s Statement, 9 November 1962.

IA, MS 27295, Pearson to MacEwen, 27 August 1963.


IA, MS 27295, Pearson to MacEwen, 21 March and 3 April 1962. As exgovernor of the Bank of England, Cobbold had long been associated with the Malaysian business world. But he was not appointed to head the 1962 commission at the behest of the commercials. Rather, the MCAGB recommended Lord Reid, who chaired the Malayan Constitutional Commission in 1956. CO mandarins and ministers, however, were not impressed with this suggestion. As Permanent Under-secretary of State Sir Hilton Poynton recalled, ‘Our experience of Lord Reid [and even more so of Lady Reid] was not at all happy’: CO 1030/1009, Minute by Roberts for Eastwood, 9 January 1962; Minutes by Poynton and Lord Perth, Minister of State, 10 January 1962. Here is further evidence that the British business community was distanced from the decision-making process on Malaysia. On the ‘vice-regal and patronising’ attitude of the Reids while in Malaya, see Simon C.Smith, British Relations with the Malay Rulers from Decentralization to Malayan Independence, 1930–1957, Kuala Lumpur: Oxford University Press, 1995, pp. 156–7. A.J.Stockwell also doubts that Cobbold was selected for his financial connections: ‘Britain’s grand design for Southeast Asia: the making of Malaysia and the embarrassments of empire’, Discussion Paper No. 16, project on ‘Institutions, networks and forces of change in contemporary South Asia’, Institute of Oriental Culture, University of Tokyo, January 2001, p. 25 n. 10.
45 ANM, AE/97/A, FMSCC Year Book 1962, President’s Address, p. 11.
47 Lansdowne was also chair of the Intergovernmental Committee, which had been formed in August 1962 to hammer out the constitutional safeguards for North Borneo and Sarawak.
48 PRO, CO 967/413, ‘Brief for Lord Lansdowne’s talk to the Commercial Association of London [sic]’, undated. That this was a speech for the MCAGB’s annual luncheon on 17 October is confirmed by HSBC, MB Hist 2166, MCAGB Bulletin 35, October 1963.
49 Subritzky, Confronting Sukarno, pp. 8, 38–9, 42–3; idem, ‘Britain, Konfrontasf.
51 PRO, CAB 134/1953, GMD (B) (61) 1st Meeting, 20 November 1961.
52 Subritzky, Confronting Sukarno, pp. 26, 32–3.
53 PRO, CAB 134/1951, GM (63) 1, 1 January 1963, Annex A: Draft Telegram to Commissioner-General, Southeast Asia, Annex B: Copy of Maudling to Sultan of Brunei, 9 March 1962.
54 BoE, OV 65/7, Note by Haslam, 9 May 1962.
55 PRO, T 296/260, Note by Collier, 11 July 1962.
57 BoE, OV 65/15, ‘Note on the Borneo Territories’, 18 February 1959; BoE, OV 65/26, Note by Bennett for Heasman, Watson and Parsons, 2 November 1961. The first borings in North Borneo had also proved ‘disappointing’: ibid., Note for the record by Loynes, 10 March 1960.
58 PRO, DO 189/149, ‘Note of Conversation with Mr Charles MacKintosh and Mr Kirke of Shell, 19 December 1963 in the CRO’; FCO 24/157, copy of minute by Ellingworth for Fearnley, FO, 9 August 1968; Amarjit, Economic Change, pp. 180–2.
59 PRO, DO 189/219, copy of letter to Sharp, 11 January 1962, and enclosure.
60 Stockwell, ‘Making of Malaysia’; idem, ‘Grand design’; see also Jones, ‘Creating Malaysia’.
61 PRO, CAB 134/1953, GMD (B) (61) 6th Meeting, 22 November 1961.
62 A conclusion also reached by Mohd Sopiee: Union to Separation, p. 144.
63 PRO, DO 35/9759, ‘Brief for the Secretary of State’s Visit to the Federation of Malaya: Future of the British Borneo Territories’.
64 PRO, DO 35/9758, note of conversation with Tunku Abdul Rahman, 23 January 1959; see also CAB 129/96, C (59) 31, 16 February 1959, ‘Malaya: Memorandum by the Commonwealth Secretary, 13 February 1959’.
65 PRO, DO 35/9864, Tory to Hunt, 6 January 1960.
68 BoE, OV 65/7, copy of telegram from Kuala Lumpur to CRO, 5 August 1961.
69 PRO, CAB 134/1953, GMD (B) (61) 1, 20 November 1961.
70 Cited in Mohd Sopiee, Union to Separation, p. 132.
72 PRO, CO 1030/1038, Note by Lansdowne, 2 August 1962.
74 PRO, DO 35/9864, copy of ‘Note of meeting on 21 March [1960] to consider the question of relations between Malaya and Singapore with special reference to Dr Goh’s proposals for a limited common market’. The preceding discussion would seem to bear out Drabble’s suspicion that despite the strong economic case for the formation of the Malaysian Federation, the more ‘urgent’ considerations were political and strategic: Economic History, pp. 153, 177.
75 PRO, CO 947/3, notes of commission hearings at Jesselton, 27 February 1962, Sandakan, 1 and 2 March 1962, and Tawau, 9 April 1962; CO 947/17, ‘Memorandum by the NBCC’, undated (c. February 1962); Edwin Lee, The Towkays of Sabah: Chinese Leadership and Indigenous Challenge in the Last Phase of British Rule, Singapore: Singapore University Press, 1976, p. 102. The manager of HSBC in Jesselton even went so far as to suggest that Malaya’s central bank should not be permitted to operate in Sabah since the main source of the exchange bank’s funds was derived from holding the local government’s account.
76 CUL, Barlow papers, 70/899, letter to Sir John Barlow, 24 February 1962.
77 PRO, CO 1030/1080, letters to Wallace, 24 March and 12 July 1962; CO 947/17, NBCC Memorandum.
78 Ibid; CO 947/3, commission hearings, Sandakan, 2 March 1962. Limited industrialisation in northern Borneo meant that the Malaysia scheme had little appeal there as a common market. Indeed, in March 1962, British business leaders in Sandakan reported to the Malaysia commission of enquiry that the Borneo Free Trade Area agreement of 1961 ‘was not having much effect’: ibid.
79 PRO, CAB 134/1951, GM (62) 44, 6 November 1962, ‘Progress Report by Minister of State for Colonial Affairs’. The demand for economic autonomy for Sabah derived, however, from the influence of Chinese towkay in the United Party (later to become part of the Sabah Chinese Association) and not the expatriate business community: Lee, Towkays of Sabah, pp. 126–7. Even so, Barrett, at least, seems to have been close to the towkay party. See CUL, Barlow papers, 70/899, Barrett to Barlow, 24 February 1962, which passes on the United Party’s views on Malaysia.
82 PRO, FCO 24/481/1, copy of note by A.A.Duff on Visit to Sabah, 11–15 July 1969.
84 IA, MS 27281, Malcolm to Pearson, 14 and 28 February 1962.
85 IA, MS 27295, Pearson to MacEwen, 30 March 1963; PRO, CO 1030/1080, Hall to Wallace, 3 April 1962.
86 PRO CO 947/16, ‘Some Notes on “Malaysia” presented to the Cobbold Commission’, 6 March 1962.
88 PRO, CAB 134/2370, OP (62) 2, 4 July 1962. As Matthew Jones argues, Macmillan’s desperation to scramble out of Southeast Asia effectively allowed the Malayan leadership to dictate terms in Borneo: ‘Creating Malaysia’, p. 105.
89 PRO, DO 189/219, copy of telegram to Colonial Secretary, 18 January 1963.
90 ANM, AE/97/A, FMSCC Yearbook 1962, p. 11.
92 BoE, OV 65/7, Note by Shilson, 16 July 1963; Lau, Moment of Anguish, p. 16; HSBC, MB Hist 1045, transcript of tape received from Pow in Kuala Lumpur, 25 November 1963.
94 ANM, AE/97/A, SMCC Year Book 1963, President’s Address, 27 March 1964, p. 10; SMCC Year Book 1964, President’s Address, 28 April 1965, pp. 11–12.
96 Lau, Moment of Anguish, pp. 110–11.
97 PRO, DO 189/352, Cross to Drysdale, 13 November 1963; Observer, 26 October 1963.
98 Lau, Moment of Anguish; Mohd Sopiee, Union to Separation, Ch. 7.
100 PRO, DO 189/422, Hope to Twist, 26 November 1965.
101 See material in PRO, DO 189/422–3. The sticking point was the legal status of the Bank Negara in Singapore (the Singapore government wanted the branch to be a separate legal entity, fearing for its currency reserves in the event of a breakdown of any currency agreement, a change of government in Kuala Lumpur, or the possibility that the Alliance government might pursue a reckless policy of deficit financing).
103 PRO, DO 189/422, speech in the Malaysian Lower House, 22 August 1966, reported in telegram from Kuala Lumpur to CWO, 23 August 1966.
104 Before 1967, the banks could transfer funds freely through the Bank Negara, but with the closure of the central bank’s branch in Singapore, the facility no longer existed. Ultimate settlement between Singapore and Malaysia necessitated going through a third currency, such as sterling, with a consequent increase in cost to the private banks. See SICC, SICC Annual Report 1967, p. 79.
Tan’s concerns about Singapore’s free-port status within a customs union were put to Bank of England officials even before the formation of Malaysia: BoE, OV 65/7, Note by Parsons for Haslam and Hogg, 20 May 1963.

BoE, OV 65/7, Note by Parsons for Haslam and Hogg, 20 May 1963.

Ibid., telegram from Singapore to CRO, 22 November 1965; Cross to Twist, 2, 10 and 17 December 1965.

In October 1966, Tan Siew Sin publicly announced in Washington that Malaysia’s policy was to engineer a switch of exports from Singapore to Malaysia. Such a programme would offset whatever loss Malaysia might experience as a result of forthcoming British troop reductions and provide Malaysia’s expanding population with much-needed jobs: Sunday Times (Malaysia), 2 October 1966. The new focus on Kelang as West Malaysia’s major port would not have pleased the major British shipping interest—the Ocean group—whose executives had long complained about the delays and congestion there in contrast to the efficiency of Penang: MMM, 4.B. 1064, Kerry St Johnston, Manager, Alfred Holt & Co., to Peter Nelson, W.H.Boase & Co. Ltd, Liverpool, 9 January 1962; IA, MS 27260, MacEwen to Young, 11 May 1962, reporting Sir Herbert McDavid, chairman of Glen Line, at MCAGB council meeting. Kelang itself was a poor site for a port anyway, being built on a mangrove swamp and divided into two sections, i.e. the old port and the new quays at North Kelang. By 1969, there were additional concerns about security: PRO, OD 39/90, copy of Beale to Bellamy, Board of Trade, 4 July 1969.

Only until 1973 as it turned out.

Indeed, the long-term plans of British industrial interests based upon the ‘common market’—in car assembly and cigarette manufacture particularly—were now disrupted. See Chapter 5.

See PRO, FCO 24/294, Stevens to Mason, 25 January 1967; Mason to Bentley, 25 September 1967; ‘Record Note of a Discussion with Messrs Guthrie and Co.’, 3 October 1967; Minute by Scanlon for Blair, 29 December 1967; ‘Note on Departmental Meeting with Representatives of Guthries, 25 January 1968’.

IA, MS 27008/13, BDM, 14 February and 27 September 1967. BCL had made similar moves in 1966: IA, MS 27185, AR&A/Cs, 1965, Chairman’s Statement, 31 October 1966.


See ibid., DM/218/122, Marshall to Leslie Hoffman, Straits Times Press (M) Ltd, 31 December 1965. During 1966, a British-owned rubber estate was acquired by the Singapore government through compulsory powers at a price which the directors of
the company regarded as ‘tantamount to expropriation’, leading to ‘considerable criticism in the City’: PRO, DO 189/647, A.J.Rumford, Bajau Rubber & Produce Estates Ltd, to the Permanent Under-secretary, Ministry of Commonwealth Relations [sic], 28 February 1966; Daily Telegraph, 4 March 1966.

119 IA, MS 27295, MacEwen to Pearson, 10 January 1963; Pearson to MacEwen, 19 January 1963.
121 Ibid., MacEwen to Pearson, 10 January 1963.
122 Poulgrain, Genesis of Konfrontasi.
123 Rothschild, a Cambridge-trained zoologist, was employed by Royal Dutch Shell between 1961 and 1970, rising to be coordinator of research for the entire group. During the Second World War, he had been in charge of the counter-sabotage section of MI5, and after the rebellion, he arranged for the security services to send a counter-sabotage expert to advise on security provision at Seria: PRO, CO 1030/1530, Minute by Morton for Armitage-Smith, 25 September 1963.
124 IA, MS 27303, Shepherd to Pearson, 4 December 1962.
125 HSBC, MB Hist 2166, MCAGB Bulletin 30, December 1962. For a complementary critique of Poulgrain’s thesis from a close interrogation of British official sources, see A.J.Stockwell, ‘Britain and Brunei, 1945–63: imperial retreat and royal ascendancy’, Modern Asian Studies, forthcoming. Once again, I am indebted to Professor Stockwell for allowing me to benefit from this article prior to its publication.
127 PRO, CO 1030/1012, White, High Commissioner Brunei, to Wallace, 27 November 1961.
128 Saunders, Brunei, p. 154.
129 Hussainmiya, Omar Ali, p. 320.
131 PRO, DO 189/149, ‘Note of Conversation with Shell, 19 December 1963’.
132 PRO, CO 1030/1530, extracts from Linton’s letter dated 14 September 1963; Wallace to MacKintosh, 18 October 1963. Strained relations with UK officials ‘on the spot’ did not help the Shell management’s sense of unease in Brunei. High Commissioner Angus MacKintosh was not impressed by Linton, describing him as ‘shallow and essentially unsure of himself’: ibid., letter to Wallace, 6 September 1963.
133 PRO, DO 189/149, ‘Note of Conversation with Shell’. As the British Trade Commissioner in Sabah pointed out, any serious weakening or disruption of ties between Brunei and Malaysia would also be detrimental to Shell’s interests since most of the sultanate’s oil was refined at Lutong in Sarawak: DO 187/39, O’Brien to King, Kuala Lumpur, 22 September 1964.
136 PRO, FCO 24/165, Note by Reed for Commonwealth Secretary 30 April 1968.
137 CUL, Barlow papers, 108/1164, letter to Dr C.Sanmugam, 20 July 1962.
138 IA, MS 27182, Ordinary General Meeting (hereafter OGM) Minutes, 25 November 1965.
2

Political business
Politics and economic nationalism in the post-colonial state

Bolstering the Alliance

In the spring of 1959, approaches were made at ministerial level to various British business leaders in Kuala Lumpur for funds to assist the Alliance in the upcoming general elections. It was hoped that M$500,000 (over £58,000) would be raised from European businesses. With the expatriate commercials set to finally lose their seats in the Malayan legislature, Tan Siew Sin, then minister of commerce and industry, explained that British firms ‘would be contributing towards the support of the Government in power and as [they] could not possibly expect better treatment from any other Party than [they] had from the Alliance, surely it was good policy to try and do [their] utmost to ensure that [the Alliance] were returned to power with a good majority’.¹ By 1961, the Alliance’s ‘war chest’ was known as the Tunku Abdul Rahman National Fund, and the MCAGB recommended that mercantile, rubber and tin interests double their political contributions to the Alliance for the 1964 elections.² The sums raised are not known, but the practice of making political contributions to the Alliance was widespread amongst British firms. By June 1959, for example, the HSBC in London had learned that most of the rubber companies would be ‘putting their hands in their pockets’, and the RGA continued to recommend contributing to Alliance funds into the 1970s.³

It was certainly rational for British business to bolster the ruling regime. On independence in August 1957, the minister of commerce and industry, Dr Ismail, publicly went out of his way to allay the fears of those foreign investors ‘anxious about their stake in Malaya’. The Alliance government’s policy was to encourage further investment from overseas as well as to persuade existing capital to remain in the Federation. Ismail also made assurances that his government would not place restrictions on the freedom of movement of foreign capital, or on the remission of profits.⁴ Twelve years later, the Alliance’s economic philosophy had not fundamentally changed. As its election manifesto for 1969 unashamedly declared, ‘we do not share the specious reasoning of many of our critics who believe that foreign capital is exploitative in character’. Rather, ‘the foreign investor has a significant role to play in our economic advance’. As overseas enterprises continued to ‘legitimately’ seek profits, the Alliance would provide
‘incentives and guarantees’ to encourage the influx of foreign capital.5 Meanwhile, despite parliamentary criticisms concerning the M$300 million worth of dividend and interest payments which flowed annually to the UK, Tan Siew Sin remained committed to allowing free movement of capital within the sterling area. As the minister of finance told the youth of his party in 1967, ‘the surest way to trigger off a flight of capital is to impose restrictions on capital outflow’.6 The heightened emphasis on rural economic development after the 1959 elections appeared to marginalise established British interests. The deputy prime minister, Abdul Razak, became head of a new Ministry of National and Rural Development. With a stress on military-style Operations Rooms at federal, state and district levels to oversee development schemes, and on public bodies, such as FELDA, as the emissaries of modernisation in the kampung, Razak’s development push entailed a high level of state intervention.7 Yet the first pan-Malaysian five-year plan, covering 1966–70, continued to rely on the majority of development projects being undertaken by the private sector. Public development expenditure was to be M$4,550 million against a target of M$6,610 million for private investment (of which M$l,100 million was expected to flow into Malaysia from abroad).8 The Alliance had captured the political kingdom but appeared content to leave the economic realm to the expatriates.

British business interests would seem to have chanced upon their dream, ‘neocolonial’ state. In April 1959, the British president of the FMSCC, H.B.Hussey, praised the Tunku’s ‘stable regime’, which had developed a ‘solid reputation’ for ‘clear and reasoned thinking’. At the same time, Hussey declared that he had ‘every confidence in the business acumen of our Minister of Finance’, believing that H.S.Lee would not over-extend the Federation’s credit-worthiness through reckless borrowing from international agencies.9 During his visit to Kuala Lumpur at the beginning of 1959, Lord Home, Britain’s Commonwealth Secretary, met with expatriate business leaders. They informed him that ‘relations between the Federation Government and the UK community were better now than they were before independence’. There was ‘ready access to the Tunku and other Ministers, and while this happy state of affairs lasted it was generally felt that the best way of dealing with the Federation Government was on “an old boy” basis’.10

Business support for the Alliance was cemented by Bapa Merdeka’s relaxed, affable nature. The Tunku was an amiable anglophile and his predilection for horse racing, and gambling generally, pushed the prime minister into the company of non-Malay Malaysians and Europeans.11 Charles Pow, chief manager of the Mercantile Bank, found the prime minister ‘a most cheerful, likeable little chap’ on his visit to Kuala Lumpur in November 1963. A year earlier, Jake Saunders, Pow’s opposite number at the HSBC, had been delighted when the Tunku ‘sent for me to have a talk with him in his box at the races’.12 The Tunku’s economic and social conservatism also squared with the interests of overseas business. Soon after independence, the prime minister personally intervened in the long strike at the ESC in Penang, and came down firmly in favour of the management of the tin-smelting plant. The prime minister was also calling for an international charter to
attract and protect foreign capital in Asia generally. Moreover, the Tunku was adamantly opposed to the socialisation of industry in Malaya. As he told the Singapore Chinese Chamber of Commerce in August 1961, ‘so long as the Alliance remains in power such concepts will not be put into practice because we do not believe that such measures will be beneficial to our economy’.

The Tunku’s purge of the ‘UMNO left’ in the early 1960s made the Alliance even more attractive in the eyes of overseas business. In the Cabinet, the minister for agriculture and cooperatives, Abdul Aziz bin Ishak, represented the socialist tendency. In May 1961, the Tunku and Aziz openly clashed at the UMNO General Assembly in Melaka. Aziz, as champion of the kampung Malays, was promoting a urea fertiliser project to be run on a cooperative basis with financial backing from the state. This cut across the interests of the British chemical giant, ICI, which had plans to establish a fertiliser plant as a pioneer industry. The Tunku chose to back the multinational, arguing that its scheme was more cost-effective. Aziz was finally sacked from the Cabinet in October 1962 (and later from UMNO also). ICFs plans could now go ahead unimpeded by the UMNO left. Moreover, after failing to win a seat as part of the Socialist Front in the 1964 elections, the disaffected Aziz was removed from the political scene through detention for his pro-Indonesian views during Confrontation.

Indeed, the existence of radical opposition groups pushed British business even further into the arms of the Alliance. N.E.Clark, the Kuala Lumpur manager of HSBC, appreciated in 1959 that ‘There would be a marked loss of confidence’ if the Alliance ‘did not get a good working majority in the new fully elected Legislative Council’. Of the opposition, the Perak-based People’s Progressive Party and the Socialist Front were ‘very left wing’. The ‘main danger’ for British firms, however, sprang from the Pan-Malayan Islamic Party (PMIP), whose growing popularity amongst the Malay rural electorate was worrying UMNO. Rumours that the PMIP had secured funding from Beijing, via the Bank of China, was cause for alarm. Clark dismissed the policy of the Islamicists as “Malaya for the Malays and an Islamic State, down with the Chinese and other foreigners and scrap the Defence Treaty with Britain”.

But it should also be noted that the PMIP had developed a sophisticated economic programme which reconciled socialism with Islamic economic thinking, inspired largely by its leader after 1956, the veteran Malay radical nationalist Dr Burhanuddin Al-Helmy. Into the late 1960s, the PMIP continued to advocate that the Malaysian economy should be run on the principles of ‘Islamic justice’. Inter alia, this entailed that ‘new industries should be channelled through a co-operative system so that eventually this just form of economy can spread everywhere’. At the same time, the PMIP would strive ‘to enable large industries which affect the nation’s economy to be operated and administered by the State itself’.

Another potentially disturbing source of opposition to the Alliance’s economic liberalism was the labour movement. Although the unions were ‘reformed’ and shorn of their communist leadership during the Emergency, the Malayan Trade Union Congress argued that the duty of the post-colonial regime was to fight for
‘economic merdeka’, and demanded that the ‘big dividends...drained out of Malaya each year must be shared by the workers’. The highly able and intelligent P.P.Narayanan, leader of the National Union of Plantation Workers (NUPW), the largest labour organisation, was ‘assertively anti-communist’ but was hardly a government stooge. Narayanan was a member of the Labour Party, a key component of the Socialist Front. The Labour Party was divided on the issue of state control of industry, but did assert that political independence was ‘meaningless’ without far-reaching economic and social change to obliterate the ‘colonial mind-set’. The other principal component of the Socialist Front was the Parti Rakyat, led by another veteran left-winger, Ahmad Boestamam—it was an agrarian socialist party, which appealed to disaffected, left-wing Malays. Boestamam was not a communist but was clearly influenced by Marxist-Leninist ideas on colonialism and class struggle, and, like Dr Burhanuddin, advocated a union with radical Indonesia.

Following the demise of the Socialist Front in the mid-1960s, the left-wing mantle in parliament passed to more moderate, social democrats. The Malaysian Peoples’ Movement, known as the Gerakan, was formed in 1968 from a fusion of the United Democratic Party (led by ex-MCA leader, Lim Chong Eu) and a group of Labour Party and trade union moderates. The party’s manifesto, as Guy Duncan in the British High Commission reported to the CWO, would ‘interest’ overseas business since it declared that: ‘We believe in the public ownership of the vital means of production if the benefit accruing there from is more than the previous status before the transfer of ownership.’ Meanwhile, Goh Hock Guan’s Democratic Action Party (DAP), the marooned Malaysian successor to Singapore’s PAP and another haven for Labour moderates, did not seek nationalisation but did promise Tiscal and taxation policies, aimed at a more equitable distribution of wealth, plus a ‘revision of labour laws to ensure industrial justice for workers, and the establishment of a minimum wage for all manual workers’.

Hence, through financially supporting the Alliance in general elections, it would appear that British business had guaranteed its stake in Malaysia, and a symbiotic relationship had developed with the post-colonial political elite. However, the following discussion reveals that British businesses remained almost permanently pessimistic about the future course of Malay[si]an politics; that the Alliance regime did assert its own brand of economic nationalism in attempts to Malaysianise capital and management—moves which departed from the laissez-faire and ‘open economy’ principles cherished by the boxwallahs; that despite expatriate business funding for the Alliance, the political connections of the agency houses were fragile and fleeting when compared with a rising group of indigenous ‘crony capitalists’; and that, meanwhile, state-centre government tensions continued to disrupt the long-term plans of British firms.
Eternal pessimism

The survival of the Tunku’s regime to the end of the 1960s, and its favourable attitude towards UK capital, was not expected by either British business leaders or officials. In November 1957, an RGA delegation informed the CRO that there was ‘little confidence at the moment in the City in investments in Malaya’: ‘[T]he present Malayan government was well disposed’ towards British capital and would probably remain in ‘power for a further five years’ after the federal elections in 1959. But during that period, ‘an Opposition [whether socialist, Islamicist or some combination of the two] would develop and it was very difficult to foresee what type of Government would be in power in seven years’ time’. This lack of confidence was reflected in the failure of rubber share prices to approach the true value of estates. Plantations were sitting targets for takeover by ‘unscrupulous persons’. For these reasons, the RGA was seeking a UK investment guarantee for Malaya.23 At the beginning of 1959, the FBI’s director-general, Sir Norman Kipping, recognised that ‘with the present stable and moderate government, and with a favourable balance of payments, there is much business to be done’. Yet, concurrently, he worried how long moderation and stability could survive given that the Alliance was ‘artificially stimulated by forming a coalition of two completely different races’. To Kipping’s misanthropic mind, it seemed hard to believe that ‘this hothouse hybrid’ could long ‘thrive’. The shooting war was nearly over and there were only a few ‘scattered bodies of armed Communist bandits lurking in the virgin jungles’. But ‘the danger of infiltration and subversion persists and may also intensify’.24

In February 1959, Sir John Hay of Guthries echoed this doom-laden discourse during his tour of Malaya in which he met with Sir Geofroy Tory. As the governor of the Bank of England, ‘Kim’ Cobbold, had also intimated to the High Commissioner three months earlier, ‘the London market does not hold Malaya as a good investment risk’.25 In the federal elections of 1959, the opposition did make substantial gains as the Alliance’s share of the vote dramatically dropped from about 82 per cent in 1955 to around 52 per cent, and the PMIP won thirteen seats while the Socialist Front picked up eight. In the aftermath, Sir John Barlow toured the Federation and found that: ‘People here think Malaya is safe for about five years then there is certain to be a swing to the left.’26

In what amounted to a rare moment of consensus, British officials in both Kuala Lumpur and London did not regard business pessimism in the late 1950s and early 1960s as misplaced. Already in 1957, Sino-Malay tensions appeared to be straining the Tunku’s regime and the opposition was making gains in by-elections. Moreover, as the UK Cabinet was appraised early in 1959, an additional worry was demographic: ‘the enormous increase in the number of young people, possibly upsetting the present racial balance’, made it even more difficult to confidently predict the survival of moderate constitutional politics ‘in five or ten years’ time’.27 Tory told Cobbold at the end of 1958 that the Socialist Front was presently ‘ineptly led’ but by 1964 the left could triumph, the likely economic outcomes
being nationalisation, restriction on remittances and deterioration in the currency. Alternatively, the Alliance itself might shift leftwards (albeit with a milder form of socialism than that of the Socialist Front). Another possibility was that ‘the Tunku might lead a Malay military coup’. 28

Hence, neither British officials nor commercial expected the decimation of the opposition at the 1964 elections. The left and the Islamicists were discredited by their anti-Malaysian stance during Confrontation with Indonesia and the Alliance’s share of the vote increased to around 59 per cent in Malaya, and its overwhelming majority in the federal parliament was further swelled by the recent addition of Sarawak and Sabah Alliance members. 29 Subsequently, during January and February 1965, the reinvigorated Alliance regime ruthlessly applied the Internal Security Act to detain the PMIP and Socialist Front leadership. But this did not necessarily soothe business fears: by May 1966, W.C.S.Corry at the MCAGB was concerned that the Malaysian political scene seemed to be polarising along ethnic lines—in recent by-elections, the PMIP had increased its vote in an Alliance-held and predominantly Malay constituency in Kedah, while Chinese voters in Penang opted for the Socialist Front in a seat previously held by the Alliance. If UMNO became more extreme to meet the PMIP challenge, Chinese and Indian voters would desert the Alliance and look to the left to protect their communal interests. The Socialist Front itself was bifurcating racially into the predominantly Malay Parti Rakyat and the Chinese-led Labour Party. At the same time, Syed Nasir’s National Language Action Front was ‘pushing Malay, for all its worth’. All one would like to see is an effective opposition to the Alliance without the price of… a country divided along racial lines’, lamented Corry. 30

Additionally, there appeared to be a new danger for British business emerging from within the Alliance. In October 1965, Sir John Barlow learned from the High Commission in Kuala Lumpur that ‘the Tunku has not the power previously held nor is his head too good’; ‘when he goes he will be succeeded by much younger men, more to the left’. 31 One year later, the CWO briefed Lord Erroll, president of the London Chamber of Commerce and formerly Tory president of the Board of Trade, that the Tunku was unlikely to stay in office after the elections in 1969 ‘and there is apprehension in Malaysia…that his successor will be less able to restrain the more extreme elements in the Alliance government’. 32 Indeed, there was growing exasperation amongst the Malay chattering and business classes at their community’s failure to gain substantially from Alliance economic policies. Jomo views the tendency to seek an expanded role for the state to further Malay economic interests as a product of ‘class contention’ between the rising Malay petty bourgeoisie in the bureaucracy and a small group of frustrated Malay capitalists on the one side, and an entrenched Chinese bourgeoisie on the other. 33 Yet this underestimates the increasingly antiforeign, and specifically anti-British, element in the bumiputera discourse. In September 1965, for example, the president of the Associated Malay Chambers of Commerce and UMNO MP, Hanafiah Hussein, demanded a Malaysian-controlled economy to secure the nation’s political independence through breaking the monopoly of the agency
houses on the import-export trade. At the UMNO General Assembly three years later, delegates called for the takeover of British concerns—65 per cent of the nation’s economy, it was claimed, was still controlled by the ex-colonials, and government direction of these interests would naturally give greater opportunities to the Malays. Simultaneously, the young Malay entrepreneurs, politicians and officials who descended on the second Kongres Ekonomi Bumiputera (Bumiputera Economic Congress) demanded that government take a major part in remediying Malay commercial and industrial backwardness. Although Tun Razak continued to preach self-help and to reject nationalisation, Duncan believed that ‘British interests here will find progressively harder operating conditions’. Two UMNO luminaries, Syed Ja’afar Albar, a leading ‘ultra’ and National Executive member since 1953, and Ali bin Haji Ahmad, parliamentary secretary to the Ministry of Finance, were questioning the regime’s continued attachment to free enterprise. Other resolutions which might have an adverse impact on British business operations in Malaysia were a request that 50 per cent of shares in public companies should be reserved for bumiputera, or that Malays should be given government contracts provided their tenders were no more than 10 per cent higher than the lowest bid. Meanwhile, Duncan feared that proposals for a national rubber marketing board might lead on to eventual state control over all plantation operations in the country.

Major gains for the opposition in the May 1969 elections, as the Alliance’s share of the vote slumped to below 50 per cent, were followed by appalling communal riots in Kuala Lumpur and the suspension of parliamentary government. For one British business leader, the future looked rosier than ever. The head of Lever Brothers in Malaysia, Michael Cullen, was appointed to a private sector panel, advising the Capital Investment Committee. Since the Malaysian government diagnosed the causes of 13 May as a manifestation of Malay economic frustration, this new official committee, headed by Tan Siew Sin, was charged with swiftly finding new employment opportunities for the bumiputera. Cullen told the CBI and British officials in London that this augured well for British manufacturing interests. Regrettably, the Tunku ‘had gone over the hill a couple of years ago without it being noticed’, but the National Operations Council (NOC) under Tun Razak would ‘get the country moving in a much faster way’, clearing away corruption, alienating land for factory sites and providing infrastructure improvements much quicker than previously. Requirements for Malaysian participation in new ventures might also be relaxed. But other Britons were less optimistic. Duncan believed that the NOC would be forced into a more interventionist economic policy to appease the rising non-aristocratic Malay radicals, such as Dr Mahathir Mohamad and Musa Hitam. The High Commissioner’s political adviser also reported to the FCO that a radicalised UMNO might team up with the PMIP, especially as the latter had made considerable gains in the recent elections, voicing the grievances of the rural Malays. A major headache for British business interests was that the PMIP ‘does not look favourably upon free enterprise’. The Acting High Commissioner,
A.A.Duff, predicted that ‘whatever happens, increasing Government intervention in the economy seems inevitable’. As a consequence of the MCA’s dismal showing in the 1969 elections, Tan Siew Sin had resigned as minister of finance. His apparent marginalisation, along with the leading Chinese officials in the Treasury and the MCI, did not bode well for efficient economic administration and could provoke a ‘steady outflow’ of British investment. By the summer of 1970, agency house views of the future course of Malaysian politics were certainly ‘not particularly optimistic’. With knowledge that the Tunku was finally to step down, and anticipating the Malaysianisation of capital and management of the NEP, Henry Barlow proposed forming a holding company in Hong Kong to control his firm’s Malaysian assets. Profits from Malaysia would be remitted for short-term investment in Hong Kong, followed by long-term deployment farther afield.

Building the national economy

The Malaysianisation of capital

Even before 1970, however, British firms in Malaysia did not experience a laissez-faire paradise. The economic approach of the Tunku’s governments is usually depicted as non-interventionist, suggesting that Alliance ministers did little to restructure the ‘colonial economy’. But the following paragraphs demonstrate that, building upon the tendencies of the late-colonial regime, the early nation state increasingly intervened in Malaysian economic life. The Alliance did not challenge the presence of British capital in Malaysia, but it did force through significant changes in overseas business practice—changes that were only grudgingly accepted by the boxwallahs. To the head of the FBI, writing barely eighteen months after merdeka, it appeared evident that ‘Malaya will pursue a… policy of economic nationalism’ comparable with other Commonwealth countries in Asia. ‘[P]ressure is already being exerted to accelerate “Malayanisation” and to direct industrial and commercial influence from foreigners to nationals.’

One such officially encouraged project was the development of a local share market. To this end, the Malayan Stock Exchange opened in 1960 with headquarters in Singapore, and branches in Kuala Lumpur, Penang and Ipoh. By 1962, the installation of a direct telephone link between the Singapore and Kuala Lumpur trading rooms made a single share market possible. The idea for a Malayan bourse originated within the Bank Negara as part of a general policy of creating a local money market and to tap local capital resources. Monetary policy, exercised through a central bank, was believed to be more effective where a money market was in existence, and a stock exchange also provided a means of overcoming the limitations of the operations of the Malayan Sharebrokers’ Association in Singapore. The principal problem, as the Bank Negara saw it, was that the usual marketable parcel of 1,000 shares in local companies involved too heavy a capital outlay for the small, indigenous investor.
Yet British economic interests did not embrace the democratisation of share dealing or the Malaysianisation of capital more generally. Considerable governmental pressure had to be put on the brokers to change their methods of operation through formalised stock-exchange rules and procedures to stimulate new and more popular business. Subsequently, the Federation government pressurised the London-registered rubber and tin companies, since the range of dealings was inhibited by their lack of local share registers. As Tan Siew Sin divulged to Tom Barlow, companies whose entire business was in Malaya should make their shares readily available in Kuala Lumpur and Singapore. At present, there was ‘interminable delay’ in buying shares on the London Stock Exchange. Certificates were not received for months and a further disincentive for the Malayan resident to invest in London-registered firms was that UK stamp duty (as well as the local equivalent) had to be paid.

The British government also felt it necessary to intervene. As W.D. Drysdale at the CRO reasoned, if branch registers were not made available, the Malayan government might introduce legislation that compelled all companies doing business in the Federation to be registered there, thus opening the door to ‘further “Malayanisation”’. Drysdale appreciated that branch registers ‘would not necessarily prevent Malayanisation but on the other hand to refuse might easily hasten the process’. Hence, the necessary Order in Council was rushed through, allowing Malaya to set up ‘Dominion Registers’ (as in other Commonwealth countries). The MCI remained concerned, however, at a number of sterling companies operating in Malaya whose articles of association contained clauses requiring that all directors should reside permanently in the UK, and that control of the companies should remain in British hands, irrespective of the share holding. The offending firms turned out to be the eight members of the Tronoh-Malayan Dredging interconnected group of tin companies, whose directors dominated the MCM in London. The restrictive provisions had originally been drawn up in the 1930s to prevent acquisition of the Malayan mines by Bolivian tin interests. The Bolivian threat was now long since passed but the restrictions continued to serve as a convenient means of preventing control passing to Malayan Chinese interests.

The Whitehall mandarins, and the High Commission, were suitably concerned at the implications for British economic interests as a whole that various remonstrations were made to the ‘Cheapside Boys’ to change their articles. Since many of the present Tronoh boards did not have a controlling share interest (as the Anglo-Oriental group did in its operating units, through LTC’s finance company, British Tin Investment), there was much reluctance. Only in March 1962 did F.G. Gharlesworth, the leading ‘Cheapside’ executive, overcome the opposition of his more reactionary colleagues, notably the veteran Cornish miner G.W. Simms. In May 1962, then, the MCI wrote from Kuala Lumpur to all London-registered companies operating in Malaya, suggesting that the opening of branch registers on the new stock exchange would be a welcome development. Two months earlier, the RGA’s special representative in the Federation, Leslie Davis, advised the sterling rubber companies that it would be unwise for those firms
approached about a listing to ignore it—the threat from Malayan ministers that failure to comply would force the federal government to devise legislation was no idle one.49 By 1964, some forty UK companies had opened local branch registers, and rubber and tin companies accounted for about 60 per cent of the share counters traded on the Malaysian Stock Exchange.50

Yet even this modest degree of economic nationalism was only grudgingly accepted in the City. In 1963, the Malaya Committee of the RGA emphasised that branch registers had been established as ‘the result of political pressures’ rather than ‘commercial considerations’.51 Indeed, the London-based agency houses tended to resist or severely restrict quotations on the Malaysia-Singapore bourse. The managing director of BCL, Alec Malcolm, was hardly thrilled by the prospect of a local quotation and share register in 1961. The agency house did have 500,000 unissued shares, but the directors would not want these to be offered to a broker in Malaya ‘at substantially below the current London quotation’. If the firm did need additional capital, its existing shareholders in the UK would be given the first opportunity to subscribe. Moreover, Malcolm was concerned that a local quotation would advertise ‘to the local Union boys…the fact that on the London Stock Exchange our shares are currently quoted at slightly more than 100% above par’.52 When BCL formed a new holding company, Motor Investments Ltd, in 1964 to embrace all its subsidiary motor group companies in Malaysia, only one-quarter of the stock was offered to the Malaysian public. Furthermore, when the firm locally incorporated its branches in Malaysia and Singapore in January 1967, these, as well as the non-motor subsidiaries, remained wholly owned by the London holding company.53 Such actions reveal a fundamental fear of losing financial control on the part of the long-established business groups. When Sir Eric Griffith-Jones reorganised the Guthrie group during 1965, he informed L.P.Thompson-McCausland in the Bank of England that some Malaysianisation would be required and ‘must be put in hand soon’. It was not his intention, however, to ‘peddle out shares’ of GCL in Malaysia. Rather, Guthries’ new boss intended to group together a separate unit of land and estates selected from several of the Guthrie rubber and oil palm companies and turn this into a locally registered concern with a strong Malaysian element in the management and on the board. Yet ultimate financial control would still reside with GCL in London because only 49 per cent of the Malaysian firm’s shares would be offered locally.54

Such conservatism only drove the Malaysian government to encourage complete local control of the big agency houses during the 1970s. The investment groups might have benefited from taking rather more notice of the public utterances of Tan Siew Sin. As early as November 1962, the finance minister was openly talking of ‘the existence of a large body of persons who, in the aggregate, own a substantial if not overwhelming stake, in our industrial complex’ as ‘one of the surest ways of achieving our…objective of creating a property-owning democracy’. If overseas firms took ‘a long view’,
they will realise that their most effective guarantee against nationalisation is a state of affairs where a very high proportion of their capital is owned by the common man of Malaya. I hope to live to see the day when a rubber tapper, a motor-car driver, a domestic servant and people of that class can point to a giant industrial plant or skyscraper and say, perhaps with some pride, that he also has a share in that enterprise…

The government in Kuala Lumpur also expected that British firms operating in Malaysia should reinvest an increasing proportion of their profits in the Federation. Here, the agency houses had a relatively good record. As Sir John Hay opined to the Malayan press in February 1958, there was no need for control of remittances since ‘all progressive enterprises…plough back a large proportion of profits into their activities in this country’. Since 1946, the Guthrie group alone had reinvested a little less than M$100 million (around £11.7 million) in its Malayan enterprises. But the Federation government was less pleased with other sectors of the ex-colonial commercial network. The new Insurance Act passed at the end of 1962 required, *inter alia*, that insurance companies operating in the Federation should invest some of their funds in Federation government securities and local shares. In October 1958, Hugh Humphrey, the expatriate permanent secretary of the Federation’s Treasury, informed CRO officials that his ministers were dissatisfied with ‘the failure of British insurance companies operating in Malaya to adjust themselves to the situation following Independence’. The burden of the complaint was that the insurers continued to remit all their premium income to London for investment and did not use any part of this income for the purchase of either government or other securities locally. Humphrey had thus been charged with the task of drawing up legislation to direct the investment policies of the insurance interests. In the summer of 1959, Humphrey informed Board of Trade officials that an Australian expert, Mr Caffin, would advise the Federation government on legislation. This was likely to be ‘moderate’ and only involve a modest reinvestment of premiums locally; Malayan officials and ministers were well aware that ‘demanding’ requirements in Sri Lanka were frightening the insurance companies away. However, Humphrey warned that should insurance companies make representations, these should not be ‘entirely negative’—a memorandum which merely deployed arguments as to why the Federation government should not proceed with legislation could result in directives which ‘might force British companies to withdraw from operating in Malaya’.

Caffin’s proposals in the summer of 1960 were based on Australian legislation, being midway between the liberal directives in the UK and the strict legislation in the US. Even so, such enactments were very much more onerous than the existing Malayan legislation, based largely on the UK’s 1909 Act. The insurance associations made representations to the Malayan authorities, while the Board of Trade believed the matter so important—‘having regard to its repercussions in Singapore and elsewhere’—that it drew up a memorandum for the Federation government. Despite Humphrey’s earlier warnings, this attempted to preserve the
status quo: ‘insurers should be left with the maximum freedom of operation if policy-holders are to be adequately protected... [T]he strength of an insurance company and therefore the protection of policyholders depends on central reserves freely available to meet major losses in any part of the world. Deposits and local retention of assets reduce the central reserves.’

Showing remarkable tolerance, Caffin was prepared to meet the British insurers and the Board on the question of approved securities (that is, insurance companies could have the power to invest in debentures, preference and ordinary shares) and partially meet them in the case of companies ceasing to write new business, while special provisions were being worked out to meet the peculiar circumstances of Lloyds’ underwriters. But the Federation would not budge on the central issue of creating domestic insurance funds and the allocation of assets thereto. Once again, British business interests had shown themselves not entirely happy with the Federation’s attempts to develop a national economy.

The need to direct the practices of the insurance companies arose, as Hugh Humphrey appreciated, through the ease with which Federation money could be transferred to London, arising from the pegged currency system and continued membership of the sterling area. Hence, the Federation also introduced banking legislation, which could require banks operating in Malaya to hold some part of their funds there. In 1959, the Bank Negara began operations with limited powers, which did not diverge substantially from the colonial monetary system—the currency of the Malaysia region, for example, continued to be managed by a currency board and not the central bank. Yet the Bank Negara, as we have already observed in the case of the local stock exchange, proved itself an increasingly central and assertive institution in moulding the national economy. As J.L. Rampton, financial adviser in the High Commissioner’s Office, appreciated, the formation of the stock exchange was ‘symptomatic of the increasing influence and control of the Bank Negara’. Moreover, the central bank was armed with powerful weapons to direct the British exchange banks in ways that made the latter feel decidedly uncomfortable. When Lord Cobbold visited Kuala Lumpur at the end of 1958, W.H. Wilcock, the Australian governor of the Bank Negara, admitted that although the banks had not objected, the control over how they held their assets was ‘the greatest bone of contention’. The central bank could force the private banks to finance government deficits, while Wilcock generally believed that the British banks did far too little lending in the Federation, and he wished them to buy more medium-term paper to finance Malayan development. A policy paper prepared by the Economic Department for the Bank Negara’s directors in October 1959 argued that a redirection of the banks’ short-term investment policies towards Malaya was central in establishing a money market. The HSBC and Chartered groups maintained liquid funds in London in excess of the amounts required for trading purposes, and the central bank could indicate its desire that the banks bring back some of these excess funds to the Federation to be used in building up Malaya’s own money market. Any reluctance on the part of the exchange banks to do so ‘could be overcome by invoking the “local assets” ratio
clause’ of the central bank ordinance. In the present state of government finances, this power would only be used in the last resort. Yet ‘the need for its application may well arise within the next few years as the Government’s development plans gather speed’.63

One immediate impact on the exchange banks was the loss of government deposits, both federal and state, to the Bank Negara. When the Eastern Mining and Metal Company, an iron ore extractor, requested additional loan facilities from HSBC to develop deposits in Pahang, the bank informed it that ‘with the establishment of a Central Bank in Malaya we did not have the same funds available as we had in the past’.64 A more nationalistic phase in Malaysian central banking was initiated by Ismail bin Mohamed Ali, a former Treasury and MCI official. He became the first Malay[s]ian governor of the Bank Negara when Wilcock retired in 1961, and within two years showed himself to be increasingly independent of his cautious Australian advisers.65 In August 1963, the Singapore manager of the HSBC, G.P. Stubbs, was worried about a possible liquidity crisis given the imminent creation of Malaysia,66 and indeed, by the end of 1964, Ismail was asking the exchange banks to meet the liquidity requirements of the mainland in Singapore also. As was noted in the last chapter, this created a shortage of bank money on the island. At the same time, expatriate-banking influence was lost on the Malaysian currency board. John Wilson, the Singapore manager of the Chartered, was replaced as the independent member by the OCBC’s chief executive, Tan Chin Tuan, since the Malaysian government believed that the ‘appointment of a national of one or the other participating countries was more in keeping with the spirit of the times’.67

Even if the majority of investments in Malaysian industries remained in foreign and often British hands, Ismail’s Bank Negara was increasingly determined that expatriate-controlled capital should remain in the country. By 1965, plans were afoot to introduce a comprehensive exchange-control system. This would provide a means of minimising capital outflow in the event of political troubles in the future. New measures would cover payments and transfers to the sterling area as well as to the non-sterling area. The Federation’s central bank was naturally concerned that the passage of a new law through parliament would generate adverse publicity, giving rise to impending restrictions and thus triggering off a flight of capital from Malaysia. Ismail and his deputy, Gordon Menzies, were delighted, therefore, that the existing ordinance could be modified ‘without public fanfare or debate’, leaving the present system quite unaffected until the hypothetical crisis actually arose. Thus, in an emergency, the list of scheduled territories where capital would be allowed to flow freely at all times would be redefined. That is, the scheduled territories would comprise Malaysia and Brunei only: all other sterling area countries would be ‘outside the fence’, and the flight of capital to the UK could be prevented.68 Although through to the 1970s the Malaysian government maintained a liberalised trade and payments system, the Alliance regime had taken steps which might seriously reduce the open nature of the Malaysian economy. The confidence that British business interests had in
Malaysia’s continued membership of the sterling area as a guarantee for the free flow of capital to and from the City was actually a delusion.

The example of the Bank Negara demonstrates that state participation in the Malaysianisation of capital was to the fore from the granting of independence. And, in certain cases, the Federation government was prepared to financially participate in industries deemed of national importance—hardly a policy of *laissez-faire*. An early example of public participation was the reorganisation of Malayan Airways Ltd (MAL) immediately after independence. First incorporated in 1937, MAL was a subsidiary of the SSC and was managed by the latter’s agents, Mansfields. This meant that MAL was part of the transport empire of the Ocean group. In 1958, however, Mansfields’ management agreement came to an end. The head of Mansfields, F.L. Lane, thus stepped down as chairman of MAL, since the British interests he represented would now only hold a relatively small percentage of the future capital of the firm. The governments of the Federation of Malaya, Singapore, North Borneo, Sarawak and the State of Brunei, as well as the British Overseas Airways Corporation (BOAC) and the Australian Qantas Empire Airways, became the major shareholders in the company. Malayans were thus co-opted to head up the board—the first non-European chairman being Dato Mahmud bin Mat, a former *Menteri Besar* of Pahang, the Federation’s member for lands, mines and communications, 1951–53, and first speaker of the Federal Legislative Council, 1953–55. Loke Wan Tho, a leading Malaysian capitalist and son of the prominent tin miner Loke Yew, succeeded him in October 1959. Moreover, a new set of shares were to be reserved for citizens of the Federation and Singapore—a move made ‘for political reasons’ according to BOAC’s chairman, Lord Rennell of Rodd. Rennell was anxious that Ocean and the HSBC should all remain as shareholders—in the event of a dispute with the Malayan governments, BOAC could thus count on commercial support. For Sir Michael Turner, the chief manager of HSBC, however, this only served to ‘make an unattractive investment even less desirable’, and the exchange bank decided not to retain its shareholding.

During the 1960s, the creeping nationalisation of MAL continued. Following the departure of Singapore from Malaysia, a new agreement was signed in May 1966 whereby MAL became known as Malaysia-Singapore Airlines (MSA). By this time, the two governments had a joint majority interest in the firm’s share capital. Ocean retained a minor shareholding and was represented on the board by Mansfields’ chairman, Eric Wingate. But, as is revealed below, the Malaysian management increasingly disappointed the British transport interests.

### The Malaysianisation of management

‘I am afraid’, reported Britain’s Trade Commissioner in Kuala Lumpur to London in November 1964, ‘that there are now signs that the happy position under which British firms have been able to employ virtually as many Europeans as they wished is coming to an end.’ From 1959, in the states of Malaya employment passes for expatriates had been limited to those earning more than $1,200 a month, and it
had to be shown that no Malaysian could fill the job. Continuity of employment was guaranteed, however, to those granted a pass. From the 1950s, the big British firms—such as Sime Darby and Guthries—introduced training schemes for Malaysian managers, and in the plantation sector provided scholarships at Malayan universities and agricultural colleges. British officials and Malayan ministers had repeatedly warned them of the dangers arising from not providing management opportunities for Malayans. But the agency houses had always been able to bring in the staff required provided the expatriates had some form of technical qualification—for example, an agricultural degree in the case of rubber planters. Moreover, the FMSCC, as well as Lord Home, were reassured by the Tunku and Tan Siew Sin that amendments to the Immigration Regulations in 1959 would not inhibit British business operations in Malaya but were primarily designed to keep out Indian ‘undesirables’. Residence permits for British directors and managers would be automatically renewed in bona fide cases.

In the middle of 1963, however, a Cabinet Committee on Malaysianisation in Commerce and Industry was set up with Tun Razak as its chair. The committee took little firm action in the first year of its life and the Tunku as well as Lim Swee Aun, the minister of commerce and industry, made assurances that policy would be introduced in a reasonable manner and would not prejudice industrial efficiency. However, Tan Siew Sin, as finance minister, warned British business interests in London that a serious position might arise if the increasing number of Malayan university and high-school graduates ‘found themselves disappointed in appreciable numbers’. While there were some expatriate enterprises whose record of localisation was ‘very creditable’, there were a number of British firms whose ‘attitude left much to be desired’. ‘[T]he matter might easily become an emotional issue’, and Tan appealed to expatriate commerce and industry to take ‘wise measures before this occurred’. In the summer of 1964, a Standing Committee composed of young Malay officials was established. Directors of companies were summoned before the committee and subjected to tough interrogations about their operations, the number of Malays employed and the qualifications of expatriates. Moreover, employment passes for junior expatriates were no longer being issued. There were also long delays in approving new applications for employment passes. The situation was becoming less favourable in East Malaysia too. The leading agency house in Sabah, H&C, had been warned about bringing in too many expatriates, and the controller of immigration in Jesselton had told Corry of the MCAGB that ‘The [British] firms were not doing as much as they could to replace expatriates with local recruits.’ In November 1965, all commercial firms and industrial companies in the peninsula were required to submit their Malaysianisation plans to the Standing Committee.

The Malaysianisation of executive posts in the British firms in Malaysia has been depicted as a stress-free, relatively amicable process. This certainly became the case when Sir Claude Fenner took over the reins of negotiations with government for the planters at the end of the 1960s. The British High Commission found that amongst the large, modern-minded MNEs like Shell, Unilever and
British American Tobacco (BAT), there was little concern. Since setting up local plant in the Federation, the MNEs had devoted great efforts to Malaysianisation, were pleased with the results and were on excellent terms with the local authorities.\textsuperscript{78}

A female shareholder in the BCL also prudently appreciated that ‘in these days of the bursting out of nationalism all over Asia, one of the best methods of securing goodwill for a Company is to train indigenous personnel and identify them with the fortunes of the Company’, especially since expatriate staff in Borneo were suffering ‘severe strain’ as a consequence of Confrontation with Indonesia.\textsuperscript{79} But in the conservative agency houses much angst was caused by the vagaries of Malaysian policy-making. Tom Barlow, visiting Kuala Lumpur in February 1965, advised that the rate of replanting on the Highlands & Lowlands estates should be reduced given that ‘this place is going to be Malayanized fairly soon’, and the government appeared ‘determined to withhold work permits at an increasing rate’.\textsuperscript{80}

In June 1966, Sir Eric Griffith-Jones reported to Whitehall officials that Guthries and other rubber-growing groups were ‘runriing into rather rough weather’ with regard to Malaysianisation.\textsuperscript{81} Razak had made encouraging reassurances, and the Tunku had told Tom Barlow that ‘while Malayanization will go on he always expects expatriots [sic] to control their investments’.\textsuperscript{82} But when it came ‘to the crunch’ of sorting out Malaysianisation plans, immigration passes for existing expatriate staff, and expatriate recruits to provide a ‘pipeline’ of experience and training from which to service a minimum of ‘key posts’, ‘we find ourselves up against a “young Turk” bunch of officials whose restrictive approach bears little relation to the ministerial assurances and declarations of policy’. At lunch with ODM and CRO officials, Griffith-Jones and his RGA colleagues revealed that the problem extended beyond the plantations. The Chartered Bank, for example, had been told by junior officials to reduce its number of expatriates from about 100 to just three. The suspicion was that the officials might indeed be carrying out the general wishes of ministers who had been demonstrating the ‘normal Malayan trait of over-politeness and reluctance to say anything to a visitor which he did not wish to hear’.\textsuperscript{83} Indeed, in May 1966 representatives of the SMCC had been subjected to a barrage of criticism from Dato Nik Daud, chairman of the Official Committee, when the commercials complained that the Malay mandarins were forcing too rapid a pace of Malaysianisation: as far back as 1959, Nik Daud claimed, the SMCC had been asked by the government to absorb the growing number of Malaysian graduates into the ranks of their member firms; moreover, in many cases no genuine attempt had been made by commerce and industry to cooperate with this request; and in several companies practically no Malaysianisation had taken place since merdeka.\textsuperscript{84}

The need for HMG to intervene in defence of British economic interests was avoided, however, by a more gradualist approach to the localisation of management adopted from July 1966. Here, ministerial intervention seems to have quashed the more nationalistic impulses of the zealous Malay officials. The Cabinet Committee did call for ‘complete Malaysianisation’ in most firms by 1975. But there was a characteristically Malaysian flexibility in the small print of
these rulings, since a number of ‘key posts’ might be retained by expatriates where the holders were directly responsible to the boards of overseas companies for either formulating or implementing policy. In the rubber and oil palm industries, this applied to planting advisers and visiting agents—the Cabinet Committee having been guided by local estate owner, Tan Siew Sin. Moreover, the provision of a pipeline to the key posts was accepted in principle. The number of key posts and the length of the pipeline to them would be negotiated between individual firms and the Official Committee. International firms, such as banks, could in addition to their key posts continue to employ non-Malaysians provided they were ready to employ an equivalent number of Malaysians overseas at comparable levels. As a result, representatives of rubber, tin, industrial and banking interests, which had been in a highly agitated state just two months earlier, were much calmed when they met Sir Michael Walker in July. As the High Commissioner reported to the CRO, ‘a Malayanisation programme which does not require completion until twenty years after independence and even then leaves the safeguard of key posts and a continuing pipeline can hardly be regarded as unreasonable… I am sure it is wiser to let this process work itself out without intervention from us.’

The final agreements on key posts and pipelines in the plantation sector—the main concentration of expatriate labour—were concluded in a flexible and relatively amicable manner. This, however, is testament to the influence not of British business as a whole but to Sir Claude Fenner, the RGA’s special representative in Malaysia. Fenner’s local political knowledge, and the general trust invested in him by senior Malaysians, arising from Sir Claude’s earlier career in the Malayan police, proved critical. Fenner’s task was never going to be easy, especially as he and the High Commission in Malaysia discovered that the planting companies had behaved with ‘exceptional stupidity’ between 1960 and 1962. Although the number of Malaysians employed rose fairly steadily post-merdeka, there was a sharp increase in the number of expatriate assistants aged between 26 and 30 brought in. The planting industry had thus sneakily taken advantage of slackness in the Immigration Department to open the floodgates for young European planters. It was partly this practice which had stirred the government into stiffening up its Malaysianisation requirements, and this put the industry in a very weak bargaining position. While the UPAM claimed that some 45 per cent of planters were Malaysian by 1966, it was reckoned that a mere 20 per cent of plantation managers were locals.

Admittedly, the agency houses sometimes found it difficult to recruit capable Malaysians. The Malayan Estate Agency Group Ltd (MEAGL), a REAL subsidiary, had to abandon its scheme to train a young Malay in London for an accountant’s position when that student failed his intermediate examination ‘badly on two occasions’. But as Geoffrey Jones has commented, ‘innate conservatism and the problems of incorporating foreigners into the very British cultures of the firms resulted in slow progress among the British traders in South East Asia, who responded grudgingly to the pressures for localization’. In Sarawak, the managing director of BCL was incensed in 1962 by the suggestions of Chief
Secretary F.D.Jakeway that the employment of expatriates be restricted. This was ‘blatant discrimination against the white races in the hope of currying favour with the rising Asian politicians’. ‘Where’ was BCL ‘to find the recruits necessary to replace our European staff?’ And how could the agency house ‘train up such expatriates as we are allowed to retain into senior positions and Management, unless they are brought in young?’ Little over a year before the creation of Malaysia, the London management was reluctant even to employ a Chinese assistant to head the Rejang shipping agency. While the other British firms continued to employ European assistants in Sarawak, ‘it is going to be uphill going for a Chinese to tune into the “old boy” network at the right level’. 

In trying to accommodate this disturbing and short-sighted degree of prejudice towards Malaysians, Fenner in Kuala Lumpur played on the possibility of overseas plantation enterprises withholding capital. He pointed out to Nik Daud that the boards of UK companies would be overjoyed in the long term by the employment of more indigenes because they would be considerably cheaper, requiring no home leave, passages or overseas allowances. But the problem was to convince these boards, in the early years of ‘the Malaysianisation game’, that local managers could ‘make the grade’. It was a psychological hurdle to leap over and the government might frighten the agency house executives by appearing to demand too drastic or too rapid a rate of Malaysianisation. Many of the rubber companies had interests in Indonesia and Sri Lanka and were still smarting under their experience in these two countries. Malaysia would not benefit if they ‘pulled in their horns’, especially as the First Malaysia Plan was getting into its stride. Nik Daud remained suspicious, however, of Fenner’s long pipelines, and concerned at the suggestion that key posts should remain barred to Malaysians indefinitely. Sir Claude suggested, therefore, that when called before the Standing Committee, the individual agency houses should negotiate for the maximum number of key posts and insist on the optimum number in the pipeline which would enable them to keep an expatriate permanently available to fill a key post. This would prove unacceptable to the officials, but would buy some time for Fenner to negotiate an industry-wide deal. 

Sir Claude’s stalling strategy paid off. By the end of 1967, the federal government was satisfied with an assurance from the planting companies that they would not replace expatriate employees who retired from Malaysia and so long as a 7 per cent overall rate of reductions per annum was maintained. In 1968, a Plantation Industry Malaysianisation Committee was established with Fenner as chair, and an industry-wide standard for ‘top-echelon’ representation was secretly agreed with government. The pipeline concept was jettisoned in favour of a quota of expatriate managers, based upon agency-house acreages. Hence, Barbeal, for example, which supervised 161,533 planted acres in the peninsula, was entitled to three top-echelon expatriate representatives.

Yet back in 1966, the UPAM had hoped that a definite percentage—about 20 per cent—of all management posts would be permitted ad infinitum to be filled anywhere in the rubber industry by expatriates. UPAM’s president, Harry Traill, reported in 1968 that Malaysianisation, combined with a low export price for
rubber, had created a ‘feeling of insecurity among expatriate members of our industry’, which was ‘greater than it has been for a long time’. The complete disappearance of the Orang Puteh from the plantations was avoided, but the rate of expatriate planter retirement was still swift—according to official figures, by October 1971 a 57 per cent rate of Malaysianisation had been achieved in the plantation industries in less than five years; 452 expatriates out of the original 791 in January 1966, both on the plantations and in the offices of the agency houses, had departed. The Guthries board may have believed that Malaysianisation of management would assist its aspirations to disinvest from the rubber industry, but compensation packages for premature retirements were expensive. At the same time, directors in London remained sceptical concerning the quality of Malaysian human resources. This was illustrated by the tendency of proprietors to split 5,000-acre estates previously managed by an expatriate into smaller 2,000-acre units, placing their Malaysian managers in charge of the fragmented estates. Harry Traill pointed out to Claude Fenner that this practice clearly demonstrated that Malaysian planters were ‘not fully trusted’.

British plantations, banks and trading houses faced additional difficulties in demonstrating to government that they were recruiting across the Malaysian ethnic spectrum. As the CRO appreciated, The main difficulty is...to find suitable Malays. It would not be difficult to find good Chinese. When in 1960 the Anglo-Thai Corporation granted three new service agreements to Malayans at senior level and two at junior level, these went to four Chinese and one Eurasian. Mansfields, the shipping agents, achieved some success in recruiting Malays to relatively senior positions. In 1968, Mansfields’ senior ship-handler in Penang was Malay, as was the SSC representative in Kuala Lumpur. But Europeans and Chinese held all other senior positions. It was proposed that in the mid-1970s, a Malaysian should succeed to the Kuala Lumpur managership, but the individual earmarked for this position was an expatriate with Malaysian citizenship. The low Malay profile in the offices of the agency houses left them dangerously exposed as the NEP dawned, with its stress on the creation of a Malay commercial and industrial class. Worse still, British businesses were increasingly isolated from the emergent world of ‘crony capitalism’.

**The beginnings of ‘crony capitalism’**

The ‘blurring of the distinction between corporate and political power’, to produce an entrepreneurially weak crony capitalism, is usually assumed to have been a product of the NEP after 1971. The high level of government intervention inherent in the NEP forced Chinese capitalists into close alliance with Malay politicians and bureaucrats to guarantee business survival and success, while the rise of quasi-state corporations pushed Malay politicians and bureaucrats into the business world. Yet an earlier form of cronyism emerged from the opening up of the political process in the last years of colonial rule. The Chinese towkay—such as Tan Siew Sin, H.S.Lee and T.H.Tan—entered the political arena through the
alliance of the MCA with UMNO during the 1950s. MCA leaders converted Chinese business money into Alliance election victories in the last years of colonial rule, and in 1959, Western business funding for the Alliance was to be matched with $M500,000 from the MCA. It was this reliance on Chinese business funding and the commanding presence of Tan Siew Sin within Cabinet, rather than the influence of ICI, which were decisive in the destruction of Abdul Aziz’s political career. Aziz took the latter half of his ministerial title rather too seriously, since his general plans for Malay marketing cooperatives throughout the countryside cut across the interests of Chinese rice and rubber traders.

Even for those Malayan Chinese entrepreneurs who did not dabble directly in politics, close connections with Malay government figures were often critical for the protection and growth of their businesses in the postcolonial period. The enigmatic Robert Kuok was undoubtedly the entrepreneurial success story of the Tunku years—by the late 1960s, he had developed vast financial interests in Malaysia, originally in the food industry but extending also to timber, hotels and property development. Kuok relied on close ties to the Malay elite, long before the NEP, to secure pioneer status for his sugar-refining and flour-milling ventures. He was particularly close to Tun Razak, whom he had met while studying at Raffles College in Singapore before the Japanese occupation. While leading Chinese entrepreneurs were associating themselves with the new national government, senior Malay administrators-cum-politicians were entering into the commercial arena long before the NEP. For example, when Malayan Banking Ltd (Maybank) was formed in 1960, its chairman was Dato Abdul Rahman bin Mohamed Yassin, a veteran of UMNO’s campaign against the Malayan Union in 1946–47 and father of the former minister of commerce and industry, Dr Ismail. Blessed by the prime minister, and known as ‘the Tunku’s bank’, Maybank experienced phenomenal growth in terms of branches and assets in the early 1960s. As the Bank of England appreciated, Maybank was making inroads into the business of the British exchange banks as well as OCBC, and important customers, including municipalities, had been lost to it, largely because of the influential Malays on Maybank’s board. The formation and expansion of Maybank is thus an early example of the ‘Ali Baba’ system operating at the top echelons of the Malayan business world. British financial interests also feared Maybank because, with the backing, in turn, of the Bank of America, it was believed to be financing the new breed of Chinese takeover bidder in the rubber plantations. Figures such as MCA senator Lee Loy Seng now enjoyed government support because they intended to run the estates and not split them up for quick resale and fragmentation, as had been previous practice. Moreover, as Sir John Barlow discovered in 1966, ‘the Alliance Party leaders want British Companies to sell fairly cheaply so that they can themselves profit’. Indeed, by then, Maybank had moved even closer to ruling circles—allegations of mismanagement of Maybank’s assets led to a run on the bank, precipitating government intervention. Dr Ismail stepped in as chairman, and a de facto nationalisation of Maybank ensued.
In Sabah, meanwhile, a compact developed in the last years of colonial rule between the Chinese timber towkay and the Muslim elite. Hence, when Tun Mustapha became chief minister in 1967, his deputy was the leading logging baron and Sabah Chinese Association head, Khoo Siak Chiew. By 1968, both the British and Australian High Commissions found the public and business life of Mustapha’s Sabah to be monumentally corrupt. The Mussolini-esque Mustapha had personally become fabulously wealthy through his own timber concessions, managed by Dato Khoo while the Tun was out of Sabah on his regular womanising junkets in Kuala Lumpur, Singapore and London. As Lee puts it, ‘The towkays…took advantage of the developing indigenous enterprise in timber to develop a profitable relationship of symbiosis…mustapha would give the towkays something like a blank cheque in timber in return for which the towkays would rally to his support.’

The overt state support for those Malayan financial institutions, which involved some form of Malay participation, confirms that the economic policies of the Tunku’s regime were not as laissez-faire as is usually supposed. The prime minister’s multiracial vision, and friendship with Chinese business leaders, did tend to shun affirmative action in commerce and industry which preferred Malay economic interests. But, as minister of national and rural development after 1959, Abdul Razak paved the way for the more intensive ethnic restructuring of the 1970s. The influence of MCA business politicians notwithstanding, the leading institutions of the post-1970 bumiputera economy actually emerged in the 1960s. The lavishly financed rural development schemes of that decade, as Shamsul perceptively comments, ‘were really the NEP before the NEP, especially for those [Malay entrepreneurs]…in UMNO’. Moreover, the government was keen that politically influential Malays should head up new Malay investment and trading companies. Bank Bumiputera emerged in 1965, and was intended primarily to inject capital into business ventures undertaken by Malay entrepreneurs. It was Malay-owned and run on a private basis, but had strong official financial backing. Concurrently, Bank Bumiputera was headed by elite figures who were far from independent of the government. Tun Razak selected his young protege, the UMNO leader in Kelantan, Tengku Razaleigh Hamzah, to organise the first Bumiputera Economic Congress in 1965, which led to the establishment of the new Malay bank. Razaleigh was secretly despatched to the City to study financial markets and meet bankers, and was asked to chair Bank Bumiputera’s board on his return. He declined because the young aristocrat wished to focus on wresting political control of Kelantan from the PMIP for UMNO. Even so, Razak appointed Razaleigh an executive director, and the board of Bank Bumiputera also included Robert Kuok. Hence, an association between one ‘father of the bumiputera economy’, Razaleigh, and a state-favoured Chinese entrepreneur whose business interests both survived and prospered under the NEP, Kuok, had begun some years before 1970. Razaleigh and Kuok would be further brought together in PERNAS, the Malay-dominated and state-controlled National Trading Corporation, which was capitalised at M$50 million and which emerged from the
second Bumiputera Economic Congress of 1968. A cynical John Wilson of the Chartered Bank reported to the CBI that ‘money was not available for the sort of thing that would help the Malays unless there was a big name attached to it’.121

Certain British business interests did appreciate the importance of alliances with leading commercial and political figures in the new Malaysia. Before merdeka, the head of the Anglo-Oriental/LTC mining group in Malaya, Sir Douglas Waring, developed a close relationship with H.S.Lee. Both were legislative councillors and tin barons. According to one British business leader in London, Waring ‘had cultivated Colonel Lee at every opportunity and they were in each other’s pockets’.122 When the Kelantanese aristocrat and administrator Dato Nik Kamil left the diplomatic service in the early 1960s, he joined the boards of a group of mining concerns associated with the British businessman Dato W.M.MacLeod. Nik Kamil also picked up directorships in the following British-controlled enterprises: Rothmans, STC, Metal Box, Bousteads and Shell Refining.123 Such Malay politicians-cum-bureaucrats were, according to Lim, ‘functional directors’, providing ‘mediation between private enterprises and the state’ and so enabling firms to ‘better secure contracts, tenders, licenses or concessions’.124 Nik Kamil was also an ‘old friend’ of the Mercantile Bank, and in November 1963, Charles Pow informed the Dato that he was ‘quite happy’ to employ the services of his son in the British exchange bank.125

Yet Dato Nik’s influence within the post-colonial governmental machine was always compromised. He became an UMNO MP in 1964 but was regarded with suspicion in ruling circles given his membership of Dato Onn’s Party Negara, the Alliance’s bitter rivals, during the independence struggle.126 Meanwhile, H.S.Lee’s position within the political firmament was on the descent. Chiang Kai-shek had bestowed Lee’s colonelship during the Pacific war. Hence, the MCA purge of the ‘KMT diehards’ forced Lee into not standing in the 1959 elections, thus forfeiting his cabinet post. LTC lost central influence almost overnight. Guthries had plans in the late 1960s to appoint Dr Ismail as chairman of their new local subsidiary, Kumpulan Guthrie Sdn. Bhd. But Ismail’s return to ministerial office after the May 1969 riots put paid to this Malaysianisation plan, and instead Griffith-Jones chose Mark Gent, son of Sir Edward—the ill-fated governor of the Malayan Union—to head up the plantations in Kuala Lumpur.127 Indeed, generally, British firms had a somewhat squeamish attitude towards dabbling in the murky world of crony capitalism. BCL had entered into kongsi with towkay in East Malaysia who would emerge as political as well as business leaders. In Sarawak, after 1956, Ling Beng Siew was a partner with BCL in the Rejang river system, operating a number of sawmills which relied on loans and buying contracts from the British business group.128 Ling was a member of the Sarawak delegation on the Malaysia Solidarity Consultative Committee established by Donald Stephens in the summer of 1961, and a nominated member of the last Supreme Council of the colonial era. It was unfortunate for BCL, therefore, when Ling failed to gain political office as a Sarawak Alliance candidate in Sibu in the 1963 elections.129 But BCL’s relationship with this wellconnected towkay was never
easy or particularly close given the fundamental differences in business practice between the European agency house and the Chinese family firm. By March 1961, the agreement with Ling to operate a new timber carrier along the Rejang was not working smoothly. BCL was adamant that the management must remain in the hands of its Sibu office and not with the Ling brothers. Otherwise, the Rejang Transport Co. would ‘cease to be treated as a commercial venture’—Ling would merely run the firm as an appendage of his family’s timber business with no thought to the cost-effectiveness of the BCL subsidiary.\(^{130}\)

There existed a general mistrust of Chinese business leaders amongst the expatriate agency houses. This was a hangover from colonial days, and inhibited the development of a full community of interest between British and Chinese business in post-\textit{merdeka} Malaysia. Soon after independence for the Federation of Malaya, Tan Siew Sin, as minister of commerce and industry, wished to see a business association formed in Kuala Lumpur which would bring together European and Chinese interests as well as Indian and Malay ones. The government could thus discuss matters affecting the entire commercial and industrial community. The multiracial United Chambers of Commerce of Malay[si]a would eventually materialise in 1962. But the British agency houses proved themselves sceptical about close involvement with Chinese big business. A CRO official was told by Alec Malcolm in his capacity as president of the MCAGB that the leaders of the Associated Chinese Chambers of Commerce (ACCC), ‘if let in, would pay lip service to such an Association, but would behind the scenes so manoeuvre as to use it solely for their own interests. This would be particularly unfortunate to UK interests if the Chinese should have successes at the next General Election of 1959.’\(^{131}\)

In late-1950s Sabah, Malcolm’s investment group still had minor interests and, given an anticipated economic stagnation in both Sarawak and Brunei, the BCL directorate was anxious to expand into the north’s booming export economy. One means of achieving this was to link up with well-established towkay. Hence, in 1958 a partnership was formed with entrepreneur-cum-politician Hong Teck Guan in Tawau.\(^{132}\) But by the early 1960s, deeper involvement in the increasingly politicised world of Sabah business was eschewed. On the eve of Sabah’s accession to Malaysia, BCL’s general manager in Kuching, J.P. Pearson, wrote to London on new opportunities arising in North Borneo. To assist in the financing of their nascent political parties, the colonial state had awarded sizeable concessions in the Koyah Forest Reserve on the right bank of the Kinabatangan river to the leading nationalists, Stephens and Mustapha. With large sales expected in Japan, BCL could offer a third share, which would net half a million Malayan dollars per year. According to Pearson, ‘Donald Stephens and Dato [sic] Mustapha are well worth cultivating’. The response from London, however, was not enthusiastic. Along the lines of the firm’s relations with Ling Beng Siew, BCL wished to be in effective control in the running of any timber venture; being mere shareholders had ‘no attraction’. Moreover, there was the ‘political aspect’ to be considered, which ‘[a]fter the honeymoon period’ could become ‘an
embarrassment’. As the London general manager emphasised, ‘[O]ur policy…is to have at least 50 per cent share in local ventures and to steer clear as far as possible from politics.’

Yet what appeared like financial and political prudence only served to marginalise and reduce the influence of large British firms. British companies did involve themselves in the political process by donations to Alliance party funds in the peninsula. But this funding was very much an impost, an additional political levy on ex-colonial businesses merely to remain in the post-colonial state, and the slush funds were delivered on sufferance. For example, the British exchange banks, advised by the Bank of England, attempted to resist paying what they regarded as ‘squeeze money’, fearing retaliation from a left-wing or Islamic regime should the Alliance fall from power. The Chartered and HSBC finally made contributions towards the Alliance’s 1964 campaign. This, however, only followed veiled threats from Tan Siew Sin that the Alliance might raise funds through granting ‘concessions’, involving ‘discrimination which could be detrimental to other people’s interests’. Moreover, these political donations did not guarantee influence over official banking policy. At the end of 1963, HSBC was disturbed when it received no support from the central bank as state accounts were lost to the politically well-connected Maybank in Johor. Jake Saunders, HSBC’s chief manager, also expressed disappointment to the governor of the Bank Negara that foreign banks were precluded from establishing new branches in the smaller towns and rural areas. This meant that HSBC could not open small offices where its major constituents had planting or mining operations. Ismail would not give way because the British institutions ‘had enough good business already and indigenous banks must be given a chance’. Meanwhile, Charles Pow discovered that the Mercantile was facing a loss of deposits in its traditional preserve in the east coast states. According to the chief manager, this did not derive from any hostility towards the Mercantile from the Malay bureaucrats in Kelantan, Terengganu and Pahang but arose from ‘political pressures’ at the centre. Joe Lever, HSBC’s supremo in Malaysia and Singapore, ominously reported in January 1965 that Ismail’s attitude to the overseas banks had taken a further hostile turn. He was ‘having pressure put on him either from political or possibly domestic Banking sources’. Legislation was later introduced which formally prevented foreign banks from opening additional branches in Malaysia.

Indeed, several years before the localisation of British firms under the NEP, UK commercial interests were generally missing out on development opportunities to indigenous, crony capitalists. This was apparent in the shipping industry. In 1961, the SSC formed a subsidiary in the Federation, the Kris Shipping Co., which ran three ships on local routes from Penang. Given plans for a regional shipping line as part of the Tunku’s Association of South East Asia, the SSC and Mansfields were encouraged by British officials to offer Kris shares to the public. The MCI in Kuala Lumpur might thus recognise Kris as a local company and British shipping interests would be preserved in a ‘national line’. As Ministry of Transport officials appreciated, however, the Holts group ‘may be chary about
making a public offer of shares too quickly’. Indeed, the advice was not heeded in Singapore or in Liverpool, and instead the Malaysian International Shipping Company (MISC) was officially dubbed the national line when it was formed in late 1968. MISC involved a 30 per cent government shareholding but was run on a commercial basis by a locally favoured entrepreneur, Robert Kuok, who was awarded a 10 per cent stake. MISC quickly purchased a number of passenger and freight carriers and also benefited from running two cargo liners acquired by the Malaysian government under Japanese reparations payments. By 1970, three vessels were already in service on the Far East-Europe run.

The Muslim-Chinese political and business coalition in Sabah, based in large measure on agreement regarding timber licence policies, was at the expense of the ‘big four’ British (and US) logging multinationals. BCL’s failure to link up with the Sabah politicians led the latter to turn instead to the towkay in the running of their concessions. Moreover, through towkay influence in the Sabah Alliance government, many of the existing annual licences were converted into long-term special licences in the first years of Malaysia. Khoo Siak Chiew’s firm, United Timbers, thus came to eclipse or match the British timber giants, BBTC and H&C’s Sabah Timber, as a concessionaire. W.L. Morrison, a counsellor in the Australian High Commission, found that, although the Sabah export economy continued to achieve remarkable growth, British companies were increasingly antagonised by Mustapha’s interference in the business world for personal aggrandisement. According to several British businessmen, proper tender procedures were no longer followed. Any firm that could make suitable arrangements directly with the Tun was assured of a contract, irrespective of the tender board recommendations. In this way, Mustapha had also become involved with a group of Japanese firms ‘whose interests he was promoting’.

Indeed, the Japanese general trading companies (sogo shosha) and manufacturing concerns, which increasingly penetrated the Malaysian economies from the early 1950s, appear to have been more attuned to local political and business realities than their British counterparts. A number of Japanese manufacturing concerns—for example, in monosodium glutamate and in steel production—established joint ventures with T.H.Tan, secretary-general of the Alliance, president of the ACCC, a close personal friend of the Tunku and ‘one of the most powerful men in the country’. Moreover, when the Malayawata Steel project at Perai (Province Wellesley) incorporated in 1967, 3 million one-dollar shares were offered exclusively to Malays and Malay interests, and the issue was oversubscribed some nine times. This meant that local shareholders—including the Malaysian government—held 57 per cent of the equity capital. This relatively liberal attitude on the part of Japanese interests towards financial control of joint ventures was in stark contrast to the policies of the British investment groups, such as Guthries and BCL, outlined above. The Japanese steel interests involved in the Malayawata project also appreciated the need to appoint well-placed Malays as directors. Given the rising tide of Malay economic nationalism in the late 1960s, it was with particular foresight that Raja Mohar,
now bureaucratic head of the Ministry of Finance, was appointed chairman. Meanwhile, the leading Malay ‘ultra’, Syed Ja’afar Albar, the former UMNO secretary-general who had played a key role in the expulsion of Singapore from Malaysia, was made executive director and manager in Kuala Lumpur.146

To be fair to British firms, one reason for the reluctance to engage more fully with well-connected Malaysian capitalists and quasi-government agencies was that local commercial practices were not always acceptable to the business cultures of the expatriate companies. In 1969, Robert Kuok was made chairman of MSA, and, in addition to meddling from Malaysian and Singaporean ministers, the remaining British interests in the airline became frustrated by Kuok’s management style. The UK’s High Commissioner, Sir Michael Walker, learned that although Kuok had practically no experience of airline business, he interfered in operational matters which were ‘no concern of his’. An example was Kuok’s decision, without any consultation, to change MSA’s insurance arrangements. This proved ‘entirely unsuitable’ and had to be reversed at a cost of M$500,000 (nearly £68,000).147

Closer involvement with the state, and the politically influential, might also involve a degree of corruption. The payment of ‘signature money’ to ensure acceptance of tenders on major contracts by British firms was noteworthy by the late 1960s.148 Magnus Pearce of the Wimpey construction group had discovered that it was ‘necessary to negotiate with the Government and then renegotiate with the States, all of which was linked with a great deal of corruption’.149

Frustration with Federation

Indeed, for British business, an additional irritation with the political process arose from the federal nature of the post-colonial state. A brake on development was generally believed to derive from the state administration of land, enshrined in the merdeka constitution. The huge areas of uncultivated jungle were the provinces not of Kuala Lumpur but of the state governments, which tended to regard land as a trust held for the Malay race, whereas national economic interest required land to be made available for exploitation by private capital—much of which would be Chinese or expatriate. Land was also an important resource in the electoral process. Tan Siew Sin told Tom Barlow in March 1962 that his government was ‘most anxious that more land should be given out’ but the state governments were reluctant to alienate land ‘unless they could tie up…kampong votes’.150

By 1960, the president of the FMSCC believed that the machinery for dealing with applications for land alienation ‘must be overhauled’, ‘otherwise there is a grave danger that companies will take up land in other countries rather than wait for years to see the result of their application’.151 Despite the existence of a National Land Council, there was no uniform policy on the granting of leases from state to state.152 Even where land had been alienated to European concerns, obtaining permission for a change of use was problematic. While the central government was encouraging the British plantations to grow whichever crop was
most profitable, UPAM found in 1969 that diversification from rubber into palm oil was held back, in Kedah particularly, by excessive red tape. In January 1969, at an open meeting with Malaysia’s capitalists—both indigenous and expatriate—Tun Razak acknowledged the difficulties encountered by potential investors seeking large areas of land for agricultural development. He promised greater cooperation between federal and state governments on land alienation to meet national economic objectives. The ‘father of development’ had reached ‘a complete understanding on this matter’ with the various Menteri Besar in the thirteen states. 

Yet despite Razak’s determination, disputes between the federal government and the state governments, which impaired primary production by British capital, persisted. As early as September 1964, the British transnational mining giant Rio Tinto Zinc (RTZ) established a Malaysian subsidiary to bid for prospecting rights for offshore tin deposits in the Straits of Melaka. But over five years later, RTZ’s plans were still held up by disagreements between Kuala Lumpur and Melaka over the apportionment of revenues beyond the old three-mile and the new twelve-mile territorial limit. In a similar vein, Shell found itself caught in the crossfire as the state of Sarawak and the federal government bickered over the ownership of the continental shelf and, hence, the rights to lucrative offshore oil and gas revenues.

Concurrently, as the British traders in Georgetown discovered, the quality of a Malaysian state’s government, and its relations with the central regime, could have a fundamental impact upon regional economic development. To deal with Penang’s economic decline vis-à-vis Singapore and Kuala Lumpur and the steady erosion of the island’s free-port status, the Penang Chamber of Commerce (PCC) (and later the Penang Branch of the SMCC) supported a ‘three-pronged programme’ for rejuvenation from the late 1950s. This was based on the development of Penang as a tourist resort and as a centre for higher learning, as well as the expansion of Perai and Butterworth as an industrial and port complex. But projects vital for this vision, such as an east-west highway to suck Kelantan and Terengganu into Penang’s hinterland, improved airport facilities, a new university and deep-water wharves at Butterworth, were slow to get off the ground. This was partly because after 1959, the PCC lost its representation in local and national councils of state, while the reluctance of the Penang merchants to merge with the FMSCC/SMCC deprived them of an extra-parliamentary voice in Kuala Lumpur. But the Penang commercials had also found that ‘a lack of aggressiveness’ on the part of the government in Georgetown accounted for the failure to get Penang designated as northern Malaysia’s prime industrial location. The Penang state government, an MCA-dominated regime under Chief Minister Wong Pow Nee, repeatedly ignored requests from the British merchants for the introduction of a State Industrial Promotion Board. In 1968, B.C.Engel of STC was exasperated that ‘there is still no Body on the State level to whom a potential industrialist can turn for information and encouragement and there is no Body
whose function it is to go out and woo potential industrialists to the State of Penang’.159

It was only in 1969 that the central government appointed a high-level committee to devise a master plan to try to reverse Penang’s stagnation, and that the east-west highway project was finally given first priority.160 A change in the complexion of local politics also helped things. After the 1969 elections, the ‘dynamic’ new Gerakan chief minister, Lim Chong Eu, enunciated a strategy to modernise the economies of Penang island and Perai as an integrated entity. In so doing, Lim developed a far closer relationship with both the state’s expatriate commercial community and the government in Kuala Lumpur than the intransigent and allegedly corrupt Wong administration. Even then, however, a chief obstacle to Lim’s dynamism remained the inflexibility of Tan Siew Sin towards the financing of Penang’s development.161

British firms found that the federal political system could impede development in East Malaysia too. We saw in the previous chapter that the British commercial and planting community was none too pleased by the imposition of federal taxes after Sabah joined the Federation. But the principal development problem derived from a shortage of labour on the plantations and timber estates, particularly after Confrontation deprived the state of new Indonesian and Filipino immigrants (see next chapter). In 1966, UPAM appealed to the federal Ministry of Labour that unemployed West Malaysians be allowed to emigrate to Sabah in family groups.162 The central government’s Migration Fund Board did draw up plans for the movement of 1,000 labourers from West Malaysia to Sabah annually. Yet this was a drop in the ocean: the state remained reliant on tens of thousands of Filipino and Indonesian labourers, and with the end of Confrontation, the estates naturally wished to recruit more non-Malaysians. Tun Mustapha enjoyed considerable freedom of manoeuvre in Sabah, but he could not prevent the imposition of Kuala Lumpur’s Employment Restrictions Act on his fiefdom during 1969. This meant that work permits for semi-skilled and unskilled foreign labourers were limited to six months and three months respectively. The estate owners were dismayed: Filipino workers had been banned after the dispute with Manila over territorial claims to Sabah flared up again, and labourers from Kalimantan would hardly be encouraged to cross the border for such short periods. The planting and timber companies, which were already short of staff, would be in a worse position than ever.163 As Tom Duffy in the British High Commission appreciated, legislation designed to provide the Malays of West Malaysia with employment opportunities at the expense of Tamil and Hakka non-citizens had ‘little relevance to the employment situation in Sabah’. Generally, the Sabah Planters’ Association believed that a more ‘sympathetic appreciation of our geographical and economic disadvantages vis-à-vis West Malaysia’ was required in Kuala Lumpur.164
Conclusion

In 1958, Sir John Hay appraised shareholders and the Malayan press on the need for ‘free economic co-operation’ between Malaya and Britain. That is, despite political independence, minimal changes should be made to the long-established colonial export economy—capital should be allowed to flow unimpeded within the Commonwealth and head offices, and the ultimate control of investments, should reside in the Square Mile. In a sense, Malaysia’s political elite met Hay’s ‘neo-colonial’ vision: the Tunku’s regime was loyal to the sterling area, and conscious of the need not to frighten away overseas investors, the Alliance government tempered economic nationalism, introducing limited legislation to direct industry and commerce.

Yet beneath the surface, informal mechanisms of persuasion brought about significant changes in expatriate business practice. In Kuala Lumpur, the increasingly assertive MCI, Treasury and Bank Negara engineered a nascent local capital market while also accelerating the Malaysianisation of management positions within British firms. Moreover, from the mid-1960s, the establishment of Bank Bumiputera and PERNAS clearly presaged the bumiputra economy of the 1970s and 1980s. Anxious to maintain harmonious relations within the new Commonwealth, and fearing that a more far-reaching economic nationalism might emerge should British firms not comply with the relatively moderate demands of Malaysian ministers, HMG generally supported its Malaysian counterpart in the gentle restructuring of the colonial export economy. In contrast, business notables in London generally accepted change with reluctance.

Indeed, the relationship between the Alliance regime and British business was not as comfortable as might be expected. Finances for electoral victories were extracted from expatriate interests under duress, and there was an unwillingness to enter into partnerships with Malaysian powerbrokers. Meanwhile, the federal political system frustrated business plans in the provinces. Permanently pessimistic about Malaysia’s political future, and unable to compete with the influence of MCA business leaders and the rising group of Malay political entrepreneurs, the agency houses were hopelessly disengaged from the governmental process. This sense of powerlessness and exposure was compounded by rural lawlessness, interethnic violence, Confrontation with Indonesia, and the British military withdrawal, which are the subjects of the next chapter.

Notes

1 HSBC, Chief Manager’s File: Singapore & Malaya: Politics, May 1958–March 1963, N.E.Clark, Kuala Lumpur to Sir Michael Turner, Chief Manager, Hong Kong, 20 April 1959. Apparently, the funds were to be used largely to ‘compensate’ Alliance would-be candidates who if ‘not selected will behave like spoiled children and go and vote for opposition parties, and encourage their supporters to do likewise’:
ibid., London to Turner, 8 May 1959, enclosing copy of MCAGB Circular, 6 May 1959.


3 HSBC, Chief Manager’s File: Politics, 1958–63, letter to Stewart, Hong Kong, 5 June 1959; RGACM, MS 24863/81, 7 June 1971, Minutes of a Meeting of the Malaysia Committee, 20 May 1971. It would appear that most of the trading wings of the agency houses also contributed. See IA, MS 27008/12, Anglo-Thai BDM, 10 May 1961.

4 Cited in ‘Sungei Besi Mines and Ayer Hitam Tin Dredging. Mr G.W.Simms’s Statements’, reported in Straits Times, 1 January 1958.

5 ANM, Fatimah Hashim papers, SP 33/A/1/31, Alliance Manifesto ’69—An Even Better Dealfor All, pp. 8–9.

6 PRO, FCO 24/162, Economic Section, Kuala Lumpur to CWO, 26 May 1967, summarising speech by the Finance Minister.


10 PRO, DO 35/9758, ‘Record of Secretary of State’s Meeting with Representatives of the UK Community, 26 January 1959’.


13 See Straits Times, 15 and 20 January, 6 March, and 22 April 1958.

14 PRO, DO 169/114, O’Brien to Omerod, 24 August 1961, enclosing revised text of an address by the Tunku, 19 August 1961.

15 Ibid., Brown to Le Bailly, 17 May 1961; O’Brien to Le Bailly, 18 May 1961, enclosing ‘Literal Translation of the Speech made in Malay by Tunku Abdul Rahman at the 11th General Assembly, Melaka, 6–7 May, 1961’. On Aziz’s radicalism, see Gordon P.Means, Malaysian Politics, London: Hodder & Soughton, 2nd edn, 1976, pp. 248–9. Aziz had also raised the hackles of the rubber barons by temporarily engineering a ban on the import of sodium arsenite. This pesticide was deadly for kampung cattle but was an effective means of destroying the scourge of the plantations, the fast-growing weed lalang. See CSAS, Barlow papers, Malayan Visits, 1960–64, Tom to Sir John Barlow, 20 February 1961.


17 Funston, Malay Politics, p. 153.

18 PRO, FCO 24/475/1, copy of PMIP election manifesto, April/May 1969.

19 PRO, DO 35/9979, copy of Cowan, Commissioner-General’s Office, to Tory, 6 September 1957; R.K.Vasil, Politics in a Plural Society: A Study of Non Communal
Political Parties in West Malaysia, Kuala Lumpur: Oxford University Press, 1971, p. 128. The British business attitude to the unions can generally be characterised as one of wary acceptance. In oil palm growing, it was cynically calculated by 1963 that national agreements with the NUPW were liable to result in lower wage settlements than piecemeal arrangements with individual firms: ANM, SP 95/B/40, D.E.Teale, Malayan Estate Agencies Group Ltd, to H.B.O'Traill, Tennamaram Estate, 25 March 1963. In the last months of colonial rule, a National Joint Labour Advisory Council, with the aim of promoting ‘industrial peace’, had been established, chaired by the minister of labour and with seventeen representatives from the employers and seventeen representatives of the employees: IA, MS 27429, copy of Ahmad bin Haji Husin, Secretary to the Ministry of Labour, to the Secretaries, FMSCC, 25 February 1957, enclosed in copy of BCL Branch Manager, Ipoh, to General Manager, Singapore, 16 September 1957. On the other hand, RGA leaders in London, particularly Sir John Hay, were reluctant to fully collaborate with the trade unions in the campaign against takeover bids and the fragmentation of estates given that ‘the natural political tendency of Trade Unions would be to press for Government to take over the industry’, or that ‘If asked to act in the interests of employers, they would require higher wages as a quid pro quo’: RGACM, MS 24863/68, 4 November 1957. Hay also feared that negotiations with the NUPW, which resulted in wage increases, could impair the ability of plantation rubber to compete with its synthetic rival: Straits Times, 4 February 1958. By the end of the 1960s, however, it was recognised in the development of secondary industry that British multinationals could not ‘escape unionisation, nor would one be wise to try to do so’: PRO, FCO 24/476, ‘Notes of Meeting held at CBI Offices, 24 July 1969’. There is insufficient room here to further explore the triangular relationship between the state, labour and capital, but a good study of the plantations is P.Ramasamy, Plantation Labour: Unions, Capital and the State in Peninsular Malaysia, Kuala Lumpur: Oxford University Press, 1994. In line with the present study, Ramasamy concludes that the post-colonial state was autonomous of capital (whether expatriate or indigenous).

21 PRO, FCO 24/250, letter to Mound, 17 April 1968, and enclosure.
22 PRO, FCO 24/479, copy of DAP general election manifesto, 1969.
23 PRO, DO 35/9730, ‘Note of a meeting with representatives of the RGA held in the CRO on 21 Nov. 1957’; see also material in PRO, DO 35/9907. The question of an investment guarantee for Malaya is addressed more fully in the following chapter.
25 PRO, DO 35/9901, Tory to Snelling, 23 February 1959, enclosing ‘Note of a Talk with Sir John Hay, 2 February 1959’. Hay had expressed similar sentiments to Lord Home: DO 35/9758, ‘Record of Secretary of State’s Meeting, 26 January 1959’.
26 CUL, Barlow papers, 63/854, letter to Tom Barlow, 5 September 1959.
27 PRO, DO 35/9901, ‘Note of a talk with the RGA on the 8th July by Tory’; CO 1030/559, Brief by High Commission, 13 December 1957; CAB 129/96, C (59) 31, 16 February 1959.
28 BoE, OV 65/6, Note by Mays-Smith, 15 January 1959.


31 CUL, Barlow papers, 63/855, letter to Tom Barlow, 6 October 1965.

32 PRO, DO 189/540, ‘Notes for inclusion in brief for Lord Erroll’s visit to Malaysia and Singapore’, 13 October 1966.


35 PRO, FCO 24/483, letter to Mound, CWO 15 November 1968.


37 PRO, FCO 24/476, notes of CBI meeting.

38 PRO, FCO 24/475/1, letter to Southorn, 4 July 1969. Mahathir was expelled from UMNO following the riots for his verbal attacks on the Tunku. His book—*The Malay Dilemma*, Singapore: Times Books International, 1970—would later demand ‘drastic’ government action to raise the economic status of the Malays, and has been described as the ‘definitive document of post-Merdeka, pre-NEP Malay nationalism’: Khoo Boo Teik, *Paradoxes of Mahathirism: An Intellectual Biography of Mahathir Mohamad*, Kuala Lumpur: Oxford University Press, 1995, p. 25. When Mahathir became prime minister in 1981, he backed Musa Hitam to become his deputy. In the summer of 1969, while waiting to be sacked from his position as assistant minister to Razak, Musa confided to Duncan that efforts to direct industry to rural areas and to devote land schemes to young Malays would ‘only scratch at the problem’. ‘[G]reater Government participation in the economy was required though “socialism today was a dirty word”’: PRO, FCO 24/476, copy of minute for the Acting High Commissioner, 21 July 1969. On Musa’s similar economic philosophy to Mahathir’s, see Bruce Gale, *Musa Hitam: A Political Biography*, Kuala Lumpur: Eastern Universities Press, 1982, pp. 25–6.

39 PRO, FCO 24/489, letter to Southorn, 15 September 1969; FCO 24/476, despatch to the Foreign Secretary, 24 September 1969. Siew Sin would return to government as a minister for special functions in Razak’s NOC and as finance minister again with the restoration of parliamentary government in February 1971. He was, however, the only non-Malay with a top-ranking Cabinet post. Chinese business interests also felt themselves sidelined by the NOC after the May riots. See T.H. Tan, *The Prince and I*, Singapore: Sam Boyd Enterprise, 1979, pp. 154–5.

40 CUL, Barlow papers, 53/739, letter to Tom Barlow, 22 June 1970; *ibid.*, 58/785, Hindson to Tom Barlow, 6 February 1970.


of Malaysia after 1963, and from 1965 as the Stock Exchange of Malaysia and Singapore.

44 BoE, OV 65/6, Memorandum for the Bank Negara Board: ‘The Establishment of a Money Market and Stock Exchange in the Federation of Malaya by the Economic Department, 28 October 1959’. See also PRO, DO 35/10047, Rampton to Smith, 17 May 1960; DO 189/225, Minute by Drysdale, 22 August 1962.

45 BoE, OV 65/6, copy of Rampton to Mackay, Treasury, 1 February 1960. The main British broking firm in Singapore, Fraser & Co., was not enthusiastic about opening an office in the federal capital given that it could not ‘see the market…developing much for at least some time to come’: HSBC, Chief Manager’s Private File: Singapore (Personal & S/O OUT), January 1957–December 1960, Knightly to Turner, 19 July 1960.


47 PRO, DO 189/225, Minute for Butterfield, 24 October 1960.

48 See material in DO 189/225.

49 RGACM, MS 24863/71, 5 March 1962.


51 RGACM, MS 24863/73, 4 November 1963, Report of the Malaya Committee.

52 IA, MS 27260, letter to Donald, 25 September 1961.

53 IA, MS 27185, AR&A/Cs, 1963 and 1965, Chairman’s Statements, 30 October 1964 and 31 October 1966.

54 BoE, ADM 14/82, Note for the Governor and the Deputy Governor, 10 March 1965. Junid Saham’s research in the 1970s demonstrated that, despite local listings after 1963, only a small proportion of agency house equity was traded in Malaysia. Interrogation of shareholders’ registers revealed that, on average, a mere one-third of total ordinary shares were held by Malaysians in the leading investment groups. Even Sime Darby, the most localised of the agency houses, had less than 40 per cent non-British holdings in 1972: Industrial Investment, pp. 132–4.

55 PRO, DO 189/225, speech reported in McKelvie to Drysdale, 2 November 1962.

56 Straits Times, 7 February 1958.

57 PRO, DO 35/10025, Minute by Snelling for Rumbold, 6 October 1958. The British insurance companies in Malay[s]ia often operated through the agency houses, but some had also established branches in the region from the second half of the nineteenth century—e.g. the Commercial Union, General Accident, Phoenix Assurance and the Prudential.

58 Ibid., Minute by Dorman for Smith, 2 June 1959; copy of McKelvie to Ilett, Board of Trade, 21 January 1960.

59 See material in PRO, BT 58/986–7.

60 PRO, DO 35/10025, Minute by Dorman for Smith, 2 June 1959.


63 BoE, OV 65/6, Note by Mays-Smith, 15 January 1959; Bank Negara Memorandum, 28 October 1959.

64 HSBC, Chief Manager’s Private File: Singapore (Personal & S/O OUT), enclosure in Stewart to Cruickshank, 1 February 1960.
Ismail, who had developed an ‘anti-British chip on his shoulder’ in the late-colonial Treasury, did not enjoy the confidence of Anglo-Malayan financial circles. The CRO regarded Ismail’s appointment as detrimental to British interests and would have much preferred H.S. Lee, the former finance minister, to have been appointed governor, bolstering the confidence of overseas investors. See PRO, DO 35/9863, Minute by Humphrey for Smith, 25 April 1960.

HSBC, J.A.H. Saunders, Singapore Private, 1962–66, Oliphant to Stubbs, 16 August 1963, and attached notes. In discussion with the central bank’s governor, Charles Pow was also worried about the liquidity ratio formula following the central bank taking over in Singapore: ‘it would create a monetary stranglehold if we [i.e. the Mercantile] went on being required to provide 100 per cent cover for other banks’ money’. MB Hist 1045, Pow tape, 25 November 1963.

HSBC, Chief Manager’s Private File: Singapore (Personal & S/O OUT), Sam Perry-Aldworth, Senior London Manager, to Turner, 13 December 1957; Turner to Lydall, 24 December 1957.

PRO, DO 189/588, Cross to Twist, 13 November 1964.

ANM, SP 95/B/12, Note on ‘Training Schemes etc.’, enclosed in R. Fletcher, Setiausaha UPAM, to H.F.O’B. Traill, Vice-president UPAM, 14 June 1966.

See PRO, DO 35/9901, ‘Note of a talk with the RGA’, 9 July 1957; DO 35/9758, ‘Note of a talk with the Minister of Commerce and Industry on 24 January 1959’.

Ibid., ‘Note of conversation with Tunku Abdul Rahman on the morning of 23 January’.

RGACM, MS 24863/73, 4 November 1963, MCAGB Circular, 4 October 1963, appended to Report of the Malaya Committee.


PRO, DO 189/588, Sutton to Twist, 2 December 1964; Bottomley to Moreton, 8 July 1966.

IA, MS 27182, Miss Harvey in OGM Minutes, 25 November 1965.

CUL, Barlow papers, 63/857, letter to Sir John Barlow, 16 February 1965.

PRO, DO 189/588, letter to Mathieson, ODM, 7 June 1966.


PRO, DO 189/588, Griffith-Jones to Mathieson, 7 June 1966; Moreton to Bottomley, 23 June 1966.

Ibid., Taylor to Moreton, 20 July 1966, enclosing copies of SMCC Circular, 5 July 1966, and the Official Committee’s record of the same meeting.

Ibid., letter to Moreton, 18 July 1966; ANM, SP 95/B/12, ‘Note of a Discussion on Malayisation at the UPAM Proprietors’ Section Meeting’, 15 July 1966.
Fenner’s appointment as special representative had been ‘very acceptable’ to the Tunku’s regime: RGACM, MS 24863/75, 1 November 1965, Report of Malaya Committee. As Malaya’s commissioner of police, Dato Sir Claude had distinguished himself in Alliance ministerial eyes through advocating the round-up of the communist leadership in Singapore as an essential condition for the creation of Malaysia, and was included by the Tunku in a mission to London in the summer of 1962 to advocate this: see PRO, CO 1030/1028, copy of note by Tory, 28 June 1962. That Fenner continued to have some form of intelligence role in his appointment as RGA local supremo is indicated by his passing of information to Tun Dr Ismail, the minister of home affairs, in July 1969 about the leader of the DAP: PRO, FCO 24/476, copy of minute by Duff, 25 July 1969.

87 PRO, DO 189/588, Bottomley to Moreton, 15 August 1966.
88 ANM, SP 95/B/12, UPAM Note, 14 June 1966.
89 Jones, Merchants to Multinationals, p. 225.
90 IA, MS 27281, MacEwen to Pearson, 19 January 1962; MS 27295, Stovold to Pearson, 3 May 1962.
91 PRO, DO 189/588, copy of Fenner to Kellett, RGA, 5 August 1966.
92 PRO, FCO 24/281, ‘Background Notes for the Secretary of State’s Luncheon with the MSCA, 1 December 1967’; FCO 24/294, ‘Record Note of a Discussion with Messrs Guthrie & Co. Ltd by P.Scanlon’, 3 October 1967.
93 CUL, Barlow papers, 73/929, Fenner to Tom Barlow, 7 November 1969; see also RGACM, MS 24863/78, 2 March 1970, Report of Malaysia Committee.
94 ANM, SP 95/B/12, ‘Note of a Meeting of the UPAM Proprietors’ Section’s Malayanisation Sub-Committee’, 2 June 1966.
95 ANM, SP 95/B/14, ‘My first Annual Report as President UPAM’, c. April 1968.
96 Malay Mail, 17 October 1971.
97 PRO, FCO 24/294, note of discussion with Guthries, 3 October 1967.
98 CSAS, Barlow papers, Malayan Visits, 1965–68, Note by Robin Hindson for Tom Barlow, January 1967, on ‘Staff’.
100 PRO, DO 189/588, Minute of 25 November 1964 (author unidentified).
101 IA, MS 27008/12, BDM, 10 February 1960.
102 MMM, 4.C.2387, Wingate to R.H.Hobhouse, Blue Funnel Line Ltd, Liverpool, 8 January and 29 March 1968.
104 HSBC, Chief Manager’s File: Singapore & Malaya, Clark to Turner, 20 April 1959.
107 This is contrary to the assertion of Lim Mah Hui: see Ownership and Control, p. 62.
108 BoE, OV 65/6, letter to Smith, 18 July 1960. The other indigenous bank formed in 1960, the United Malayan Banking Corporation, had as its vice-chairman Haji Mohd
Noah bin Omar, permanent chairman of the UMNO General Assembly, speaker of the Dewan Rakyat, and father-in-law of Abdul Razak.


110 BoE, OV 65/26, Note by Bennett for Parsons, 9 February 1961.

111 The Ali Baba’ phenomenon principally affected medium- and small-sized businesses, such as bus companies, and involved a Malay—‘Ali’—obtaining a business licence on behalf of a Chinese entrepreneur—‘Baba’. The business would be covertly run by Baba and Ali was, in reality, merely a sleeping partner. The British High Commission in Kuala Lumpur found the practice widespread by the late 1960s: PRO, FCO 24/250, ‘Memorandum on Corruption in Malaysia by Guy Duncan’, enclosed in High Commissioner to Commonwealth Secretary, 2 April 1968.

112 BoE, ADM 14/76, Notes by Thompson-McCausland, 9 February and 15 March 1962. This was one of the reasons why the Bank of England encouraged the reorganisation of the Guthrie group: see G 1/83, Note by Thompson-McCausland for the Governor, 15 August 1963. On the remarkable expansion of Lee’s interests, culminating in the full takeover of the KL-Kepong group in the 1970s, see Gomez, Chinese Business, pp. 20, 158.

113 CUL, Barlow papers, 63/855, letter to Tom Barlow from Kuala Lumpur, 29 September 1966.


116 PRO, FCO 24/155, copy of Duffy, Kota Kinabalu, to Duncan, Kuala Lumpur, 12 February 1968; enclosure by Morrison in Duncan to Mound, CWO, 26 August 1968; FCO 24/250, enclosure in High Commissioner, Kuala Lumpur, to Commonwealth Secretary, 2 April 1968. See also Lee, Towkays, p. 54.

117 Ibid., pp. 239–40, 245. See also Means, Malaysian Politics, pp. 376–7; idem, Second Generation, p. 42.


119 Shaw, Razak, p. 136


121 PRO, FCO 24/476, CBI meeting, 24 July 1969.


123 ANM, Nik Kamil papers, SP 43/1/300, copy of airmail letter to MacLeod, n.d. (c. 1959); list of directorships, c. August 1963, in SP 43/1/408.

124 Lim, Ownership and Control, p. 69.

125 HSBC, MB Hist 1045, Pow tape, 22 November 1963.

126 Indeed, the connection with MacLeod derived from the latter’s role as Party Negara’s treasurer: see White, Business, Government, and the End of Empire, p. 143.

Material in IA, MS 27405.


IA, MS 27281, Stovold to Kuching, 10 March 1961.

PRO, DO 35/9900, Minute by Chadwick for Snelling, 28 October 1957.

Material in IA, MS 27416. Hong was the uncrowned king of the illegal, yet officially tolerated, copra barter trade with the Philippines and Sulawesi who diversified into cocoa planting and timber extraction in the 1960s. He became a federal MP representing the Sabah Chinese Association in 1963 and a senator in May 1964: Lee, *Towkays*, pp. 80–1, 168, 219–220.


HSBC, Chief Manager’s File: Singapore & Malaya, letter to Turner, 8 May 1959; Perry-Aldworth to Clark, 15 May 1959; BoE, OV 65/6, Note for the Record by Haslam, 7 May 1959.


HSBC, Chief Manager’s File, letter to Saunders, 19 January 1965.


PRO, DO 189/345, copy of letter from Beagley, Ministry of Transport representative in the Far East, to Poland, Ministry of Transport, 30 October 1961.


PRO, FCO 24/155, enclosure in Duncan to Mound, 26 August 1968. An example of Mustapha’s interference with British firms occurred in 1968 when the Barlow group was prevented from selling land at its Melalap estate to an American fruit company. Despite support from the Sabah bureaucracy, Mustapha rejected the agency house’s proposal and instead demanded that 3,000 acres at Melalap be sold to the government ‘at a ridiculous price’ for cocoa development by native smallholders: CUL, Barlow papers, 108/1164, Sir John Barlow to J.R. Baxter, 4 October 1968. After the expulsion of a British lawyer from Sabah in September 1967, the expatriate commercials feared a ‘general urge to get rid of the Europeans’: PRO, FCO 24/155, Duncan to Mason, CWO, 29 September 1967. On a tour of Sabah in February 1970, Tom Barlow reported that none of the British commercials ‘talked politics in public. Those who expressed views critical of Government went home quickly!’: CUL, Barlow papers, 73/922, letter to Henry Barlow, 8 February 1970.

146 *STD 1969*, p. 386.
147 PRO, FCO 24/577, copy of minute by Walker, 2 October 1969.
148 PRO, FCO 24/250, Walker to Thomson, 2 April 1968, enclosing Duncan memorandum.
149 PRO, FCO 24/476, CBI meeting, 24 July 1969.
150 CSAS, Barlow papers, Malayan Visits, 1960–64, Note of 5 March 1962.
151 ANM, AE/97/A, *FMSCC Yearbook* 7959, President’s Address, p. 15.
152 RGACM, MS 24863/70, 4 April 1960, Report of Malaya Committee.
153 ANM, SP 95/B/14, Presidential Address by Harry Traill, April 1969.
155 PRO, DO 187/10, Cross to Drysdale, 29 September 1964; *Straits Times*, 10 November 1969.
156 PRO, FCO 24/482/1, Duncan to Sullivan, 17 November 1969; Note by Sullivan, 29 November 1969.
158 Ibid., PCC Minute Book, 1 March 1957 to 12 May 1959, AGM Minutes, 3 April 1959, p. 255; see also concluding chapter.
159 AE/99/M, Minute Book, 14 April 1964 to 1972, Minutes of the AGM of the Penang Branch, 1 February 1967, p. 180; Minutes of a Meeting of the Branch Committee, 1 August 1967, p. 205; Minutes of the AGM, 6 February 1968, p. 233.
160 Ibid., Minutes of the AGM of the Penang Branch of the MICC, 4 February 1969, p. 309.
161 Ibid., Minutes of a Meeting of the Branch Committee, 10 June 1969, p. 332; Minutes of the AGM, 12 March 1970, pp. 391, 395; Minutes of a Meeting of the Branch Committee, 6 October 1970; PRO, FCO 24/477, Duncan to Sullivan, 7 October 1969, enclosing conversation record with Lim, 6 October 1969. The agency houses were to be further frustrated by the delayed establishment of a free trade zone in the early 1970s, and it was only in 1972 that the Gerakan chief minister secured increased federal assistance for development projects in Penang after his party agreed to join Tun Razak’s expanded Alliance: ANM, AE/99/M, PCC Minute Book, 1964–72, Minutes of the AGM, 15 February 1971, p. 507; Means, *Malaysian Politics*, pp. 406–7.
162 ANM, SP 95/B/12, Minutes of UPAM Council Meeting, 29 April 1966.
163 PRO, FCO 24/481/1, copy of note by Duff, July 1969; copy of letter from Kota Kinabalu to Duncan, 5 September 1969.
165 PRO, DO 35/9905, copy of chairman’s address to the AGM of the United Sua Betong Rubber Estates, 4 June 1958; *Straits Times*, 7 February 1958.
The years of living dangerously
Instability and insecurity in the post-colonial state

Lawlessness and the end of the Emergency

The Emergency—a euphemism for the colonial state’s shooting war against the Malayan Communist Party (MCP)—began in June 1948. Some nine months later, the PCC decisively rejected the suggestion that an amnesty be offered to the guerrillas. Such an olive branch ‘might be considered a sign of weakness’, and instead the government should offer a substantial reward for the capture of ‘any terrorists alive or dead’. Indeed, through to the early 1950s, business interests constantly lobbied the authorities in Kuala Lumpur and London for tougher and more effective measures to deal with the MCP, and even when these appeared to finally materialise under the draconian regime of General Templer, there remained considerable concerns about inadequate security provision on the remote estates and mines. By independence in August 1957, the majority of the thousand or so remaining guerrillas had been forced up to the Thai border and, as more and more areas of the Federation were declared ‘white’ (i.e. guerrilla-free), the Emergency regulations were finally lifted for the entire country in July 1960. Following a visit to Malaya in early 1959, Lord Home reported to his Cabinet colleagues on his ‘general impression of stability and good government’, principally because of ‘ample evidence of very good police and security forces’. So, despite the strained business-government relations of the counter-insurgency years, the quintessential ‘neo-colonial’ state might appear to have been successfully forged after all: ‘the expense and the ferocity of the “Emergency” had paid off’.

Yet the Commonwealth Secretary cautioned that there remained ‘an immense field for subversion which the Communists are actively exploiting. They have a firm base in Singapore, latent racial conflict to play on, and millions of young Chinese to catch in the schools’. Moreover, those expatriate managers of British capital whom the ‘neo-colonial’ state was supposed to protect hardly felt secure in the post-Emergency situation. They certainly did not embrace the end of the counter-insurgency era. The first year of merdeka coincided with a worldwide downturn in commodity prices, and Malaya entered recession. H.B.Hussey of Harper Gilfillan, and president of the FMSCC, was concerned at the high rate of unemployment amongst the Federation’s young: in Georgetown, for example, 40
per cent of 20–30-year-olds were out of work. The government’s strategy of industrialisation could only absorb a ‘mere fraction’ of the unemployed, and this disaffected class constituted fertile ground for communist mobilisation. With the shooting war coming to a close, Hussey found little relief, since ‘the avowed policy of the Communist terrorist organisation [is to] infiltrate into trade unions, societies etc. in a war of subversion’.

Moreover, an interrogation of the records of British managers ‘in the field’ suggests that the end of the draconian Emergency codes witnessed a return to the ‘lawless badlands’ of the 1930s and 1940s. The view from the veranda of the remote planter’s bungalow did not suggest that the postcolonial ‘security state’ had produced a stable, crime-free society. By the spring of 1958, most of Selangor had achieved ‘white’ status. But planters in the state noted an upsurge in ‘rubber stealing’—a catch-all term embracing the pilferage of scrap and cup lump, illicit tapping, and thefts from stores, frequently accompanied by violence. Federation-wide, the RGA blamed the end of Emergency regulations for the increase in thieving, and believed that the proceeds from stolen rubber were employed by the communist ‘bandits’ to buy food: ‘from the security point of view...it is as important to stamp out rubber stealing as it is to control food supplies’. In 1961, the expatriate planter, Harry Traill, in his capacity as chairman of the Selangor Planters’ Association (SPA), estimated that about 1 per cent of rubber production was being stolen peninsula-wide. Whether or not the remnants of the MCP could be linked to the practice, it was definitely a symptom of rural poverty: where estates were adjacent to tin mines, rubber stealing was prevalent, reflecting unemployment amongst the miners thanks to restriction of output and low ore prices. Thefts impinged upon Malaysia’s other principal commodities as well: by 1965, there were reports of illicit dulang-washing on tin mines in the Serendah area of Selangor; with official encouragement to smallholders to plant oil palms, seedlings from nurseries were also being stolen; while in Sabah, the operations of North Borneo Timbers at Wallace Bay were plagued by thefts of logs from its pond and from the camp rafting points, and with high cocoa prices the firm expected to be ‘sharing [its] happiness’ from its experimental plantation too. Consequently, the Wallace Brothers/BBTC subsidiary sought out Gurkha ex-servicemen as night guards.

From the beginning of the 1960s, meanwhile, there were reports of an increasing incidence of assault by labourers on estate managers, which often occurred during industrial disputes, and the attacks were assumed to have radical political undertones. In such an atmosphere, planters were necessarily anxious about the post-Emergency rundown of police personnel and the closure of some stations in rural areas. By the summer of 1963, UPAM found that assaults on managers were on the decline, but gangsterism and intimidation of labourers through secret society penetration of the NUPW was now growing in Province Wellesley (Perai), Perak, Kedah and Selangor. ‘Crime generally seemed to be on the rise’, and the ‘insufficiency of Police on the ground’, combined with a general shortage of police transport, did not help the situation. What made the position even more alarming
was a suspicion that the Triad gangs were linked to the MCP: ‘there is little doubt’, exclaimed Major W.W. Lawrence in August 1966, ‘that the MCP makes and will make full use of such clandestine organisations to infiltrate unions and labour forces generally’.  

As well as an ongoing sense of insecurity with the ending of the Emergency, the official response to rural lawlessness continued to frustrate the European planting community. According to Selangor estate managers, the authorities handled rubber stealing in a ‘dilatory way’; dealers who were widely suspected, or even convicted, of stealing stolen rubber were frequently allowed to continue business. In May 1959, UPAM recommended greater pressurising of the police by district planting associations to combat pilfering through setting up road checks, patrols and ambushes in addition to a more rigorous licensing system for dealers. A government committee was now sitting to formulate a Federation-wide policy for the prevention of thefts, and a bill was due to be laid before the federal parliament in October 1961. This would provide for central (instead of state) government control of the licensing of rubber dealers, the establishment of inspectorates in every state to supplement those already in existence in Melaka and Selangor, and heavier penalties for rubber thieves and their accomplices. A dusk-to-dawn ban on the movement of rubber was also being considered. But the passing of legislation was held up by the local rubber traders’ associations, which opposed rulings on rubber stealing because these controls would place too many restrictions on their members. The minister of commerce and industry, Khir Johari, believed that there was some substance to the complaints of the rubber dealers and thus referred legislation back to the committee for reconsideration. Ministerial reshuffles, as well as transfers of senior civil servants, subsequently caused further delay. UPAM and the district planting associations were increasingly frustrated: the existing inspectorate scheme in Selangor was in danger of folding, since it was difficult to find and retain high-calibre inspectors without some guarantee of permanency, rubber stolen in Selangor could be sold in adjoining states where there were no inspectors, and the Selangor government was unwilling to consider extending the existing three inspectorates in the state until similar bodies were established elsewhere. By the summer of 1963, with the additional bottleneck in legislation due to the formation of Malaysia, the planters appreciated that they would have to help themselves: with illicit tapping and damage to pedigree trees liable to increase as more and more high-yielding areas came into bearing, estates were advised to augment their watchmen and employ more patrols to work with the police. UPAM was still awaiting the country-wide enactment of the supervisory legislation in the 1970s.  

One reason why the enactment of legislation did not command high priority within the Malaysian authorities was that the police did not accept the contention of Jim Crawford, senator and veteran planter, that rubber stealing was the preserve of ‘organised gangs of subversives’. Indeed, the higher echelons of the police force remained rather sceptical about planter accusations of subversion and indifferent to demands for a heavier police presence on the estates. The expatriate
head of the police, Claude Fenner, met the planting section of UPAM in September 1961. Yet although Fenner would be appointed RGA special representative some four years later, he could not meet the planters’ demands: with the disbandment of the Special Constabulary, manpower could not be spared to provide police escorts on pay days, and the Federal Treasury was highly unlikely to support an increase in staffing, while planters—just like all other civilians—were to have their pistols withdrawn. Fenner was prepared to accept that the incidence of assaults on estate staff had increased slightly in 1960. But the chief of police believed that this was not particularly significant when compared with the general increase in violence in Malaya (and, indeed, worldwide). Assaults were usually isolated from one another, and did not constitute a ‘definite pattern’ and hence did not justify the introduction of special powers. Moreover, Fenner could not countenance the presence of police on estates during extended industrial disputes, since those forces were required for higher priority issues elsewhere. The only concession he would consider was an increase in mobile patrols in rural areas on estate pay days. With assaults on estate staff continuing to rise in the second half of 1961, the planters were not surprisingly unimpressed with the Dato’s reasoning. 

In November 1963, the Malay commissioner of police, Mohamed Salleh, received another delegation of planters, concerned at spiralling rural crime rates since the end of the Emergency. Salleh’s attitude was sympathetic but he would not sanction an increase in police numbers or powers in rural areas, bar surprise road checks. He was ‘not convinced that there was an overall threat to estates from Secret Societies’. However, Salleh was organising planning committees to revive the police-planter cooperation of the Emergency era. From 1964, police-planter liaison committees were thus operating in Selangor, and Crawford’s meeting at the Ministry of the Interior at the end of 1963 further calmed planters. The government saw no need to enhance the mobility of police in rural areas, but officers were now instructed to fully investigate premeditated cases of violence connected with the performance of duties on estates or with a view to intimidation. 

The police were more responsive by the end of 1963, however, not because of a change of attitude towards big business. Rather, the domestic criminal threat had been superseded by the external threat posed by Indonesia’s policy of Confrontation.

Konfrontasi

At first glance, the limited and undeclared war between Malaysia and Indonesia, which lasted from January 1963 until August 1966, did not impinge fundamentally upon the operations of British firms in Commonwealth Southeast Asia. There was only one fatality amongst the European commercial community, compared to the ninety-seven European planters and the sixteen European mining engineers who fell in the earlier Emergency. Only one area of primary production in Malaysia was penetrated to any significant degree by the sporadic hit-and-run raids of armed
guerrillas along the Kalimantan border; this was Tawau residency in Sabah, where the 16–20,000 Indonesian immigrant workers in the British-owned lumber camps and plantations acted as a ‘built-in fifth column’, supplying sabotage parties with food and hiding places. Generally, there was limited economic disruption as a consequence of the conflict. Indonesian boycotts after September 1963 produced recession in the entrepôt trades of Singapore and Penang, but these tended to affect Chinese traders rather than the import-export business of the British agency houses. Moreover, the SMCC reported at the height of Indonesian-Malaysian estrangement in April 1965 that, overall, the economies of the Malay states experienced a good year, with the volume of trade increasing by 1 per cent, rubber production reaching a new record output of nearly 818,000 tons and the number of tin mines in operation increasing from 709 to 900. The chairman of BCL, Dan Ranfurly, visited East Malaysia in early 1964, and reported that ‘apart from the presence of a lot of troops you would not think that anything much was going on’. BCL’s sales were actually ‘rather brisk’ thanks to the large quantities of ale consumed by the British and Commonwealth troops. With the benefit of hindsight, Sukarno’s chaotic and surreal Indonesia was in no position to mount an effective assault against a Malaysia backed by the British military. Yet the limited effects and successful outcomes of Confrontation for British firms in Malaysia do not mean that expatriate managers and directors felt secure during the conflict. Once again, a problem with neo-colonial interpretations is that they focus too much on what happened rather than what individuals thought might happen.

At the start of Confrontation, BCL managers were hardly reassured in an interview with Sir William Goode, the last British governor of North Borneo. Goode did believe that Philippine claims to North Borneo could be easily dealt with by HMG. Yet in the aftermath of the Brunei revolt, the governor was fearful that Sukarno ‘will not be able to keep in check the Communist element in Indonesian Borneo who see a good opportunity for making trouble’. The spectre of Indonesia’s radical anti-colonialism and economic nationalism had been haunting British firms for some time. The trade war between Indonesia and Penang-Singapore from the early 1950s was fired by anti-colonialism as well as a desire to conserve foreign exchange and increase export revenue in Jakarta. ‘Our big neighbour Indonesia remains an enigma and an anxiety as its future must surely affect the fortunes of South East Asia’, opined Howard Morford of the BCL at the end of 1959. In the firm’s political assessment: ‘[I]nternational Indonesian infiltration’ was expected to ‘become a danger before long to both North Borneo and Sarawak’. These comments were made in the light of Indonesia’s confrontation with the Netherlands over West Irian, which had been foreshadowed by the nationalisation of Dutch assets during 1957–58. British businesses in the archipelago remained active under Sukarno’s ‘guided democracy’ but they encountered considerable difficulties, for example over the remittance of profits.

Not surprisingly, then, British companies fretted about the prospects of an Anglo-Malaysian struggle with Indonesia. From India Buildings in Liverpool,
George Palmer Holt, a senior executive in the Ocean shipping group, wrote to Lord Lansdowne in the summer of 1963 that ‘recent developments over Malaysia...have caused some upsetedness in Indonesia which could take an awkward turn for us commercials’. In the autumn, Ian MacEwen of BCL visited North Borneo and Sarawak. His subsequent report to shareholders attempted to put a brave face on things but could not conceal the managing director’s inner anxieties. Although he was satisfied that ‘we have plenty of troops in the area who will be able to deal’ with the Indonesian threat ‘very adequately’, MacEwen expected ‘a long struggle...on the lines of the Malayan emergency’. There was a danger in the towns of Sarawak from the CCO, inclined to support Konfrontasi to further its own revolutionary goals. And with a coastline and/or territorial line of nearly 20,000 miles, there was ‘plenty of opportunity for continuing trouble’, especially as ‘we are dealing with an unpredictable man [i.e. Sukarno]; and until he changes his mind, which is not likely, trouble will go on’. While there was very little change in BCL’s ‘ordinary business’, there was bound to be a knock-on effect from the 10,000 out of work from stoppage of rubber tapping and rice growing on the fringe. There were wider international uncertainties too: as Charles Pow, head of the Mercantile Bank, learned from Lee Kuan Yew, Sukarno’s territorial ambitions in Borneo and plans to head a Southeast Asian bloc were not necessarily pipe dreams, since the Kennedy administration in Washington believed that, in the long run, Sukarno would prove ‘the best man to stand up against the Chinese communists’. Other expatriate commercials were anxious that Malaysia and Britain appeared to be internationally isolated: in August 1963, BCL’s number one in Borneo wrote to London that America’s attitude is most important. US financial aid to stabilise the Rupiah ‘looks like appeasement’. Indeed, in the autumn of 1963, the heads of the agency houses in Singapore queried the ability of Commonwealth forces to resist Indonesian infiltration into the Malay kampung given Washington’s policy in general and Ambassador Jones’ personal relationship with Soekarno /sic/, in particular.

Meanwhile, the experiences of British firms in Indonesia, many of which also operated in Malaysia, provided a nightmare scenario of what might occur should Sukarno unleash a full-scale invasion of Borneo or should Jakarta bring its influence to bear in the Malay states. Because Malaysia was assumed to be a manifestation of British neo-colonialism, UK firms in Jakarta, as well as the British embassy, were attacked on the inauguration of the new Federation in September 1963. The rioters were supplied with lists of British properties to sack, suggesting planning at a high official level, and the HSBC complex was gutted. Outright nationalisation of British firms was resisted by the central government, opting instead for the complete severance of all commercial and financial links with Malaysia. But in West Java, the communist-led unions and regional government assumed supervision of four British plantation groups—including H&C. In addition, from the spring of 1964, state direction of British enterprises was stepped up: pressure was increased not only to deprive expatriate staff of any authority in the direction of their businesses, but also to dispossess them of facilities, such as
housing and transport, necessary for the discharge of their duties. Several Sumatran plantations had been set monthly production targets for exports to meet government-to-government contracts, while ‘supervisory teams’ were enforcing the switch of company banking accounts from the Chartered to the Indonesian National Bank, and requests from British nationals employed on estates to have their entry permits extended were refused. S.H.Pull, president of the British Chamber of Commerce in Jakarta, reported to the RGA in August 1964 that ‘matters in the estate sector had almost passed the point of no return’, not least because Sukarno had recently declared that ‘the tempo for the take-over of British companies, either with or without compensation, would depend on the British standpoint vis-à-vis the liquidation of Malaysia’. Indeed, in November 1964, the British shipping lines were informed that they should withdraw from Indonesia by January 1965. When George Holt tried to reason with an Indonesian Ministry of Sea Communications official in Amsterdam by pointing out that this would leave a serious gap in the westbound carriage of Indonesia’s primary exports, he was told that Sukarno’s policy was to establish ‘real political independence without worrying about the economic consequences’. This, afte rall, was the Bung’s ‘year of living dangerously’, and Ganjang Malaysia (crush Malaysia) became increasingly associated with crushing Malaysia’s Nekolim (‘neocolonialist’) allies, such as British businesses in Southeast Asia.

City commercial and financial interests gained some relief from the growing support that the Tunku received from US president Lyndon Johnson by the summer of 1964. But, concurrently, there was an escalation of the physical struggle with the calling off of the June summit in Tokyo, the increasing influence of the Indonesian Communist Party (PKI), and reports that Indonesian regular forces appeared to be becoming more and more committed to operations on the Kalimantan border. Small cross-border raids in the Borneo states, particularly in the First Division of Sarawak, were joined by a new threat to the Malay peninsula. Following the incursion of sea- and air-borne raiding parties at Pontian and Labis in Johor, and evidence of Indonesian involvement in Singapore’s intercommunal riots, a state of emergency was declared in September 1964. Plantation companies on the mainland now contributed at a rate of 20 cents per planted acre to the National Defence Fund of Malaysia, and after discovering that the major expatriate and Malaysian Chinese banks would be making donations also, HSBC forwarded M$50,000 to military funds in the summer of 1965. Estate managerial staff in Johor, and within the coastal areas of the western states of Malaya, resumed their role as an informal security force, armed with shotguns and leading ‘vigilante corps’ of tappers to deter any infiltration or landings by Indonesian paratroopers. The police-planter liaison committees, meanwhile, transmogrified into security bodies, rejuvenating the role of the district and state war executive committees of the earlier Emergency years. Planters were briefed by Malaysian Special Branch officers to watch out for parachutings or naval landings by Indonesian guerrillas as well as communal trouble on estates likely to be stirred up by the MCP or radical Malay groups. Javanese and Sumatran
contract labourers were also under suspicion as possible saboteurs. To assist the Key-points Committee, which had been established within the Ministry of Home Affairs to plan counter-sabotage measures, the agency houses were asked to draw up a list of essential installations on estates, which would be guarded in the event of deterioration.

Not surprisingly, such an environment produced a culture of fear both ‘on the spot’ and in London. In a letter to the governor of the Bank of England, a director in the Guthrie estate group predicted in February 1964 that Indonesian Confrontation ‘will have the effect of speeding up some of the adverse trends… in Malaysian politics’. In this ‘dangerous period’ it was vital to strengthen the group’s central organisation. The beneficiary of that restructuring was Sir Eric Griffith-Jones, who discovered on a visit to peninsula Malaysia in the autumn of 1964 that Guthries’ planters feared that Indonesian aggression and agitation might reignite the insurgency of the 1940s and 1950s. Indicative of plummeting morale was a desire to start a fund to buy a secret store of light arms for organised self-defence by the estate managers, and Guthries’ new chairman had to stand firm against this. To buoy up his expatriate managers, however, Griffith-Jones was obliged to offer a generous compensation package to any planter who was forced into premature retirement by Confrontation.

The sense of isolation and vulnerability amongst European planters was heightened by a perception that local infrastructure was breaking down. For example, W.A. (Wicky) Fleming, an estate manager in the Batang Berjuntai area of Selangor, complained at the end of 1965 to the state’s director of telecommunications about the ‘abject and appalling inefficiency’ of the telephone service. His line was frequently ‘out of order’ or cut off without explanation. As Fleming continued, ‘I do not know what view the DO [district officer] and Army would take had my Vigilante Corps reported a landing of Indonesians on Friday night [3 December]’. Because his telephone was out of order on that evening, it would have taken Fleming ‘at least half an hour’ to reach the nearest town, Kuala Selangor, to report any incursion. Moreover, although on the surface the Malaysian economy continued to boom, Confrontation-induced angst did have negative economic consequences. In Sabah, BCL experienced difficulty in selling off land for industrial development from its subsidiary, Sandakan Developments Ltd. ‘Before the advent of Indonesian “Confrontation”, Malaysia’s prosperity and bright prospects had produced a booming property market’, reported a valuer for BCL in October 1964. ‘Definite action towards a settlement of the present dispute would probably bring a return of buying interest’ Yet, even then, ‘several months of peaceful conditions with a positive rapprochement between Malaysia and Indonesia…will be required before any resumption can be expected of the former rising market’. In November 1964, Cledwyn Hughes, the Labour minister of state for Commonwealth relations, feared that ‘prevailing uncertainty’ was leading British businesses to defer the expansion of their activities in Malaysia, allowing other countries to fill the investment and trading gap. At the same time, both blue- and white-collar Malayan workers were reluctant to emigrate to Sabah.
to work on the agricultural estates because of adverse perceptions of the security situation. Given bans on Indonesians and Filipino immigration, labour shortages meant that only 40 per cent of rubber trees were being tapped in 1965. A representative of the Barlow group in Sabah, meanwhile, appreciated that ‘Without labour from Malaya starting oil palms in the interior would really be out of the question.’ ‘In all this’, reported Corry of the MCAGB, ‘there is a constant antithesis between the demands of the Economy and of Security.’ Confrontation was a factor explaining the ‘near impotent state’ of the Malaysian Stock Exchange. In March 1966, the Tunku cheerfully opened a new Guinness brewery in Petaling Jaya, with Lord Boyd, the parent company’s managing director and a former Tory colonial secretary, at his side. But in 1965, the project had nearly been derailed by the failure of Malay investors to fully take up the 800,000 shares reserved for them in Malaysian Guinness.

Concurrently, the boxwallahs and taipans gained but little succour from UK government policy. At the beginning of Confrontation, the MCAGB sought advice from the CRO in London. No record of this meeting survives in either official or business papers. But we can assume that Whitehall’s assurances would have been similar to those given to a US oil investor in April 1963. CRO officials emphasised the UK’s obligation under the Anglo-Malaysian Defence Agreement, and if there was clear evidence of Indonesian attempts to overthrow the Malaysian government by force, the latter could call for British assistance under that treaty. Britain had in the past given considerable aid to Malaya in meeting its defence responsibilities, and had also assisted in combating the Emergency: ‘she was after all a Commonwealth country’. In November 1964, Cledwyn Hughes reassured Malaysia’s business leaders in the City that the new Labour government remained as committed to Malaysia as its Tory predecessor: ‘We have a treaty obligation to assist our Commonwealth partner, and we mean to discharge this.’

Yet, soothing statements aside, it would be wrong to see the Anglo-Malaysian campaign—involving at its peak the deployment of over 60,000 British servicemen, 200 aircraft and 80 UK naval vessels in the Far East—as primarily directed to protecting business interests in Southeast Asia. At specific times, security forces were deployed to protect commercial establishments. In December 1963, for example, a company of the Royal Malay Regiment at Kalabakan, near Tawau, was guarding the forest headquarters of the BBTC when it fought one of the fiercest battles of the campaign. But Kalabakan was a rare exception at a particularly vulnerable point: the vast majority of Commonwealth forces were employed along the Kalimantan frontier in a semi-offensive role. The task of defending logging operations and plantations in Sabah was ordinarily left to the Dayak Home Guards, whose wages—just like the Special Constables of the Malayan Emergency—were paid by the firms concerned.

Clearly, Indonesian expansion would not be beneficial for British business interests. Malayan left-wingers claimed at the time, and Greg Poulgrain has reiterated since, that the British government was desperate to keep the Borneo states out of the hands of Indonesia to protect UK oil interests. The maverick
Labour MP Tam Dalyell, on a visit to Borneo, discovered that most British troops there believed the campaign was indeed underpinned by a desire to ‘protect the interests of this or that industrial concern’. Dalyell himself did not want to accept that ‘we are there for economic reasons’. Yet he did speculate as to why a Labour government, with chronic balance of payments problems, was supporting a corrupt and socially unjust government in Kuala Lumpur. Moreover, why were British forces engaging in clandestine cross-border operations when officially the presence in Sarawak, Sabah and Brunei was merely defensive? Britain’s commitment to Malaysia, however, was based on a genuine (although probably misguided) wider concern in the FO that the ‘Hitlerite’ Sukarno was bent on incorporating not only Borneo, and even Malaya, into a Greater Indonesia, but Portuguese Timor and Australian Papua as well. Indonesia might therefore emerge as a major Pacific power in military alliance with Communist China and/or the Soviet Union, and, hence, become a major threat to Australasia. As the British air marshals and generals in Borneo had unanimously told Dalyell, the issue was the ‘containment of communism’.

Indeed, the only agency of the British state that was concerned about the economic dimension to Confrontation was the Bank of England. Even in Threadneedle Street, however, the concern was macroeconomic rather than directed towards a particular cluster of British firms. The Bank worried about the impact that Confrontation might have upon Britain’s growing balance of payments problems. News in January 1964 that US ministers and officials (led by the Attorney-General, Robert Kennedy) continued to show sympathy with Indonesia during their meeting with Sukarno in Tokyo ‘could have disturbing monetary consequences’, reasoned Lucius Thompson-McCausland. Malaysia’s tin, rubber and petroleum earnings were ‘of particular importance to sterling’: ‘If the same chaos were to prevail in Malaysia as in Indonesia on the production and sale of these commodities, the consequences could be serious, not only for London, but for international trade and payments.’

One month later, Thompson-McCausland’s forebodings were dampened down by the final agreement on both sides of the Atlantic about the joint threat to Western interests posed by Indonesian intransigence and Vietcong insurgency. But for Malaysian interests in the City, there appeared to be no respite as the tempo of Confrontation was maintained and actually intensified in the course of 1965. Indonesia’s walkout from the UN and Sukarno’s lapse into the arms of the People’s Republic of China did not ‘point to peace and quietness in this part of Southeast Asia’, opined the MCAGB’s secretary in March. The following month, a presidential decree was signed which looked forward to the state takeover of all Western commercial enterprises in Indonesia—by the end of the year, Shell’s assets, for example, had been purchased by the parastatal Pertamina. Even after the brutal military suppression of the Indonesian communists, and the curtailment of Sukarno’s authority, following the abortive coup of October 1965, there were no certainties. As the MCAGB learned from a ‘most reliable source’, it was ‘not yet clear how permanent and far-reaching the reversal of…he PKI’s] fortunes will
prove to be… [E]ven if the military… should find itself firmly in the saddle it would not be able to afford—anyway for some time to come—to give up “Confrontation”.74 Indeed, even after Suharto had forced Sukarno to transfer executive power to him in March 1966, the general still declared that his regime was compelled to continue *Konfrontasi*.75 In August, the Bangkok ceasefire agreement presaged the end of the Malaysia-Indonesia dispute. But even at this juncture, the HSBC agreed with ‘the Senior Military viewpoint’ that it was ‘by no means certain’ that Confrontation had really finished.76 Indeed, economic relations between the two countries were only normalised after the signing of trade and economic and technical cooperation agreements in May 1967.77 Moreover, British firms now faced the regional and Malaysian sense of insecurity arising from the withdrawal of British forces.

### The military withdrawal from ‘East of Suez’

Whether or not the *Konfrontasi* campaign was underpinned by a desire to defend British business in Malaysia, those trading and investment interests did value the lingering, British military presence. Back in 1957, the agency houses had been relieved that Singapore’s forces were spared any cuts in the Conservative government’s defence review (especially as the military was a major source of demand and employment on the island and in southern Malaya).78 For senior British businessmen, the right of the UK in Singapore’s Independence Act to maintain and operate military establishments took a certain sting out of the Malaysia-Singapore split of August 1965, and Lee Kuan Yew assured the commercials that the PAP was ‘utterly committed’ to having both British bases and troops on the island.79 In 1966, the MCAGB appreciated that the end of *Konfrontasi* would lead to a rundown of British forces, but expected this to be a reduction to the planned size of the garrisons before the Indonesian antagonism began. It was appreciated, nonetheless, that ‘The position will no doubt also be affected by the financial crisis in the UK and the urgency of reducing our overseas commitments’.80 As Sir John Barlow had come to realise a year earlier, ‘Some left wingers at home might easily criticise’ the £200 million per annum spent on UK forces in the Far East (representing 10 per cent of the total British defence budget) while Britain had little more than £300 million worth of investments in the Malaysia region.81 Sir John would not have been pleased to learn, therefore, that even in the top echelons of his own party, there had been a desire to substantially scale back UK responsibilities in the Far East from the late 1950s onwards. In the early planning stages, at least, this had been one of the attractions of ‘Greater Malaysia’ in Whitehall and Westminster, and as Prime Minister Harold Macmillan wrote to Commissioner-General Lord Selkirk in August 1963, ‘the amount of money we spend to keep British troops in South East Asia over a few years probably comes to substantially more than our financial stake there’.82 Whatever the ideological hue of government in Westminster, therefore, *Konfrontasi* merely delayed the military rundown.83
Like the governments of Singapore and Malaysia, Sir Stafford Northcote, president of the MSCA and chairman of the Chartered Bank in London, calmly received the Wilson government’s announcement of July 1967, which anticipated a gradual scaling back of the British military presence in Southeast Asia. The policy did not seem to threaten the traditional economic relationship between Britain and Malaysia since, in August, Tan Siew Sin reconfirmed that his government would not introduce exchange control on sterling remittances or impose any levy on overseas remittances generally. At the same time, Labour’s Commonwealth Secretary, George Thomson, emphasised to the City commercials that, Although we are withdrawing our forces, we have made it clear that we intend to retain a military capability for use…in the area after we have left the mainland’, and ‘We are certainly not going to turn our backs on Southeast Asia and forget all about it’. But Thomson’s guarantees were actually worth little, since another currency crisis had forced HMG to devalue the pound by 14 per cent in November 1967. Consequently, the revised proposals of January 1968 were far more drastic and shocking—not only because the rundown was scheduled to be completed by 1970–71 rather than 1975–76, but also because Britain would use its ‘general capability’ stationed in Europe to intervene in Southeast Asia if ‘circumstances in our own judgement demanded it’. In the City, even before Thomson was despatched to break the bad news to the governments of Britain’s Commonwealth allies, the MSCA got wind that something radical was afoot. A memorandum was immediately fired off to the Commonwealth Secretary, which stressed that ‘A catastrophic drop in confidence leading to the possible mass exodus of British managerial personnel would seriously imperil the huge British commercial, planting and mining interests in the area.’ A similar letter was despatched to the prime minister. From Southeast Asia, meanwhile, the British members of the SICC sent a telegram to Harold Wilson ‘Strongly deprecating proposed breach of undertakings’. The withdrawal would give rise to ‘Widespread loss of confidence in Britain’s word’ and would cause ‘Irretrievable damage’ to British exports and investments in the region.

As we observed in Chapter 1, British firms in Singapore had once castigated the PAP leadership as dangerous left-wing extremists, but now a remarkable symbiosis sprang up between Lee Kuan Yew’s government and the expatriate commercials. The agency houses worried about the future of their privileged position, which the military presence seemed to guarantee; Lee Kuan Yew, on the other hand, was concerned at the 30,000 Singaporeans who would lose their jobs as a consequence of withdrawal. The agency houses and exchange banks, working with Singapore Ministry of Finance officials, furnished Lee with statistics on British financial and commercial involvement in the region for use by the Singapore premiere on his visit to London in an attempt to gain a reprieve. The estimated value of British investment in the area was put at £700 million, from which annual earnings (after tax) of about £75 million accrued to the UK (and this figure did not include invisible income from banking, insurance, sea and air transport, royalties, know-how fees, professional services, etc., which would
increase the annual yield to approximately £110 million). The annual share of the total trade of the area handled by British enterprises amounted to around £500 million, representing approximately 30 per cent of the region’s total trade. The trade balance in favour of Britain for the region in 1966 was £70 million, and British exports to Southeast Asia in the same year were valued at £123 million. Another memorandum (this time from the MSCA) laid before the Chancellor of the Exchequer, Roy Jenkins, emphasised that the aggregate net saving in foreign exchange up to April 1971, resulting from withdrawal in that year instead of 1975, would be £44 million set against the above-mentioned benefits. Moreover, ‘if there is a collapse of security in Malaysia/Singapore as a result of the vacuum created by our complete withdrawal by 1971 the repercussions on British interests will be felt throughout Southern and Eastern Asia’.

The chairman of the RGA and the MCM opted for a different tactic of lobbying through the press, and they published a letter in *The Times* on 15 January—the day on which the final Cabinet decision on the fate of ‘East of Suez’ was made. The argument of the primary producers was that military withdrawal would result in ‘those who have placed their trust in Britain in Southeast Asia’ looking ‘elsewhere to help them in their development’. ‘[T]he present friendly position enjoyed by Britain in these countries will readily be seized by other powers’ and ‘[t]he resultant drop in our trade and commerce could indeed be serious’.

The commercial associations were unable to secure a meeting with Cabinet ministers, but armed with data from the SICC, Lee Kuan Yew pleaded the case of the agency houses in London at two exhaustive meetings on 14 January. Lee asked for 1973 as the terminal date and also requested that the government retain in the region the minimum British force believed by British bankers to be necessary to maintain confidence: that is, adequate air and sea cover to supplement Singapore’s forces as well as two battalions of commandos, all under a British commander-in-chief. The Bank of England also joined in the throng, indirectly supporting the business case, by arguing that a premature withdrawal could have a catastrophic effect on sterling.

But this was all to no avail: the minister of defence, Denis Healey, told the Singapore prime minister that ‘businessmen’s views on defence matters were not always sound. No one could define what created confidence.’ Jenkins, meanwhile, believed that, ‘From the point of view of confidence in the area, the important factor would be what Mr Lee himself said in public.’ The only concession won was a nine-month stay of execution from the end of March to the end of December 1971. As Wilson explained to Sir Stafford Northcote, the Cabinet had ‘reached the conclusion that we could not maintain an effective military establishment in the Far East at a cost that would gravely impair the economic recovery of this country’.

Business lobbying was unlikely to have much success given that the British military commitment in Southeast Asia had not been underpinned by a desire to defend British trade and investments. As in the specific instance of *Konfrontasi*, there were wider geo-strategic considerations, which held British forces in
Malaysia and Singapore after independence. Britain was contributing towards preventing the region falling into a vassal relationship with Communist China. The bases also sustained the global Anglo-American partnership and maintained an influence on the shaping of US foreign policy. Meanwhile, the denial of Southeast Asia to a powerful enemy was also vital to the interests of Australia and New Zealand. But by the autumn of 1964, the FO was beginning to see the Malaysian and Singaporean bases as political liabilities in the face of local nationalism. The long-term aim of British policy, it was argued, should really be to withdraw and so preserve friendly relations with Malaysia, whose governments in future were bound to be more radical and less tolerant of foreign bases. Instead, the Western political interest could be preserved in a ‘neutralised’ Southeast Asia. In the archipelago, the best way of achieving this was through the ‘Maphilindo’ concept—an economic, and later political, association between Malaysia, the Philippines and Indonesia. This might actually damage British economic interests in the region. However, this was a risk worth taking, because Maphilindo would contribute ‘to our long-term aim of a stable, neutral region in this part of the world’.

Indeed, the possible loss of British investment or trade in Commonwealth Southeast Asia was of little consequence to the Wilson government. What looked like a substantial economic stake to the SICC or Lee Kuan Yew was actually small beer in London’s global view. Through its massive sales of rubber and tin to the US, Malaya had been the empire-Commonwealth’s premiere dollar earner in the 1940s and 1950s, making a crucial contribution to British monetary stability, post-war reconstruction and the building of the welfare state. As late as 1958, the peninsula’s favourable balance of trade with the dollar area amounted to M$356 million. But, as the FO pointed out also at the end of Sir Alec Douglas Home’s administration, the Malaysia territories were now in ‘deficit [in terms of their foreign exchange contributions to the sterling area] and likely to remain so’. The UK’s need of the primary products of the area had also become insignificant. About three-quarters of the UK’s rubber imports did come from Southeast Asia (about three-quarters of this in turn coming from Malaysia). But natural rubber was increasingly being replaced by synthetic, and only about 5 per cent of Britain’s total tin imports were derived from the region, while imports of vegetable oils, rice, tea and oil were all ‘completely marginal’. It was difficult to estimate the value of British capital investment in Southeast Asia, but British investments there (excluding oil, banking and insurance) yielded less than 6 per cent of the UK’s total overseas investment revenue. Meanwhile, barely 3 per cent of Britain’s world trade was conducted with Southeast Asia. The UK was actually deploying substantial forces in Singapore and Malaysia in an area that attracted less British trade and contained less British investment than Latin America. Trade and investment, the FO went on to argue, ‘cannot nowadays be protected against abuse by military means’. British troops in Singapore had not prevented the nationalisation of British interests in Burma; in Indonesia, the British economic stake might well have suffered less if the UK had not been involved in
Confrontation. Japan, and Britain’s continental European competitors, traded just as successfully with Southeast Asia without deploying their military might. Moreover, as the CWO appreciated by April 1968, the Anglo-Malaysian Defence Agreement made no provision for the protection of UK nationals and their property. Only as a last resort, and in a situation where the Malaysian government was unable or unwilling to protect British civilians, could British military forces justifiably be deployed under international law. Even then, this right to intervene would not apply to British property. Hence, paradoxically, British business interests in Southeast Asia set great store on a British military presence which was not primarily designed to protect them, and probably could not protect plantations, mines and godowns anyway should any internal political or social upheaval eventuate. Jesudason’s claim, therefore, that Malaysia’s dependence upon Britain for its external defence acted as insurance against nationalisation, requires qualification.

Prime Minister Wilson did assure City interests that the defence measures were ‘by no means attempts to find short cuts to the solution of our economic problems at the expense of our overseas interests… On the contrary, we hope that as our economy responds to the measures we are taking, our strength and capacity to help our friends will progressively increase.’ But the accelerated military withdrawal did significantly reduce Britain’s standing in Malaysia, and, in so doing, also indirectly reduced the influence of British business. George Thomson’s meeting with Malaysian Cabinet ministers in early January 1968 to break the bad news did not go well. A highly agitated Tan Siew Sin had been greatly angered anyway by devaluation in November: Malaysia’s loyalty to sterling was repaid by heavy losses in the country’s currency reserves, and, on 8 January, the minister of finance told Thomson that ‘Britain was now proposing to abandon Malaysia and could not be surprised if in the interests of national survival the Malaysian Government took measures which might damage British interests’.

As it turned out, there was to be no sequestration of British investments or immediate rundown of sterling balances. But, in May 1968, Tun Abdul Razak, the deputy prime minister, embarked on a European tour to drum up aid for Malaysian development. Razak proposed that Malaysia be made an associate member of the EEC, and secured an extended line of credit in Paris as well as the prospect of increased Belgian private investment, encouraged by legislation. Economic links were also nurtured behind the iron curtain, and in September 1969, the USSR’s first trade exhibition was held in Malaysia, involving twenty state trading corporations and displaying more than 2,000 items, while a high-level trade delegation parleyed with Malaysian officials. As Malaysia’s Eastern Sun—a newspaper closely associated with powerful Malaysian Chinese business—had opined on 1 May 1968, ‘Since Britain can hardly take care of herself, it is time Malaysia explores the wider world outside the British Commonwealth for friendship, trade, and technological assistance.’

T.A.Gore Browne of the government brokers Mullens & Co., on a visit to Malaysia in early 1969, discovered that ‘the Americans, Germans and Japanese
are moving in as fast as we move out. The sixty-four thousand dollar question is whether we will be able to maintain the large investments we have in Malaysia and Singapore without, in return, contributing to their internal and external security.” Sir Claude Fenner apprised the agency houses in November 1969 that the Russians with no past history or investment in the area were now clearly ‘getting their foot in the door’. On top of local trade fairs, there was talk of joint ventures with Russian financial and technical aid. ‘The Japanese who tried and failed militarily, are now moving back in strength commercially, with the Germans in close pursuit.’ Those countries seemed interested in ‘the purely economic potential of the area’, but it was worrying that the USSR’s ‘interest may not be entirely commercial’, and ‘[t]he possibility of Russia being welcomed in the area, without too close an examination of her motives, should not be discounted’. 107

Not surprisingly, then, the British military withdrawal came to have a negative impact on the confidence of both actual and potential British investors in Southeast Asia. To counter the suspicion in Kuala Lumpur that Britain was ‘less reliable as a trading power and a supranational banker’ and liable ‘to renge on her promises to her friends’, Sir Michael Walker called for ‘prompt and significant investment’ from the UK.108 In Whitehall, the ODM and the CWO were keen to encourage British manufacturers to set up in Singapore and Malaysia, in the light of the defence rundown, to provide employment, to utilise aid in helping set up plant from which big returns for Britain would accrue, to help maintain a British presence after military withdrawal, and to lessen the aid bill in future by providing employment and foreign exchange.109 A CBI mission, with moral support from Whitehall, visited Malaysia in August 1968. Yet the only definite proposal which emerged from these perusals was the construction of tin dredges by RTZ.110 The captains of industry argued that far greater British capital input would be stimulated by a government guarantee against expropriation. Along the lines of existing programmes for Germany, the US, Holland, Switzerland and Japan, this might compensate for the loss of confidence and political protection arising from Britain’s military retreat.111 Earlier in 1966, the agency houses appreciated that British defence cover in Malaysia ‘provides a form of investment guarantee by reducing the risk of loss from external conquest/influence or internal political disturbances’. In the event of that defence cover being withdrawn, therefore, it was suggested that the UK government, via the Export Credit Guarantees Department (ECGD), should provide ‘economic defence’ in the form of subsidised insurance ‘for the additional risks with which private investors will be faced’.112 Moreover, before their removal in 1965, the tax concessions afforded by Overseas Trade Corporation (OTC) status had offset the non-commercial risks of investing in a politically volatile region.113

But the Treasury remained staunchly opposed to a guarantee scheme for Southeast Asia (or for anywhere else) as a surrogate for the confidence factor previously provided by the post-colonial military presence. When the Federation became independent, Tony Loch, the British expatriate secretary to the minister of commerce and industry, supported the RGA contention that HMG should
institute a scheme to guarantee private UK investments in the Federation. This
would be a means of stimulating British investment in Malaya at a time when
Federation ministers were more inclined to look to the US, Germany and Japan
for supplies of new capital and technology. The Treasury, however, was highly
sceptical, fearing that a scheme for the Federation would have to be replicated
throughout the expanding Commonwealth, potentially overexposing the UK
Exchequer in a succession of complex and costly compensation claims. Anything
beyond the cover already provided by the ECGD ‘would be more than we could
bear taken over the whole Commonwealth field’. A decade later, the position
had not substantially altered. Sir Eric Griffith-Jones was informed by the CWO
that Guthries’ plans for diversification out of rubber in Malaysia could not be
supported by an investment guarantee: if such a guarantee were given to Malaysia,
it would spark off ‘a hundred’ other similar demands from elsewhere, and if there
was only a limited amount of money for investment overseas, it was in the national
interest that this money should be invested in those markets which companies
themselves considered to offer the best prospects. To provide an investment
guarantee would encourage firms to invest in enterprise, which they themselves
might not otherwise choose. Moreover, by the late 1960s, the Treasury was
even more determined to stem the flow of British investment overseas to protect
the UK’s precarious balance of payments position: ‘The cardinal point is that we
do not want to see any investment guarantee schemes at all… [N]o barrier is placed
in the way of UK investment in the less-developed countries of the Sterling Area,
but neither is any encouragement given. Any investment guarantee scheme…is
an encouragement to overseas investment and we do not therefore encourage its
genesis.’

The aid package put together during 1967 and 1968 as compensation for military
withdrawal was partially motivated by a desire to ‘safeguard our own trading and
investment interests’. Malaysia was offered £25 million over five years. And, at
the insistence of the prime minister, aid was dependent upon Malaysian ‘good
behaviour’ towards both UK investments as well as Malaysia’s £250 million worth
of sterling balances, while at least 75 per cent of the compensatory funds were to
be tied to the purchase of British goods and services. Special aid funding
certainly played a key role in securing major contracts with Malaysian public
industries for certain British manufacturers—for example, in the supply of twenty-
five locomotives for Malayan Railways from English Electric and two turbo-
alternators for the National Electricity Board from C.A. Parsons Ltd. The agency
houses, however, voiced complaints about the inflexible bureaucracy which often
accompanied the compensatory aid, and believed themselves at a disadvantage in
the placing of orders vis-à-vis the Crown Agents. Moreover, the aid programme
frequently assisted Britain’s industrial competitors. The ODM decided to provide
£500,000 from the special aid budget to develop the Shah Alam industrial estate
in Selangor because it would ‘pay political dividends and aid employment’. But
it was also appreciated in the High Commission that UK funds would enhance
local manufacture by the subsidiaries of Japanese firms. Indeed, Walker, in his
valedictory speech to British businessmen in Kuala Lumpur, pointed out that ‘The basic motive for aid in our own national terms is simple: it is to help advance world stability and to expand world markets by helping the developing countries to help themselves towards prosperity.’ The Special Aid Fund was not intended to provide a ‘soft market’ for British business in Malaysia.\textsuperscript{121} The trade figures for West Malaysia (see Figure I.1, p. 000) also suggest that the post-1968 aid had a negligible effect on bolstering British economic interests in Southeast Asia.

Moreover, with his long experience of Malaysian policing and counterinsurgency, Sir Claude Fenner of the RGA presented a gloomy picture of future security prospects in the winter of 1969. News of the British withdrawal was unlikely to have passed unnoticed in either Beijing or within the MCP camps in southern Thailand. A fresh communist assault was likely to be timed to take place post-1971, ‘when the British are safely out of the way’. The probable intention would be to establish a ‘liberated area’ in the southern Thai provinces contiguous to the Malaysian border and reactivate the \textit{Min Yuen} in the Malay states. Fenner saw little prospect of a regional defence pact, and if insurgency reached 1948 proportions, with the possibility of Sarawak’s CCO leading a simultaneous revolt, Malaysia alone would not be able to cope.

If…we withdraw our forces and wait for such a threat to materialise before we intervene, it may not be possible then to contain it, even with our help. We should be likely to find ourselves drawn into the sort of situation in which the Americans have become embroiled in Vietnam.\textsuperscript{122}

\textbf{Intercommunal violence}

Tan Sri Sir Claude was also greatly troubled that the British withdrawal might encourage ‘racialists’ to be less cautious in fomenting intercommunal violence, and the CBFs hankering after an investment guarantee gained even greater urgency following the ethnic conflict of May 1969.\textsuperscript{123} Fear of a postcolonial ‘bloodbath’ in Southeast Asia’s ‘plural societies’ had been a standard feature of British business’s anti-decolonisation discourse.\textsuperscript{124} BCL executives believed that without the ‘maintenance of the traditional British-inspired goodwill [with a large measure of control]’, a hasty political transition in Sarawak would invite ‘serious communal problems’ and ‘anarchy’.\textsuperscript{125} On the Brunei rebellion, meanwhile, the managing director of BCL considered it ‘a matter of wonder and great relief that it never got out of hand to the extent of indiscriminate attacks on Europeans and Chinese’.\textsuperscript{126}

As it turned out, northern Borneo was spared significant intercommunal strife after \textit{merdeka}. But there were a number of incidents in West Malaysia which did more than merely raise eyebrows in British board-rooms. For Sir Denys Lowson, chairman of Anglo-Thai, the Singapore riots of July 1964—one factor in the eventual break-up of Mighty Malaysia—‘served as a reminder of how easy it is to spread disaffection in a multi-racial society’. One of the highest standards of
living in Southeast Asia would be threatened if the Malays, Chinese and Indians ‘allow themselves to become victims of agitation’.127

Vicious Sino-Malay fighting broke out in Penang following Labour Party protests and an attempted hartal against the devaluation of the old Straits currency (itself consequent on the devaluation of sterling in November 1967). Special Branch did not consider that there was a particular threat to British personnel or institutions during these disturbances, but there was damage to property.128 Moreover, the Penang Branch of the SMCC was concerned at the ‘underlying reasons for this outbreak of violence’; namely, a lack of job opportunities for the 10,000 school leavers per year in Penang state alone. Such civil disturbances also had the ‘most serious consequences’ on the commercial life of the entrepôt, not only because of the effects of the riots at the time, but also because ‘the fear of a recurrence of these disturbances must weigh heavily in the minds of all those contemplating bringing industry to the State or even contemplating visiting Penang as simple tourists’.129

Indeed, there was a general sense of racial polarisation by the late 1960s. Guthries’ executives reported to the CWO in January 1968 that they were concerned at the possibilities of communal conflict, not least because most of the firm’s remaining European staff in Southeast Asia had weathered the Emergency of 1948–60 but would be unwilling to repeat the harrowing experience. It seemed unlikely that young Chinese intellectuals in Malaysia would accept, indefinitely, the previous modus vivendi whereby the Chinese community was given free rein in economic affairs but was not expected to play much part in government.130

By focusing on the Chinese as le grande problèmatique, Guthries and the other agency houses failed to notice the groundswell of Malay economic disaffection against both non-Malays and the ruling regime. Even so, the general impression that Malaysia was poised on a racial knife-edge was confirmed by the tragic events of 13 May 1969 in Kuala Lumpur. ‘Victory’ rallies to celebrate the relative success of the left-wing (and principally Chinese) opposition parties in the federal elections descended into a horrific orgy of killing and looting. Like Konfrontasi, 13 May had only limited direct effects on British commercial activity: there was no evidence of harm to British lives or property since the rioting remained communal between Malays and Chinese; outside Kuala Lumpur, expatriate commercial operations were not disrupted; a military evacuation of British civilians, although planned, was not executed; and financial controls (discussed in the last chapter) prevented any efflux of capital.131 Six months after the riots, Fenner reassured British businessmen that ‘the situation was brought under control comparatively quickly’. The ex-policeman had ‘never’ ‘seen a more effective curfew, and potential trouble makers were clearly thinking before starting something afresh’.132 Given that the ‘big danger was from the Malays’, Mike Cullen of Lever Brothers believed that one of the regime’s ‘biggest achievements’ lay in ‘containing the troubles to Kuala Lumpur’.133

Yet the political turmoil immediately after the riots—with the Tunku’s expulsion of Mahathir Mohamad from UMNO and the assumption of emergency
powers by the NOC—engendered a ‘very edgy’ atmosphere. Amongst various alarming rumours was a fear that the next outburst of Malay frustration would include attacks on Europeans, and such tales were ‘beginning to have some slight effect in the British community’. This anxiety inevitably fed into economic behaviour. Business in Kuala Lumpur returned to normal by the autumn of 1969 (although the trade of British liquor distributors, e.g. the Anglo-Thai group, remained depressed because the nightlife in all Malaysian cities continued to be restricted). But there were underlying, long-term economic consequences. Developments in the insurance market indicated that all was not rosy in the Malaysian garden. Following various remonstrations from the RGA and RTAL to the London underwriters, the marine insurance rate for Malaysian produce had reverted to its former level of 1s/-% on the grounds that the ending of Confrontation in August 1966 entailed considerably less risk of interference with Straits shipping. But with the May disturbances, the rate inside Malaysia was increased and still stood at 1s/3d% one year later (and despite claims not being particularly abnormal). Additionally, the property market remained depressed into 1970, disrupting, for example, the plans of Anglo-Thai’s subsidiary, Eastern Agencies (Malaysia) Ltd, to move its godown from Kuala Lumpur to Petaling Jaya. Moreover, there were lingering long-term doubts about the social stability of Malaysia. D.F.Clayton, head of Sandilands Buttery in Penang, was pleased that bloodshed was avoided in the north-western state by the swift action of the police and local government, but events once again brought home ‘the absolute necessity of providing for all the young people in Malaysia, worthwhile and satisfactory employment’.

**Conclusion**

As Clayton’s comments emphasise, British managers and entrepreneurs regarded post-colonial Malaysia as a society almost permanently teetering on the brink of disintegration. Confrontation with Indonesia briefly dampened down the problem of lawlessness. But once the emergency regulations were again lifted, the rubber planters soon noticed a resurgence in domestic criminality. In September 1967, the planters of Selangor reported that the ‘perennial problem of rubber stealing seems not to have lessened’, while other acts of lawlessness were on the rise again: one murder had been committed on an estate; there was a ‘serious spate of burglaries’ in the Jeram/North Klang area; armed hold-ups of payrolls had been reported; and there were several cases of assaults on estate staff. In April 1967, a British estate manager was injured during a riot of tappers in Melaka. The British may have ‘bequeathed’ Malaysia ‘a police force possessed of a unique combination of paramilitary force, security intelligence apparatus and prosecuting power’. Yet the police and planters rarely saw eye-to-eye on security issues, and the Windom’s Way image of Malaysian security forces responsive to expatriate capital demands is not borne out by the archival record. In October 1967, Malaysian CID informed Sir Claude Fenner that there had been no unusual upward
rise in crime in rural areas and that the situation regarding law and order on estates was not abnormal, but the RGA believed that this ‘did not accord with general experience’.142

Youth unemployment, commodity stealing, assaults on plantation staff, secret societies, Indonesian infiltration, intercommunal violence and communist subversion all seemed linked together in the minds of the anxious expatriates, threatening to bubble over at any point into attacks on European personnel and property. British firms, and their managers on the spot, were hardly basking in a sense of ‘neo-colonial’ stability. It is no wonder, therefore, that British military withdrawal was so hotly contested by British business, especially since, in the early 1970s, Fenner’s prophecies seemed to be becoming reality. In 1971 and 1972, there were communist guerrilla raids from southern Thailand, which penetrated as far as the centre of Perak, causing considerable concern for both British firms and the Malaysian authorities.143 Such political and social insecurity combined, as we will see in the next chapter, with much uncertainty regarding Malaysia’s economic future.

Notes

1 ANM, AE/99/M, PCC Confidential Minutes, 18 November 1946 to 8 July 1958, Meeting of the Committee, 1 March 1949.
2 See White, Business, Government, and the End of Empire, Ch. 3; idem, ‘Capitalism and counter-insurgency’.
3 PRO, CAB 129/96, C (59) 31, 16 February 1959, memorandum by Commonwealth Secretary, 13 February 1959.
5 PRO, CAB 129/96, Commonwealth Secretary’s memorandum, 13 February 1959.
6 ANM, AE/97/A, FMSCC Year Book 1957, Kuala Lumpur, 1958, President’s Address, 16 April 1958, pp. 17–18.
8 ANM, SP 95/B/9, Selangor Planters’ Association, AGM, 12 April 1958, copy of address by J.C. Mathison, p. 2.
10 ANM, SP 95/B/9, Minutes of the SPA Special General Meeting, 26 August 1961.
11 ANM, SP 95/B/62, Minutes of Planters/Miners Meeting at Rawang, 12 February 1965; SP 95/B/13, SPA Chairman’s Half-yearly Report, 16 September 1967; SP 95/B/14, D.C.M. Spring to Trail, 3 January 1969.
12 ANM, SP 95/B/9, Minutes of UPAM AGM, 8 April 1961, p. 4; Minutes of UPAM Planting Section Meeting, 8 June 1961, p. 5; SP 95/B/10, Minutes of UPAM Planting Section Meeting, 23 September 1961.
13 ANM, SP 95/B/9, Minutes of UPAM Planting Section Meeting, 8 April 1961.
14 ANM, SP 95/B/10, Minutes of UPAM Planting Section Meeting, 23 August 1963.
15 ANM, SP 95/B/12, SPA Coast Section, Half-yearly General Meeting, Chairman’s Report, 17 August 1966. There certainly were Chinese secret society links to the MCP before and during the Emergency. But the relationship was an uneasy one, and the Triads tended to have stronger connections with the Guomindang and Chinese business in Malaya: Harper, *Making of Malaya*, pp. 111–12, 158–9.
19 The Chinese rubber dealers—with close links to the MCA elite—were a formidable force: as we saw in the last chapter, their opposition ended the Cabinet career of Abdul Aziz.
20 ANM, SP 95/B/10, Minutes of UPAM Planting Section Meeting, 11 January 1963, and ‘Aide Memoire—Draft Rubber Supervision Legislation’.
22 ANM, SP 95/B/15, Minutes of UPAM Council Meeting, 28 July 1970.
23 ANM, SP 95/B/9, Minutes of UPAM Planting Section Meeting, 12 August 1960.
24 ANM, SP 95/B/10, Minutes of UPAM Planting Section Meeting, 23 September 1961 and 16 February 1962.
26 See material in ANM, SP 95/B/62.
27 ANM, SP 95/B/11, Minutes of UPAM Planting Section Meeting, 24 January 1964.
28 IA, MS 27295, Pearson to MacEwen, 6 May 1963; Tate, *RGA History*, pp. 617–18; White, ‘Capitalism and counter-insurgency’, p. 165. The Konfrontasi casualty was Derek Reddish, an employee of BCL in Sarawak, who lost his life in a helicopter crash in the Trusan Valley. Reddish’s death, however, was not as a consequence of business activities: because of his knowledge of the remoter parts of the country, Reddish had been seconded to the security forces and involved with anthropologist-turned-counter-insurgent Tom Harrisson in the mopping-up operations after the Brunei revolt.
30 PRO, DO 169/82, Telegram to CRO from Kuala Lumpur, 23 November 1963. The main effects on British interests were: a rundown in the two tin smelters in Penang state, which were operating at 10–15 per cent below full capacity; some loss of income to British agency houses in Malaysia; and a downturn in business for British shipping agencies which placed a good deal of Indonesian shipping. The operations of those firms, which relied on Malaysia-Indonesia linkages, were also disturbed, i.e. Blue Funnel in shipping and Shell in oil refining. But these multinational groups usually got round the restrictions by emphasising, or bringing into play, the Dutch element in their businesses: *ibid.*, copy of Moore, Singapore, to Bottomley, Kuala Lumpur, 13 November 1963; MMM, 4.A. 1869, George Holt to Steve Day, Maclaine, Watson & Co., Jakarta, 28 September 1963, and reply of 10 October 1963. Unilever weathered the Sukarno years by two transfers of shares across the North


32 IA, MS 27182, OGM Minutes, 26 November 1964.

33 As Mackie reminds us, Confrontation was much more than a ‘storm in a teacup, or a sandiwara, a piece of play-acting’. The outcome could have been much different if there had been racial conflict in Malaysia or if the coup attempt of October 1965 had not occurred in Indonesia: *Konfrontasi*, pp. 5–6. Subritzky points out that the Indonesian military was armed to the teeth with high-tech Soviet weaponry: *Confronting Sukarno*, pp. 115–16.

34 IA, MS 27295, Pearson to MacEwen, 19 January 1963. These fears were manifest even before the first formal announcement of Confrontation in a speech of 20 January by Indonesia’s foreign minister, Dr Subandiro.


36 IA, MS 27182, OGM Minutes, 4 December 1959; MS 27417, extract from letter to the Honorary Secretary of the Sarawak Association, undated (c. March 1960).


39 IA, MS 27182, OGM Minutes, 28 November 1963.


41 IA, MS 27295, Pearson to MacEwen, 27 August 1963.

42 PRO, DO 169/82, note of a meeting between representatives of the British business community in Singapore and the British High Commission, 7 November 1963. From his arrival in Jakarta in 1958, Howard P. Jones had brought about a more conciliatory US approach to Indonesia, including support for Sukarno against the Netherlands in the West Irian dispute. He was sceptical about the creation of Malaysia, if this should entail Indonesia being lost to the ‘free world’, especially as South Vietnamese resistance to Ho Chi Minh’s regime was proving increasingly ineffectual: Jones, *Conflict and Confrontation*, pp. 12–13, 54–5, 134–5; Subritzky, *Confronting Sukarno*, pp. 10–11, 44, 99.


44 RGACM, MS 24863/74, 1 June, 6 July and 5 October 1964, Reports of the Indonesia Committee.

45 MMM, 4. A. 1696/2, note of meeting with Sunar Suraputra, 26 November 1964.


50 ANM, SP 95/B/11 1, Minutes of UPAM Executive Committee, 26 May 1965.
51 BoE, G 1/183, Richard Goold-Adams to Lord Cromer, 24 February 1964; Note by Thompson-McCausland for the Governor, 1 October 1964.
52 See CSAS, Barlow papers, Malayan Visits, 1965–68, Note by Hindson, January 1967.
53 ANM, SP 95/B/12, copy of letter of 7 December 1965. General complaints about the telephone service Malaya-wide led to a delegation from UPAM and SMCC visiting the minister of works, post and telecommunications in Kuala Lumpur: ibid., Minutes of UPAM Planting Section Meeting, 29 April 1966.
54 IA, MS 27182, OGM Minutes, 26 November 1964.
55 IA, MS 27302, C.H. Williams to the Directors, 5 October 1964.
58 Financial Times, 22 March 1965; Murphy, Lennox-Boyd, p. 241. The general ‘change of character’ in the local stock market from ‘the unbridled optimism of 1962–3’ to the ‘flat, lifeless tone of 1965’ was also noted by Drake: ‘New issue boom’, p. 397.
59 PRO, DO 215/257, Brief for the Minister of State’s Meeting with MCAGB delegation, 5 May 1965, Annex A.
60 PRO, DO 189/219, copy of note by Bentliff, 16 April 1963.
61 HSBC, MB Hist 2166, MCAGB Bulletin 40, November 1964, Appendix B.
62 Subritzky, Confronting Sukarno, p. 7.
64 Tom Pocock, Fighting General: The Public and Private Campaigns of General Sir Walter Walker, London: Collins, 1973, Ch. 6. The Malay Regiment did not necessarily provide very secure protection anyway. Although lionised by the Tunku after the battle, the inexperienced defenders of Kalabakan could not prevent the Indonesian raiders entering the BBTC manager’s house and helping themselves to his whisky while his wife and the cook hid under a bed. Stunned by casualties amongst their colleagues, the remaining soldiers could not be encouraged into a counter-attack on the manager’s return: ibid. pp. 177–8.
65 See ANM, SP 95/B/14, Spring to Traill, 3 January 1969; PRO, DEFE 7/2373, telegram from Commander-in-Chief Far East to Ministry of Defence, 9 November 1963.
66 PRO, DO 189/225, telegram from Kuala Lumpur to CRO, 20 October 1961, reporting parliamentary debate on Malaysia.
67 PRO, OD 35/40, letter to Barbara Castle, 14 October 1965, enclosing open letter to Cabinet ministers.
68 Subritzky, Confronting Sukarno, pp. 42–3.
69 PRO, OD 35/40, enclosure in Castle letter, 14 October 1965.
70 BoE, ADM 14/80, Note for Parsons and the Governor, 20 January 1964.
71 Jones, Conflict and Confrontation, p. 266.

74 MB Hist 2166, MCAGB Circular No. 190, 28 January 1966. Mackie emphasises that Sukarno and Subandiario still retained formal control of the government after October 1965, and it was possible that Confrontation might be intensified, ‘for it represented their last remaining hope of tilting the political balance back in their favour by drumming up national unity against an external enemy’: Konfrontasi, p. 309.


77 Even then, Penang’s trade with Indonesia proved extremely slow to recover: by February 1969, British merchants in the northera port had grown tired of waiting for the multiplier effect from the much-hoped-for return of barter trading, and a delegation from the United Chambers of Commerce would remonstrate with the authorities in Kuala Lumpur: ANM, AE/99/M, PCC Minute Book, 1964–72, Minutes of the AGM of the Penang Branch of MICC, 4 February 1969, Chairman’s Statement, pp. 305–6.

78 SICC, SCC Annual Report 1957, Chairman’s Address, 28 March 1958, p. 18.

79 PRO, DO 189/553, telegram from Singapore to CRO, 10 August 1965.


81 CUL, Barlow papers, 63/855, letter to Tom Barlow, 6 October 1965.


84 HSBC, MB Hist 2166, MSCA Bulletin 31, December 1967, Appendix A: Annual Luncheon 30 November, President’s and Secretary of State’s Speeches. See also Dockrill, East of Suez, p. 193.

85 Ibid., p. 204.

86 PRO, FCO 24/281, memorandum enclosed in Northcote to Thomson, 5 January 1968; Northcote to Wilson, 12 January 1968.

87 PRO, FCO 24/90, telegram from Singapore to CWO, 12 January 1968.


89 Ibid., 1968, addendum, p. 36.

90 HSBC, MB Hist 2166, MCAGB Circular, 15 January 1968.


92 PRO, PREM 13/2081, SMV (68) 1 and 2, records of meetings held at 10 Downing Street, 14 January 1968.

93 Dockrill, East of Suez, p. 201.

94 PRO, PREM 13/2081, SMV (68) 1 and 2; Wilson to Lee, 16 January 1968.

95 PRO, FCO 24/281, letter of 30 January 1968.
96 PRO, CAB 148/7, DO (O) (64) 59, ‘British Policy Towards South-East Asia. Memorandum by the FO’, 22 September 1964.
99 PRO, CAB 148/7, ‘British Policy towards South-East Asia’.
100 Ibid.
101 PRO, FCO 24/254, note by Butterfield for Turner, 29 April 1968.
103 PRO, FCO 24/281, letter of 30 January 1968.
104 PRO, FCO 24/89, telegram from Commonwealth Secretary to Prime Minister, 7 January 1968; FCO 24/92, record of conversation between the Commonwealth Secretary and the Deputy Prime Minister, Malaysia, 8 January 1968.
105 PRO, FCO 24/491, copy of White, Kuala Lumpur, to Gowers, Board of Trade, 17 October 1969.
106 BoE, C 132/61, note on visit to Malaysia, February 1969.
108 PRO, FCO 24/345, letter to Johnston, FCO, 7 October 1968.
109 PRO, T 317/1086, copy of ‘Negotiations on aid to Singapore and Malaysia, February/March 1968. Increase of British Investment in the Area [Note by the ODM]’.
110 See material in PRO, FCO 24/38–9.
113 See *Financial Times*, 8 May 1965. OTCs had been established in the 1957 Budget to alleviate certain taxation disadvantages which British firms experienced overseas, and particularly in the empire-Commonwealth: see White, *Business, Government, and the End of Empire*, pp. 50–1.
114 PRO, DO 35/9730, ‘Note of a Meeting with representatives of the RGA held in the CRO on Thursday, 21 November, 1957’; ‘Extract from Note by Mr Douglas Henley, Treasury on talks with Mr Humphrey, Mr Spencer, Mr Gascoyne and others in Kuala Lumpur, 31 October to 2 November 1957’; Jenkyns, Treasury, to Rumbold, CRO, 20 November 1957. HMG’s lukewarm support for the Tunku’s multilateral ‘investment charter’ also disappointed British businessmen in Kuala Lumpur. Sir Geofroy Tory explained that the UK government was concerned lest the negotiation of an agreement over a wide field between a number of governments of differing outlook might actually result in the formulation of conditions for the investment of foreign capital, which would in fact be less favourable to the investor than those which the British enjoyed in Malaya. ‘In other words, an investment guarantee agreement might defeat its own objects’: DO 35/9758, record of Commonwealth Secretary’s meeting with representatives of the UK community, 26 January 1959.
115 PRO, FCO 24/294, note of discussion with Guthries, 3 October 1967.
For similar reasons, the Treasury would not amend fiscal or exchange control policies in favour of UK investors in Southeast Asia: see *ibid.*, Note by Berkoff, 25 July 1968.

117 PRO, CAB 148/30, OPD (67) 27, 17 July 1967; CAB 148/35, OPD (68) 1, 26 January 1968; OD 39/20, copy of telegram from CWO to Kuala Lumpur, 18 April 1968. The primary focus of aid policy, however, was to provide employment opportunities for Malaysians and Singaporeans previously dependent upon the British military establishment for their livelihood: see T 317/1086, Minute by Hedley-Miller, 13 February 1968.

118 PRO, OD 39/142, telegram from Kuala Lumpur, 31 December 1969; OD 39/141, copy of telegram from Kuala Lumpur to Board of Trade, 31 December 1969; Tate, *Power Builds the Nation*, pp. 189–93. In the case of Parsons, the deal went through despite the original bid being the third lowest in August 1969 and the opposition of influential board member and senator T.H. Tan.


120 PRO, OD 39/135, Note by Wenban-Smith, 10 November 1967.

121 CUL, Barlow papers, 58/786, copy of ‘Speech to be made on 8th January 1971 at the farewell lunch given by the British business community in Kuala Lumpur’. The ODM had previously made clear to the High Commissioner that ‘It was naturally never our intention that this aid should be spent on non-competitive British goods’: PRO, FCO 24/836, copy of letter from Belcher, 1 December 1970.


123 *Ibid.*; PRO, OD 39/19, copy of Taylor to Gowers, 1 August 1969, and enclosed letter from Marsh, CBI, 24 July 1969; FCO 24/476, notes of meeting at CBI Offices, 24 July 1969. In line with the suggestions of Lee Kuan Yew, the industrialists hoped that Malaysia’s sterling balances in London would be hypothecated to support a guarantee issued against loss arising from political risks.


125 IA, MS 27417, letter to Sarawak Association, c. 1960.

126 IA, MS 27295, MacEwen to Pearson, 10 January 1963.

127 IA, MS 27013, AR&A/Cs, 1963, Chairman’s Review.


129 ANM, AE/99/M, PCC Minute Book, 1964–72, Minutes of the AGM of the Penang Branch Committee of the SMCC, 6 February 1968.

130 PRO, FCO 24/294, note on departmental meeting with representatives of Guthries, 25 January 1968. See also BoE, C 132/61, Note by Gore Browne, February 1969. Corry also believed that the Singapore disturbances of 1964 reflected that ‘some of the younger Chinese are beginning to resent a position which seems to provide them with only second-class citizenship’: HSBC, MB Hist 2166, *MCAGB Bulletin* 40, November 1964.

131 PRO, FCO 24/484, telegrams from Kuala Lumpur to FCO, 15 and 16 May 1969; FCO 24/475/1, copy of note for Cabinet by South-West Pacific Department, FCO, 15 May 1969; FCO 24/484, copy of telegram from Commander-in-Chief Far East to Ministry of Defence, 17 May 1969 (plans to provide ‘havens of refuge’ for UK
nationals during internal security disturbances had been put in train after the Penang violence of November 1967: see material in FCO 24/254. Rubber planters and tin miners in remote outstations would not have been comforted, however, if they had discovered that the British military’s reach on the peninsula was confined to Penang, Klang, Melaka and South Johor; Financial Times, 23 May 1969.

133 PRO, FCO 24/476, CBI meeting, 24 July 1969.
134 Ibid., telegram from Kuala Lumpur to FCO, 23 July 1969.
135 IA, MS 27008/13, BDM, 16 June and 23 September 1969.
137 IA, MS 27008/13, BDM, 26 February 1970.
138 ANM, AE/99/M, PCC Minute Book, 1964–72, Minutes of the AGM of the Penang Branch of the MICC, Chairman’s Address, 12 March 1970.
139 ANM, SP 95/B/13, SPA Chairman’s Half-yearly Report for 1967, 16 September 1967.
140 The Times, 10 April 1967.
142 RGACM, MS 24863/77, 2 October 1967, Report of West Malaysia Committee.
143 See e.g. IA, MS 27013, Anglo-Thai AR&ACs, 1970 and 1971, Chairman’s Reviews; CUL, Barlow papers, 53/739, Henry to Tom Barlow, 23 August 1971.
Looking after the old staples
Rubber and tin in the post-colonial era

The ongoing reigns of Raja Rubber and Tengku Tin

The transition from colonial to nation state did not involve any substantial shift in the basis of the Malaysian export economy. The decolonised Federation remained highly dependent upon the rubber and tin industries, in which foreign (principally British) interests maintained a dominant stake. Manufacturing industry may have been powering ahead at Petaling Jaya thanks to the pioneer industries legislation of 1958, but, in March 1960, FMSCC president H.I.Thornton-Jones (of James Warren) pointed out that Malaya was still highly dependent on rubber, not least because the Federation had overtaken Indonesia to resume its role as the world’s largest producer of the plantation product. In the first year of merdeka, the rubber industry continued to employ about a quarter of the working population of Malaya (over 600,000 people), contributed in export duty and income tax one-quarter of the total revenue of the federal government, and accounted for over 60 per cent of export earnings. Over one-third of world natural rubber production was derived from the peninsula alone. Tin was second as a source of export earnings and revenues. The British and Chinese miners produced nearly 20 per cent of the value of exports, and about 13 per cent of revenue. The dredges and gravel pumps were not big employers of Malayan labour; under 40,000 personnel, little more than 1 per cent of the economically active population of the Federation, worked in the mines. Nevertheless, Malaya produced about one-third of global tin supplies, and was also the single largest producing country. Notwithstanding diversification of the Malaysian export base, particularly with the addition of Sabah’s and Sarawak’s timber and petroleum, and the beginnings of EOI by the end of the 1960s, rubber and tin provided about 62 per cent of all receipts from pan-Malaysian commodity exports in 1965 and still 53.8 per cent in 1970. In support of the ‘neo-colonial’, dependency thesis, it would indeed appear that the omnipotent British agency houses had imprisoned Malaysia in colonial modes of production.

Yet the central argument of this chapter is that Malaysia’s continued dependence upon rubber and tin placed British firms in just as vulnerable a position as Malaysian producers (and the Alliance government) in the face of the cruel
buffetings of the global economy as well as the vagaries of US economic policy. Far from comfortably controlling Malaysia’s economic destiny, British rubber growers and dealers, and tin extractors and smelters, experienced intense economic anxiety for much of the Tunku era, arising from fluctuating commodity prices and the prospect of declining Western markets through substitution. Moreover, Malaysian development policies frequently disappointed British primary producers, and, intensifying late-colonial tendencies, were increasingly skewed in favour of Malay smallholders and Chinese gravel-pumpers. The likes of Guthries and LTC did not receive full support from the British state either. HMG was deeply concerned about the future of Malaysia’s leading commodities since British industry was a leading consumer of rubber and tin. The UK was behind the US and Japan as a destination for Malayan tin, taking 10 per cent of exports immediately after independence. But Britain was the most important consuming member of the UN’s International Tin Council (ITC, which oversaw the ITA) for much of the period under review. With the remarkable growth of a synthetic rubber capacity in the US from the Korean war onwards, Britain also emerged as the Federation’s biggest single market for rubber, taking about 20 per cent of exports in 1958. In this sense, Malaysia increasingly served as a dollar saver rather than a dollar earner. This ensured, however, that the Board of Trade’s inclination, despite frequent strictures from the CRO, was to secure raw material supplies at low prices and to rarely consider the profits flowing through the City from British investments in Southeast Asia.

‘What goes up must come down’: rubber and the global economy

Although exhibiting less variation than the late 1940s and the first half of the 1950s, a focus on market price still reveals the roller-coaster ride of highs and lows experienced by plantation rubber producers during the Tunku years (see Figure 4.1). Neither Malaysian government nor British agency houses were able to control the external, tectonic movements of global economics and geopolitics. Depression in the US, the completion of large Russian orders and the lifting of the Indonesian government’s blockade of Sumatran ports meant that by May 1958, the price of rubber was languishing at its lowest since the downturn at the end of the Korean war boom. On the New York rubber market, the lower grades of the natural product were now well below the price of general-purpose synthetic (known as GR-S), which ordinarily placed a ‘floor’ to natural prices. But then, from the beginning of 1959 to the summer of 1960, the average level of rubber prices rose by 50 per cent, from about 24d to 36d per lb (189 to 283 Malaysian cents per kg). The plantations and smallholdings in Malaysia were now experiencing relative boom conditions. In Threadneedle Street, this was seen as more than ‘a temporary blessing’. The Federation government’s ‘enlightened and vigorous replanting programme’ (commenced in 1955) plus hormone stimulation of old trees meant that Malayan exports were increasing steadily, and ensured a
market lead over Indonesia in terms of production. A long-term market appeared
guaranteed by virtue of the continuing expansion of industrial demands in general
and of road transport in particular. The CRO was more bearish, however. In 1959,
it was appreciated that with a 100,000 tons annual increase of world consumption
of rubber in all forms since the Second World War, there should be no difficulty
in absorbing all the natural rubber and all the synthetic rubber that could be
produced in the immediate future. Synthetic was, nevertheless, a serious long-term
threat to Malaya’s economy. For about one-third of total rubber consumption,
synthetic was now preferred on technical grounds, while for another third of uses
natural was in greater demand, leaving a further third of industrial areas where
price was the determining factor. New synthetics—known as ‘stereo-regulars’—
were being developed with far more of the elastic qualities of natural. Combined
with high prices for the plantation product, this meant that in the US, the proportion
of synthetic absorbed in comparison with natural rubber rose from 65.9 to 69.2
per cent in the course of 1960 alone. As the FMSCC recognised, high prices for
Malayan rubber were ultimately damaging because consumers might switch to
cheaper synthetic substitutes.

By the summer of 1962, the price had indeed fallen back to 23d per lb,
coinciding, as predicted, with an increased use of synthetic. Of new rubber
consumed in the non-communist world during 1961, roughly 54 per cent was
synthetic, as compared with just under 52 per cent in the previous year. There was
an increased reliance on the communist bloc, therefore, for Malayan rubber sales,
and in the course of 1962, as Figure 4.2 demonstrates, world synthetic production

Figure 4.1 Annual average prices of top-grade natural rubber (RSS 1), London, 1948–73
Source: Barlow, Natural Rubber Industry, Appendix Table 2.1, pp. 440–1.
Note: Prices at the concurrent exchange rate with sterling; 1kg=2.2lb
overtook natural for the first time. City rubber dealers remained optimistic about the future of natural. They believed that a price fall to 18d per lb for the plantation product might actually be beneficial, promoting increased use in the competitive 30–40 per cent consumption sector, and tending to discourage fresh investment in synthetic plant. But in the Federation, HSBC boss Jake Saunders discovered ‘more anxiety about the price of rubber than I expected and much talk of diversification, especially into palm oil’. Indeed, from as early as September 1960, Charles Selby-Boothroyd, the Board of Trade’s rubber expert, had actually been urging the Alliance government to get away from rubber, viewing the tremendous expansion of production in Malaya as potentially dangerous and forecasting a huge surplus and thus very low prices. During 1963 and 1964, Selby-Boothroyd suggested the RGA estates should be persuaded to ‘cut out the rough stuff more quickly and not replant—using the ground for oil palm or other more useful stuff’ (emphasis in original). Donald Hawkins, the head of Dunlop’s plantation wing and Selby-Boothroyd’s colleague on UK delegations to international rubber conferences, was in agreement.

Yet by the end of 1965, British rubber dealers in Singapore returned to a bullish outlook as the volume of the Malaysian crop Torged ahead, running at about 5 per cent over 1964, and stimulated by a return of Russian and Chinese buying in the light of escalating conflict in Vietnam. Replanting with high-yielding strains continued to undercut synthetics. Even so, although continued profits flowed to

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**Figure 4.2** World production of natural and synthetic rubber, 1957–70

Source: Barlow, *Natural Rubber Industry*, Appendix Table 3.1, pp. 442–3.

Note: Figures for production of synthetic rubber in Eastern Europe are included from 1962 only; 1 tonne=0.98 tons
British producers and dealers from sales to the less specialised industrial complexes of the communist bloc, the RGA was acutely aware of the costs of increased Sino-Soviet dominance of the natural rubber market; namely, bilateral trading arrangements along the lines of a recent Ceylon-China rubber-rice agreement, involving non-convertible currency payments or barter arrangements. The free market for rubber might disappear, with obvious adverse ‘political and economic effects upon Malaysia’ and the future of British business operations there.14

What actually eventuated was a failure of natural rubber production to keep up with consumer demand, and by February 1967, the rubber price was languishing at a twelve-year low. Synthetic had been produced to fill the gap, and the price of substitutes was forced down because of a large production overcapacity, especially in the US where the Attorney-General freely admitted that there were often discounts of more than 10 per cent on the list price. The Times gloomily concluded that the immediate outlook for natural prices was ‘decidedly bleak’.15 In September, with the price below 14d per lb, Guthries’ executives opined to CWO mandarins that there was little point in attempting to prop up the price indefinitely. The trend over the next few years would be further falls, and there was ‘not much anybody could do about it’. Guthries’ long-term strategy was now to diversify as far as possible both geographically and as regards the type of crop and business in which the agency house engaged. The chairman, Sir Eric Griffith-Jones, believed that there was ‘no British rubber company in Malaysia today who would not be willing to sell rubber land if they got a chance’. The Chinese purchasers would probably discover some means of cutting costs, which would make their product still saleable at a profit, but such cost-cutting options were not open to European managers. Sir Eric was actually disappointed that the Malaysian government continued to encourage replanting on smallholdings: instead, a sale of estates to smallholder schemes could leave the rubber field entirely to Malay cultivators.16

The managers of the agency houses ‘on the spot’, meanwhile, appreciated that costs had to be drastically cut. Since a wage cut for tappers was out of the question, serious consideration would have to be given to self-imposed restriction; that is, tapping would be halted on uneconomic estates or areas.17 At the end of the year, there was a further violent dip due to deflationary tendencies in Europe and North America, closure of the Suez canal during the Arab-Israeli war and the accumulation of local stocks. Rubber prices were now at their lowest level in eighteen years, and had more than halved since the ‘boomlet’ of the early 1960s. The view from the City was that the Malaysian government’s intervention in the market, the finance minister’s visits to the US, and international conferences of producers in Kuala Lumpur and Sao Paulo had all had a negligible effect. Moreover, the situation was not improved by an announcement from US tyre manufacturers regarding the development of a new polymer, which fully met the specification of the plantation article.18 The devaluation of sterling in November had not helped either. As one Board of Trade official admitted, the 14 per cent
fall in the value of sterling had accounted for a large proportion in the drop of the
dollar price of natural rubber, and further depressing effects were expected from
substitution by synthetic rubber produced in the UK (and the sterling area
generally), the competitiveness of which had been improved by devaluation. With the rubber price in the doldrums at its lowest level since 1949, the Financial Times pronounced on 10 February 1968 that the natural commodity was doomed.

But, again contrary to expert predictions, 1968 as a whole witnessed an increase of production in the Malayan states by 12.8 per cent to exceed 1 million tons for the first time, and in 1969 the average rubber price bounced back to 19d per lb thanks to an increase in world demand, particularly in China and Eastern Europe, and the suspension of US stockpile sales. In October, prices were cruising at 22d per lb, and Dr Leslie Bateman, head of Malaysia’s rubber research effort, informed the Straits Times that there remained bright prospects for plantation rubber. Despite claims to the contrary, synthetics still could not replicate the elastic properties of latex tapped from Hevea brasiliensis. Singapore dealers noted that West Malaysian production was again up: by 15 per cent to nearly 1.2 million tons. But during 1970, prices started to tumble again. At the end of 1971, the Commodities Office of the Bank of England reported that the rubber market was extremely sluggish, with prices gradually slipping lower and lower, recording a new post-war low of 13p (about 96 Malaysian cents) per kg in October. The Malaysian authorities had resorted to large-scale buying of rubber to support the price, but very large stocks of rubber were held worldwide. Hit by the depressed state of the world economy and aggravated by a rising international overcapacity to produce synthetics, the future once again appeared ‘bleak’.

The uncertainty concerning natural rubber’s profitability during the 1960s was exacerbated by US (and, to a certain extent, UK) stockpile releases. Washington’s rubber stocks were accumulated by the General Services Administration (GSA) from the beginning of the Korean war, and when stockpiling finally ceased in May 1954, these had reached the huge quantity of 1.25 million tons. With a de-escalation of Cold War tensions by the end of the 1950s and a massive synthetic capacity in the US, the GSA was anxious to rundown its strategically redundant natural stockpile through sales on the New York rubber exchange. There were similar sentiments in the UK’s Board of Trade, and although Albion’s stocks were much smaller, Malaya’s MCI believed that there was a grave danger that British disposals would precipitate similar actions by the Americans. Unsure about US intentions, the Malayans continued to urge their Commonwealth ally to delay releases. In the interests of the Federation economy and the political fortunes of the pro-Western Alliance government, High Commissioner Tory advised that HMG should meet this request.

But by 1959, and yet again demonstrating the thraldom of the global economy, the Federation viewed releases from the stockpile as a means of alleviating worldwide rubber shortages, which might well give an impetus to the production of stereo-regulars. Hence, the Malayan government took the lead in proposing that there should be an orderly plan of disposal from the US and UK stockpiles.
Releases commenced in October 1959. Less than twelve months later, however, rubber prices were declining and the Board of Trade’s announcement of suspended sales from the stockpile was having little positive effect. The Board prepared a paper in March 1961 which was passed on to the Federation government. The basic argument was that the rubber boom of 1959–60 had stimulated £75 million worth of US investment in plants producing stereo-regulars, and this could lead on to technological breakthroughs, facilitating the production of synthetics at far lower prices. What was needed, therefore, was some guarantee that natural would be freely available in quantities large enough to meet demand and at prices—at around 25 US cents (21d) per lb—fully competitive with synthetic. In this, a renegotiated agreement with the US on releases from its huge stockpile would greatly assist (the UK stockpile’s remaining 26,000 tons was unlikely to be of any account in the long term).

A secret committee composed of officials and planting interests, including the RGA special representative, and H&C and Guthries delegates, considered the matter in the Malayan capital. From Kuala Lumpur, information was leaked back to the RGA leaders in London. Sir John Hay thus entered the fray, furious that the City rubber barons, and particularly himself as ‘the Grand Old Man of the planters’, had not been consulted by Whitehall. In response to Hay’s thunderings down the telephone, the Board of Trade insisted that HMG’s concern was not for the immediate profits of UK planting interests but ‘for the long-term prosperity and political stability of South East Asia in general and Malaya in particular’. The UK government could not recognise any obligation to consult the RGA on policy matters. Yet, in the time-honoured Whitehall tactic of ‘stop[ping] [Sir John’s] mouth’ through appealing to his vanity, the Board’s A.L.Burgess lunched informally with the Guthrie supremo. After reassurances that the Board could in future bring Sir John into its confidence, the main course proceeded calmly as entrepreneur and mandarin agreed on the need to ‘choke off’ ‘excessive stereo-regular development’ by providing consumers with plenty of low-priced natural rubber.

This consensus between British official and rubber baron did not last long. In October and November 1961, both the US and the UK incurred considerable odium in Malaya and on Mincing Lane by releasing small amounts from their rubber stockpiles at prices below the cut-off price agreed between the three governments in 1959, thus depressing the price further. For domestic financial reasons, the Board, much to the chagrin of the CRO, had leapt at the chance of running down the British stockpile, ‘much of which is ancient and rotten stuff’. There was a particularly outspoken reaction from Minister of Commerce and Industry Khir Johari—not so much because the Alliance government was interested in producers’ profits but because export duties from rubber were crucial for financing its five-year plan. If the price fall were to average 70 Malayan cents per lb instead of 80 as hoped over the 1961–65 period, the loss in foreign exchange earnings would be some M$700 million, while internal revenue would be some M$240 million below estimates. The success of the five-year plan was vital not
just for the economic health of the nation but also for the chances of Khir Johari and his colleagues returning to office in the 1964 elections.\textsuperscript{30} Bowing to outcries from the producers, the Americans convened a meeting at which all producing countries were represented in Washington in December 1961. From February 1962, the UK and US restricted releases from their stock-piles when the price was below 23.5d (28 US cents) to 700 and 3,750 tons respectively, instead of the previous 1,000 and 5,000 tons.\textsuperscript{31}

Yet for the rubber barons in London, the US stockpile—still over 1 million tons—continued to hang over the industry ‘like the Sword of Damocles’. Rumours in the spring of 1962 that the Americans wished again to increase sales were giving rise to uncertainty in the ‘overall rubber situation’. As RGA chairman Charles Jackson recalled, the GSA’s panic-buying to create the stockpile in 1950–51 had induced the freakishly high prices of the Korean war boom. ‘If as many blunders are made in the liquidation of the stockpile as were made in its acquisition, disposal could lead to economic chaos in Southeast Asia.’ Jackson advocated that the US government should limit synthetic consumption by US industry to help dispose of the stockpile or insist on a maximum use of natural in all rubber products required in defence and other programmes.\textsuperscript{32} Hence, the \textit{Far Eastern Economic Review} reported that Malayan rubber growers were ‘jubilant’ given a new modified agreement reached with the American government by the major producer countries in the summer of 1962. The GSA would now ‘give away’ 12,000–15,000 tons a year additional to the present disposal limit. This free rubber would not come onto the market and, hence, would not affect the price. At the same time, 60–70 per cent of stockpiled natural rubber would be used in the making of tyres required by the US Defence Department, eating up an additional 24,000 tons per annum.\textsuperscript{33} At the same time, however, synthetic producers in the US were protected by higher tariffs against the import of new and improved, modified, oil-extended natural rubbers since the latter were classified as manufactured goods.\textsuperscript{34} Moreover, the menace of Washington’s stockpile had not disappeared. The announcement of March 1966 of ‘unlimited releases’ was greeted with great alarm.\textsuperscript{35} At a meeting in Washington in September 1966, Tan Siew Sin complained to Labour’s Chancellor of the Exchequer, James Callaghan, that the US had recently released 50,000 tons from its strategic stockpile. This had brought the Americans in US $25 million, ‘a negligible contribution towards the expenses of the war in Vietnam’, while the effect on the rubber price was a reduction of 10 Malaysian cents per lb, costing the Malaysian balance of payments some M$200 million. As a \textit{quid pro quo} for Tan’s continued commitment to the sterling area, Callaghan promised to raise the issue with the US Treasury.\textsuperscript{36} But this had little effect. One year later, Khaw Kai Boh, acting minister of commerce and industry, informed Lord Shepherd, the UK’s minister of state for Commonwealth affairs, that the Alliance government’s attempts to stabilise the rubber price had been undermined by another ‘most untimely’ release from the American stockpile.\textsuperscript{37} ‘There seems little sense in the US spending millions in Vietnam and at the same time destroying
In his discussions with Shepherd, Enche Khaw hinted at the possibility of an international commodity agreement to help stabilise the rubber price at about 60 Malaysian cents per lb. Yet, in rare agreement, both British growers and officials tended to be sceptical about the efficacy of such proposals, again emphasising their powerlessness in the struggle with synthetic. Back in 1962, Tan Siew Sin had revived the notion that 250,000 tons from the US stockpile could be put into a buffer stock to dampen down short-term price fluctuations. The Board of Trade, however, revisited arguments deployed against similar suggestions between 1952–54 and again in 1958. Essentially, a buffer stock would be costly and probably ineffective. Synthetic’s selling price was not fixed by competition with natural, but by aggressive selling by the synthetic producers one against the other, tending to establish an ‘upper limit which the natural rubber producers and dealers disregard at their peril’. At the other end, consumers would show more interest when natural rubber prices became cheap enough and, hence, the price would ‘steady up’. In other words, there was already a price-stabilising mechanism in operation. A UK Treasury, anxious to curb public expenditure and dampen down inflation, would also oppose any scheme which demanded British public contributions in either rubber or cash. On the business side, back in 1958, Sir John Hay had informed Tan, then minister of commerce and industry, that a stabilisation scheme was ‘impracticable’. He pointed out that any proposed sales from the US stockpile would need to be tabled in Congress for one year, and in any event, Hay, like the British government, reckoned that competition from synthetic had the effect of maintaining rubber prices within ‘acceptable limits’. Hawkins and Selby-Boothroyd also agreed in 1964 that there was ‘no practical chance’ for a limitation plan: ‘Even if the producers could agree quotas, there was little likelihood that they would—or could—enforce these.’

Impatient at international inertia, the Malaysian government began acting unilaterally to support prices from the autumn of 1967. Tan Siew Sin announced that an official rubber trading trust account would permit the state to operate in the market whenever considered necessary. Again, the fundamental issue was the funding of economic development rather than the health of the plantations per se. Khaw informed Shepherd that a drop of just 1 US cent in the price of rubber meant losses of US$22 million in annual foreign exchange earnings. On top of a falling tin price, unless the rubber price was boosted it would become increasingly difficult for Malaysia to purchase capital goods. These early official forays into the market were largely unsuccessful, but British rubber dealers were impressed by Malaysian government intervention to support the rubber price after it reached a low of 50 Malaysian cents per lb in early 1970. Nevertheless, leading expatriate planters continued to eschew more comprehensive international intervention in the market. On the minister of finance’s mission to Washington in the autumn of 1967, Sir John Barlow urged Tan to play the anti-communist card through arguing that the livelihood of Southeast Asian countries ‘should be reasonably secure’. 
Experience of the inter-war era, however, illustrated that restriction schemes would prove ineffectual. Instead, a quota should force US manufacturers to use a specified percentage of natural rubber; after all, it had proved possible to build up the stockpile for the Korean war by reducing natural rubber consumption by American industry from 720,000 tons in 1950 to 453,000 tons in 1951 through a quota system.46

Certain US officials had come round to the view that the rubber producers should be helped as far as possible. Following a tour of the most impoverished smallholdings on the east coast in July 1961, the US ambassador to the Federation was fully alive to the political and social consequences of low rubber prices and even suggested scrapping the stock-pile altogether.47 But, against the powerful influence of the oil and chemicals lobby in Congress, little was achieved. Moreover, by the mid-1960s, President Lyndon Johnson regarded the disposal of surplus commodities as a means of checking domestic inflation. High prices (for tin also) only encouraged the Americans to depress the price by releasing stocks.48 Disposals were halted in 1969. Yet in 1971 and 1972, under the Nixon administration, they were resumed at a period of very low prices and notwithstanding angry objections from producer nations.49

Given tough market conditions in the US, and the rhetoric of Commonwealth solidarity, British rubber producers in Malaysia might have expected to find a safe haven for their commodity in the UK. The Board of Trade admitted in March 1961 that, ‘as a rubber consuming country it suits us well enough if natural and synthetic producers compete vigorously, so that we get our rubber supplies at low cost’. But it was also recognised that HMG had a ‘general political interest in the continued prosperity and economic health of the rubber-growing countries in general and our Commonwealth partner, Malaya, in particular’.50 Even so, the former domestic consideration tended to take precedence over post-colonial obligation as UK economic policy became less and less concerned with the integrated development of the sterling area. As early as February 1952, the minister of materials, Lord Swinton, was encouraging Esso and Dunlop to develop a butyl rubber capacity in the UK (for both strategic and commercial reasons).51 This project finally came to fruition in 1958 when the International Synthetic Rubber Company (ISRC)—a consortium of rubber manufacturers—brought its plant near Southampton on stream.52 Plantation rubber continued to enter the UK duty-free but, by merdeka, Board officials were also promoting the full liberalisation of synthetic rubber imports into the UK from the dollar area so that British manufacturers, including the ISRC, might have access to the best raw materials and so compete in West European and North American export markets.53 This policy was pursued notwithstanding angry protests from High Commissioner Tory and the CRO, fearing that such moves might prejudice Malaya’s continued membership of the sterling area and the position of UK business interests in Malaya, as well as the Anglo-Malayan Defence Agreement and, hence, Britain’s ability to protect Australia.54
In 1960, Dunlop executives reassured the RGA that whereas US industry had grown accustomed to a consumption ratio of 2 lbs of synthetic to 1 lb of natural, such an adverse ratio might not be anticipated for the rest of the ‘free world’. Manufacturers would increasingly use synthetic not through any defects in the quality and properties of the plantation product but rather due to the inability of natural to satisfy industrial needs at prices deemed to be reasonably competitive with synthetic. However, the long-held suspicion amongst the agency houses that Dunlop was a perfidious beast appeared confirmed two years later: the ISRC, in which Dunlop had a major shareholding, was poised to build a £2 million plant at Grangemouth on the Forth for the manufacture of some 10,000 tons a year of the new rubber with the ‘big bounce’, polybutadiene synthetic. In 1967, the British Petroleum subsidiary British Hydrocarbon Chemicals began construction of a new major plant for the manufacture of butadiene at Grangemouth. This would have an annual capacity of 45,000 tons—more than double the combined output of the firm’s two existing butadiene units. Blended with styrene, butadiene formed a synthetic copolymer known as SBR whose superior resistance to abrasion and groove cracking made it excellent for use in motor-car tyres, while butadiene could also be worked up into polybutadiene for use in heavy-duty tyres. In 1959, the CRO continued to delude itself that the UK synthetic industry was ‘to meet the needs of those users for whom synthetic is technically preferable’. By the 1960s, this was clearly no longer the case as the petrochemicals industry in Britain increasingly produced synthetic rubbers, which competed directly with natural. On top of domestic economic difficulties, this meant that between 1964 and 1966 alone, UK purchases of the Malaysian rubber crop dropped dramatically from 118,501 to 99,193 tons, representing a fall in volume of over 16 per cent, and, by 1966, the Soviet Union, with imports of 211,183 tons, became Malaysia’s largest single buyer of rubber.

Research, replanting and marketing: rubber development in Malaysia

By 1968, UPAM president Harry Traill appreciated that the Malay name for synthetic rubber—*getah tiruan* (literally, ‘copied rubber’)—was now a misnomer. The natural product, as regards presentation, specification and marketing, ‘must [increasingly] copy the copier, and must imitate synthetic’. This, of course, emphasised the centrality of research and development policies in Malaysia, an argument not lost on policy-makers in the post-colonial state. As Lim Swee Aun, minister of commerce and industry, elucidated in a speech at the University of Malaya in February 1967, expanded production would enable Malaysia to compete with synthetic, and the key here was further replanting with high-yielding strains. At the same time, product quality and marketing required continual improvement. In London, meanwhile, the Bank of England’s commodity experts appreciated that the relatively happy position pertaining at the beginning of the 1960s was dependent upon natural rubber producers pursuing a policy of continuous
rejuvenation of plantations and of research towards improving yields and quality ‘to secure the maximum advantage from the growth in world demand for rubber and to impede…encroachment by synthetic’. They were optimistic that the estates were ‘alive to this situation’. Certainly, the MSCA’s secretary appreciated at the end of 1967 that artificial boosting of the price of natural rubber would only encourage the production of synthetic rubbers. The aim instead should be to produce first class material—well presented and at a cost as low as it is possible to achieve, as a result of highly efficient methods. Although increasingly disenchanted by the prospect of profits from rubber growing, Guthries’ directors were looking to find new outlets for their entrepreneurship and capital in a research and consultancy role for Malaysian-owned estates and smallholdings.

Yet if there was a broad developmentalist alliance between the post-colonial state and expatriate enterprise, RGA leaders were hardly in agreement with the federal government concerning the nature and the organisation of official research. A variety of bodies—principally the Rubber Research Institute (RRI), the British Rubber Producers’ Research Association (BRPRA) and the British Rubber Development Board—had undertaken research from the 1920s, financed through a levy on rubber exports. The larger producers, which maintained their own substantial research establishments, such as Guthries and H&C, had always resented the research cess, which appeared as a subsidy for the less dynamic estates. They were hardly likely to be impressed, therefore, by the greater government involvement in rubber research that accompanied decolonisation. With rapid changes in technological background and the swift expansion of synthetic production, it was believed that a more vigorous research and development policy was needed. As colonial rule ended, the Blackman Committee recommended financial and organisational changes to streamline rubber research, and this coincided with the nationalistic, statist tendencies of the early independent regime. The RGA did support an increase in the research cess from 0.5 to 0.75 Malayan cents per lb but hoped for a transfer of control of the new Malayan Rubber Fund (MRF), and of research policy generally, from government to the industry. Hence, the London growers were disappointed by the government’s determination to ultimately control the MRF and to be as autonomous of big business as possible. In introducing the 1958 legislation which established the MRF, Tan Siew Sin promised that he would not ordinarily interfere in day-to-day administration, but in the last resort the MCI would ‘have the power to ensure that research policy [was] being effectively and adequately implemented’. The state could not ‘divorce itself from ultimate responsibility for the efficiency of an industry so important to the economy of the Federation’. A measure of British influence was retained in that Sir Geoffrey Clay, a former agricultural adviser to the CO, was appointed as the new coordinating controller of rubber research. But both Tan and Clay were determined to centralise control and limit the influence of the RGA. The streamlining of research bodies was not as effective as the minister and the controller might have liked. But City influence was definitely on the wane: Charles Mann, the veteran director of Guthries, retired as head of the RRI, while in London,
the Natural Rubber Producers’ Association (NRPRA, the former BRPRA) was to have its board of management appointed exclusively by the MCI (whereas previously the RGA had exercised a right to appoint two members). Subsequently, the NRPRA and the RRI were brought under the aegis of the Malayan Rubber Research and Development Board in 1962. No longer controlling the direction of rubber research, the RGA was concerned that too much effort was being put into finding new uses for natural rubber rather than focusing on lowering costs and increasing production to stabilise prices, and so fore-stalling a consumer switch to synthetic.

Dr Leslie Bateman succeeded Clay as Malaya’s research supremo in 1962. A former head of the NRPRA, which had its laboratories in Hertfordshire, Bateman might have been expected to provide the City rubber barons with a continued lever over research policy. This was not to be the case, however. Despite vigorous RGA opposition on the RPC, the research cess was increased from January 1965 to 0.875 Malayan cents per lb. Moreover, aspects of research and publicity continued to irritate the British estates. They were, for example, opposed to the creation of a Rubber Trade Promotion Board for Malaysia, believing it would prove more fruitful to reorganise and strengthen the Technical Advisory Service of the MRF, which was ‘not yet entirely satisfactory’. And leading British planters still believed that the Malaysian industry was technically far behind the game. C.H. Wright, the head of the RGA’s Commercial Research Committee, pointed out that rubber scientists were talking of tyres made from blends of oil-extended natural with polybutadiene wearing better and giving appreciably lower costs per mile than tyres made from oil-extended SBR. But little progress had been made on the estates in the production of modified rubber. Since the ‘chemists can and will produce an improved Cis-Polyisoprene possessing many of the favourable and dominant properties of natural caoutchouc’, it served no purpose for the growers ‘to sit on [their] haunches like the proverbial fox contemplating the bunch of grapes out of reach and above his head…at best we might gather apples of Sodom’.

As compensation for high tariffs in the US after 1963, it was only at the beginning of 1968 that the Malaysian Treasury eventually granted exemption from export duty on the oil component of oil-extended rubbers.

Divergent perspectives and priorities between the expatriate growers and the independent state also revealed themselves on the issue of replanting. The ability of Malayan rubber producers, both large and small, to survive a slump and severe competition from synthetic had been greatly enhanced by the late-colonial state’s revised replanting scheme. Through a cess on exports, both estates and smallholdings were provided with grants to cut out old unproductive trees and replace them with new high-yielding strains. However, the 1955 legislation was not immediately embraced by the RGA. Just before independence for the Federation, the future High Commissioner, Geofroy Tory, was told by Hay et al. that the replanting programme was unlikely to result in any increased rubber production before 1964. The scheme would not achieve anything that the ‘progressive companies’ would not have undertaken ordinarily as part of their
ongoing development strategies. The replanting grants were principally designed to help the smallholders, but the indigenous farmers were actually falling behind with their programmes. This was because with only four or five acres to replant, smallholders could ill afford to take any part of this out of production in order to be able to produce more in the longer term. The scheme might, therefore, have the effect of increasing the gap between the Europeans and the Malays.\textsuperscript{72}

In a remarkable \textit{volte-face}, then, the RGA noted in November 1959 that the scheme had been a roaring success. Moreover, with the estates predicted to easily reach their projected replanting target of approximately 425,000 acres by the end of the programme in 1962, the RGA’s special representative, Leslie Davis, was instructed to ‘mobilise full smallholders’ support’ for a renewal.\textsuperscript{73} The RPC memorandum to the minister of commerce and industry of May 1960 was largely drawn up by Davis with input from the Malaya Committee of the RGA. It was pointed out that the scheme cost the government virtually nothing because the high prevailing rubber prices ensured that increased export revenues adequately covered the cost of the replanting grants. The grants covered 40 per cent of the cost of replanting on estates, and so were a means of the British companies receiving something back from public taxation. Even so, the RGA argued that much still needed to be done before the industry had all its trees under high-yielding strains. At the end of 1959, about 54 per cent of the 3.5 million acres planted with rubber in Malaya remained under obsolete trees: 44 per cent of the 2 million acres of estate lands and 68 per cent of the 1.5 million acres of smallholdings. Moreover, as research achieved higher and higher output from trees, replanting necessarily had to be a continuous process.\textsuperscript{74}

Finally gazetted in August 1964 and backdated to January 1962, the rubber barons were soothed by the provisions of the second replanting scheme, which did not fundamentally deviate from the recommendations of a joint working party of RPC members and Malaysian officials.\textsuperscript{75} Nevertheless, the European-owned estates were being progressively squeezed out of the government’s development initiatives and were increasingly at the mercy of federal finances. An RPC delegation, which met the finance minister in April 1966, appreciated that there was no prospect of a further renewal of official replanting for estates beyond the end of the year, given the low price of rubber. The First Malaysia Plan did make provision, however, for a smallholder scheme.\textsuperscript{76} As a result, between 1966 and 1970, 467,500 acres of old rubber were replanted in Malaysia: 65 per cent on smallholdings, but only 35 per cent on estates. The clear bias towards the smallholder section at the expense of the estates was illustrated by the fact that almost all smallholder replanting was financed by government grants and the industrial cess (which was extracted from estate as well as smallholder exports).\textsuperscript{77} Malaysian entrepreneurs were also in the ascendant on the larger plantations. Estates as a whole remained more productive than the smallholders, but this was increasingly down to the more efficient Chinese-and Indian-owned units. As the leading rubber trader R.G. Bennett emphasised for 1968, output increases on Asian plantations were far higher than on European-owned estates. The overall rate had
improved by 12.8 per cent since 1967 but the expatriates had only managed a rise of 5.2 per cent.\textsuperscript{78}

Moreover, while the rubber tycoons in London placed an emphasis on replanting, the government in Kuala Lumpur had other priorities in its development strategy, notably land development schemes for new planting by Malay smallholders. During the visit of Sir Henry Lintott to the Federation in January 1958, the CRO mandarin was informed by Tan Siew Sin that the replanting programme was being held up by the slow rates of replacement on the indigenous plots, owing to the ‘laziness of the Malay smallholder’. Many Malay cultivators were having their replanting grants deferred because the inspection teams were not impressed with weeding and other agricultural practices. In Tan’s view, the only answer to the smallholder problem was new planting, and hence M$30 million had been allocated for this purpose, with a similar grant system to the replanting programme of M$400 per acre.\textsuperscript{79} When Abdul Razak took on the rural development portfolio in 1959, even more emphasis was placed on resettlement schemes. At the end of the Tunku era, then, FELDA alone had developed 308,400 acres of virgin jungle, resettling 20,700 families on some ninety schemes producing rubber and oil palm.\textsuperscript{80}

This did not completely exclude the agency houses since the development schemes relied on their technical expertise.\textsuperscript{81} Moreover, as a perceptive J.N. McKelvie, the Trade Commissioner in Kuala Lumpur, pointed out back in 1960, the British rubber estates had a ‘close interest’ in the progress of the rural development campaign. After all, the takeover and subsequent fragmentation of estates was propelled by land hunger.\textsuperscript{82} But despite these opportunities and interests, and increasing cooperation between the smallholders and the estates on the RPC, the expatriates still feared competition from the indigenous growers. It was suggested in 1968 that the RRI should undertake large-scale processing of smallholder rubber; the RGA was aghast because this might be undertaken on a non-commercial basis and hence be effectively subsidised by the Malaysian government and the estate side of the industry.\textsuperscript{83} Indeed, both REAL and Guthries suggested to ODM officials that the UK’s special aid programme might be used to support their own efforts at establishing central factories processing smallholders’ rubber in West Malaysia. Yet the ODM was unable to trust the costings supplied by the big agencies. Moreover, Bateman, far from the stooge of the RGA, vigorously supported the RRI plants to force existing processors to pay fairer prices. British aid was therefore directed to the six factories planned by the RRI and FELDA.\textsuperscript{84} Moreover, in October 1969, the formation of the Malaysian Rubber Development Corporation (Mardec) was announced. Mardec would be financed from the MRF and would take over the various central rubber processing factories previously operated by the RRI, managing them on a commercial basis. Mardec’s primary objective, as Lew Sip Hon, the deputy controller of rubber research, pointed out, was to assist smallholders to market as much rubber as possible in the form of Standard Malaysian Rubber (SMR). At this juncture, nearly half of West Malaysia’s output was derived from smallholdings, and of over 1.7
million hectares under rubber in the peninsula, smallholdings accounted for approximately 1 million hectares (or over 60 per cent).\textsuperscript{85}

This is not to say, however, that the British rubber companies were excluded from opening up new estates. The first pan-Malaysian plan of 1966–70, although unable to fully support a replanting scheme for estates, did make more land available to the expatriate plantation companies. This had not been done for several years, but as the UK High Commission appreciated, the reversal of policy ‘has probably come too late’. Estate companies had funds readily available in the 1950s and early-1960s boom periods—so much so that according to RGA calculations, between 1953 and 1959 the rate of reinvestment by its members (largely in replanting with higher-yielding rubber trees or with oil palms) was £65–£67.5 million, or about £9–£10 million per annum. Yet now the boards in London informed local managers that the Wilson government’s financial policies—that is, the abolition of OTC status and a new corporation tax designed to restrict capital outflow—made it impossible to supply funds even for commercially viable projects. On top of this, growing political uncertainty did not make UK boards look favourably on large-scale new commitments.\textsuperscript{86} Hence, the First Malaysia Plan saw 117,300 acres new-planted with rubber, but of these, 105,400 acres, nearly 90 per cent, were on smallholdings (including FELDA schemes).\textsuperscript{87} The general ascendancy of the smallholders over the estates during the 1960s in terms of total planted area, new plantings and replantings is brought out in Table 4.1.

Marketing was another area where British estate power was eroded in the post-colonial period. After 1960, a Kuala Lumpur rubber exchange was part of Alliance ambitions for a national economy discussed in Chapter 2. This was propelled by a nationalistic desire for the Federation to have its own institutions (independent of both London and Singapore), but was also underpinned by an economic rationale: the belief that higher prices could be achieved by selling on a local exchange. After merdeka, most European plantation companies continued to sell their produce on the London market, and the charge was that they sold more cheaply there to benefit City ‘middlemen’ with whom they colluded. Such an allegation seemed to be confirmed by the overlap of RGA and RTAL membership. For example, Alan Calver of REAL and Keith Anderson of Guthries both had spells as chairman of the London rubber market during the 1950s. The agency houses and rubber dealers were not completely averse to a Malayan market, which might act as a stabilising influence on prices by eliminating wild speculation, and so long as its working was left entirely in the hands of the dealers themselves. The original proposal to the Tunku actually came from Harry Kissin, head of leading British commodity brokers Lewis & Peat, who argued that political uncertainty in Singapore was having a detrimental effect on the stability of the island’s rubber market. Additionally, the rubber section of the FMSCC, as well as a new Federation Rubber Traders Association, helped in the organisation of the Kuala Lumpur exchange.\textsuperscript{88}
It was hoped, however, that the Kuala Lumpur market would be a smallscale operation, and would coexist with its senior partner in London. The RGA and RTAL thus resisted attempts to introduce legislation to force Malaysia’s customers to buy in Kuala Lumpur. By 1961, the Federation exchange was set to open and the commerce ministers hoped that the UK government would persuade the growers, and even the UK consumers, to sell or buy through Kuala Lumpur. The Board of Trade was not forthcoming. In support of the London trade, A.L.Burgess put it to J.J.B.Hunt in the CRO in May 1960 that ‘Our concern is that the London rubber market’s opportunity to bring in some profits to this country should not be endangered by an unnecessary distortion of the pattern of world trade.’ The Bank of England would not help the Federation either. Threadneedle Street recognised that the London market was losing ground to Singapore, New York and now probably Kuala Lumpur, while Singapore Chinese processors-cum-dealers were bypassing the London exchange through direct sales to consumers, often with the help of agencies overseas in a position to supply more swiftly and more cheaply than the City brokers. The principal defect, as the Bank saw it in the early 1960s, was an ‘antiquated system of trading with its atmosphere of secrecy’ and the price of rubber being pushed up (not dampened down) by brokers’ costs. But, rather than supporting further localisation, Lucius Thompson-McCausland encouraged the RTAL to reform itself and develop an efficient market. The thinking of the adviser to the governors was that, ‘If London tends to drop out of the race, the position of the London Agency Houses will begin to look very different…and the influence of London in the whole business of rubber growing and rubber selling will wane.’ This would have implications ‘both for our direct export of plantation supply goods and for general merchanting in South East Asia’. 

Table 4.1 Areas of estate and smallholder rubber in West Malaysia (‘000 ha), 1957–70

<table>
<thead>
<tr>
<th>Year</th>
<th>Estates Total planted area</th>
<th>New plantings</th>
<th>Replantings</th>
<th>Smallholdings Total planted area</th>
<th>New plantings</th>
<th>Replantings</th>
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<tbody>
<tr>
<td>1957</td>
<td>814.0</td>
<td>6.5</td>
<td>30.9</td>
<td>692.0</td>
<td>4.6</td>
<td>20.2</td>
</tr>
<tr>
<td>1958</td>
<td>801.7</td>
<td>5.6</td>
<td>26.2</td>
<td>714.7</td>
<td>4.4</td>
<td>24.2</td>
</tr>
<tr>
<td>1959</td>
<td>785.9</td>
<td>5.8</td>
<td>27.6</td>
<td>744.2</td>
<td>8.5</td>
<td>28.0</td>
</tr>
<tr>
<td>1960</td>
<td>782.9</td>
<td>8.8</td>
<td>30.4</td>
<td>765.7</td>
<td>10.2</td>
<td>28.1</td>
</tr>
<tr>
<td>1961</td>
<td>784.1</td>
<td>7.2</td>
<td>28.5</td>
<td>823.5</td>
<td>27.3</td>
<td>23.2</td>
</tr>
<tr>
<td>1962</td>
<td>779.6</td>
<td>4.0</td>
<td>25.5</td>
<td>900.1</td>
<td>33.4</td>
<td>28.0</td>
</tr>
<tr>
<td>1963</td>
<td>776.8</td>
<td>3.5</td>
<td>23.8</td>
<td>943.7</td>
<td>40.6</td>
<td>33.8</td>
</tr>
<tr>
<td>1964</td>
<td>766.2</td>
<td>2.5</td>
<td>23.8</td>
<td>975.7</td>
<td>23.3</td>
<td>32.3</td>
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<td>752.3</td>
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<td>21.5</td>
<td>1021.9</td>
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<td>733.8</td>
<td>1.3</td>
<td>20.2</td>
<td>1040.5</td>
<td>10.9</td>
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<tr>
<td>1967</td>
<td>706.7</td>
<td>1.0</td>
<td>11.3</td>
<td>1053.3</td>
<td>7.9</td>
<td>32.3</td>
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<td>1968</td>
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<td>5.3</td>
<td>1055.4</td>
<td>4.2</td>
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<tr>
<td>1969</td>
<td>663.2</td>
<td>0.9</td>
<td>9.7</td>
<td>1067.1</td>
<td>6.3</td>
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<td>1970</td>
<td>646.6</td>
<td>1.2</td>
<td>14.1</td>
<td>1077.2</td>
<td>11.0</td>
<td>21.5</td>
</tr>
</tbody>
</table>

Source: Barlow, Natural Rubber Industry, Appendix Table 3.2, pp. 442–3.
The Malayan rubber exchange made a slow start and swiftly ran into financial difficulties by the end of 1962. The suggestion from the Federation government was for an additional cess to keep it going. The RGA batted this down by arguing that with the imminent ‘Greater Malaysia’, there was plenty of opportunity for ‘rationalisation’ with the Singapore market and extra finance would not be needed. With the split from Singapore, however, the Malaysians were determined to get an effective rubber market operating in Kuala Lumpur and sent a team to the UK, which included MCI officials and Senator Gan Teck Yeow, chairman of both the RPC and the Malaysian rubber exchange, to liaise with the RGA and the RTAL at the end of 1966. Sir Claude Fenner advised from Kuala Lumpur that a ‘positive response’ should be made. This was ignored. The growers argued that local dealers, including Senator Gan, would probably be loath to forego the advantages provided by the Singapore exchange. Tom Barlow suggested to Gan that the British estates should be left alone, pointing out that more than half of Malaya’s rubber was produced by smallholders and local estate owners—if this could be sold in Kuala Lumpur, the mission would have its market. The Barlow group of rubber companies was selling substantial amounts in Southeast Asia, but Gan was not pleased to hear that this ‘all slips through to Singapore’. An RGA-RTAL mission was sent out to Kuala Lumpur to further kill the idea.

Such shortsightedness did not impress those Britons hoping for a bigger business vision for the British plantation sector. At the end of the Tunku’s political reign, W.G.G. Kellett, director of the RGA, argued that conservatism in marketing was prejudicing the long-term British interest in the natural rubber industry. His suggestion was that ‘vested interests’ were being unnecessarily protected by the existence of so many ‘middlemen’, pushing up the price of natural and making it uncompetitive with synthetic. On the other hand, the idea that producers were subsidising the middlemen had been revived by Senator Gan in recent talks with Sir Claude Fenner. Some producers, it was claimed, were losing as much as 0.5d per lb by selling through London and hence Malaysia was losing an equivalent amount of export earnings. So long as rubber was marketed in the present fashion, these charges would continue to be made, ‘and, whether or not they are true, they must weaken the position of British rubber plantation companies in Malaysia’. ‘Companies just cannot help becoming politically involved’, Kellett warned. ‘[P]ractices that may have been accepted by…the Colonial Power in former days…will not necessarily be acceptable in the future.’ Moreover, with very low natural rubber prices predicted ahead, British producers would not be able to cope if existing marketing arrangements were maintained. Apart from the avowed intention of the Malaysia-Singapore market to close the London exchange, there was also a new threat from the concept of regional marketing, which was given a fanfare of publicity at the inaugural meeting of the Association of Natural Rubber Producing Countries in Kuala Lumpur in October 1970. The minister of commerce and industry, Khir Johari, declared at this meeting that rubber marketing boards might be needed in individual countries, and Kellett pointed out that a worrying
precedent had been set by the Nigerian Palm Oil Marketing Board which was currently paying producers less than half the prevailing world price for palm oil.

Whatever change might be forced upon existing natural rubber producers, Kellett was confident that large indigenous sellers, most notably the Lee Rubber Company—owned by the Singapore Chinese millionaire Lee Kong Chian, and with annual export sales of 1 million tons processed in large scale factories from smallholdings and its own estates—would cope. Similarly, a ‘colossus of this size’ would be able to adjust to prices at much lower levels, as would synthetic producers. The British rubber manufacturers had proved capable of forming a ‘consortium’ to produce and sell synthetic rubber in the UK, so why was it not possible for British natural rubber growers to combine to process and sell their products direct to consumers, without subsidising brokers and dealers? Surely this would also allow for an element of price stability, the lack of which had, of course, bedevilled the industry over the previous decade. Kellett also pointed out that a huge UK consortium could likewise deal with the products of other plantation crops such as oil palm.

But RGA members ignored the advice of their long-serving chief executive and continued to resist federal government attempts to sell all Malaysian rubber through the Kuala Lumpur rubber exchange. RGA intransigence, supported by Threadneedle Street and the Board of Trade, did help preserve the London terminal market into the 1970s. But, as the foresighted Kellett predicted, the City was eventually superseded by direct trading between producers and consumers on the Lee model. At the same time, British control of the plantation companies fell to Malaysian parastatals and Chinese entrepreneurs.

The limits of commodity agreements: tin and the global economy

British producers of Malaysian tin experienced more price stability than their counterparts in the rubber industry thanks largely to the ITA, originally drawn up in 1953 but not fully operational until 1956. Theoretically, the world tin price was controlled through a buffer stock, which would buy or sell at agreed floor and ceiling prices. The buffer stock was to operate in conjunction with export control. One of the ITA’s chief architects, Oscar Spencer, the Federation’s economic adviser who stayed on for three years after independence, claimed in August 1959 that the agreement ‘can claim credit for securing a much greater measure of stability over a very difficult period than the industry would have enjoyed if everything had been left to the forces of the market’. The ITA was renewed and revised every five years, and Gill Burke tells us that, ‘All in all, matters were relatively harmonious for the duration of the first four ITAs.’ An examination of tin metal prices over the Tunku years projects a general image of steadily rising values (see Figure 4.3).

Yet even under the umbrella of an international stabilisation scheme, the tin miners and smelters of Malaysia experienced a series of anxious moments,
induced, like rubber, by the unpredictabilities of global economics and geopolitics. One problem was that tin, although less substitutable than rubber, was subject to competition from new packaging materials, such as aluminium in cans. Moreover, an inherent flaw in the 1956 scheme was that the largest consumer, the US, and a substantial producer, the USSR, stayed outside the agreement, and the vulnerability of British interests in the Malayan mines was soon to be exposed during the tin crisis of 1958–59. In December 1957, production for export was restricted in accordance with the decisions of the ITC. Over 50 per cent of dredges ceased operations during 1958 and 1959, and the labour force in both the European- and Asian-owned mines in September 1958 stood at 24,000 (about 14,000 below normal). This obviously affected the British-managed smelters at Penang, Butterworth and Singapore also, since supplies dropped to only 55 per cent of the 1957 figure, necessitating a severe contraction in processing. Indeed, the British tin industry as a whole was ‘caught rather off balance’ by the decision to impose restrictions without the three months’ notice expected of the ITC. Moreover, the secretary of the British-dominated FMSCM in Ipoh predicted at the beginning of 1958 that the ITC would stick to the present rate of restriction. But the rate had to be increased from 28 to 40 per cent of normal production and reached 50 per cent by 1959. The problem of oversupply, arising from the American downturn and the termination of GSA stockpiling, was compounded by Russian flooding of tin markets through Denmark.

In Malaya, the British miners were clearly unsettled and divided on how to deal with the situation. In February 1958, the industry’s European and Chinese representatives on the Tin Advisory Committee supported the Federation government’s decision to back the creation of a special fund to be put at the disposal of the buffer stock manager in London (who had already used up his £17 million allowance to support the floor price). Sir Douglas Waring, chairman of LTC subsidiary Anglo-Oriental, boldly declared that ‘It shows we mean business.’ The fund would support the price through mopping up the tin surplus and making restrictions on tin exports more effective. However, other anonymous ‘tin men’ told the Straits Times that, through the UN, Malaya should ‘woo’ the Russians, ‘or else’. By bringing the USSR into the tin pact, the superpower’s production could also be restricted. Yet others were more Cold War-minded. Norman Cleaveland, the American manager of the Pacific Tin Consolidated Corporation, supported by the British dredgers of Perak, wanted the US to join the ITA. Alternatively, US stockpile purchases might counterbalance Russian dumping, especially as the Soviets appeared to be engaging in a fiendish plot to depress prices and cause chaos in Southeast Asia to produce conditions ripe for communist takeover.

By the summer of 1958, the tin crisis was affecting financial interests in London. The Chartered Bank held the account of the ITA buffer stock. It had already advanced £4.5 million to the special fund, but, contrary to the hopes of Waring, this had failed to hold up the price, and the exchange bank was now being approached for a further £2.5 million. Howard Morford, Chartered’s chief general
manager in London, was understandably reluctant to see any more money out on tin. Concurrently, CTS—the Anglo-Bolivian-French-Dutch conglomerate, linked to the LTC and owner of the smelting business of the ESC in Penang—was giving considerable support to the buffer stock by withholding substantial tonnages of tin from the market. Chartered and CTS, it should be noted, were cosily connected through Clifford Waite, the chief executive of CTS who also had a seat on the bank’s board. Both Morford and Waite hoped that HMG might now provide guarantees for extra buffer stock finances or might alternatively revive its ‘strategic stockpile’ powers to buy large quantities of tin. Efforts were being made to shore up the scheme by enforcing a ration on imports of Russian tin into the chief consuming countries, but the ITC stock would need tiding over until the restriction on Russian imports could be made effective. Waite, also a tin adviser to the Board of Trade and an attendee of ITC meetings in that capacity, put the Macmillan government’s trade and industry team in the picture, emphasising that ‘a very nasty knock’ in CTS’s profit and loss account ‘could eat up the whole of their profits in a normal year…and…seriously cramp their ability to expand, diversify or modernise’.

In September, the buffer stock did secure an extra £500,000 from City financiers Hambros, but even after the imposition of quotas on Soviet metal, another £1.25 million of Russian tin was expected for sale on the LME. However, the Treasury and the Board of Trade, and even the usually sympathetic Bank of England, made it clear to Waite and Morford that ministers would have to be told that considerable

Figure 4.3 Annual average prices of tin metal, London, 1945–70
Source: Jomo, Undermining Tin, Appendix Table 2, pp. 80–1.
Note: From January 1970, price is in £ per tonne
sums would be needed to see the tin scheme through to ‘calm waters’. The only considerations, which might override the case against intervention, were Cold War and Commonwealth political ones. The situation was considered worthy of Cabinet scrutiny, but the president of the Board of Trade, David Eccles, ignored the pleas from the City. He pointed out that HMG would have to purchase at least 5,000 tons of tin at a cost of £3–4 million ‘if disaster in Malaya was to be avoided’. Not to support the scheme would admittedly be an embarrassing prelude to the upcoming Commonwealth economic conference in Montreal since the UK had long been criticised by other Commonwealth countries for a lack of cooperation in international commodity schemes. British prestige might additionally be dented, and a fillip given to communism in Southeast Asia. But the bottom line was that British public finances were just not in a position to make an indefinite commitment to the buffer stock. HMG’s strategy, therefore, was to try to convince Washington to cooperate in the reconstruction of the agreement and place the ITA on a ‘more sound and economic basis’.

Hence, on 18 September, the special fund was exhausted, the floor price of £730 per ton was broken and the buffer stock suspended operations, leaving the Chartered and Hambros secured on unsaleable tin. In Washington, meanwhile, the British and Malayan ambassadors failed to interest the Americans in revamping the ITA. Officials in the State Department argued that there was nothing more that the US could do to help. The Americans were not buying any Soviet tin, and further GSA purchases were excluded by a heavily overfull stockpile and limited funds. As for joining the tin agreement, this was a ‘very remote possibility’, requiring Senate approval, and there was strong opposition both there and within the Eisenhower administration. Fortuitously, liquidation of the buffer stock tin progressed well in early 1959, accelerated by economic recovery in the US. The special advances of £5 million were repaid to the banks in a short time. But as Thompson-McCausland appreciated, this was ‘a much better outcome than seemed likely until a short time ago’.

The operation of the ITA also continued to frustrate British tin interests. As the world market position improved, there emerged disagreements on the scaling down of export quotas. Clifford Waite and J.Ivan Spens, chairman of the LTC and also a director of CTS, recommended that Malaya’s present export quota of 20,000 tons per quarter, as well as the prevailing floor price, should be maintained throughout 1959. The tin barons appreciated that in an election year, the Federation government would wish to see more Chinese miners back at work. But the CTS-LTC argument was that increases in output would be a mere palliative and would have an immediate downward effect on the price. The tin towkay in the AMCMA were hardly enthused by this proposal, but Waite’s and Spens’ influence came to bear on the advisory committee in Malaya, and the Federation’s delegation to the ITC meeting in February 1959 stuck to the Waite-Spens line. But the tin leaders in the City were unable to convince the Board of Trade. Given its desperation to dispose of the UK strategic stockpile, the Board was prepared to see a revision of prices and a raising of quotas. The CTS-LTC-Federation alliance was also
overruled at the ITC since, following protracted haggling between producers and consumers, a quota of 23,000 tons for April–June 1959 was agreed. Hence, this narrative of the ITA’s difficulties during 1958 and 1959 clearly illustrates that tin interests in the City did not always get their way.

Into the 1960s, the British government continued to be largely indifferent to the fortunes of British tin interests in West Malaysia. In supporting a renewal of the ITA in 1960, the Board of Trade argued that the using industries desired moderate and stable prices while the avoidance of recessions in Malaya squared with the interests of British exporting industries and was in ‘our general political and economic interest’. The Commonwealth political consideration was also particularly significant since, two years earlier, the Montreal Conference had stressed the desirability of the ITA’s success. In Malaya, the dredgers generally supported a new agreement, and their voices were well represented in the powerful clique of political and business figures which made up the Malayan delegation to the 1960 UN tin conference in New York, charged with drafting the second agreement (ITA2). The Federation’s party included: Sir Douglas Waring, soon to become deputy chairman of the LTC in the City; David Mitchell, the new chairman of Anglo-Oriental in Malaya; Senator Sir Henry Lee, the former finance minister and leading Chinese miner, closely associated with Waring; and Senator Chan Kwong Hon, another Chinese mine-owner and council member of the AMCMA. The delegation’s leader, meanwhile, was the Malayan ambassador in Washington, Dato Nik Kamil, who had political and business connections with another leading British tin director in the Federation, Dato W.M. MacLeod. Even so, major aspects of the new pact disappointed both Chinese and European mining circles in Ipoh—notably the continued failure of Russia and the US to join. A further frustration was that the buffer stock was to be reduced by only 5,000 tons from its present figure of 25,000 tons. The Malayans had asked for the stock to be limited to 15,000 tons, but the figure of 20,000 tons meant that the producers would still have to bear the revenue burden of carrying the buffer stock. When ITA2 came into effect in July 1961, Japan, now the second largest consumer of Straits tin, had signed up. Yet despite the Tunku urging the Americans to join the international agreement during a tour of US cities in November 1960, Washington preferred to maintain its ‘benevolent neutrality’ outside the ITC (until 1975). This meant that the US’s strategic stockpile of tin—amounting to over 350,000 tons in 1961, or twice the world’s annual demand—remained a rogue element in the international tin market, unbound by ITC decrees. Two months after the inauguration of ITA2, the GSA began releasing 200 tons a week and, following an interview with an LTC director, the CRO appreciated by March 1963 that this disposals programme would effectively allow the US to control the price of tin for the next sixteen to twenty years. Even by the end of 1961, the American disposals were believed to be depressing the market. The Alliance government, aware that investors and miners were hesitant in proceeding with their expansion programmes until this element of uncertainty had disappeared, argued for an increase in the ITC price ranges. The Board of Trade, however, further
distressed Malayan opinion by resisting a price rise. The guardians of British industry in Whitehall continued to attach far more importance to controlling the GSA’s tin releases through encouraging the Americans to join the ITC; any price increase would frighten them off, and would be countered anyway by accelerated sales from the stockpile.\textsuperscript{119}

This attitude did not please the British dredgers. David Mitchell, as president of the FMSCM, supported the Malayan government line in May 1962; that is, US stockpile releases should be geared to a fixed price vis-à-vis the ITC ceiling price. The gulf between demand and supply was decreasing, thus increasing the likelihood of a downward spiral in prices. Mitchell was partially reassured by President Kennedy’s pronouncements that the US government did not intend to depress the price of tin, and by the Secretary of State’s recent statement that no action would be taken which would disrupt the markets of less-developed countries. Yet without the establishment of a ‘cut-off’ price, ‘our anxieties cannot be completely dispelled’.\textsuperscript{120}

Those fears were multiplied when Federation delegates to international conferences discovered that American officials were largely ignorant of the realities of Malayan tin mining. The administration in Washington laboured under the misapprehension that the Federation did not fundamentally gain from high prices because nearly two-thirds of the industry remained in British hands. Any increase in price, therefore, only swelled City coffers. This line of thinking overlooked the large levels of reinvestment, the burgeoning Malayan shareholdings and the employment of Malayan workers in the British mines, as well as the income taxes and export duties flowing into the Federal Treasury. Even the British Board of Trade misunderstood the position. After scrutinising the annual reports and accounts of the tin companies, Board officials believed that a price of £700 per ton gave the dredgers a good profit. CRO officials were more sympathetic, however. W.D. Drysdale pointed out that the best land in Malaya had been worked out, and while it might be possible to survive on a price of £800, none of the dredgers would start up on the poorer land and invest at prevailing costs without the prospects of much higher prices.\textsuperscript{121} Indeed, in September 1962, Mitchell told the shareholders of Berjuntai Tin Dredging Limited—a leading firm in the Anglo-Oriental group—that a higher price for tin would encourage the development of low-grade areas, and the gap between production and consumption was liable to widen as existing mines became exhausted. If the shortfall increased year by year, Mitchell argued that the US should not continue to hold the price of tin to an artificially low level, which would give very little scope to the opening of new mines, eventually leading to a tin famine. ‘That, rather than a higher price, is what makes consumers turn to substitutes.’\textsuperscript{122}

Bank of England officials were impressed with Mitchell’s ‘charming’ personality and his social status as an old Etonian,\textsuperscript{123} but British officialdom as a whole would not go beyond its role as ‘honest broker’ in discussions between Malaya and the US on tin disposals.\textsuperscript{124} In March 1963, Clifford Waite tried his luck at the State Department, talking to Ed Getzin, chief of the Industrial and
Strategic Materials Division. Again, however, this interview underlined that British tin producers remained at the mercy of US policy. A revised US programme for disposals had been submitted to the ITC, but Getzin warned that the miners and smelters should refrain from criticism, otherwise the State Department would not be able to resist the GSA, which would point to ‘the fallacies’ of the producers’ arguments and would insist on selling more tin. The best Waite could hope for was that Washington continue to follow a middle course between the foreign and domestic pressures on disposal. Waite, and British tin interests generally, continued to set great store on the US acceding to the ITA. Kennedy’s administration was now more amenable to international commodity agreements than its Republican predecessor, but still had to be convinced that the huge effort involved in trying to persuade American industrialists and Congress that the US should join the ITA could be justified.125 The GSA’s revised disposal plan announced on 22 March included this sentence: ‘The program will be continuously reviewed and sales will be reduced or temporarily suspended during periods of significant relative price weakness.’126 Yet such ‘vague’ statements did little to reassure Errol Shearn of the Tronoh group. It would be far more ‘comforting’, Shearn opined, if the Americans, who ‘held themselves out as friends of free democratic institutions’, would refrain from disposing of their tin (and rubber) stocks. Uncertainty regarding the future had ‘undoubtedly greatly reduced’ the tin price.127

From early 1964, however, the demand for tin was outstripping supply and the ITA had become largely redundant through the exhaustion of the buffer stock’s ore. The agreement was no longer effective in stabilising prices as the market price levelled off above the ceiling price agreed by the ITC and, ironically, the balance between supply and demand was now being maintained, and runaway prices avoided, by releases from the US stockpile.128 From the summer, with the prospect of ITA3 in 1966, old divisions in the British tin-mining industry concerning the necessity of the ITA re-emerged. Waring, now chief executive at the LTC, told shareholders in London that with uncertainty over GSA attitudes and actions, the multinational could go ahead with its development plans. The ITAs provided precisely the stable conditions required for such long-termism: ‘it would be unwise to hurry to dismantle the machinery of the Agreement which has been an example of co-operation between producer and consumer nations and provides an authoritative body for discussions with the GSA’. The problem of ‘burdensome surplus’ seemed over, with consumption running some 20,000 tons ahead of production per year as supplies from the Sino-Soviet bloc had dried up. But, for Waring, moderate, stable prices had to be maintained to avoid further advances in substitution.129 On the other hand, G.W.Simms, chairman of Tronoh Mines Ltd and last of the Cornish pioneers, reiterated his view—now over thirty years old—that the tin miner would be far better off without a commodity agreement. The ITAs, just like the restriction schemes of the 1920s and 1930s, denied opportunities for large, quick profits in boom periods.130 A dissenting voice in Kuala Lumpur, meanwhile, was Dato MacLeod, chairman of Sungei Way Dredging Ltd.131
MacLeod argued that in a period when demand exceeded supply, international commodity control could operate only in favour of the consumer. In supporting the agreement, Malaysia was merely assisting other producers, especially a hostile Indonesia, at her own expense. The sooner that the Malayan mines quit the agreement and received refunds from the buffer stock contributions, the sooner would expansion of the mining industry take place. MacLeod also viewed the substitution argument as bogus; any increase in price up to £2,000 per ton would not increase the search for substitutes because this phenomenon was already taking place. Substitution, as well as reclamation and conservation techniques in consuming countries, were not occasioned primarily by the price of tin but by insecurity of supply.132

In London, the Board of Trade, supported by the CRO, advised that HMG ratify the draft agreement of April 1965, which was drawn up at the UN Tin Conference in New York. But this did not mean that the British government was taking the side of the LTC over Tronoh in the tin dispute. ITA2 had not been effective in controlling prices, but as the world’s second largest consumer of tin, the Board saw the UK’s basic economic interest in avoiding a producers-only agreement, which could push prices to unacceptable levels. A demonstration of Britain’s intentions might additionally assist the Board’s long-term strategy of encouraging the US, as well as West Germany, to put aside their doubts and become members of the ITC.133

In Malaysia, however, Simms and MacLeod, as well as Cleaveland, the American miner, appear to have had a fleeting influence. The Tunku caused some hearts to miss a few beats in the LTC boardroom with a shock announcement on 16 December that his Cabinet would not sign up to ITA3 and would establish its own stockpile.134 This was also against the advice of MCI officials and the Chinese mining associations. Without access to Malaysian Cabinet records, we cannot be certain why this decision was taken. But according to British official intelligence, this unilateralism derived principally from Tan Siew Sin’s belief that the agreement would have a depressing effect on prices and from his reluctance to see a large sum of money tied up in the buffer stock (£4 million)—money which could be better utilised in developing the tin industry on the home front. In this, Lim Swee Aun, the minister of commerce and industry, was overruled by his senior MCA colleague.135 But on 28 December—just three days before the final ratification deadline—the Malaysian Cabinet decided to participate after all, ‘out of deference to the wishes of Malaysia’s friends, Thailand, Nigeria, Bolivia and other tin producing countries’.136

Third World solidarity thus allowed the LTC’s executives to breathe a little easier. Moreover, at a meeting of the ITC in July 1966, the Malaysian delegation was pleased to achieve an upward revision of the intervention price range (£1,000–£1,200 a ton to £1,100–£1,400 a ton)—not least H.M. Fuller, an Anglo-Oriental director and president of the States of Malaya Chamber of Mines (the renamed FMSCM), who had forcibly argued that any fall from present price levels was likely to result in a reduction of Malaysian production by at least 10,000 tons.137
As far as the producers were concerned, ITA4, drawn up during 1970, was the best scheme yet, largely because with the end of Confrontation, Indonesia and Malaysia dominated proceedings on the ITC (now known as the ‘old colonies club’).\footnote{138} The Malaysian official line had clearly returned to a broad consensus with the LTC/Anglo-Oriental executives—that is, the contention that the ITA permitted miners to ‘plan their investment programmes with a greater degree of certainty, which in turn will contribute to an orderly development of the [Malaysian] tin mining industry’.\footnote{139}

Even so, developments in the international economy during the late 1960s had continued to disappoint the tin magnates in both London and Kuala Lumpur, exposing the ongoing vulnerability of their commodity. Like rubber, tin prices began to dip during 1966 (see Figure 4.3), and the dredgers, as well as the Malaysian Cabinet, once again turned their attention to the effects of American stockpile sales. In a delegation of expatriate tin mining firms to the US Ambassador in Kuala Lumpur in October, MacLeod played on Cold War fears by emphasising that it was the small Chinese miners who would be forced out of production if the price of tin fell any lower; the dredging companies had much lower production costs, and in any case would have to keep mining whatever the price in order to cover their high capital overheads.\footnote{140} With little change of attitude in Washington, the devaluation of sterling one year later appeared a possible salvation. In contrast to rubber, the world tin market remained centred on London with prices quoted in sterling well into the post-colonial era.\footnote{141} Following the drastic change in the pound’s exchange value in November 1967, the ITC agreed to an increase in the price ranges within which the buffer stock manager operated in order to stabilise prices, in direct proportion to the devaluation (about 14 per cent). However, much to the irritation of tin producers and the Malaysian government, tin prices on the LME did not increase by this proportion. By January 1968, Malaysian tin producers were receiving £33 per ton less for their metal than they might have expected. Devaluation, rather than boosting prices, intensified existing weaknesses in the market as a result of the balance which was now apparent between production and consumption.\footnote{142} As such, export control, albeit considerably more moderate than ten years earlier, was imposed during the last quarter of 1968 and for all of 1969.\footnote{143}

**Land alienation and taxation: tin development in Malaysia**

In January 1962, during an ITC meeting, H.M. Fuller confessed to W.D. Drysdale of the CRO that the FMSCM and the Malayan government were ‘on very close terms’. The Chamber appreciated that it was ‘no use interfering in “policy” but it was often possible to make recommendations after a policy had been decided’.\footnote{144} Nevertheless, there remained two central development issues, land alienation and taxation, which the British side of the Malaysian industry regarded as ‘undermining tin’ long before the great crash of the 1980s.\footnote{145}
The improvement in security, consequent upon the winding down of the Emergency, finally permitted prospecting in the peninsula’s remote swamps and forests. Even so, if promising ore finds were to be exploited, an improvement in the conditions on which land for mining was made available by the state governments was required. Much of the industry, according to the CRO in 1959, was suffering from ‘land starvation’ as mines exhausted their ore reserves and ran out of swamps and riverbeds to dredge. F.G.H.Allen of Jardine Waugh, the Malayan wing of the Hong Kong-based Jardine Matheson group which managed two mining companies, believed in March 1961 that swifter alienation of land for tin was ‘urgently required’. To assist this, the president of the FMSCM called in May 1962 for a streamlining of the application system. Whether a new mine could be put into operation by a certain date, or whether an existing mine could continue operating, quite often depended upon the length of time it might take for a Land Office to approve an application. More flexibility, according to Mitchell, was also required in those Malay reservations thought to be tin-bearing. While it was official policy to have these protected zones scout-bored by the Mines Department, it was hoped that this would not preclude Malay concerns from being granted permission to prospect such areas themselves. This would speed things up and might also allow the expatriate dredgers to enter into partnership with Malay entrepreneurs and bureaucrats in the final working of these areas. To the agency houses, things seemed to be improving in the mid-1960s. Thai exports had been lost to Penang and Singapore through the opening of the Phuket smelter, and the military regime in Bangkok banned exports to Malaysia. Even so, Malaysia’s production of tin-in-concentrates amounted to 63,670 tons in 1965, exceeding the previous post-war record of 62,295 tons set in 1956, and 41 per cent of the world’s tin was now derived from Malaysian mines. In the first eight months of 1965, the number of active tin mines increased from 900 to 1,006, and notable amongst the new producing units was the giant No. 6 dredge of Berjuntai Tin, with an annual capacity of over 1,000 tons. New investment and expanded production had been stimulated by important new discoveries in the Malay reservations. The major tin-mining state, Perak, had notably opened up new areas in which prospecting and extraction had been prohibited for some thirty years. Furthermore, Melaka was finally offering concessions for offshore exploitation along its forty-mile coastline, while the central government was considering prospecting in the continental shelf beyond the three-mile state jurisdiction limit.

But, as we saw in Chapter 2, RTZ’s ambitions for offshore production were slowed down by squabbles over revenue distribution between the state and federal governments. Additionally, there was disagreement between the central government and RTZ over prospecting conditions. Only in the early 1970s did Conzinc Rio Tinto Malaysia Ltd, an Australian-owned subsidiary of the British global mining giant, begin production, and even then with only one dredge. Overall, production in the peninsula expanded again in 1967 to 72,000 tons, but increasingly these gains were concentrated in the Chinese gravel-pumping sector. From 1966, the Chinese miners regained their leading position in terms of...
production, which had been lost to the European dredgers in 1929. The gravel pumps increased their share of ore output from 34.3 per cent in 1960 to 55.2 per cent ten years later. Concurrently, the dredgers’ share declined from 53.9 per cent to 32.4 per cent over the same period. The westerners, as Malaysia’s technocrats in the Economic Planning Unit (EPU) admitted, were clearly working on less-rich deposits. The obvious conclusion to be drawn here is that Chinese interests proved far more successful in gaining access to the new tin fields opened up in the Malay reservations, and into the 1970s the dredgers remained disgruntled by a lack of progress on land alienation.

British firms, not surprisingly, consistently complained about the level of tax they were paying in Malaysia, but the burden on the tin extractors was considered especially penal. Given relative prosperity in the rubber and tin industries by 1961, Tan Siew Sin increased the rates of export duty on both commodities, with the excuse of dampening down domestic inflation. The tin barons made representations, arguing that at prevailing tin prices, export duty amounted to approximately 16.5 per cent of the gross realisation on the sale of tin concentrates, and this, coupled with income tax at the rate of 40 per cent, meant that the government’s share of the proceeds was always greater than the net profits after tax, even for a tin-mining concern which might have a particularly successful year. These imposts imploded particularly painfully on those British concerns working low-grade ground. The cess for financing the Tin Research Institute in the UK had simultaneously been increased from 30 to 40 Malaysian cents per pikul, and the industry was also funding an overseas propaganda unit, the Washington-based Malayan Tin Bureau. Tan was prepared to accept that the tin and rubber industries had ‘contributed their fair share to the revenue of this country’ and acknowledged its ‘co-operation’. He would, however, make no promises, and, after 1964, the tin sector was obliged to pay an excess profit tax of 10 per cent above the regular corporation tax of 40 per cent whenever the price of tin exceeded a certain base price. As late as 1978, dissatisfaction with the tax system was still being expressed by both the international and the Chinese sections of the industry.

Indeed, the development prospects for tin were looking distinctly dim by the end of the 1960s. As Sam Falle, the UK’s Deputy High Commissioner in Kuala Lumpur reported, tin output would ‘go down’ as the reserves were mined. Offshore prospecting was going ahead but there was ‘not a hell of [a] lot of hope’. Extracting tin from bedrock was being developed and ‘could mean once you have washed off the stuff from the top you can still economically get tin from lower down’. But this was still a very experimental and hence uncertain process. West Malaysia’s output of tin-in-concentrates reached a post-war record level of 75,069 tons in 1968 but declined to 72,630 tons in the last year of the Tunku’s premiership.
Conclusion

Neither British businesses nor Malaysian and British governments were particularly successful in reducing the vulnerability of Malaysia’s two principal commodities in the face of global economic and political developments in the post-colonial era. British rubber planters and tin miners would indeed have subscribed to the popular Malaysian adage of the 1960s that ‘it makes little difference who is in power in Kuala Lumpur; if the USA sneezes, Malaya will catch influenza’. Lim’s assertion that ‘the large tin mining and rubber plantation companies’ were ‘able to set production quotas and prices in these industries’ to the detriment of labourers in the plantations and the mines, as well as the small producers in both industries, is clearly misplaced. Nor could British producers in Malaysia determine the policies of the post-imperial government in London. The Board of Trade, the principal UK department concerned with the fate of Malaysian commodities, hovered between two concerns. As the president of the Board of Trade, Freddie Erroll, confessed to Khir Johari in November 1961, ‘Britain of course had the divided interest of a large consumer as well as an ally of Malaya’. During 1966, when a hiking-up of the tin floor and ceiling prices in the ITC was under consideration, the Board claimed that because of the large UK stake in the Malaysian industry, and ‘partly for political reasons’, it had historically ‘adopted a more conciliatory posture than other consumers’. But, at the same time, the Board candidly confessed that ‘It is in the general interest of the UK…to secure this commodity at the lowest possible price, consistent with maintaining production at a level which will cover our prospective requirements.’ Having liberated itself from the empire, the Board had no desire to be shackled by the Commonwealth. Indeed, the trade and industry mandarins were increasingly alienated by those Malaysian politicians and officials who urged that ‘the world should spin backwards in order to provide the Malayan rubber-growers with an easy living’. The rest of the world does not quite see things in the same light’, chimed Selby-Boothroyd in November 1965. Malayan delegations to the ITC—which included British miners—were frequently frustrated that British interests in the mines were not considered in arriving at UK policy. The CRO, meanwhile, was to be routinely disturbed by the Board’s lack of Commonwealth-mindedness, and its apparent inability to see the wider implications of its tin and rubber policies. Such tensions within the ‘official mind’ made it even less likely that post-colonial business interests could dictate commodity policy.

Even if the British government had wished to support Malaysian interests more positively, however, there were severe financial constraints. Lord Shepherd informed Enche Khaw in October 1967 that the Wilson government ‘fully shared the Minister’s concern about the importance of ensuring that primary producing countries received a fair return for their products’. International agreements to stabilise primary product prices were a key element in Labour’s pro-Commonwealth strategy for the rejuvenation of the British economy. Yet the National Economic Plan of 1965 to tackle Britain’s colossal balance of payments
crisis set severe limits on overseas aid policy, and from mid-1966 the ODM lost its Cabinet rank. Exchequer funds were even more unlikely to be forthcoming, therefore, to support Commonwealth buffer stocks.\textsuperscript{168} Even under Harold Macmillan—who, just like Harold Wilson, dreamed of resurrecting Britain’s world role through the Commonwealth—domestic financial considerations overrode UK interests in Malaya. This was starkly illustrated during the tin crisis of 1958–59. Had funds been available anyway, neither Tory nor Labour government intervention in commodity markets was likely to have been effectual given that the British share of rubber and tin consumption was ‘simply not large enough…to seriously affect the world price’.\textsuperscript{169} The real nut to crack on behalf of Commonwealth producers was US industry. But a severe constraint on playing hardball with Washington generally—shared by the Macmillan, Douglas-Home and Wilson regimes—was Britain’s continued dependence upon the US to prop up its tottering economy\textsuperscript{170}

Moreover, the Board of Trade actually regarded the Malaysian government as primarily responsible for the welfare of the British tin and rubber companies.\textsuperscript{171} The governments in Kuala Lumpur, understandably, wished to secure higher, or at least more stable, prices for their exports, but this did not reflect a concern with producer profits. As Khir Johari explained to Erroll in November 1961: rubber and tin formed a vital sector of Malaya’s national economy and any actions which affected the international markets for these commodities ‘[are] of considerable concern to us particularly in view of the fact that we are now in the process of implementing our Second Five-Year Development Plan, the success of which depends so much on the performance of our two principal exports’.\textsuperscript{172} Moreover, British firms did not fully embrace a development partnership with the Tunku’s governments, and official interference was particularly resented in rubber marketing and research. Meanwhile, indigenous producers tended to be favoured in Malaysian government policy. Land and tax policies allowed gravellers to take over from dredgers, while a complete redistribution of resources was engineered by Kuala Lumpur in the smallholder-only replanting programme. The British plantation and mining groups, in other words, were increasingly subsidising the indigenes—a tendency which was intensified after the 1969 riots. Hence, on his visit to the UK in the autumn of 1970, Tan Siew Sin put pressure on the RGA to establish more rubber processing plants specifically for Malay and Chinese cultivators, ‘thereby channelling extra funds into the rural areas from the increased proceeds of smallholders’ exports’.\textsuperscript{173} Moreover, as the following chapter expounds, Tan and his colleagues were increasingly concerned to diversify the Malaysian economy away from the old staples traditionally dominated by British firms.

Notes

1 ANM, AE/97/A, \textit{FMSCC Yearbook 1959}, President’s Address, p. 15.
2 PRO, DO 35/9759, briefs on rubber and tin for Commonwealth Secretary’s visit to Malaya, c. January 1959; Yip, *Tin Mining Industry*, p. 16. The peninsula’s share of world tin production would also increase during the 1960s, reaching a peak of 42 per cent between 1962 and 1967: see Jomo K.S. (ed.), *Undermining Tin: The Decline of Malaysian Preeminence*, Sydney: Transnational Corporations Research Project, University of Sydney, 1990, Appendix Table 1, pp. 78–9.

3 *Second Malaysia Plan*, p. 53.

4 PRO, DO 35/9759, rubber and tin briefs.

5 BoE, EC 8/6, Note by Wilson for Gardener, 7 May 1958.


7 PRO, DO 35/9759, rubber brief. Polyisoprene and polybutadiene rubber matched the properties of natural in ways which no other synthetic could, and were substituted in heavy-duty tyres as well as passenger-car tyres. Even the Russians, conscious of their trade imbalance resulting from having to buy natural from Southeast Asia, were also directing a massive effort to the development of stereo-regular plants: see RGACM, MS 24863/70, 7 November 1960, ‘Summary of a Talk by Dr L.Bateman, Director, Natural Rubber Producers’ Research Association to RGA Council, 7 November 1960’; *ibid.*, MS 24863/72, 4 June 1962, Report of the Chief Executive Officer, enclosing ‘Report of the Annual Conference of the International Institute of Synthetic Rubber Producers—Brussels, 11 May 1962’. Natural rubber in foam products was also facing increasing competition. Even natural rubber producers with manufacturing interests—such as REAL—were moving over to plastic substitutes since latex was no longer price competitive: BoE, ADM 14/73, Notes by Thompson McCausland for Hawker, 26 September and 6 December 1960.

8 ANM, AE/97/A, *FMSCC Year Book 1960*, President’s Address, 14 March 1961, p. 9; *ibid.*, *FMSCC Yearbook 1958*, President’s Address, 29 April 1959, p. 15.

9 Speech by Charles Jackson, Chairman, RGA, at AGM, 18 May 1962, reproduced in *Financial Times*, 21 May 1962.


12 PRO, BT 258/1876, Notes by Selby-Boothroyd, 4 March and 6 November 1963; Minute by Selby-Boothroyd, 26 February 1964.


14 RGACM, MS 24863/74, 1 February 1965, McHale paper, October 1964.

15 *The Times*, 20 February 1967.

16 PRO, FCO 24/294, note of discussion with Guthries, 3 October 1967. BCL had divested from rubber production in both Malaya and Sarawak some ten years earlier: see White, *Business, Government, and the End of Empire*, p. 240; IA, MS 27178/25, BDM, 1 January 1958. Chinese owners were apparently able to work estates at lower costs through short-termist strategies of overtapping and ‘running them out’, but also through non-recognition of the trade unions. With the abolition of OTC status, it was thus relatively easy for British plantations to find local buyers: CUL, Barlow 63/855, Sir John to Tom Barlow, 29 September 1966.


19 PRO, FCO 24/281, background notes for Commonwealth Secretary’s luncheon with the MSCA, 1 December 1967; FCO 24/35, copy of letter from Gowers to Browning, ODM, 1 March 1968.
23 Ibid., p. 94.
24 PRO, DO 35/9905, memorandum on Malayan rubber industry, 3 January 1958.
25 PRO, DO 35/9909, copy of note by Board of Trade, 23 July 1959.
27 PRO, DO 189/151, The Outlook for Natural Rubber, enclosed in Burgess, Board of Trade, to Hunt, CRO, 8 March 1961.
29 Ibid., Minute by Hunt for Rumbold, 2 November 1961.
30 Ibid., copy of McKelvie to Philips, Board of Trade, 5 November 1961.
31 PRO, DO 189/152, Minute by Hunt for Shannon, 9 January 1962.
32 Speech at RGA AGM, 18 May 1962, reported in Financial Times, 21 May 1962.
34 The Times, 12 February 1963.
35 Barlow, Natural Rubber, p. 94.
36 PRO, DO 189/597, copy of note for the record by Sir Denis Rickett, 29 September 1966.
37 PRO, FCO 24/30, Walker to Thomson, 16 October 1967.
38 CUL, Barlow 63/855, copy of letter of 27 September 1967.
39 On the Federation government proposals in 1958, which anticipated some UK financial involvement, see PRO, DO 35/9759, rubber brief; DO 35/9758, note of a talk with the Minister of Commerce and Industry, 24 January 1959, by Tory, 25 January 1959.
40 BT 258/1876, Note by the Board, 16 April 1962.
41 This had been the Treasury objection to the 1958 proposals: see PRO, DO 35/9909, copy of note by Tims for Coster, 3 December 1958.
43 PRO, BT 258/1876, Minute by Selby-Boothroyd, 26 February 1964.
47 PRO, DO 189/151, copy of Woodruff to Burgess, 10 July 1961.
48 See PRO, DO 189/542, copy of ‘Trade Negotiations Committee. Sub-committee on International Commodity Policy, 20 May 1966 [Note by the Board of Trade].’
49 Barlow, Natural Rubber, p. 94.
50 PRO, DO 189/151, Outlook for Natural Rubber.
51 PRO, BT 258/76, Minute by Hitchman for the Chancellor of the Duchy of Lancaster, 16 February 1952; Minute by Swinton, 18 February 1952.
53 PRO, BT 258/76, Minute by Burgh for Hix, 24 November 1958; BT 258/991, Minute by Burgess, 20 October 1959; DO 35/9905, G.H. Andrew, Board of Trade, to Sir Henry Lintott, CRO, 28 January 1958.
54 PRO, DO 35/9905, memorandum by the UK High Commissioner, 3 January 1958; copy of Rumbold to Andrew, 3 February 1958.
55 RGACM, MS 24863/70, 7 March 1960, Report of Commercial Research Committee.
56 RGACM, MS 24863/72, 5 November 1962, Report of the CEO and appended extract from The Times, 31 October 1962.
57 Financial Times, 26 April 1967; Barlow, Natural Rubber, p. 185.
58 PRO, DO 35/9759, rubber brief.
60 ANM, SP 95/B/14, UPAM Annual Report, c. April 1968.
61 The Times, 20 February 1967.
62 BoE, EC 8/6, Commodities Office Note, 7 July 1960.
64 PRO, FCO 24/294, note on meeting with Guthries’ representatives, 25 January 1968.
65 Tate, RGA History, pp. 570–1.
70 RGACM, MS 24863/76, 5 December 1966 and 6 March 1967, Reports of Commercial Research Committee.
71 RGACM, MS 24863/77, 8 January 1968, Report of West Malaysia Committee.
72 PRO, DO 35/9901, note of a talk with the RGA, 8 July 1957. In 1959, Sir John told Tory that Guthries had ploughed back some M$100 million since the end of the Pacific war in replanting and minor extensions. The investment group was replanting 3 per cent of its estates per annum irrespective of the official scheme, and had approximately one-fifth of its plantation area permanently out of production for this purpose: ibid., note of a talk, 2 February 1959.
73 RGACM, MS 24863/69, 2 November 1959, Report of the Malaya Committee. See also PRO, DO 35/9906, McKelvie to Davies, 9 June 1960.
74 RGACM, MS 24863/70, 2 May 1960, Report of the Malaya Committee; ibid., 2 June 1960, Addendum to Report of the Malaya Committee: copy of Abdul Jalil bin Haji Aminudin, Chairman, RPC, to the Minister of Commerce and Industry, 7 May 1960. See also PRO, DO 35/9906, Minute by Davies for Smith, 29 June 1960.


*Second Malaysia Plan*, p. 127.


PRO, DO 35/9972, copy of note by Bevan, 24 January 1958.

*Second Malaysia Plan*, p. 11.

As late as 1971, for example, the Terengganu State Development Corporation—with federal government backing and finance—wished to develop 15,000 acres as rubber estate. Barbeal won the tender to undertake the organisation and advisory work over five years for a flat fee of M$5,000 a month: CUL, Barlow papers, 58/786, Tom to Sir John Barlow, 24 February 1971.

PRO, DO 35/9905, letter to Davies, 27 May 1960.

RGACM, MS 24863/77, 1 April 1968, Report of West Malaysia Committee.


*Straits Times*, 16 October 1969; see also Table 4.1 (p. 000). The SMR scheme had been introduced in 1965 and was designed to secure a consistent and uniform quality for Malaysian rubber exports through a system of grading tailored to consumer requirements: see Barlow, *Natural Rubber*, pp. 172–4.

PRO, DO 189/496, Bottomley to Commonwealth Secretary, 14 January 1966; see also RGACM, MS 24863/75, 11 March 1966, Draft Annual Report 1965. Figures for 1950s reinvestment are taken from MS 24863/70, 4 April 1960, Addendum to Report of Malaya Committee.

*Second Malaysia Plan*, p. 127.

BoE, EC 5/91, copy of Burgess, Board of Trade, to Hunt, CRO, 30 May 1960; McKenna, Bank Negara, to Gardener, Bank of England, 18 November 1960, enclosing ‘Note on Rubber Market for the Federation’; *Straits Budget*, 21 March 1960; *The Times*, 31 May 1960; *Straits Budget*, 1 June 1960.

BoE, EC 5/91, letter of 30 May 1960; see also material in PRO, BT 11/5830.


BoE, ADM 14/75, Note for Hawker, 3 July 1961.

RGACM, MS 24863/72, 3 December 1962.


See RGACM, MS 24863/81, 3 January and 30 March 1972, Minutes of Meetings of the Trade and Technical Committee, 15 December 1971 and 21 March 1972.


*Straits Times*, 31 August 1959.

Gill Burke, ‘The rise and fall of the International Tin Agreements’, in Jomo, *Undermining Tin*, p. 55. For a summary of the ITAs, see also William L. Baldwin,

By independence for the Federation, aluminium cans were being manufactured as containers for motor oil, grated cheese and meats: ibid., p. 49.

PRO, DO 35/9759, tin brief; ANM, AE/97/A, FMSCC Yearbook 1958, President’s Address, 29 April 1959, pp. 15–16.

Tregonning, Straits Tin, p. 67.

PRO, DO 35/9972, copy of Bevan to Wright, Board of Trade, 14 January 1958.

Ibid., 11 and 12 February 1958.


BoE, EID 12/13, Notes by Thompson-McCausland, 19 and 21 August 1958; PRO, BT 258/631, Minute by Lightman, 20 August 1958.

BoE, EID 12/13, Note by Thompson-McCausland, 8 September 1958, and Note by GHT, 16 September 1958; PRO, BT 258/631, copy of telegram from CRO to Kuala Lumpur, 12 September 1958. CO, CRO, Treasury, FO and Board officials had agreed not to pursue the idea of financial assistance at the end of July: BT 258/740, note of meeting at the Board of Trade, 30 July 1958.

The Macmillan government had been faced by an unexpected sterling crisis in the summer of 1957 and there were inflationary pressures well into 1958: see Kevin Jefferys, Retreat from New Jerusalem: British Politics, 1951–64, Basingstoke: Macmillan, 1997, pp. 64–78.

PRO, BT 258/739, copy of telegram from Washington to FO, 19 September 1958; CAB 128/32, CC (58) 71, 11 September 1958. The Macmillan government had been faced by an unexpected sterling crisis in the summer of 1957 and there were inflationary pressures well into 1958: see Kevin Jefferys, Retreat from New Jerusalem: British Politics, 1951–64, Basingstoke: Macmillan, 1997, pp. 64–78.


BoE, EID 12/13, Note for Hawker, 23 February 1959.

PRO, BT 258/813, Waite to McMahon, Board of Trade, 23 January 1959; tele gram from Woodruff to McMahon, 3 February 1959.

PRO, BT 258/813, note of meeting of Commonwealth Delegates to the ITC at the Board of Trade, 16 February 1959; copy of TN (C) (59) 11, Trade Negotiations Committee, Note by the Board of Trade, 9 March 1959.

PRO, BT 258/1085, Note by the Board of Trade, 12 May 1960.

PRO, DO 187/10, McKelvie to Drysdale, 22 March 1960; Sunday Mail (Malaya), 26 June 1960.

During the crisis of 1958, J.T.Chappel, president of the FMSCM, was concerned that Japan should join the ITA since the free market in tin in Tokyo might encourage the Japanese steel companies to buy from the Soviet bloc: Financial Times, 12 September 1958. The British embassy failed, however, to gain Japanese official support for reconstructing the agreement (although there were assurances from the Ministry of Foreign Affairs that the overwhelming proportion of Japanese industry’s supplies would continue to come from Malaya): PRO, BT 258/739, telegram from Tokyo to FO, 7 October 1958.

PRO, DO 187/10, Daily Press Summary, 5 November 1960, and Extract from Press Statement D.INF.10/60/2271 (PM), undated; Malay Mail, 11 November 1960.

PRO, DO 189/229, Note by Drysdale for Rumbold, 6 March 1963.

PRO, BT 11/5858, copy of letter from Khir Johari to Frederick Erroll, President of the Board of Trade, 22 November 1961.

PRO, DO 189/151, Minute by Hunt for Rumbold, 2 November 1961.
Ibid., telegram from Washington to FO, 20 March 1963. The fundamental problem for the administration was clearly enunciated by a State Department official, in conversation with the commercial attaché in the UK embassy in Washington, some three years later: Congressmen tended to blame commodity agreements for high raw material prices, and any advantages which the State Department might see in stabilising Southeast Asia were ‘offset by the reluctance of US industry to have any government interference with the course of business’: PRO, BT 258/2282, copy of note by O’Brien, 30 March 1966.

PRO, DO 189/229, Minute by Drysdale for Bateman, 18 April 1963.


See material in PRO, BT 258/1895.

Mining Journal, 10 July 1964. Knowledge that large tin consumers in the US had committed themselves to extensive research programmes for alternative materials had been a factor in producers deciding against seeking higher floor and ceiling prices in ITA3: Mining Journal, 23 April 1965. In August 1965, American Can announced that tin-free cans had now been produced for liquids and this would make a serious inroad into tin consumption: PRO, BT 258/2163, Waite to Hypher, 18 August 1965.


Sungei Way’s ownership was nearly 80 per cent Malayan by the mid-1960s: Yip, Tin Mining Industry, pp. 357–8. Even so, MacLeod retained strong links with the ‘Cheapside Boys’ in London.

Malay Mail, 9 January 1965.

PRO, DO 189/541, copy of note by Board of Trade, 14 October 1965; Minute by Drysdale for Twist, 29 October 1965.


PRO, DO 189/541, telegram from Kuala Lumpur to CRO, 20 December 1965; Note by Asia Economic Department, 23 December 1965.

Ibid., telegram from Kuala Lumpur to CRO, 28 December 1965.


Burke, ‘ITAs’, p. 55.

Second Malaysia Plan, p. 172.

PRO, DO 187/47, Note by Bottomley for Walker, 11 October 1966.

In the building of the post-colonial, national economy, the City’s centrality in the marketing of Malaysian tin did not become a major issue. The only alternative to the LME, as Waite pointed out, was government control at marketing points such as London, Penang or New York. This would essentially mean a return to wartime controls, and neither the UK government nor the Malaysian government would wish
to be the sole buyers of tin and take responsibility for the fixing of prices: PRO, BT 258/2163, letter to Hypher, 18 August 1965.

PRO, FCO 24/281, Notes for the Commonwealth Secretary’s luncheon with MSCA, 1 December 1967; FCO 24/93, Brief No. 24 for the Commonwealth Secretary, January 1968.

Baldwin, World Tin Market, p. 88.

PRO, DO 189/225, Note of 16 January 1962.

Jomo, Undermining Tin.

PRO, DO 35/9759, tin brief.

ANM AE/97/A, FMSCC Yearbook 1960, President’s Address, 14 March 1961, p. 9; Yip, Tin Mining Industry, p. 373.

David Mitchell in Straits Times, 1 June 1962.


Straits Times, 10 November 1969.


Thoburn, Multinationals, Mining and Development, p. 86.

FMSCM, President’s Address, 31 May 1962, in Straits Times, 1 June 1962; see also ANM, AE/97/A, FMSCC Yearbook 1960, President’s Address, 14 March 1961, pp. 9–10.

See RGACM, MS 24863/71, 6 February 1961.

Jesudason, Ethnicity and the Economy, p. 49.

Thoburn, Multinationals, Mining and Development, pp. 86, 125–6.

PRO, FCO 24/474/1, Falle to Aiers, FCO, 18 December 1968, enclosing talk to Defence Advisers/Attaches Conference 1968.


Lim, Ownership and Control, p. 114; see also pp. 24–6.

PRO, BT 11/5858, note of meeting, 21 November 1961.

PRO, DO 189/542, copy of note by the Board of Trade for Trade Negotiations Committee, 20 May 1966.

PRO, BT 258/1879, Note of 23 November 1965.

See e.g. PRO, DO 189/229, Minute by Drysdale for Crosthwait, 13 July 1962.

In November 1961, for example, the CRO was concerned that the Board’s stockpile policies had been more influenced by the Americans than by the Commonwealth producers: PRO, DO 189/151, Minute by Hunt for Rumbold, 2 November 1961; Rumbold to Sir Richard Powell, Permanent Secretary, Board of Trade, 10 November 1961. On tin issues during 1965, meanwhile, Drysdale feared that the Board would not show itself ‘sufficiently sympathetic towards the interest of the Commonwealth producers’: PRO, DO 189/541, Minute by Sykes for Keeble, 10 March 1965. Interestingly, from the mid-1950s, the Board of Trade was the Whitehall department most enthusiastic about European integration: see McKinlay et al., ‘Reluctant Europeans?’, p. 101; L.J. Butler, Britain and Empire: Adjusting to a Post-imperial World, London: Tauris, 2002, p. 130.
167 PRO, FCO 24/30, Walker to Thomson, 16 October 1967.
169 See ibid., p. 214.
171 See PRO, DO 189/151, copy of note by Burgess, 8 June 1961.
173 RGACM, MS 24863/79, 2 November 1970, Minutes of a Meeting of the Malaysia Committee, 15 October 1970.
5
Oil palms and factories
Diversifying the post-colonial economy

British prominence, British dominance?

Diversifying the Malaysian economy was a key tenet of Alliance nation-building economic policy. The intention here was to relieve the dangerous over-dependence on rubber and tin through agricultural diversification (particularly by increasing the production of palm oil), while greater employment opportunities would be provided through the development of factory-based industry. Such strategies did not necessarily cut across the interests of the established British business groups. Far from it: for most of the Tunku era, British firms, and particularly the agency houses, bolstered their positions in the Malaysian economy through grasping new opportunities. So much so, it could be argued that British firms were the main beneficiaries of diversification.

The agency houses, with Guthries as a notable pioneer, first developed oil palm estates during the inter-war years, making Malaya the fourth largest producer of palm oil by the Japanese occupation. However, facing substantial difficulties of reconstruction, and with limited backing from the imperial state, there was only further slow progress in palm oil production in the decolonisation period. It was in the post-colonial 1960s that oil palm emerged from its ‘Cinderella role’ in the Malaysian export economy, as the leading British plantation groups new-planted or replanted many of their old rubber stands with new high-yielding oil palms. By the early years of merdeka, the plantation companies regarded investment in oil palm as more profitable than rubber. Oil palms matured faster (within three to four years instead of from six to seven for rubber), while booming palm oil prices (four to five times higher than pre-war) sharply contrasted with rubber, bedevilled by competition with synthetic and US stockpile disposals. At the same time, the government’s second rubber replanting scheme (from 1962) eased the shift into oil palms by permitting the planting of other specified crops as a replacement for rubber; areas replanted with palms received the same grants. As such, the acreage under oil palms in peninsular Malaysia increased by a phenomenal five times during the 1960s, while palm oil output leapt from about 90,000 tons to just under 400,000 tons in 1970, and at the end of the decade palm oil was Malaysia’s fourth biggest foreign exchange earner. In recognition of this broadening of estate
interests, the RGA in London decided as early as 1964 to allow producers of palm oil (and other tropical crops generally) to swell its ranks. Although smallholder oil palms were springing up on the FELDA schemes, nearly 70 per cent of the peninsula’s oil palm acreage remained under the control of foreign, and often British, estates at the end of the Tunku’s premiership (see Table 5.1). Oil palm development led by British firms was an East Malaysian phenomenon as well. Commodity diversification had been part of the late-colonial development project in Borneo, and Sabah’s oil palm coverage swiftly spread from 206 acres in 1959 to 10,800 acres in 1964. From 1963, H&C and its associated rubber companies joined together to form Sabah Plantations Ltd, acquiring a recently cleared jungle area to grow oil palms. On the estates of Unilever subsidiary Pamol (Sabah) Ltd alone, a rugged Aberdonian, Leslie Davidson, supervised the planting of some 15,000 acres between 1960 and 1967. The palm oil produced in Sabah was added to that from Unilever’s older estates in Johor and worked up into soaps and edible oils for the domestic market at the Lever Brothers factory at Bangsar on the outskirts of Kuala Lumpur.

The Unilever example points to the new possibilities which were additionally emerging in secondary production in the successor state. The Bangsar works was one of a mere handful of factories established by British MNEs in the final phase of colonial rule. It would actually prove to be developments after independence that sucked a substantial new wave of British investment into the Federation’s officially sanctioned industrialisation through import-substitution. Of over forty new factories set to begin construction in 1959, most were joint enterprises in which local, typically Malayan Chinese, entrepreneurship and investment combined with capital and know-how from Japan and Hong Kong. The number of British projects in comparison was small: only ICI, with a paint factory, and Telegraph Construction and Maintenance Company (Telcon)/British Insulated Callender Cables Ltd (BICC), with electrical and telephone cables, were defin...
on the Petaling Jaya industrial estate. The Dunlop Rubber Company (rubber tyres) and Glaxo Laboratories (pharmaceuticals) were still just possibilities. But the expatriate capital involved in these British projects would prove to be much larger than that marshalled from East Asia. Table 5.2 suggests that British investment in the Federation’s pioneer, ISI industries lagged behind that of Singapore to the middle of 1962, and this trend apparently continued to the early 1970s: of the M$403 million worth of share capital invested in government-approved manufacturing projects in 1972, 28.5 per cent flowed from Singapore, 21 per cent came from the UK, 15 per cent from the US, 11.7 per cent from Japan, 9.4 per cent from Hong Kong and 7 per cent from the Commonwealth Caribbean. A focus on the book value of investments, however, is highly misleading. The initial entrée into manufacture often involved the MNEs supplying servicing equipment, technical information or machinery. Moreover, much of the industrial capital raised in the Federation and Singapore represented the recycling of profits from the British agency houses, direct investments by British-owned manufacturing companies in Singapore and the raising of loans from the local branches of the British exchange banks. Additionally, the majority of funds from the tax-haven territories of the West Indies, plus the ‘White’ Commonwealth, were likely to have been controlled by British-based multinationals. For example, the initial paid-up capital in the Shell Refining Co. (Federation of Malaya) Ltd was raised by the Anglo-Dutch transnational transferring funds across the Pacific from Canada. Hence, British domination of Federation manufacturing was probably far more overbearing than Table 5.2 might suggest.

Certainly, the British MNEs predominated in the early development of the Batu Tiga industrial estate (later known as Shah Alam), some fifteen miles outside of the federal capital, promoted by the Selangor State Development Corporation from 1965. Of about M$61.5 million of capital invested in land, building and machinery by November 1968, nearly M$42 million (just under 68 per cent) was controlled

Table 5.2 Sources of called-up capital for pioneer industries in the Federation of Malaya, 1958 to June 1962

<table>
<thead>
<tr>
<th>Country</th>
<th>M$ million</th>
<th>% of total</th>
</tr>
</thead>
<tbody>
<tr>
<td>Singapore</td>
<td>19.6</td>
<td>28.4</td>
</tr>
<tr>
<td>UK</td>
<td>16.0</td>
<td>23.2</td>
</tr>
<tr>
<td>Federation of Malaya</td>
<td>13.0</td>
<td>18.9</td>
</tr>
<tr>
<td>The Bahamas</td>
<td>5.0</td>
<td>7.3</td>
</tr>
<tr>
<td>Hong Kong</td>
<td>4.3</td>
<td>6.2</td>
</tr>
<tr>
<td>US</td>
<td>3.6</td>
<td>5.2</td>
</tr>
<tr>
<td>Australia</td>
<td>2.7</td>
<td>3.9</td>
</tr>
<tr>
<td>Canada</td>
<td>1.8</td>
<td>2.6</td>
</tr>
<tr>
<td>Japan</td>
<td>1.3</td>
<td>1.9</td>
</tr>
<tr>
<td>Other</td>
<td>1.7</td>
<td>2.5</td>
</tr>
</tbody>
</table>

by the subsidiaries of British manufacturers and agency houses.\textsuperscript{14} Indeed, in the awarding of pioneer certificates for ISI, the federal government tended to favour foreign firms in preference to local Chinese capitalists for fear of the latter further dominating the Malaysian economy at the expense of the \textit{bumiputera}.\textsuperscript{15} For sociocultural reasons, the ex-colonials tended to be favoured over other foreigners too: Arthur Norman, chief executive of the CBI, discovered on a trip to Southeast Asia in March 1968 that Japanese industrialists were seen by the authorities as ‘more attentive, quicker in the follow-up and more welcoming’ to visitors from Malaysia and Singapore. But ‘they were not easy bedfellows’.\textsuperscript{16}

The British agency houses, with their long-standing domination of the Federation’s import trade, might have been expected to resist and frustrate ISI. But, as H.I. Thornton-Jones, the FMSCC president, reported in 1960, many of the trading companies had ‘encouraged, and to a large extent given financial aid, to the establishment of local industry’.\textsuperscript{17} Thus BCL—which had experience of running manufacturing enterprises in post-war Singapore—took up 20 per cent of the issued capital of Johnson & Johnson (Malaya) Ltd, a new firm to be incorporated in the Federation to manufacture talcum powders and sanitary towels. BCL had previously acted as Johnson’s distributors in Malaya and alerted the metropolitan industrialist to the possibilities of local manufacture.\textsuperscript{18} In 1965, Anglo-Thai’s board approved the purchase of land at Petaling Jaya to which all the group’s activities could eventually be moved, allowing sufficient space for the firm ‘to undertake local manufacture or packing of Principals’ products’.\textsuperscript{19} By the end of the decade, most of the ‘big twelve’ British agency houses had developed local manufacturing interests. Indeed, as we saw in Chapter 1, the principal attraction of the ‘Greater Malaysia’ scheme for the Chambers of Commerce lay not in rationalising primary production and export, but in expanding opportunities in manufacture. As Thornton-Jones also pointed out, the agency houses secured connections with their traditional suppliers by now applying their ‘energies and know-how in distributing a local product’.\textsuperscript{20} Guthries, for example, marketed and distributed the fertilisers produced at Port Dickson by ICFs Malaysian subsidiary, the Chemical Company of Malaysia.\textsuperscript{21} Likewise, the agency houses representing cable interests, such as BCL, were to be part of a selling consortium and, to reflect this interest, were to hold just under one-fifth of the share capital in the new Telcon/BICC subsidiary, Malayan Cables Ltd.\textsuperscript{22} Where trading companies had once provided information on market opportunities for imports, they now provided information on local manufacturing opportunities, and this reconfigured alliance of British agency houses and industrialists made a major contribution to the increase in manufacturing value-added, which leapt as a percentage of total GDP from 6.3 per cent for peninsular Malaysia in 1957 to 13.1 per cent for the whole of the country in 1970.\textsuperscript{23} Moreover, it has been estimated that around 3 per cent of Malaysian government revenue was extracted from UK manufacturing alone between 1963 and 1970.\textsuperscript{24}

Yet British prominence in the new primary and secondary industries did not necessarily ensure influence or control over the diversification process. Nor did
it suggest comfortable collusion between the successor state and expatriate business. The future of the oil palm estates for much of the 1950s and 1960s was as uncertain as that of rubber, and with a sharp downturn in palm oil prices in 1968–69, on the back of the rubber slump of 1967–68, the future of the British plantations looked doubly bleak. Meanwhile, Malaysian institutions did not appear to be serving expatriate oil palm interests effectively as brought out in the research discourse, while the government’s stress on diversification of smallholder crops was resented and appeared misguided. The discussion of industrialisation also reveals frustration with the Malaysian bureaucracy amongst British investors, and the agency houses and MNEs often took up import-substitution reluctantly. Additionally, by the end of the 1960s, British industrial investments were being increasingly eclipsed by North American, West European and, particularly, Japanese rivals.

Palm oil

At the beginning of the 1970s, rubber was again in the doldrums but the palm oil price was at an all-time high. The prudence of diversifying out of rubber was confirmed. Highlands & Lowlands, the plantation pearl of the Barlow group, announced record pre-tax profits of £2.71 million in 1970—the contribution from rubber dropped from £1.22 million to £732,000, but this had been more than compensated for by palm oil nearly doubling its ‘take’ to £1.71 million. Before 1970, however, there remained much imponderability concerning the future of world markets for palm oil, and the wisdom of agricultural diversification seemed dubious. Oil palm growers, like their natural rubber counterparts, were victims of the technical advances in the industrialised world, which had been boosted by the post-war growth of the petrochemical industry coming on top of the raw-material shortages experienced during the Second World War. A great advantage of petroleum products, over agricultural commodities particularly, was their relative price stability. As a result, empire-Commonwealth palm oil had to come to terms with increasingly competitive substitutes in the production of washing powders, shampoos and even toilet soaps. Unilever, the soap and margarine giant, introduced synthetic washing powders in the early 1950s, and the erection of three plants in the UK by 1956 for the production of the alkylate dodecylbenzene greatly reduced Britain’s external dependence on supplies of this essential ingredient in the manufacture of synthetic detergents.

As it turned out, improved methods of refining did make palm oil as serviceable as its principal rival in the edible-oil field, coconut oil, thus compensating for declining markets in palm oil’s original usage in soap manufacture. In addition, palm kernels were a much more valuable by-product (also as an edible oil) than coconut kernels (at fairground shies). Even so, there remained much uncertainty in the late 1950s within British oil palm-growing circles given the ending of long-standing marketing arrangements. Between 1946 and 1954, virtually all colonial production had been purchased by the UK Ministry of Food, which paid low but
obviously stable prices. After 1954, price stability was maintained by regulating the supply of palm oil on the London market through the Malayan Oil Palm Selling Pool (MOPSP)—a conglomerate of the major British producers. In addition, there existed a set of contracts with the major UK consumers, such as Unilever. But the latter arrangements were terminated at the end of 1957. Moreover, regional rebellions in Indonesia put an end to the Sumatran producers’ pool. The crisis was intensified by a concurrent decline in Malayan and Indonesian supplies of copra. Although this would in the long run stimulate the demand for palm oil, the immediate effect was to promote the stock disposals of coconut oil. Hence, an unusual element of competition and price instability had been introduced into the world palm oil market.28 Falling prices, immediately after merdeka, were also held to be the responsibility of US policy. Washington removed the processing tax on coconut oil while retaining that on palm oil. This sweeping action virtually closed the US market to palm oil since the duty of 3 US cents per lb (or £24 per ton) on both palm oil and palm kernel oil amounted to about one-quarter of the gross market price. Malayan palm oil did benefit from Commonwealth preferences to gain duty-free entry into the UK, Canadian and Indian markets. But the big estates and the Federation government believed that palm oil prices were depressed by this de facto exclusion from the US market. Guthries, the leading British producer and head of the MOPSP, asked HMG to intervene on the grounds that Malaya and other Commonwealth producers were still members of the sterling area. The possibility of selling palm oil and kernels in the US was surely of interest to Britain as a potential source of US dollars. But the Board of Trade and the CRO regarded palm oil sales to the US as too marginal an interest to lend assistance, especially as this might prejudice the broader spectrum of Anglo-American commercial relations.29

Even in the apparently booming 1960s, diversification into oil palms did not seem the grand panacea for rubber’s ills. In the autumn of 1962, the chief manager of the HSBC, Jake Saunders, learned from Unilever planters in Johor that the palm oil price was ‘absurdly high’ in relation to equivalents produced by other means.30 By 1966, UPAM was concerned that the effects of EEC common external tariffs, expected to be operative for palm oil by July 1967, threatened the expansion of Malaysian palm oil exports. These changes were likely to have an adverse effect on Malaysian exports to ‘the Six’ given the preferential position enjoyed by the former French territories in Africa and the possibility that Britain might finally be allowed to join the European club. The MCI warned, however, against ‘any expectation of quick or sure results…for any negotiation with the EEC is bound to be difficult and time consuming’.31 There subsequently followed a dramatic slump in prices. The devaluation of sterling in November 1967 had been expected to raise the dollar price of palm oil, but unfortunately other factors in the edible oils market came into play, and the price actually declined. Planters expected the slump to be a temporary phenomenon,32 but there was a continued downturn in prices during 1968. On average, these were 30 per cent lower than in 1967, and the oil palm industry was faced with its lowest price in twenty years. (The average
of M$447 and M$437 per ton in 1968 and 1969 respectively was far below the M$600-plus per ton sustained for most of the 1950s and 1960s; see Figure 5.1). The low prices were attributable to large areas of new oil palm plantations coming into production at a time of a worldwide oversupply of edible oils and fats.33 As early as October 1967, Sir Eric Griffith-Jones of Guthries informed Peter Scanlon at the CWO that the world offered only limited markets for palm oil. Those outlets seemed to be expanding less rapidly than world population, while certain areas of the world which potentially offered good markets for palm oil products, such as India and China, were still unable to pay for ‘luxury’ imports. Together with the low price of rubber and political uncertainty, Guthries executives were now looking to both withdraw as much money as possible from Malaysia while also develop a new plantation crop, such as citrus.34

The slump of the late-1960s also brought to the fore frustrations with the Malaysian government. A major gripe was research policy. Harry Traill, president of UPAM between 1968 and 1969, and leading oil palm planter at Tennamaram Estate, Selangor, in the MEAGL group,35 called for more money to be pumped into oil palm research. In a letter to Tom Barlow in October 1969, he argued that natural rubber was now standing up to synthetic competition due to ‘the very efficient and all-embracing’ research organisation which had existed in Malaysia for several decades. On the production side, this had allowed for ever-better clones with higher yields and better qualities, plus new ideas on harvesting and processing. At the marketing end, there were continued explorations of quality and new uses. In comparison, palm oil was ‘just scratching the surface’. The output
of palm oil was set to ‘go up with a bang’: by 1980, Malaysia’s production was expected to be at least 1 million tons a year. The world’s population was increasing too, but oil palm planters could not assume that this would offset the massively expanding supply. Moreover, there was the potential output of other countries to consider. With the return of political stability to Indonesia, the economy would soon be back on its feet, and the archipelago’s palm oil production could come to surpass Malaysia’s. If the West and Central African producer countries could also achieve political tranquility, then another huge element of competition would be added to the world market. It was crucial, therefore, for Malaysia to get its oil palm research organisation on ‘no less a firm footing than rubber’. But unfortunately, as Traill saw it, the ministers and mandarins in Kuala Lumpur were determined to incorporate palm oil research with MARDI (the Malaysian Agricultural Research and Development Institute recently opened by Tun Razak). MARDI was under the Department of Agriculture, feared by the planters for its left wing, cooperative heritage from the Abdul Aziz era and for its bias towards the Malay smallholders. Oil palm would be far better off to begin its research initiative under the wing of rubber: ‘If we are going to be stuck with MARDI we will indeed be stuck’, commented the sardonic Traill. His great hope, therefore, was that Sir Claude Fenner’s and the RGA’s efforts to keep oil palm research separate from MARDI and under a joint rubber/oil palm research organisation would be successful.36

As Traill also expounded to the MCI, while there was no longer any excuse for the inefficient growing of oil palms or processing of palm oil and kernels, research remained ‘deficient’ in the fields of technology, marketing and consumer requirements. It was an ‘astonishing fact’ that palm oil supplied only 4 per cent of the world market for vegetable oils and fats while, at the same time, it produced nearly ten times as much oil per acre as any other vegetable plant. The growers and the government needed to know precisely what factor prevented the industry from taking a much larger share of the oil market. Was this due to the cost of production, the additional cost of transport to consumer countries, the chemical make-up of palm oil or the technical specifications required by end-users? Only applied research would reveal the answer, and it was clearly not enough to rely on research undertaken privately by the individual companies. Rather, thorough and coordinated research for industry-wide dissemination was required. Traill also looked forward to the establishment of advisory and marketing offices in all the chief palm oil-buying countries. This might also enable an SMR-style scheme for palm oil.37 Fenner did manage to thrash out a compromise deal in which MARDI would have an oil palm committee with seven members from the newly formed OPGC and two from MARDI, while the board of the MRF would have authority to undertake oil palm research. But Sir Claude was not invincible, since this latter arrangement was set to last just six years from 1970. By then, GCL had decided to help itself through building a central rubber and palm oil research facility in the UK.38
The disagreements over oil palm research combined with estate concerns regarding the state’s support of smallholders. During the 1960s, the indigenous farmers had also increasingly taken up the oil palm, especially on land settled with FELDA assistance and in the schemes run by the state governments. Indeed, official policy by the early 1960s was to encourage oil palm growing in preference to rubber where soils were suitable. Estate dominance of palm oil was thus broken down through state assistance. Table 5.2 demonstrates the rapid expansion in oil palm smallholdings during the second half of the 1960s. Government input was often required since largescale production was necessary if a reasonable economic return was to be yielded by the crop. Only a large processing plant could extract from the fruit the optimum quantity of oil and, to keep the processor economically occupied, large estates were required. The nature of the crop itself also presented difficulties for small producers with limited capital. Within twelve hours of harvesting, the oil content would break down into fatty acids, ruining the value of the final product. This problem was overcome on estates by a network of narrow gauge railways, linking them to the central factory. The initial capital outlay for a successful oil palm venture was, therefore, substantial and quite beyond the means of smallholders unless coordinated by official development agencies.

In April 1968, Harry Traill announced, somewhat patronisingly, that the estates could supply the impetus to further oil palm diversification by encouraging smallholders to visit them and observe good examples of agricultural and planting procedures, weeding, harvesting, and drainage systems. A decade earlier, however, Guthries’ managers had been highly sceptical about the prospects of smallholder-estate cooperation. The premier agency house acted as manager of the Kulai oil palm estate in Johor, first established in 1950 with Colonial (later Commonwealth) Development Corporation (CDC) funding and intended for smallholders. As A.L.Brown in the High Commissioner’s Office discovered just after independence, Guthries’ leading planting adviser in Kuala Lumpur, I.V. Stemson, believed that oil palms were not a suitable crop for smallholders. This attitude derived partly from fears of unwarranted state-supported competition but also reflected long-held stereotypical views of Malay agricultural talents. Basically, Malay smallholders, according to Stemson, lacked the skills and application to supply the constant and expert supervision of oil palms necessary to harvest the fruits and kernels at precisely the right moment to achieve profitable quality. Guthries’ oil palm experts were under the delusion that the Federation government agreed with them; that is, oil palm should remain a ‘capitalist crop’. But the views of the European agency houses were effectively ignored in Kuala Lumpur as FELDA emerged as a sponsor of the expansion of smallholder plots at Kulai, supported also by the Johor state government. In London, meanwhile, the CRO sanctioned extra CDC funding of £140,000 for smallholder oil palms, especially as the ‘father of development’, Abdul Razak, considered Kulai ‘an important venture…in improving the status of smallholders’. With such encouragement from the apex of the Malaysian governmental hierarchy,
smallholder oil palm production by the end of the Tunku era was such that FELDA had become a major rival to Guthries, H&C, Barlows and Unilever, and now had the power to make or break the MOPSP.\(^{43}\) Clearly, British companies had not had a completely free hand in, nor a comfortable experience of, agricultural diversification. The same can be said of the shift into local manufacture.

**Industrialising Malaysia**

*The autonomy of the post-colonial state*

Jomo and Edwards claim that the main spur to the growth of the Malaysian manufacturing sector after 1958 was provided by protection, the average effective rate of which rose from 25 per cent in 1962 to more than 65 per cent by the end of the decade. These rates may have been small in comparison with other developing countries but they were still equivalent to very large subsidies. It would seem, therefore, that high profits, most of which were ‘drained’ out of the country, were guaranteed for foreign investors by the post-colonial state—a collusion which was epitomised by the presence of ‘rent-seeking’ Malaysian politicians and bureaucrats on the boards of subsidiary companies. Moreover, all this was at the expense of the Malaysian consumer, who in 1970 paid on average 25 per cent more for Malaysian-manufactured goods than world prices.\(^{44}\) David Lim, meanwhile, has portrayed a British business establishment essentially taking advantage of the government’s industrial development programme, making ‘immense profits’ through unethical practices such as charging ‘exorbitant prices for capital and technology and by passing reconditioned secondhand and technologically obsolete machinery as new’. The repatriation of profits demonstrated that British industrial firms, and foreign manufacturers in general, did not act in the interests of Malaysia.\(^{45}\)

The British MNEs and agency houses may indeed have extracted big profits, but the whip hand in the industrialisation process was held by the post-colonial state, the aims of which were autonomous of British big business. Admittedly, the Federation government’s role in industrialisation was less intrusive than its immediate neighbour. Even under late-colonial mle in Singapore, the government took a much more proactive, indeed almost ‘socialist approach’. Through the Economic Development Board (EDB), the semi-independent PAP regime was even prepared to build factories and to provide capital for new industry. But the Alliance preferred a ‘free enterprise’ approach, merely providing the basic infrastructure and leaving it to the industrialists to find their own capital. Moreover, the industrial estates in the Federation were not under central direction. The municipal government ran the estate at Tasek near Ipoh; the estates at Butterworth and in Johor were the responsibility of state governments; and the new industrial township at Petaling Jaya, a few miles outside Kuala Lumpur, was operated for the Selangor government by the local development corporation.
Investment in the economic infrastructure was also not entirely a federal government responsibility. The electricity supply in Penang, for example, was provided by the municipal council, while the state of Perak was supplied largely by a private company, the Perak River Hydro-Electric Power Company—itself still under the de facto control of British steel and arms manufacturer Balfour, Beatty & Co. Ltd—as late as 1976.46

Even so, there were powerful fiscal instruments, and a set of imposing government institutions, which led the drive for manufacturing on the peninsula. During 1957, The Report of the Industrial Development Working Party was accepted by the end-of-empire government, and, immediately after independence, the Tunku’s regime received advice from a Canadian industrial expert, F.J.Lyle, provided by the Colombo Plan. By January 1958, as Tony Loch of the MCI explained to the CRO’s Sir Henry Lintott and High Commissioner Tory, the federal government had devised a four-pronged integrated industrial development strategy. The first strand was the establishment of a Tariff Advisory Committee (TAC) to consider applications for tariff concessions and advise on a ‘reasonable’ degree of protection for Malayan factories; the second was the formation of an Industrial Development Finance Corporation (IDFC) (later known as Malaysian Industrial Development Finance Ltd (MIDFL)) to provide pump-priming development capital; the third was the enactment of the Pioneer Industries (Relief from Income Tax) Bill, designed to woo foreign investors by allowing complete relief from income tax on profits for a period of two to five years, depending on the amount of capital invested (a ‘pioneer industry’ being a form of manufacture that was either entirely absent or inadequately represented in the Federation); and the fourth and final strand was the setting up of an industrial research organisation, principally designed to find ways of starting industries which could be fed from Malayan raw materials.

Moreover, Loch’s political boss, Tan Siew Sin, was personally very active in promoting local industry. As the MCFs expatriate secretary explained, this was because underpinning Malaya’s Great Leap Forward was the ‘intransigent unemployment problem’, not the demands of overseas investors. Since the Pacific war, the natural rate of population increase had averaged 35 per 1,000 for the Federation as a whole, but the urban rate (largely Chinese and Indian) was 41 per 1,000, aggravated by a tendency for labour to migrate from the countryside to the towns.47 In other words, industrialisation was part of the ongoing struggle to stabilise Malayan society and polity, and keep the young Malayan Chinese away from the lure of the MCR Oscar Spencer, the Federation’s economic adviser, stressed in August 1959 that the growing urban population had to look mainly to industry and commerce for employment, and so important was this strategy that ‘if private enterprise could not meet the need’, the Alliance government was ‘prepared to enter the industrial field—as the Japanese Government did in the last century’.48

By the mid-1960s, there were also foreign exchange considerations. The minister of commerce and industry, Lim Swee Aun, informed the SMCC in April
1966 that Malaysia was facing a balance of payments deficit which would eat up its reserves, and he asked the taipans to cooperate in the reduction of imports. ‘It is in the national interest and in your interest that the Government does not introduce currency control’, warned Lim, and the minister was particularly interested in encouraging motor-car assembly. With Malaysia currently importing over 30,000 units per annum, there was no reason why motor vehicles could not be assembled and progressively manufactured in Malaysia, and with the steady fall in the price of rubber, the Federation could not afford the luxury of importing a wide variety of motor vehicles *ad infinitum*. At present, it was more profitable to sell imported built-up cars, but should Malaysia be forced to impose currency restrictions, the import of motor cars would be the first to be controlled. Locally assembled cars might be more expensive in terms of Malaysian dollars, but for Lim that was a ‘small price to pay’ if the government was to save foreign exchange as well as create employment and improve living standards. Hence, Lim also wished to see the greater use of local raw materials in Malaysian industry. Why, for example, was Malaysia importing plywood to pack rubber when it was already producing plywood? Malaysia had to finance its economic growth from export earnings and savings in foreign exchange.49

At the end of the 1960s, the urgency of stabilising society was again uppermost in the minds of Cabinet ministers and senior administrators, given the imminent British military withdrawal and the wider political situation in the Southeast Asia region. Attracting productive investment was seen as a key means of absorbing the labour formerly dependent on the UK bases and garrisons. As Arthur Norman found, this sense of crisis was greater in Singapore than in Malaysia. But even in Kuala Lumpur there was ‘clear recognition of the pressure of events in Vietnam and of the need to act quickly to maintain stability through sound political, economic and social policies’.50 Industrialisation also emerged as a key device for the Alliance to provide investment opportunities for Malaysian entrepreneurs and to promote a local money market and a ‘shareholding democracy’. At the end of 1962, Lim Swee Aun had told a member of the MCAGB council that given the relative early success of ISI, the government would in future be more inclined to grant pioneer certificates to enterprises in which foreign capital and Malayan investors participated as equal partners rather than enterprises in which foreign capital insisted on a majority shareholding. At the same time, Tan Siew Sin, now finance minister, wished to see less leaning on the MIDFL. There was, he claimed, plenty of local capital awaiting investments, and, as we saw also in Chapter 2, the minister of finance wished that the habit of investing in blue-chip equities be more widely spread.51

*Reluctant industrialists*

That the Federation’s industrial project was state-led is confirmed by the attitude of British firms, both agency houses and manufacturers, towards investment in ISI. Junid Saham claims that the agency houses ‘spearheaded British participation
in local manufacturing’. This was not strictly the case. The heads of the merchant firms in Singapore objected to their reputation as ‘die-hard importers who benefit by free trade’. Yet Sime Darby’s chief executive, A.W. Scott, complained in March 1959 that the recently established tariff barriers (on both island and mainland) were producing ‘backyard secondary industry which cannot produce a product competitive in even the nearby export markets’. He hoped, therefore, that the governments on both sides of the Johor Straits would ‘avoid the temptation to become…die-hard advocate[s] of local manufacture at any cost’.53 British multinational manufacturers hardly embraced the prospect of Malayan ISI either. This was particularly the case with automobiles. En route to Australia, Lord Nuffield and H.C.R. Mullens of the BMC passed through Singapore in early 1959. In discussions with their Malayan agents, BCL, the BMC executives casually dismissed the idea of local vehicle assembly on the grounds that it was too costly, involving very considerable initial outlay, exacerbated by the imperative to constantly change over to new models. Such a scheme would provide little employment anyway. Even so, the BCL motor group registered an interest in a block of land at Petaling Jaya, the thinking being that should the federal government demand that vehicle assembly be undertaken locally, BCL could protect its franchises in a joint venture with the other major ‘British’ automobile distributor, Wearne Brothers Ltd.54 But in October 1959, BMC reiterated that ‘for choice’ it ‘would prefer to have nothing to do with local assembly’.55 Raleigh Industries did eventually plough some £1.5 million into a Malaysian subsidiary at Shah Alam by the end of the 1960s, thus providing a local production capacity of 50,000 bicycles per annum.56 Yet back in 1961, Raleigh directors were far from keen about Malayan prospects. Raleigh did not wish to put a plant down in Malaya ‘unless far more cogent reasons are forthcoming than at present exist’. Having seen for himself what was involved in manufacturing a bicycle in Nottingham, BCL’s export manager ‘entirely support[ed] this decision’. The assembly of small parts from component parts might become a small industry but ‘there is little to be gained price wise in this direction unless very heavy subsidies were given’.57 The merchants also appreciated that they lacked the technical expertise to become manufacturers. In 1968, the Anglo-Thai group, for example, considered establishing a distillery in Malaysia, next to Caldbeck, Macgregor & Co.’s bottling plant at Petaling Jaya. (Caldbeck Macgregor was a Hong Kong-based firm, acquired by Anglo-Thai in 1967, which distributed alcoholic beverages throughout eastern Asia.) The problem with establishing a distillery, however, was that the market would not be large enough to make it profitable unless the unit were also to produce commercial spirit on top of potable alcohol. But Anglo-Thai had no experience in this market, and so the project was dropped.58 Others were put off by political uncertainty, such as Huntley & Palmer Ltd and their local agents, Sime Darby. This was despite Malaya being the third largest overseas market for Huntley & Palmer’s quality biscuits, and local manufacture was seen by the Palmer family directors as necessary to secure their sales in the region.59
At the same time, British financial interests showed little enthusiasm for underwriting Malayan industrialisation. MIDFL included some investment from the British exchange banks and insurance companies in Malaya, and it did come to provide useful services for British MNEs. For example, the finance corporation undertook the issuing service for Dunlop’s tyre factory at Petaling Jaya during 1961. MIDFL underwrote half the issue of 4.68 million M$1 ordinary shares. In this way, Dunlop was assured of applications amounting to M$6 million. But when the idea of an IDFC was first mooted by Oscar Spencer and Alliance ministers in 1956, the bankers and insurers proved themselves extremely reluctant to subscribe capital given uncertainties about the establishment of a central bank, and actually wished the government to have majority control à la socialist India. Only veiled threats from ministers twisted their proverbial arms. As Finance Minister H.S.Lee put it, ‘unless the Government freely received from private enterprise already established…the support and co-operation necessary for the maintenance of the Government’s present [laissez-faire] policy, the Government might have to revise its policy and the change might not be equally advantageous’.

MIDFL finally came on line in 1960, headed by Raja Mohar of the MCI. The Kuala Lumpur managers of the Chartered Bank and the HSBC sat on the board, and collectively the British exchange banks and members of the British Insurance Association, as well as the OCBC, subscribed M$6.25 million out of a total authorised capital of M$15 million. But the exchange banks continued to show little enthusiasm for the development corporation, having hoped that a British commercial, such as Charles Thornton of Guthries or a former expatriate MCS man like Tony Loch, be appointed general manager. Instead, the Federation government chose Dermot O’Regan, formerly senior industrial adviser to the Irish Export Promotion Board. To the banks’ chagrin, O’Regan was soon to be retired as a consequence of ‘various irregularities’.

Moreover, it was not the prospect of huge monopolistic profits, guaranteed by generous state protection and subsidy, that propelled local manufacture. Rather, it was the danger that a competitor—often Japanese or American—would be offered pioneer status and tariff protection, and, hence, a long-established and valuable market plus distribution business would be literally wiped out overnight. In line with Fieldhouse’s conclusions for the origins of Unilever’s and the United Africa Company’s manufacturing in decolonising West Africa, Malaysian manufacture was defensive and a reaction to state policies. It was not anticipated, influenced or expected to be particularly profitable by British firms. Hence, it was the prospect of a Ford automobile plant being established in the Federation which pushed BCL and Wearnes into reserving land for car assembly at Petaling Jaya. As the FBI’s director-general appreciated in 1959, ‘The Pioneer Industries [legislation], in effect, launches a race. It is a case of “First come, First served”’. At the end of 1957, Sir John Dean, the chairman of Telcon, visited the Federation and informed the British High Commissioner that his company, and other members of the Cable Manufacturers’ Association in the UK, had been contemplating the establishment of a subsidiary in the Federation for some time,
having acquired land in Petaling Jaya as early as 1955. But they had hesitated to take a firm decision in view of ‘the doubtful economics’ of such a project and the uncertain political future of the Federation. It had become clear, however, that a Japanese group was seriously contemplating investment in Malaya, and consequently Telcon decided ‘to take the plunge or give up the idea altogether’.67

A few months later, a Dunlop executive told Sir Gilbert Laithwaite of the CRO that his firm was anxious to build a tyre-making plant as soon as possible because it was suspected that US interests might be getting ahead of Dunlop, and ‘if the Americans get in first there would then be no room either for an additional Dunlop factory or for any further significant imports from the UK’. The issue of local manufacture was given even greater urgency in 1959 by the prospect of a Japanese firm obtaining a pioneer certificate.68 That local manufacture was state-induced and determined by the possible loss of established import markets is confirmed by this assessment of the dangers to agency business from a BCL manager in Malaya to the managing director in London immediately after the promulgation of pioneer legislation:

[I]t is obvious that we must keep the closest watch on developments in Kuala Lumpur with a view to protecting [Principals’] interests… The dangers as we see it, are that someone might be granted pioneer status in respect of a comparable product. They might then lobby for tariff protection against imported equivalents, and might at the same time block an attempt by our Principals to embark on local manufacture as a means of rectification, by saying that no further productive capacity was needed to cater for ‘the economic requirements’ of the Federation. The great danger would be not so much that our Principals might not get ‘pioneer status’ for their local manufacturing, as that they might not get planning permission to proceed with local manufacture at all…69

At a British official level, Sir Geofroy Tory impressed the importance of defending British export markets through local manufacture on Lord Home in the light of the Tunku’s visit to Tokyo in the summer of 1958. Ostensibly, the Tunku and Tan Siew Sin had journeyed to Japan to attend the Asian Games, but both took advantage of the trip to promote economic linkages between Japan and the Federation through, inter alia, Japanese capital investment in Malayan secondary industry. The Tunku and his cabinet were clearly desperate to deal with the anticipated ‘unemployment problem’, and with little or no expansion possible in the labour forces of the staple primary industries, the development of manufacturing offered a partial solution. The prime minister and the minister for commerce and industry appeared determined to bring industry to Malaya ‘from whatever sources may offer it, and if necessary without regard to traditional trading patterns’ (my emphasis). This impression was confirmed in discussions between Tory’s economic counsellor and expatriate officials in the MCI. The Trade Commissioner warned that as soon as the Pioneer Industries Bill was
enacted in the summer of 1958, proposals for local manufacture, whatever their origin, would be welcomed by the Federation government, and that when the question of according pioneer status was considered, the main criterion would be the contribution which the various proposals offered in terms of employment. This could have a serious effect on British exports to the Federation, and thus Sir Geofroy felt ‘bound to advise that every effort should be made to bring to the attention of UK manufacturers trading into Malaya the present danger to their interests and to recommend them to give immediate consideration to the question of whether their markets in Malaya are worth the cost of investment in local manufacture or assembly’.70

**Dealing with the local bureaucracy**

Even if British investors were fully enthused about the prospects of local manufacture, they soon became disillusioned by the trials and tribulations of dealing with Malaysian red tape. Since so many official agencies were involved in industrial policy, establishing a pioneer industry, as the investment groups discovered, ‘has in many cases taken far too long a time’. Hence, the president of the SMCC, A.J. Ramsay of William Jacks & Co., welcomed the establishment of the autonomous Federal Industrial Development Authority (FIDA) in 1963. He regretted, however, that a year later, FIDA was actually yet to function, and an effective industrial policy still required the cooperation of the state governments in the controversial matter of land alienation.71 When the CBFs Arthur Norman arrived in Malaysia in March 1968, he found the EPU in the Prime Minister’s Department ‘quite comprehensive and impressive in both concept and staffing’, but FIDA still did not possess ‘all the tools to carry out detailed investment appraisal programmes of the type urgently needed at the present time’. Sir Alan Dudley of the ODM concurred.72 If anything, FIDA further complicated an already chaotic and disjointed policy-making environment, merely adding another institution concerned with manufacturing to a list which already comprised the Standards Institute of Malaysia, the Industrial Development Division of the MCI, the TAB formed on the creation of Malaysia, as well as MIDFL. Dr. V. Kanapathy, economic adviser to the United Malayan Banking Corporation and honorary adviser to FIDA, admitted as much to ODM officials. Kanapathy looked forward to a rationalisation of the melange of official industrial organisations into one body, under one roof, and with one chief to provide more cohesion and impetus to industrial policy and so eliminate the difficulties encountered by potential investors in obtaining coordinated advice and information. But the economist appreciated that such desirable reforms were likely to be obstructed by ‘vested interests’ in the bureaucracy.73

Alun Davies of RTZ, head of the Kuala Lumpur leg of the CBI mission to Commonwealth Southeast Asia in August 1968, frankly told Tun Razak and Lim Swee Aun that ‘well-intentioned bureaucracy in Malaysia might ruin business… [T]he government sometimes forgets that businessmen get intensely frustrated
waiting for decisions to be made.’ Davies actually proposed that the private sector in Malaysia should play a greater part in studying the feasibility of projects, allowing for a ‘real marriage’ of the practical businessman’s perspective with the ideas of the official economic planners. Even following the formation of the Capital Investment Committee in the wake of the May 1969 riots, it was believed by members of the CBI that Malaysia lacked a dynamic, coordinating development body along the lines of the EDB in Singapore. Sir Eric Griffith-Jones, meanwhile, was frustrated by the continued lack of an industrial research establishment, despite plans for one going back to 1958. This absence was inhibiting Sir Eric’s plans to diversify Guthries’ interests, and the possibilities of utilising Malaysian timbers for such things as wood pulp and paper, for example, had still not been properly examined as late as October 1967.

Given the Malayan policy-making maze, obtaining a pioneer certificate proved ‘bureaucratically protracted’, and British firms were to be further exasperated by a lack of consistency in the criteria for the award of pioneer status. This re-emphasises the chaotic, ad hoc and charismatic nature of Malaysian governance, with fuzzy lines of jurisdiction and responsibility. Difficulties arising from the multiplicity of institutions were further compounded by ministerial interference and idiosyncrasy as illustrated by the experiences of Dunlop, Shell and ICI. From the summer of 1958, Tan Siew Sin was in favour of Dunlop’s plans to build a tyre factory and thus create an integrated business in the Federation through joining up the British MNE’s long-established rubber plantations and distribution network. But, ironically, the fact that the minister of commerce and industry enjoyed close relations with Dunlop managers in Malaya made it difficult for him to support the company’s proposals, especially as Malayan Chinese interests had made an application to build a plant in partnership with the US’s Goodrich Corporation. Dunlop demanded a 60 per cent tariff, and since the local Chinese were prepared to set up with much less protection, the Cabinet was likely to favour the latter scheme. In February 1959, therefore, Dunlop executives were told that they must come to terms with Singapore-based businessman Robert Eu, Goodrich’s pan-Malayan distributor. Eu, however, was immediately put off by the size of the scheme and little prospect of quick returns on his investment. Dunlop still needed a local partner, however, if they were to win the approval of Malayan ministers, not least because an existing indigenous rubber manufacturer, Shum Kwai Hong, had been very vocal in claiming that his outfit could produce tyres perfectly adequately, and hence a foreign-sponsored scheme was not necessary. Dunlop thus considered giving Shum a small interest. But then in April 1959 the Japanese Bridgestone Tyre Co. entered the race with a proposal to establish a M$10 million plant in partnership with Malayan Chinese interests. Tan Siew Sin informed Dunlop that the Japanese firm was prepared to start up in the Federation with a lower level of tariff protection than Dunlop and indeed might enter without protection at all. When a Dunlop executive, with knowledge of tyre manufacture in Japan, doubted the viability of such a proposal, Tan angrily responded that if
Dunlop directors were so confident of the soundness of their scheme, they should take a chance and initiate production without a pioneer certificate.

Dunlop was somewhat bewildered by Tan’s change of attitude, and, in May, Tory learned that the company’s executives were now rethinking their plans and questioning whether Dunlop should be the ‘guinea pig’ for the Federation’s industrial development programme. Dunlop’s difficulties were further compounded in June 1959 by an agreement to form the Malayan Tyre Corporation Ltd as a partnership between the US’s Dayton Rubber International and Shum Kwai Hong, as well as H.M. Shah, head of the Selangor Malay Chamber of Commerce. Shah publicly argued that a pioneer certificate should be awarded to a Sino-Malay partnership, given the national defence interest in a tyre plant. There was a deep antagonism between Tan Siew Sin and Shum, going back to their days at Cambridge University together. But in the August 1959 Cabinet reshuffle, Dr Ismail briefly returned to the MCI portfolio. In May 1960, then, the TAC was envisaging a locally inspired and financed scheme with an overseas firm such as Dayton providing technical advice. As the UK Trade Commissioner reported to the Board of Trade, ‘the picture’ was ‘anything but an encouraging one’ for Dunlop. But troubles persisted into 1961. Cheah Theam Swee, a junior minister for commerce and industry, ‘set the whole of the officials, the MIDFL and the Dunlop negotiators by the ears by suggesting that the holding of shares should be limited to Federal citizens’. Dunlop was prepared to see a large local shareholding in the plant but had insisted since 1958 on at least a controlling interest in the equity. Dunlop Malayan Industries Ltd did eventually begin production in 1963, protected by a generous 70 per cent duty on imported tyres (the UK tariff in comparison being just 33.3 per cent). What happened in the course of 1961 to change ministerial minds and permit Dunlop greater protection than its executives originally demanded is unclear from the available record. But what we can be sure about is that there were many twists and turns in this story, and the British MNE was clearly not in control of events.

The same applies to the Royal Dutch Shell Group, which wished to establish an oil refinery in the Federation, seeking pioneer status from the end of 1959. Sir Gilbert Laithwaite warned Mr Bruce, head of Shell’s existing distribution subsidiary in Malaya, that Shell should ‘watch out for’ the US’s Standard Vacuum Oil Company (Stanvac, Esso’s parent company) which was looking to set up a refinery also. Thus alerted, Bruce took up the question of a Shell refinery with vigour in government circles in Kuala Lumpur, speaking informally to Abdul Razak and formally to MCI expatriate officials. However, a Stanvac representative was able to see the real economic powerbroker, Tan Siew Sin, now minister of finance, as well as Dr Ismail. The Americans were assured that they would be granted pioneer status. Bruce learned of this and immediately rushed to Tan, demanding that Shell be given the same. Tan was embarrassed and, to save face, informed Shell that it also could have a certificate. The Federation did not appear to offer a large enough petroleum market to make both projects viable. Yet Stanvac’s proposal also involved the provision of a chemical fertiliser plant, and
given the federal government’s desire to promote some form of fertiliser manufacture, Shell was faced with an unwelcome competitor at Port Dickson from the start in the guise of Esso Standard Malaya Ltd.  

The British multinational ICI also hoped to make a large investment in chemicals for agricultural usage. But this project was delayed by an internecine struggle within the Malayan Cabinet. As reported in Chapter 2, Abdul Aziz, the agriculture minister, was promoting an indigenous cooperative urea project. Despite the lobbying of the Board of Trade minister, Freddie Erroll, in Kuala Lumpur during a UK trade mission, plus ICI approaches to the minister of commerce and industry, Khir Johari, in London in the autumn of 1961, it was only the sacking of Aziz one year later which cleared the way for ICI. Moreover, like Shell, ICI had to come to terms with Esso’s competition.

Long-laid plans were also disrupted by the Malaysia-Singapore separation of 1965. This was particularly the case in automobile assembly, where British interests had devised schemes based upon the creation of the ‘Mighty Malaysia’ common market. At the end of 1959, I.M. Chandler, the senior industrial officer in the MCI, told a BCL manager that no early developments could be expected in vehicle assembly. Even so, this industry was bound to be included amongst those that would come up for consideration in discussions between the Federation and Singapore governments on a possible economic union, and a decision would be required on the balance of industry to be allotted to each territory. Once political merger seemed likely, the motor distributors met with the controller of the Industrial Development Division of the MCI, Enche Junid. It was revealed in this meeting that the Federation government was contemplating legislation to force the local assembly of cars, and by October 1963 plans were afoot for BCL and Wearnes to manufacture BMC vehicles on the Jurong industrial estate in Singapore, and Triumphs at a second assembly plant in Petaling Jaya. After the split, however, the agency houses noted that local motor-car assembly was being held back by a lack of cooperation between the Singaporean and Malaysian authorities. The absence of a common market between island and mainland did not allow for viable ‘economic units of production’. The Malaysian government, however, took the attempts of BCL and Wearnes to ‘stampede them into the limited common market for motor vehicles’ ‘very much amiss’. So much so that the British motor distributors were subsequently required to establish a number of plants on the mainland. The CWO appreciated in January 1968 that without Singapore, the rump Malaysian market was very limited (some 28,000 units a year) and there would exist strong competition amongst assemblers who also faced demands for a rising minimum amount of local content; a failure to attain this would incur a new assembly tax. It was unfortunate, therefore, that with Singapore and Malaysia each setting up their own assembly plants, and with limited prospects for significant export markets, ‘none of the plants are likely to be very profitable’.
colonial Malaysia. Yet such was the determination of Lim Swee Aun et al. to save foreign exchange and provide employment opportunities.

Increases in duty and excise structures on imported raw materials, following the creation of the common market between East and West Malaysia, additionally undermined British plans for manufacture in Borneo. By the end of 1965, the Kuala Lumpur government appreciated that it was losing revenue through declining imports of manufactured goods with the success of ISI. For BAT, though, this meant that increases in duties on imported tobacco leaf made plans for manufacture in Sarawak suddenly unprofitable. Instead, BAT was forced to change tack through government policy and divide its manufacture between Kuala Lumpur and Singapore. The Embassy brand could still be manufactured at a profit in Singapore but Players and Capstan would be switched to Kuala Lumpur for manufacture and subsequent export around the rump Federation. Hence, the common market for East and West Malaysia tended to discourage manufacture in Sabah and Sarawak, concentrating secondary industry instead in the prosperous urban belt, which sprawled along the Federal Highway between Kuala Lumpur and Kelang.

The British investment downturn

From the mid-1960s, there was a marked decrease in the rate of British industrial investment in Malaysia. When Lord Rhodes, the parliamentary secretary to the Board of Trade, visited Kuala Lumpur in November 1966, he was told by Dr Lim that whereas US private investment amounted to M$38 million in the previous 12 months, the British equivalent was M$28 million, and the only reason this was ahead of Japan’s M$14 million was thanks to a large single investment by ICI in chemicals at Batu Tiga. The Malaysian minister ‘expressed disappointment’ that the BMC had decided not to take up shares in the new plant which was to be set up at Shah Alam to assemble Austin and Morris cars. Continental European car manufacturers such as Volkswagen and Peugeot were taking an equity interest in their assembly plants. The minister of commerce and industry believed that other investment opportunities had been missed by British firms also: a Taiwanese firm was now producing formic acid in Malaysia, dissolving ICFs market. Japanese companies, meanwhile, had invested in textile mills and were now deriving profits from exports to the UK. Lord Shepherd, the Commonwealth minister, visited Kuala Lumpur in October 1967. In an interview with Khaw Kai Boh, the acting minister of commerce and industry, Shepherd was told of the Alliance regime’s disappointment that more British investment was not taking place. It seemed to Enche Khaw that ‘in many fields in which we [i.e. Britain] had previously predominated we were now being replaced by the Americans and Japanese’. At a lunch with leading British businessmen, those with manufacturing interests told the visiting minister that US and Japanese encroachment into the relatively small Malaysian market ‘might affect the viability of their own operations’. Just under a year later, High Commissioner Walker reported to London on a general lack of
interest in industrial projects by British investors. It was a ‘depressing fact’ that out of nearly 100 projects submitted in ‘recent months’ for consideration by FIDA, only four or five involved major British capital participation. British investors seemed to be waiting for the market to grow to the stage where a particular investment was almost immediately viable. ‘By the time that happens, joint ventures with Japanese or other foreign participation will already be in business and many opportunities will have been lost.’

When Arthur Norman of the CBI visited Malaysia in March 1968, officials tended to criticise the ‘slowness’ of British companies to make positive investments. The Malaysian mandarins were at pains to contrast the more cautious British attitude with the more aggressive views taken by others, particularly the Japanese. The Malaysian government still had a long list in the late 1960s of industrial projects for overseas investors: the production of alcoholic beverages; manufacture of railway locomotives and rolling stock; the assembly of tractors; paper and pulp mills; timber processing plants and plywood factories; steel-based products; food and fruit processing; telecommunications; furniture-making for export; dairy production; ship breakage and repair facilities; tapioca starch; and leather tanning. But despite the CBI investment missions of 1968, British industrialists showed no interest in any of these projects. Indeed, Sam Falle appreciated that the CBFs report on Malaysia ‘may provoke some disappointment’ if sent to the Tunku and thus proposed to ‘play things quietly’. Disappointing British industrial progress in Malaysia had been made by 1970. Tan Siew Sin complained to Labour’s president of the Board of Trade, Roy Mason, during the latter’s visit to the southwest Pacific that British firms were still ‘very slow to take opportunities that were offered to them’. J & P Coats, the Scottish clothing and textiles manufacturer, was singled out for having taken six months to decide on a Malaysian investment and ‘had seemed more intent on keeping potential competitors out of the market than on building up their own established position’. By contrast, the Japanese were ‘very persistent and aggressive and were willing to undertake virtually any project which the Malaysian Government suggested’. So much so that the ‘Japanese economic offensive was beginning to cause some uneasiness in Malaysia’.

As Arthur Norman appreciated after discussions with ‘experienced businessmen’ in Southeast Asia, one reason for this intransigence was that opportunities to establish manufacturing facilities on the basis of markets already created by exports had largely been used up. But, as an executive of BCL/Inchcape subsidiary Motor Investments Ltd put it, this attitude derived from a reluctance on the part of British investors to take a longterm view—a failure, in other words, ‘to nurture investments to maturity so that they will pay off handsomely’. British industrialists also failed to consider the possibilities of EOI. A committee headed by Raja Mohar recommended measures to accelerate industrial growth, resulting in the Industrial Incentives Act (IIA) of 1968. This modified the pioneer industry legislation, but, following the lead of Singapore’s 1967 Budget, the new act also provided very strong fiscal incentives for EOI. In
the 1969 election, Alliance candidates were committed to ‘carry[ing] forward our industrialisation policies not just to meet domestic requirements but also to stimulate the export potential’. 98 A further amendment to the IIA in 1971 allowed for the creation of free trade zones (FTZs) on the South Korean and Taiwanese model, where MNEs could produce for export mainly using duty-free imported equipment and materials. Yet it was American, Japanese and continental European not British firms who would predominate in these zones in Penang, Selangor and Melaka, focusing on labour-intensive micro component assembly plants.99 Interestingly, the Penang branches of the British trading houses did show impatience at the slow establishment of the FTZs. But not because this was denying opportunities for agency-house investment in export industries. Rather, they saw a Penang FTZ in terms of boosting their traditional merchanting role—a badly needed shot in the arm for the entrepôt trade which, in contrast to the doubling of import-export volumes in Singapore during 1968–69, was withering through the erosion of Penang’s free-port status and the imposition of surtax.100

Junid Saham, however, accounts for the downturn in British industrial investment as arising not from entrepreneurial failure but rather through a set of mutually reinforcing politico-economic factors, largely beyond the control of the agency houses and MNEs: the Malaysia-Singapore split, Konfrontasi, sterling’s devaluation, the UK military withdrawal, the 1969 riots, restrictions on capital outflow from the UK, and the lure of European integration.101 Yet the ‘captains of industry’ in Britain believed that the political disincentives, at least, could be overcome by a UK government-backed investment guarantee. This, however, fell foul of the fiscal and financial policies of the Wilson government, designed to restrict overseas investment to protect the British balance of payments and direct productive capital to the regeneration of UK industry. In other words, a large slice of the blame for Britain’s declining industrial influence in Malaysia at the end of the Tunku era lies with UK public policy. Indeed, as Shepherd candidly confessed to Khaw, the UK had its own economic problems to consider and of course this was a major reason for our present endeavour to rationalise our defence commitments overseas, with a view to husbanding our economic resources… [U]ntil we had built up our economic strength by the measures which we were now taking in the defence and other fields [e.g. withdrawal of OTC status in the 1965 Budget], we were not able to undertake all the investment overseas which we might have wished.102

Ronnie Grierson, vice-chairman of the General Electric Co. Ltd, and a director of the merchant bank S.G.Warburg & Co., led the CBI mission to Malaysia and Singapore in the summer of 1968. On his return to London, Grierson reported to the Commonwealth Secretary, George Thomson, as well as CWO, Treasury, Board of Trade and ODM officials. His basic contention was that Britain, unlike
Germany, Japan and other developed countries, still did not give political guarantees for investment abroad. Perhaps they could be authorised, within existing legislation covering the ECGD for Malaysia and Singapore, without creating too obvious a precedent. Grierson had recently attended a company meeting where there was a choice between investment in Australia or Singapore. Notwithstanding many disadvantages, the firm had decided to invest in Australia because of uncertainty about the political future of Southeast Asia. Had there existed investment guarantees, the company would certainly have invested in Singapore. It was precisely because Singapore (and Malaysia) sat, geographically and politically, in a precarious position that British industry sought insurance against confiscation following political turmoil, and not against bad investments per se. As Colin Martin of J & P Coats explained to British industrialists, bankers and civil servants after the riots, his firm was dragging its feet primarily because of geopolitical anxieties. Malaysia did seem to be stabilising its own domestic position through solving its rice problems, but ‘what would happen if the Vietnam situation was a weak one’?

The ODM, CWO/FCO and the Ministry of Defence did view the investment of capital and/or know-how by British manufacturers as a significant means of maintaining stability during the defence rundown, while also preserving and extending the UK’s considerable commercial and financial interests in Southeast Asia. Hence, the overall British government consensus was probably more favourable to UK investment in Malaysia and Singapore than anywhere else in the world. But, in the interests of putting the British economy first, the Treasury remained an immovable object. As the Exchequer’s Alistair Mackay explained to John Moreton in the FCO at the end of October 1968, ‘we could not make an exception of Singapore and Malaysia and...balance of payments considerations make it impossible for us to provide such guarantees more generally’. The ODM’s Bill Mathieson put it to a colleague in December 1968 that there was ‘a persistent dilemma’ in Whitehall’s dealings with the CBI since it was not British government policy ‘to encourage overseas investment even in the developing sterling area’.

In the stimulation of British investment in Malaysia, Grierson found British officialdom wanting in other areas too, revealing the cultural and intellectual gap between mandarin and entrepreneur which continued to pervade post-imperial Britain. The industrialist-cum-financier recommended the establishment of a technological institute for Southeast Asia based on Singapore and funded by Israel’s Weizmann Institute, as well as an after-sales service centre for British engineering firms in the region. Grierson additionally suggested the appointment of a new peripatetic Trade and Investment Commissioner of ambassadorial rank for Southeast Asia, also based in Singapore. Ideally, this individual would be an energetic, youthful ex-merchant banker who would seek out trade and investment opportunities which might not be apparent to a civil servant. British officials, both in Southeast Asia and in Whitehall, proved lukewarm to Grierson’s ‘big vision’. Singapore would remain the hub of British commercial and industrial
activity in the region, but the trade ‘overlord’ idea had died out with the demise of the Commissioner-General’s Office in 1963, and the concept of a Trade Commissioner ran counter to the policy which HMG had been following since 1965; namely, integrating the commercial work of British overseas civil servants fully into that of High Commissions and embassies. Singapore’s High Commissioner, Arthur de la Mare, had previous experience in the US of a trade adviser drawn from the business world, but this individual seemed ‘aggressive only in the manner in which he ran after women’. For the FCO, a special position could not be justified for Southeast Asia when British commercial and financial interests were much larger in western Europe and no such post existed there. Grierson’s supremo was really concerned with stimulating investment rather than trade, and while ‘trade follows the flag of investment, overseas investment [of course] is not at present in accordance with HMG’s policy’. Grierson also seemed to have forgotten that Singapore and Malaysia were no longer part of the same political unit. As Leon Taylor, economic counsellor in Kuala Lumpur, pointed out, Grierson’s proposals centred on the island, but ‘due to the Tweedledum and Tweedledee set-up as between Malaysia and Singapore’, Britain’s political and economic interests demanded that HMG be mindful of not making proposals for the establishment of organisations, such as the technological institute or the spare-parts centre in Singapore, without making similar, complementary or equally attractive proposals for Malaysia. Indeed, having spent only a few hours in Kuala Lumpur, Grierson was hopelessly out of touch with the political realities of Malaysia, epitomised by his suggestion that Israeli assistance be used to develop a technological institute which would hardly achieve approval from Singapore’s Muslim neighbours. For Grierson, however, these objections appeared like bureaucratic intransigence of the worst kind; as he wrote to Lord Shepherd,

an ordinary businessman stands no chance in a battle with officialdom… [T]he objection raising techniques of officialdom is bound in the end to prevail; the more so as businessmen are usually suspected…of protecting some sinister private interest when they are in fact trying to perform a public service…! must now reluctantly conclude that a lot of time and effort would be saved if in future the officials whose views prevail in any case were themselves to undertake these missions instead of asking us to do so.

By contrast, Japanese industrialists appear to have enjoyed closer relations with their home government during Japan’s re-emergence as a Southeast Asian economic power. Japanese firms were backed by soft loans from the Export-Import Bank of Japan and the Overseas Economic Cooperation Fund. The Japanese industrial mission which visited the ‘Greater Malaysia’ territories in September 1962 was headed by the president of Mitsubishi Electric, and included representatives from Japan’s steel, engineering and banking industries but also an
equal number of government officials. The industrialists, in turn, were to report back to government departments in Tokyo.\textsuperscript{114} This close alliance between public and private sector derived not from a stereotypical ‘Japan Inc’ with business and government working in complete harmony.\textsuperscript{115} Rather, the Japanese state was prepared to give strong support to its overseas business network given the far greater economic and strategic importance of Southeast Asia to Japan than Britain or any other ‘major’ power. Japan’s dependence on overseas raw material supplies made Southeast Asia critical, on the one hand, because almost all of Japan’s oil passed through the Melaka Straits by the 1960s and, on the other, because the region itself had become so important, not only for its supplies of rubber, tin and iron ore, but as a market for Japanese consumer goods. Political stability in the region, and good relations with Malaysia, Singapore and Indonesia particularly, were clearly of great importance to Japan, and Tokyo’s policies, including aid, trade and investment, were framed in such a way as to promote them.\textsuperscript{116}

As such, Japanese industrial investment was far more significant than Table 5.2 suggests, even in the immediate post-merdeka years. The main Japanese interest in the trade pact formalised with Malaya in 1960 was to take advantage of the Tunku’s encouragement of new industrial ventures, and in 1961, the FMSCC president felt it necessary to highlight that the Japanese had already established an asbestos cement factory, a toothpaste factory and a fish-canning plant, and plans were afoot for a steel works, tin-smelting works, and sugar and oil refineries.\textsuperscript{117} Wheelwright’s analysis of paid-up capital in the pioneer industries considerably understates the actual level of Japanese involvement in secondary production because many of these industrial enterprises were joint ventures with local Chinese, and the Japanese involvement was often in the form of know-how and the direct provision of machinery. Hence, as the UK’s Trade Commissioner in Kuala Lumpur discovered, the company formed by 1960 to build a sugar refinery at Perai was to have 55 per cent of its M$6 million capitalisation supplied by Japan —partly by Mitsui Bussan Kaisha, a leading sogo shosha, and partly by a manufacturing concern, Nissin Sugar Refining. The latter would supply the know-how while the former would provide plant worth ¥1,212 million on a deferred payment basis, and four of the seven-person board would be Japanese.\textsuperscript{118} A branch of the Bank of Tokyo was set up in Kuala Lumpur towards the end of 1959 with the express intention of providing loans for joint Japanese-Malayan ventures. In 1961, the Board of Trade noted that Japanese investment in the Federation was already ‘impressive’ and running ‘second to ours’, assisted by the ‘proJapanese’ minister of commerce and industry, Khir Johari.\textsuperscript{119} According to Japanese official calculations, Japan surpassed Britain as a supplier of new development capital for Malaysia as early as 1965.\textsuperscript{120}

What made Japanese industrial investments increasingly influential were the partnerships struck up with well-connected Malaysian Chinese. In sugar refining, this was with Robert Kuok.\textsuperscript{121} Meanwhile, the Ajinomoto (Malaya) Co. Ltd began building a factory to produce monosodium glutamate in Kuala Lumpur in 1963, and chose the Tunku’s confidante, T.H. Tan, as one of its local partners. As two
Japanese historians have commented, Tan ‘played an important role in establishing a good relationship between the company and the government of Malaya’. 

Interestingly, T.H. Tan and Tan Siew Sin, with the Tunku's blessing, had played key roles in organising a Malayan trade mission to Japan in 1956. 

‘Tycoon’— T.H.’s nickname in Alliance circles— was also the ‘prime mover’ in the development of the M$72 million pioneer MalayoJapanese joint venture to build an integrated steel plant at Perai (despite a Canadian Colombo Plan expert doubting the technical and locational qualities of the Malayawata project in a report to MIDFL). British steel interests, backed by the CDC and the Board of Trade, considered investing in a rival and apparently much more viable project in Singapore. But Singapore’s departure from Malaysia left the field clear for the Perai project, underlining the growing lack of British influence over Malaysia’s industrialisation.

The Malayawata example also emphasises the ability of Japanese industrialists to permit majority Malaysian, and specifically Malay, control (see Chapter 2). This contrasted sharply with the British MNEs and agency houses, which tended to begrudge local capital involvement. Telcon/BICC, for example, only offered 10 per cent of their shares to Malayan interests. 

The British industrial firms were willing to appoint Malay directors to the boards of their subsidiaries, notably Dato Nik Kamil (see Chapter 2). But, typically, such dignitaries did not hold substantial shares. As late as 1972, over 75 per cent of the equity capital of UK industrial firms in Malaysia was owned by British interests (mainly parent firms and institutional investors). As Mike Cullen of Lever Brothers Malaysia told the CBI in July 1969, his company ‘would not dream of putting more investment into Malaysia unless [it] had 100 per cent control’.

Conclusion

By 1968, Sir Denys Lowson, the chairman of Anglo-Thai, returned from Southeast Asia disturbed by the prospect of ‘important income from one or more Agencies’ being ‘affected almost overnight as a result of protective tariffs, or a decision on the part of the Manufacturers to undertake local manufacture and/or distribution themselves’. The group, therefore, had ‘to identify itself in any way possible with local manufacture and distribution’.

This clearly underlines the ability of an indomitable post-colonial state to restructure expatriate business activities and make serious inroads into the sterling area’s ‘open’ economy. Indeed, Malay[sii] a’s ISI programme reduced the proportion of consumption goods in the country’s imports by nearly half between 1961 and 1972, from a figure of 47 to 26 per cent. Moreover, the British downturn in exports to Malaysia during the 1960s partly reflected the fact that the agency houses and manufacturers had been compelled to produce a wide range of consumer goods, from alcoholic beverages to air-conditioners, behind Malaysia’s tariff walls. 

This disengagement between ‘metropole’ and former colony was exacerbated by the tendency for British industrial investments to be superseded at the end of the Tunku years by rival
sources of development capital and technology, particularly from East Asia. A similar process was taking place in the diversification of primary production (albeit with the expatriates being supplanted by state-backed indigenes rather than competing foreigners). Hence, during the 1970s, FELDA would become the world’s largest single producer of palm oil. The suggestion that post-colonial economic policy remained essentially laissez-faire and ossified in the colonial era requires yet further qualification.

Notes
1 ANM, SP 33/A/1/31, *Alliance Manifesto ’69*, p. 3; PRO, FCO 24/30, Walker to Thomson, 16 October 1967.
3 ANM, SP 95/B/14, ‘My first Annual Report as UPAM President’, c. April 1968, p. 6; see also Traill’s draft paper on SP 95/B/63 for the *MCI Journal*, ‘The oil palm industry—its present position and its immediate needs’, c. August 1969.
4 Khera, *Oil Palm Industry*, p. 26; Tate, *RGA History*, pp. 581–2; RGACM, MS 24863/74, 4 January 1965, draft letter to members.
5 RGACM, MS 24863/74, 7 December 1964, Report of General Purposes Committee.
6 It should be noted, however, that two of the largest plantation groups producing palm oil were Franco-Belgian (Socfin) and Danish (United Plantations).
9 See CUL, Barlow, 73/922, Tom to Henry Barlow, 8 February 1970; see also Fieldhouse, *Unilever Overseas*, pp. 546–7. British dominance of oil palm growing was reinforced during the 1960s by the UK’s position as Malaysia’s largest market for the processed oil: Khera, *Oil Palm Industry*, pp. 230, 264. Indeed, the Nigerian civil war (1967–70) increased Britain’s dependence on Malaysian supplies.
14 Calculated from PRO, OD 39/135, Wenban-Smith to Deare, 3 December 1968, enclosing memorandum by EPU on extension of Batu Tiga Industrial Estate, Appendix D.
15 Gomez, *Chinese Business*, p. 34.
16 PRO, OD 39/17, Note by Malaysia and Singapore Department, ODM, of a meeting held with the CBI, 3 April 1968.
17 ANM, AE/97/A, *FMSCC Yearbook* 7959, President’s Address, p. 16.
18 IA, MS 27178/26, BDM, 7 October 1959 and 28 April 1960; MS 27259/5, Young to Managing Director, 12 November 1958.
19 IA, MS 27008/13, BDM, 22 June 1965.
21 Hua, *Class and Communalism*, p. 145.
22 PRO, DO 35/9972, Bevan to Wright, 27 December 1957, enclosing note of conversation between Tory and Sir John Dean, Chairman, Telcon; IA, MS 27295/5, Tanner to Managing Director, 13 October 1958.
25 ANM, SP 95/B/15, SPA (Coast Section), Chairman’s Report, 3 March 1971; *The Times*, 20 May 1971.
28 PRO, DO 35/9995, Mellor, Kuala Lumpur to Dorman, CRO, 14 August 1959; Tate, *RGA History*, p. 581.
29 See material in PRO, DO 35/9994.
31 ANM, SP 95/B/13, Aziz bin Abdullah, MCI, to Secretary, UPAM, 12 May 1967.
32 ANM, SP 95/B/14, UPAM Annual Report, April 1968, p. 6.
33 ANM, SP 95/B/63, Traill paper; IA, MS 27013, Anglo-Thai AR&A/Cs, 1967, Chairman’s Review.
34 PRO, FCO 24/294, note of discussion with Guthries, 3 October 1967. In a general review of British investment in Malaysia, Scanlon reported that most of the plantation groups with interests in palm oil were ‘on the whole more interested in withdrawing from Malaysia as much capital as they reasonably can in order to diversify their interests to other parts of the world’: PRO, FCO 24/30, Minute for Reed, 31 October 1967.
35 Tennamaram Estate interestingly had been the site of the first commercial oil palm planting in Malaysia by celebrated Frenchman Henri Fauconnier: Khera, *Oil Palm Industry*, p. 24.
36 ANM, SP 95/B/63, draft letter of 29 October 1969; see also SP 95/B/14, UPAM Presidential Address, April 1969, p. 5, and Traill’s article in *Straits Times*, 7 October 1969; RGACM, MS 24863/78, 3 February 1969.
37 ANM, SP 95/B/63, paper for *MCI Journal*.
38 RGACM, MS 24863/78, 2 March 1970, Report of Malaysia Committee; *Straits Times*, 20 April 1971; *Malay Mail*, 1 July 1970. The Palm Oil Research Institute of Malaysia finally came into being in 1976 but, like the RRI, was regarded by European planters as excessively bureaucratic: Tate, *RGA History*, p. 583, 594 n. 18.
40 PRO, DO 35/9995, Mellor to Dorman, 14 August 1959.
41 ANM, SP 95/B/14, UPAM Annual Report, April 1968, p. 7.
42 DO 35/9993, Brown to Carrel, CRO; Minute by Larmour for Snelling, 9 June 1958; Totman, CDC, to Hickman, CRO, 13 May 1959, enclosing letter from Razak to Fiennes, Malaya Developments Ltd (Federation subsidiary of the CDC), 6 May 1959.
43 See e.g. Straits Times, 15 November 1971.
46 PRO, DO 189/219, copy of Sutton to Trenaman, 2 May 1963; Tate, Power Builds the Nation, pp. 268–9.
47 PRO, DO 35/9972, copy of note by Bevan, 4 February 1958.
48 Reported in Straits Times, 31 August 1959.
50 Ibid., MSCA Bulletin 53, June 1968, extracts from a report by Norman on his visit to Malaysia and Singapore, March 1968.
52 Junid, Industrial Investment, pp. 138–9; see also p. 127.
54 The Singapore-registered Wearnes is another example of a firm whose top management remained British while its shares were increasingly snapped up by local investors, especially the OCBC in the decolonisation and post-colonial epochs: see Grace Loh et al., Building Bridges, Carving Niches: An Enduring Legacy, Singapore: Oxford University Press, 2000, p. 140.
55 IA, MS 27189, Motor Group Committee Minutes, 3 March, and 1 and 9 October 1959.
57 IA, MS 27281, Chaplin to General Manager, Kuching, 13 February 1961.
58 IA, 27008/13, BDM, 23 January and 26 February 1968.
59 PRO, DO 35/9972, copy of note by Bevan, 4 February 1958.
61 PRO, CO 1030/283, Minutes of meetings, 23 May and 14 June 1956.
62 PRO, DO 35/9859, copy of circular letter from Stafford Northcote, Chartered Bank, 16 October 1957; Rampton to Smith, CRO, 2 April 1960; Malay Mail, 28 March 1960.
65 IA, MS 27189, Committee Minutes, 9 October 1959.
Junid Saham’s interviews with 103 British firms in March 1972 confirm that the principal motive in local manufacture was to secure existing markets by pre-empting competitors securing monopolistic positions behind tariff walls: *Industrial Investment*, pp. 64, 69. As one company representative commented, ‘Personally I imagine no British company… would establish manufacturing in Malaysia if the Malaysian market could be supplied from our bigger affiliates. The problem, of course, is that someone…will establish a factory in the Malaysian market and secure high tariffs for its own benefits and our disadvantage, if we do not come in first. We therefore came in before we were confronted by high tariffs’: *ibid.*, pp. 70–1.

Material in PRO, DO 35/9912.

80 IA, MS 27189, Motor Group Minutes, 5 March 1963; PRO, DO 35/9912, Peppercorn/ Laithwaite conversation, 17 April 1958.

81 PRO, DO 35/9996, McKelvie to Dorman, 23 November 1959; extract from Savingram, 9 December 1959, Malayan Fortnightly Summary.

82 PRO, DO 189/151, copy of Board of Trade note for the President, 17 November 1961; BT 11/5858, Sharp to Mullins, FBI, 9 November 1961.

83 IA, MS 27189, Motor Group Minutes, 31 December 1959, 8 December 1962, and 28 June and 5 October 1963.


86 PRO, FCO 24/93, Brief No. 12 for the Secretary of State’s visit to the Far East, January 1968.

87 See Jomo and Edwards, ‘Historical perspective’, p. 23.


89 See IA, MS 27276, Pearson to Proud, 22 November 1965.
90 PRO, DO 189/496, copy of Taylor to Morris, Board of Trade, 22 November 1966, enclosing note of Lord Rhodes’ visit to Lim Swee Aun, 15 November 1966.
91 PRO, FCO 24/30, Walker to Thomson, 16 October 1967.
94 PRO, FCO 24/347, letter to Aiers, 2 December 1968.
95 PRO, FCO 24/626, copy of ‘Note of the President’s Tour of South-East Asia, 7–18 January 1970’, by Croft, 26 January 1970.
96 HSBC, MB Hist 2166, *MSCA Bulletin* 53, June 1968, extracts from Norman Report; PRO, OD 39/17, note of meeting with the CBI, 3 April 1968; copy of ‘Note of meeting held on 10th June at the CBI on the Subject of British Aid and Investment in Singapore and Malaysia’.
98 ANM, SP 33/A/1/31, *Alliance Manifesto* ’69, p. 8.
99 Drabble, *Economic History*, pp. 263–4; Amarjit Kaur, *Historical Dictionary of Malaysia*, Lanham, MD: Scarecrow Press, 2nd edn, 2001, pp. 102–3. British manufacturers in the Federation tended to be capital intensive, and were unlikely to be favoured anyway by the new EOI directives, which were designed primarily to provide industrial employment for the bumiputera: Junid, *Industrial Investment*, p. 168.
100 ‘We are in the process of transition from being a Free Port City to a City with a Free Port but unfortunately whereas the benefits of the first have now largely gone, the boundaries and conditions of the second have yet to be clearly established’, lamented D.F. Clayton of Sandilands Buttery: AE/99/M, PCC Minute Book, 1964–72, Minutes of the AGM of the Penang Branch of the MICC, 15 February 1971, p. 507. Only 8 per cent of Junid’s respondents saw Malaysia as a base for exports to Southeast Asia as a whole as an important motivating factor in their investment decisions: *Industrial Investment*, p. 66.
102 PRO, FCO 24/30, Walker to Thomson, 16 October 1967.
103 PRO, FCO 24/39, note on discussion in the CWO, 13 September 1968.
104 PRO, FCO 24/476, note of CBI meeting, 24 July 1969.
105 PRO, FCO 24/38, copy of letter from Mathieson, ODM, to Norman, CBI, 26 July 1968; OD 39/17, Note by Berkoff, 25 July 1968.
106 PRO, FCO 24/344, letter of 30 October 1968.
107 PRO, OD 39/18, Minute for Wilson, 11 December 1968.
108 PRO, FCO 24/39, note on discussion at the CWO, 13 September 1968.
110 PRO, FCO 24/344, Minutes by Jamieson and Heath, 7 and 16 October 1968.
112 PRO, OD 39/18, Minute for Wilson, 28 October 1968.
113 PRO, FCO 24/344, letter to Shepherd, 4 December 1968. According to the Singapore High Commissioner, on the other hand, Grierson suffered from a ‘Fuehrer complex’: FCO 24/39, letter to Moreton, 28 September 1968. This was a particularly unfortunate comment given Grierson’s German Jewish roots.
114 PRO, DO 189/219, copy of Reynolds, UK Trade Commissioner, to Richards, Board of Trade, 28 August 1962; copy of letter from Lushington, Commissioner-General’s
Office, 17 September 1962, enclosing ‘Note of a Meeting with Selected Members of the Japanese Economic Mission, 5 September 1962’.


117 PRO, DO 35/9974, copy of Commercial Department, British Embassy, Tokyo, to FO, 7 August 1959; ANM, AE/97/A, *FMSCC Year Book 1960*, President’s Address, 14 March 1961, p. 11.

118 PRO, DO 35/9974, Enclosure II in copy of Woodruff to Philipps, Board of Trade, 19 May 1960.

119 PRO, DO 189/151, note for the President, 17 November 1961. Indeed, as a counter to the Tunku’s anglophilia, Japanese interests could count on an influential coterie of Malay politicians and bureaucrats, educated at the *Koa Kurenjo* (youth training schools) during the Japanese occupation. Leading figures such as Abdul Razak, Raja Mohar and Ghazali Shafie served as a ‘bridge of friendship between Japan and Malaysia’: Akashi Yoji, ‘Watanabe Wataru, the architect of the Malay Military Administration, December 1941–March 1943’, paper presented at the Second International Malaysian Studies Conference, Universiti Malaya, Kuala Lumpur, 2–4 August, 1999, pp. 13, 22n.


121 Brown, *Chinese Big Business*, p. 83. In addition to close links with Southeast Asia’s political elites, Brown sees Chinese business success from the 1940s being built upon links with the *sogo shosha*. 


123 See material in ANM, Tan Siew Sin papers, SP 45/867; see also Nicholas J. White, ‘Britain and the return of Japanese economic interests to South East Asia after the Second World War’, *South East Asia Research* 6 (1998):305.


125 PRO, DO 35/9972, enclosure in Bevan to Wright, 27 December 1957.


127 PRO, FCO 24/476, note of meeting, 24 July 1969; see also the complaints of British factory managers about equity controls in PRO, FCO 24/626, note of President’s tour, 7–18 January 1970.


130 Shaw, *Tun Razak*, p. 137.
Conclusion

Business, government and the aftermath of empire

Unlike so many other decolonised Afro-Asian states, Malaysia did not resort to nationalisation to deflect popular discontent, meet anti-colonial revanchism and doctrinaire socialism, or provide opportunities for self-enrichment on behalf of an avaricious indigenous elite. This, however, should not be taken as evidence of the fragility of a ‘neo-colonial’ regime. On the contrary, it demonstrates the robustness of a relatively well-managed post-colonial sovereign state. Far from being bamboozled by expatriate capital, the Alliance regime was able to direct British interests into desired channels, manipulating overseas business to meet national economic objectives. Despite the continued presence of expatriate officials in the Malayan MCI and Treasury, the CRO noted as early as 1962 that the regime in Kuala Lumpur had instituted a number of measures which were eroding the openness of the post-colonial economy and intruding into traditional British business operations in the peninsula. These included: government encouragement to localise the management and capital of overseas enterprises, as well as pressures on London-domiciled tin and rubber companies to open branch share registers and allow Malaysians onto their boards; the development of a Malayan Stock Exchange, a Malayan rubber market and a new international airport near Kuala Lumpur; plans for a national shipping line as well as regional shipping and air services as part of the Association of Southeast Asia (ASA); increasing use of international tendering, particularly in civil engineering contracts; and, finally, inclinations to encourage the expansion of trade with Asian countries, notably Japan, in preference to British supplies.¹

A nationalist development strategy was also evident in a successful ISI programme after 1958. As was demonstrated in Chapter 5, and was typical for much of the post-colonial world, the ‘manufacturing multinational was conjured up by protectionist governments’. Their monopoly of technology and know-how may have allowed the British MNEs, in partnership with the agency houses, to extract substantial profits from Malaysia’s pioneer industries. But it was the protection provided by the Alliance governments which coerced reluctant British businesses into establishing local plant and forced up domestic prices above international levels.² In financial policy, the Bank Negara placed increasing restrictions on the operations of the British exchange banks while encouraging the formation of a local money market.³ The new issues boom of the early 1960s
involved not only speculation from wealthy Malaysian entrepreneurs but the shareholding habit was also emerging amongst ‘the financially unsophisticated middle and lower classes’. Jomo has claimed that these local flotations represented the ‘coming together of local and foreign capital’, establishing a ‘commonality of class interests’. Yet on top of a fear of losing control to the ‘local bourgeoisie’, the British industrialists and agency houses viewed Malaysian shareholders as a speculative nuisance, gambling on quick profits rather than long-term growth, while the federal government’s attempts to encourage local equity participation were generally regarded as a deterrent to further investment, particularly in manufacturing where British firms preferred their subsidiaries wholly owned.

In primary production, the Tunku’s governments snatched control of rubber research policy from the big estates, while also continuing the highly directive rubber replanting schemes of the late-colonial state (see Chapter 4). After 1966, however, this involved a significant modification, since the First Malaysia Plan only made provision for replanting by the Malay and Chinese smallholders, entailing an even greater redistribution of resources from the foreign-owned estate sector to the indigenous growers. The smallholders were also supported by the land resettlement schemes under the aegis of FELDA. This rural development body was given added impetus by the energetic Abdul Razak after 1959, as the Ministry of National and Rural Development utilised methods once deployed against communist insurgency in the field of economic development. FELDA proved central in diversifying the smallholder export economy since the capital requirements of palm oil production were far beyond the means of individual smallholders. As such, oil palm was no longer the preserve of the big foreign-owned estates by the end of the 1960s. As Jesudason points out, the mere fact that nearly three-quarters of the post-colonial electorate comprised Malay smallholders, whose vote was also sought by the PMIP, ensured that the Alliance government ‘could not afford to be “neo-colonial”’. The peasantry, or at least the ‘rich’ or ‘dominant’ variety, which had formed the backbone of nationalist movements throughout monsoon Asia, had to be appeased. In the tin industry, meanwhile, land and tax policies allowed the Chinese gravel pumps to forge ahead of the European-owned dredges. In a similar vein, Chinese interests in East Malaysia’s timber extraction were increasingly favoured over the British long-term concessionaires, and in 1969 the latter were informed by the Sabah state government that their licences would not be renewed. A year later, Tun Mustapha’s Sabah Foundation took a 100-year lease over 2,200 square miles of hardwood forest on behalf of the pribumi.

Indeed, the stress on ‘bringing on the Malays’ (and other indigenes) through state assistance was certainly well developed before the supposed cataclysm of May 1969 and the Tunku’s decision to step down in 1970, and built further upon the initiatives of the late-colonial regime. Two of the major institutions of the NEP, Bank Bumiputera and PERNAS, actually emerged from the government-approved Bumiputera Economic Congresses of 1965 and 1968. Jomo has argued
that such initiatives in promoting Malay capitalism ‘continued to be limited by the class compromise underlying the Alliance arrangement. Changes in the ownership of the established capitalist sector were not significant.’

But, as one official in the UK High Commission in Kuala Lumpur appreciated, the foundation of PERNAS, with its remit to engage in the exploitation of natural resources as well as the import-export business, was ‘not a good omen’ for the British agency houses, ‘who have virtually monopolised this field to date’.

Moreover, aspiring Malay entrepreneurs increasingly embraced the popular adage ‘jadi ahli politik untuk buat duit’ (literally, ‘become a politician to make money’). Here was an obvious recognition of the blurring of the distinction between business and public office which was evident before the 1970s. Leading Chinese entrepreneurs in the MCA held key Cabinet posts, and indeed the Tunku’s patronage allowed Tan Siew Sin’s and Ong Yoke Lin’s towkay faction to resume control of the party in the early 1960s.

Meanwhile, close relations with the Malay political elite assisted the business careers of T.H. Tan and Robert Kuok, particularly in ISI. On the other hand, Malay bureaucrats-cum-politicians, such as Tengku Razaleigh, were chosen to lead prestige projects to salvage the Malay kampung. In Sabah, meanwhile, ‘cronyism’ emerged from the exigencies of British decolonisation strategy as the leading indigenous politicians were awarded timber concessions to finance non-communist, anti-Indonesian political parties in Britain’s scramble out of Southeast Asia. In April 1968, the British High Commission reported that ‘wholesale bribery and nepotism’ were rampant and ‘self-enrichment’ was ‘the norm’ in Tun Mustapha’s Sabah.

As was demonstrated in Chapter 2, here was a business-cum-political framework in which British companies found themselves increasingly marginalised.

Yet the Tunku’s governments remained largely autonomous of indigenous as well as expatriate business sectors. Although concerned to utilise the overseas private sector in the development process and also provide wealth-creating opportunities for a politically connected indigenous business elite, the primary concern of the independent regime, just like the late-colonial state, was the maintenance of political and social stability. In particular, economic growth and development would prevent a resurgence of communism. As the UK High Commission appreciated immediately after independence, ‘The primary object’ of the Federation’s economic policy ‘is the maintenance of the high standard of living and in this connection the improvement of the competitive ability of rubber [and other primary commodities] takes priority.’

Identical concerns underpinned the drive to ISI, the diversification into oil palms, and EOI at the end of the 1960s. At an extraordinary meeting in early 1969 in the National Operations Room in Kuala Lumpur with both expatriate and indigenous business leaders, Tun Razak stated that large-scale land development in partnership with the private sector was being promoted to solve the ‘basic problem’ of ‘finding adequate job opportunities for our rapidly-growing labour force’. Essentially, then, the Malay ‘administocrats’ were anxious to bolster their own positions through keeping the masses happy. Malay leaders like Razak continued to accommodate private
capital, whether Malaysian Chinese, British or Japanese, but not because they were enamoured or in league with big business. Rather, Malaysian and overseas entrepreneurs alike could supply the investment and pay the taxes necessary to provide wage employment for an expanding population. Hence, the basic requirement to maintain ‘law and order’ transcended any subservience to or compact with big business.

And, to fund state-led development in the interests of upholding the Alliance regime, British firms faced ever-growing revenue demands. The UK High Commissioner sardonically wrote in January 1959 that Malayan politicians treated overseas investment as a ‘convenient fiscal milch cow’. As we saw in Chapter 4, the tin industry regarded itself as especially abused, but almost all sectors of the British business network in Malaysia found cause for complaint. The first post-merdeka Budget in 1958 allowed for five-year tax relief for pioneer secondary industries, but, at the same time, income tax was increased from 30 to 40 per cent. Not surprisingly, British business interests were unhappy. H.B.Hussey argued that tax increases were a brake on badly needed economic development. The Federation should instead emulate Hong Kong where very low rates of company tax (just 12.5 per cent), and the ‘virtual absence’ of import duties and ‘vexatious [sterling area] exchange regulations’ allowed companies to fund development out of their own resources while also encouraging the influx of new foreign venture capital. Concurrently, UPAM pointed out that no new Malayan rubber company had been floated with overseas capital since the 1930s, and given the recent fate of foreign investments in Indonesia and China plus lower revenue demands in West Africa, a total tax burden on overseas rubber companies amounting to 60 per cent of profits was unlikely to attract new investment. But the Federation’s finance minister, H.S.Lee, although a leading tin towkay with close links to the LTC, was indifferent to such protests. Sir Ewen Fergusson of STC recognised that British business groups in the peninsula were powerless to overturn legislation. The British houses were to be further dismayed in 1964 by the Budget of Tan Siew Sin, which introduced ‘several new controversial taxes’ including allegedly ‘inequitable’ payroll and turnover levies. In 1967, Sir Denys Lowson reported to Anglo-Thai’s shareholders that the finance minister had repealed the much-criticised turnover tax and substituted it for a surcharge of 2 per cent on most imports. However, he had also introduced a new development tax, which had the effect of raising the overall corporation tax from 40 to 45 per cent. Indeed, precisely because of Tan’s own business interests, particularly in rubber, British companies could expect no fiscal favours from him. On a possible revision of estate duties, for example, Tan informed Tom Barlow that politically this would be very delicate since ‘it would always be open to the Opposition and to our political enemies to say that any reduction in rates…is designed for my personal benefit!’

Hence, while leading British business figures like Barlow enjoyed friendships with senior Malaysians, and notwithstanding the funds provided for Alliance election campaigns, a multitude of frustrations with Malaysian policy-making
have been identified throughout this study. These often derived from state-centre tensions in the development process. As we saw in Chapter 2, the PCC found the state administration in Georgetown intransigent and incompetent for most of the 1960s. But the northern port’s economic modernisation was also held back by disagreements with powerful bodies in Kuala Lumpur. Hence, the east-west highway project was delayed by the EPU, arguing that Penang’s long-term future should be more orientated towards southern Thailand rather than northern and eastern Malaya. British businessmen were infuriated by such bureaucratic infighting and by the long delays on decision-making which eventuated, particularly in ISI (see Chapter 5). Additionally, expatriate shipping interests found that problems in the port administration derived from a lack of dynamic, able staff in unfashionable, ‘Cinderella’ departments of state, such as Transport, while in oil palms, the planters doubted the research capability of agencies of the pro-smallholder Department of Agriculture (see Chapter 5).

Closer relations with public development bodies were also disrupted by unorthodox business practices. British firms were not necessarily excluded from the state-led rural development projects. They could pick up roles as contractors, such as in the vast Jengka Triangle project. This cleared 40,000 hectares of jungle in Pahang to resettle Malay peasant families from over-populated areas, and proved a major contributor to the diversification of the smallholder economy from rubber into palm oil. The extraction of timber was a prerequisite to FELDA-led resettlement, and was managed by MARA (Majlis Amanah Rakyat, or Council of Trust for the People, another pro-bumiputera public development body dating from 1965). The Sime Darby subsidiary Tractors Malaysia Berhad supplied the first batch of equipment for the logging operation. However, the British High Commission in Kuala Lumpur learned from Tractors Malaysia that the MARA subsidiary, the Jengka Timber Company, completely lacked expertise in logging, but there was also ‘corruption all the way down the line’, with high-quality timber sales recorded as lower-quality timber in the books. The balance of money ended up in the pockets of the management. As a result, the MARA company fell behind with its payments to Tractors Malaysia, and the firm threatened repossession of its equipment. Meanwhile, MARA called in a Canadian company as managing agents. The project eventually became viable, but MARA’s commercial reputation amongst the British agency houses was deeply damaged. Dissatisfaction and alienation could be a two-way process, however. Chapter 5 pointed to the frustrations of Malaysian policy-makers with the drawn-out decision-making processes on the part of British industrialists. By 1972, Sir Claude Fenner felt it necessary to warn his RGA masters in London that they were regarded in Malaysian political circles as ‘too much on the defensive’ and inclined to be backward-looking and lacking in initiative.

This inertia was partly reflective of the paralysis caused by fears about the future course of Malaysian politics in the context of the Southeast Asian scene as a whole. The Blue Funnel experience throughout Pacific Asia reminds us that ‘Familiar as we now are with the “economic miracles” of so many Asian economies in recent
years it is all too easy to forget just how desperate the situation seemed in the ten or twenty years following 1945.\textsuperscript{30} The domino theory certainly struck a chord in City boardrooms. For BCL, Malaya and Borneo may have been internally stable, but the spectre of Indonesia plus blood-curdling visions of communist victories in Vietnam and Laos during the 1960s meant that ‘The course of trade ahead in Southeast Asia is dependent on world politics to an extent that cannot be deemed as economically desirable.’\textsuperscript{31} In September 1964, Sir Denys Lowson pointed out that Any successful Communist breakthrough in Vietnam could well be fraught with grave uncertainties’ for the region as a whole. When Singapore left the Malaysian Federation with Indonesian Confrontation still raging in August 1965, the warnings of Anglo-Thai’s chairman seemed more than vindicated.\textsuperscript{32}

As it turned out, British businesses in Malaysia had more to fear from international capitalism than international communism, but this was not expected or anticipated at the time. Even before the Singapore split, all did not seem rosy in the Malaysian garden. As we saw in Chapter 3, planters feared that rising rural lawlessness represented a revival of communist subversion, and from India Buildings in Liverpool, Malayan independence was expected to usher in a ‘dark age and an authoritarian future’ with the rapid spread of ‘communism and communalism’.\textsuperscript{33} Charles Pow of the Mercantile Bank toured Southeast Asia in the autumn of 1963. On the surface, the chief manager of the HSBC subsidiary noted that the newly enlarged Federation was a ‘paradise’. The strong government both at the centre and in Singapore, with ‘sensible’ and ‘not over-ambitious’ development planning, financial stability and an absence of ‘fervent egalitarianism’, particularly impressed Pow. The capital city was having a ‘very elegant’ facelift. But Pow could not help wondering if ‘behind this facade of prosperity a head of steam’ was not ‘building up and might explode’ in the near future. ‘Some of the usual safety valves’ were not operating: the freedom of the press was circumscribed while the opposition was labelled communist and ‘shoved into gaol’. The City banker had heard criticism of expenditure on prestige buildings, flyovers and sports stadiums in Kuala Lumpur; evidently, the kampung were not ‘benefiting directly’ and resentment was ‘building up’. Within the new Malaysia, there was ‘much anxiety’ about how Lee Kuan Yew would behave in the federal parliament, and the possibility that the PAP might challenge the MCA on the mainland. As such, a ‘quite explosive situation could develop overnight’. In the wider geo-strategic field, the British banks were already worrying ‘how long the UK will go on providing finance and troops to face up against Indonesia’. Should Albion withdraw without the US taking its place, the whole area would be left ‘wide open for the spread of communism’.\textsuperscript{34}

Four years later, business visions of Malaysia’s future remained equally if not more pessimistic. On the tenth anniversary of the foundation of the sovereign Federation of Malaya, the secretary of the MCAGB noted considerable achievements: communist insurgency and Indonesian aggression had been resisted while the ‘explosive language issue has not got out of hand’. But, ‘on the other side of the coin’, there had been ugly demonstrations of communalism during the
Penang riots in November 1967; the political and economic union between Malaysia and Singapore had now clearly failed; there was the prospect of mounting defence costs when the British military presence was faded out; while there were also growing signs of separatism in the Bornean half of Malaysia. Corry also went on to fret about the falling price of rubber. A period of austerity threatened in Malaysia in which the government might be enticed into disastrous deficit financing. Indeed, as was emphasised in our discussions of rubber, tin and palm oil in Chapters 4 and 5, the sense of political insecurity intersected with deep economic anxieties throughout the Tunku era—a phenomenon which further undermines the notion that post-colonial Malaysia was a ‘paradise’ for British business interests. On top of political fears that the UMNO-MCA coalition would not last, and that communist subversion would re-emerge, the director-general of the FBI in early 1959 had severe reservations about the future of rubber and tin. Although natural rubber retained its great advantage of elasticity and was able to resist high temperatures and pressures, synthetics were increasingly competitive in many fields, and plastics were simultaneously providing an additional challenge. Tin, meanwhile, was subject to competition from new packaging materials, and prices suffered as a consequence of the termination of US stockpiling, while a new producer, the Soviet Union, was flooding the market outside the ITA. Diversification into palm oil did not necessarily offer a secure future either since it ‘may increasingly suffer from the wider use of synthetic detergents’.

Even for British firms in Malaysia which were not directly involved in primary production, profitability was largely dependent upon the unpredictable twists and turns of the global economy. ‘[T]he living of this Company largely depends on the price of world commodities’, confessed Howard Morford, chairman of the BCL in 1960. The firm’s ability to offload manufactures to Southeast Asian consumers was determined by their incomes which were in turn reflective of the price levels of primary exports: ‘We have no control over that’ (my emphasis). In other words, British firms connected with Southeast Asia were as extraordinarily vulnerable to the vagaries of the international economic climate as the Malaysian economy as a whole.

The political and economic uncertainty experienced by the big British business groups in Malaysia was manifest in strategies of geographical diversification which spanned the decolonisation and post-colonial periods, and typically sought out ‘safer investments’ in the US and the ‘White’ Commonwealth. As was noted in Chapters 2 and 4, Guthries executives were anxious to reduce their exposure in the Far East, particularly from 1967. As early as 1961, BCL’s ‘general policy’ was to ‘increase its trading profits in Malaya without adding substantially to the fixed assets invested in the area’. The firm’s initial attempt to branch out of Southeast Asia into brick and tile manufacture in western Canada was a failure, and was wound up swiftly in 1958. For shareholders, this suggested the firm’s competitive advantage lay in Southeast Asia. But Chairman Clifford Akers remained adamant that ‘we should…not have all our eggs in the Eastern basket’, and the firm continued to diversify into manufacturing and distribution in Canada.
and Australia. During 1963, an additional £200,000 was put into a partnership with Sarawak Chinese entrepreneurs in timber extraction and saw milling along the banks of the Rejang. Any surplus cash in London, however, would be used to further the BCL board’s policy of geographical diversification, and profits from Southeast Asia had already been redeployed to purchase businesses in Hong Kong, Australia and Trinidad. Two years later, BCL’s ‘merger’ with the Inchcape group of businesses in the Middle East, East Africa, Australia, India and Pakistan was sold to shareholders as a means of further reducing political risk by creating a ‘much wider geographical spread of assets and income’. Indeed, the consolidation of British trading companies in Asia during the 1950s and 1960s was not a product of the strength of UK corporatism. Rather, this phenomenon reflected the extreme exposure of these interests, not just in Malaysia and Singapore, but ‘East of Suez’ generally.

In 1961, Sir Denys Lowson, then a director of Anglo-Thai, proposed that the firm form a company to invest in City securities, which could act ‘as a possible hedge against adverse trading in the East’. From the end of 1962, it was decided that the company would not countenance investment of over £100,000 in Kuala Lumpur unless there was a possibility of large short-term profit, and by 1969, with Lowson now Anglo-Thai chairman, the Pacific and Atlantic Investment Company Ltd had an authorised capital of £1 million. Barlows’ core business to the 1970s remained Malaysian plantations. Even so, in the decolonisation and post-colonial era, the senior partners spread the risks by diversifying into British Central Africa, the Falklands, Nigeria and Sri Lanka, and, by the late 1960s, the family was increasingly attracted to reinvesting Malaysian profits in UK industrial companies. Shipping conglomerates sought to reduce their political and economic exposure in Southeast Asia also. Hence, Ocean’s public quotation in 1965 was followed immediately by acquisition of West African shipping interests and the formation of the worldwide consortium Overseas Containers Ltd. After 1967, the group became involved in car-carrying between Felixstowe and Scandinavia, followed two years later by a move into the Caribbean tourist and airline business. There were rumblings in the mines as well. During 1965, the London-based directors of the Tronoh tin group, disillusioned by the ITA, concerned at losing control to Malaysian Chinese interests, and worried further by the political and economic implications of the Singapore-Malaya split, sold out to the South African Anglo-American mining conglomerate in a £3 million deal. Such divestment demonstrates that the disengagement between the Malaysian state and British business worked both ways.

Frustration with Malaysian policy-making and uncertainties about Southeast Asian futures were compounded by poor relations with the British government and Her Majesty’s representatives in Kuala Lumpur and Singapore. Official attempts to maintain British economic influence in Malaysia were not always regarded as efficacious, even under the Tories. The trade missions to Southeast Asia in 1961, part of Macmillan’s export drive, were dismissed by BCL managers and directors as ‘largely a waste of time’. A lack of public funding meant that the
company of each individual FBI member paid for the trip, ensuring that there would be no general dissemination of information. This appeared ‘an extraordinary way to set about the pepping up of exports from the UK’. Worse still, the trade commissioners in the various consulates monopolised the time of the industrial delegates in a succession of lunches, teas and cocktail parties, leaving no time to ‘talk business’ with the agency houses. As the managing director of BCL and deputy president of the MCAGB, Alec Malcolm, complained, this was ‘all very typical of our “Obedient Servants”’.49

The above episode reveals that relations with the High Commission in Kuala Lumpur were not especially close. Despite being a Tory peer, Lord Head (High Commissioner to Malaysia between 1963 and 1966), was regarded with derision by the Tuan Tuan Besar. On his first visit to Malaysia as head of Guthries, Sir Eric Griffith-Jones was horrified when Head turned on Griffith-Jones in the presence of the minister of labour with claims that the Guthrie planters were underpaying their labourers. During the Malaysianisation dispute, meanwhile, Tom Barlow found that Head was ‘propagandising against us’.50 In his reluctance to round up the ‘communist undertow’ in Singapore, the Commissioner-General, Lord Selkirk—another Tory grandee—had also proved himself hopelessly liberal in the eyes of the expatriates. As HSBC’s chief manager discovered, ‘nearly all the taipans’ had ‘no time’ for the former First Lord of the Admiralty.51

On the other side of the coin, business leaders were not always regarded highly in British official circles. Ronnie Grierson’s experience during the CBI mission to Malaysia and Singapore in 1968 was a particularly extreme case (see Chapter 5). As Mathieson at the ODM concluded, Grierson ‘was a disaster’.52 But, for the High Commission in Kuala Lumpur, the recommendations of a London Chamber of Commerce mission two years earlier were also deemed dangerously insensitive to local political realities, and liable to harm rather than benefit British interests in Malaysia in the long run. Malaysian ministers and officials would read calls for the maintenance of a common currency and establishment of a customs union with Singapore as ‘biased and meddling’.53 On the commodities side, meanwhile, the Board of Trade dismissed the British rubber growers on independence as technically conservative and ‘unreasonably apprehensive’ about the future of Malaya. Until 1965, the Board was also unwilling to admit RGA representatives to UK delegations at international rubber meetings.54

Such divisions between British officials and British commercials in Southeast Asia were not assisted by the growing economic disengagement at a macro level between Britain and Anglophone Southeast Asia. As we saw in the Introduction, at the fag end of empire, the agency houses had strengthened their links with the ‘gentlemanly capitalists’ of the City while their boards became riddled with potentially influential ex-colonial administrators and Whitehall civil servants. But such impeccable credentials could not compensate for a growing discourse in Whitehall and Westminster concerning Southeast Asia’s limited economic importance for the UK, as plans were formulated to rundown armed forces ‘East of Suez’. The FO and the CWO reported that British direct investment in Malaysia
in 1965 (excluding oil, insurance and banking) amounted to just 3.5 per cent of Britain’s worldwide capital exports, while exports of goods amounted to a mere 0.9 per cent in 1967. Such figures paled into insignificance when set against the 70 per cent of British crude oil which came from the Persian Gulf, and the return of British oil companies to the British balance of payments of over £200 million net in 1965 alone, from a UK investment stake of approximately £1,000 million.

The Joint Intelligence Committee confirmed in 1969 that British economic interests in the countries of Southeast Asia were ‘slight’, with the exception of 81 per cent of the UK’s natural rubber supplies being derived from the area, as well as practically the whole of Britain’s palm oil imports. However, as FCO officials were well aware, there were numerous substitutes for palm oil, including several other vegetable oils, animal and marine fats, and synthetics. Moreover, there were other suppliers of natural rubber which Britain could turn to if the Malaysian domino toppled, irrespective of the huge growth of synthetic capacity in the Western world (including, as we saw in Chapter 4, in the UK itself).

Even five years earlier, the incumbent Labour government was made aware of Britain’s negligible economic interests in Malaysia and Singapore (see Chapter 3). Harold Wilson, like Macmillan and Douglas-Home before him, was committed to maintaining the world role through the Commonwealth, evidenced by the heavy troop deployments during Confrontation with Indonesia. Yet the Labour Cabinet was forced to put the demands of the British domestic economy before those of Malaysia or the Commonwealth more generally. The ‘Wilson shocks’ of 1965–68 viciously pummelled into British economic interests in Southeast Asia. Here was a raft of measures designed to deal with the massive deficit in the balance of payments by restricting capital outflow from the UK. The first upper-cut was the Finance Act of 1965, which decked the ‘excessive advantages’ to overseas domestic investors through the abolition of OTC status and the imposition of a corporation tax of 40 per cent on all UK-registered firms. The response of British business in Malaysia to James Callaghan’s Budget was hardly positive. Sir Douglas Waring, in his capacity as chairman of the MCM, described the measures as a ‘body blow’ likely to prevent any new investment from the UK in the tin industry. Through backing from the CRO and interviews with the Chancellor of the Exchequer, the rubber growers and the MCAGB won some transitional relief from corporation tax by arguing that British plantations and trading companies in Malaysia exported virtually no capital and brought in, directly and indirectly, many millions into the UK, which would now be threatened by the further encroachments of foreign and indigenous competitors. But these concessions were considered inadequate to boost share prices and so prevent control of the British plantations and mines passing to Malaysian Chinese entrepreneurs.

There followed Britain’s decision in 1966 not to provide additional defence and development aid for Malaysia. The MCAGB was immediately alarmed by calls for the nationalisation of British businesses by Alliance backbenchers, while the Ministry of Information in Kuala Lumpur pointed out that Malaysia’s ‘need to go elsewhere for financial help might presage a change in… [Anglo-Malaysian]
relations…thus affecting British interests adversely’. Indeed, to fund the First Malaysia Plan of 1966–70, the Tunku’s regime turned to the US, Japan, France, Belgium and the Netherlands for loans and lines of credit. These were often tied to the purchase of goods from those countries, and the new aid providers were to be favoured in government purchases. Existing British facilities provided by the ECGD just could not compete with loans at low rates of interest, very extensive repayment dates and moratoriums (especially from Japan). At the same time, an angry Malaysian government chose to withdraw Commonwealth preference on most British goods, leading to a significant downturn in the UK import share. The devaluation of sterling in November 1967 was expected to boost British exports worldwide. In Southeast Asia, however, the agency houses could not pass on the benefits of cheaper British goods since the dock strike in the UK and the closure of the Suez Canal as a consequence of the Arab-Israeli war created long delivery delays. Chapters 4 and 5 demonstrated that devaluation also did little or nothing to boost rubber, tin and oil palm prices. Meanwhile, Malaysian Cabinet ministers who had retained faith in sterling felt generally resentful towards Britain, especially as there had been heavy losses to reserves. Given the high bank rate in the UK, there was also a further financial disincentive for British companies to invest in Southeast Asia.

Subsequently came the decision in January 1968 to accelerate the withdrawal of British forces from Singapore and Malaysia, which led to further accusations of betrayal in Kuala Lumpur. There was no significant retaliation against British business interests in Malaysia, and it was only in 1972 that the authorities in Kuala Lumpur dropped sterling as the intervention currency and took up the US dollar as the instrumental currency which would regulate the movement of the Malaysian ringgit. Yet after 1968, the Alliance regime looked increasingly outside the Commonwealth for its aid and capital supplies, with a concomitant diversification of trading links. British investment in Malaysia did not come to a ‘shuddering halt’ after 1965 as Darwin claims for the White Commonwealth. As an ‘undeveloped’ member of the sterling area, Malaysia was subject to far less pressure on the flow of capital from the UK than Australia, for example. But, as the Bank of England pointed out to the CWO, the tax reforms of 1965 were ‘a severe blow to investment prospects’. In Chapter 5, we noted a definite slowdown in the rate of capital inflow from the UK for Malaysia’s industrialisation, and the British MNEs and agency houses found themselves increasingly superseded by Japanese and American interests. This tendency was exacerbated in the eyes of British industrialists by the Treasury’s refusal to provide an investment guarantee (see Chapters 3 and 5). Additional anxieties sprang from Wilson’s gropings towards the EEC. George Darling, Labour’s minister of state at the Board of Trade, was told by Singapore representatives of UK manufacturers that Britain should ‘hedge her bets’ on joining the European bloc and permit more capital to be exported to Southeast Asia.

Yet the neglect of British business interests in Malaysia did not derive exclusively from an attempt to build ‘socialism in one country’ (or ‘one region’
after 1964. Despite the rhetoric of maintaining economic influence through the Commonwealth, the Macmillan government was anxious to curb public spending but not at the cost of substantially trimming the popular domestic welfare state of the ‘never had it so good’ era. *Inter alia*, it could not underwrite the ITA or an investment guarantee for Malaya. Informal empires were not to be sustained ‘on the cheap’, 65 while the Board of Trade’s principal concern was to obtain cheap rubber and tin supplies for British industry and not to prop up British business interests in the Commonwealth. For British car importers in Malaya, Macmillan’s application to join the EEC in 1961 appeared to threaten the end of imperial preference and hence a loss of market share for British automobiles.66

Admittedly, however, most of the taipans’ invective was reserved for the Wilson regime. By the summer of 1968, Tom Barlow had reached the end of his tether, informing shareholders that Highlands & Lowlands had subscribed to Tory party funds in the hope that regime change in the UK would check the ‘gradual penalisation of overseas trade’ as well as the ‘Government sqaudnermania which is the root of our exchange problem’.67 But there was to be no significant shift of policy towards Anglophone Southeast Asia or the Commonwealth generally under Edward Heath’s government (which unexpectedly came to power in the summer of 1970). Despite improvements in Britain’s balance of payments position, the efforts of British business to receive more favourable tax treatment for Malaysian investments fell foul of Whitehall intransigence.68

The Heath government did revert to the mid-1970s as the terminal date for the British military withdrawal from Malaysia and Singapore. In this case, the remonstrations of the British business leaders had apparently proved a ‘significant background factor in [HMG’s] new defence policy’.69 Moreover, a Five-Power Defence Agreement came into being in April 1972, allowing for consultation with Britain, Australia and New Zealand in the event of hostilities against Malaysia or Singapore. Even so, there was no obligation for the UK to act as under the former Anglo-Malaysian Defence Agreement.70 For the chairman of Anglo-Thai, the new arrangements appeared to be ‘adequate for any situation which might arise in the near future’, but clearly they were ‘not of the same positive nature as was the case in the past’.71 Simultaneously, Heath energetically took up the cause of the EEC, brazenly arguing in Parliament that ‘the idea that [the Commonwealth] would become an effective economic or political, let alone military, *bloc* has never materialised’.72 Moreover, ‘Britain secured nothing for the Asian Commonwealth in her Treaty of Accession to the EEC.’73

The disengagement between the British state and British business in Malaysia was also symptomatic of the prioritising of geopolitical over economic interests on the part of HMG. The only agency of the British state consistently concerned with upholding the interests of British business in the region was the Bank of England, and particularly Lucius Thompson-McCausland. Hence, the adviser to the governors was disturbed by Lord Head’s insinuations of exploitation against the UK plantations in 1964 and felt it necessary for Lord Cromer, the governor of the bank, to remind the High Commissioner that, ‘Apart from defence, the main
reason for our continuing interest in Malaysia is its importance as a producer of rubber, tin, etc. and its merchanting connections with London.’ For the same reasons, in the late 1950s and first half of the 1960s, we have found Thompson-McCausland encouraging the consolidation of the rubber agencies (see Introduction), helping with reforms to the London rubber market (Chapter 4) and worrying about the economic consequences of Konfrontasi (Chapter 3). But Thompson-McCausland’s was almost a lone voice. The job specification for the High Commissioner in Kuala Lumpur did mention ‘protecting and furthering British economic and financial interests in Malaysia’. But most of the five-page directive was actually concerned with the High Commissioner’s roles and duties vis-à-vis the Anglo-Malaysian Defence Agreement. Indeed, as Chapter 1 emphasises, if there was a ‘neo-colonialism’ underpinning the ‘Greater Malaysia’ scheme, it was of a strategic rather than an economic dimension. The boxwallahs of Malaya and Singapore would not have been surprised by Lord Selkirk’s valedictory assessment of Britain’s future role in Malaysia: ‘Our interest is not so much in the extent of our economic investments and trade as in our vested interest in world peace.’ British firms did value the post-colonial defence umbrella, but Albion’s lingering military presence—even during Confrontation—was not concerned with protecting British business in Malaysia per se: as a CRO mandarin reminded colleagues in 1964, “The area” to whose stability we contribute by holding forces [in Singapore]...stretches from West Pakistan to New Zealand’ and ‘there are other reasons than that of protecting our economic investment for maintaining forces in S.E.Asia.’ Moreover, the mandarins and diplomats often viewed British business interests through a strategic kaleidoscope. Hence, in the late 1960s, the British government was concerned to keep MSA, the joint air carrier of Malaysia and Singapore, intact. But this was not to secure the stake of BOAC and Ocean, the major British investors in MSA. Rather, in the context of Britain’s military withdrawal, the shared airline served ‘as a symbol of the close and co-operative relationship between the two countries which is necessary if the Australians and New Zealanders are to be induced to contribute to the joint defence of the area’. In 1961, notwithstanding the obvious dangers to British shipping and civil aviation interests posed by regional cooperation in Southeast Asia, J.N.McKelvie, the Trade Commissioner in Kuala Lumpur, concluded that the ‘development of cooperation and cohesion among the non-communist countries of Southeast Asia is naturally welcome to Britain as is anything which promotes their economic prosperity’. The ASA was currently confined to pro-Western countries (Malaya, the Philippines and Thailand) but could ‘in time attract the neutralists and provide a bridge between one group and the other’. In the aftermath of the May 1969 riots, the instinct of Michael Stewart, the Foreign and Commonwealth Secretary, was to agonise not about the future of British financial and commercial interests but about the growing sympathy being shown for Red China amongst the Malaysian Chinese. Even the maintenance of British business interests in the Federation had a wider political function for British officials. Soon after independence for Malaya,
Britain’s High Commissioner in Kuala Lumpur reported that the importance of the UK’s large investment in the peninsula lay no longer in its invisible- and dollar-earning capacity but in the ‘maintenance of Malayan prosperity’:

Any substantial withdrawal or expropriation would in the long term depress the Federation economy and lay it open to communist subversion. Continuance of British as well as other investment in this country will therefore also have a strategic significance in relation to Malaya’s anti-communist function and will play an important part in ensuring her survival as a free country.81

The implication here was that it made little difference to British interests which anti-communist power took the dominant role in developing Malaysia. Hence, when Japan’s premiere, Sato Eisaku, visited Malaysia in September 1967, Sir Michael Walker believed that closer Malayo-Japanese commercial links should be welcomed ‘as a factor contributing towards South-East Asian stability’, ‘Even though this will no doubt…lead to more severe competition in the future for own exports.’82 By the end of the 1960s, if not earlier, British officials had pragmatically come to the conclusion that Britain’s wider interests in the world were best served by the pursuit of stability rather than influence in Southeast Asia.

Yet the trials and tribulations of British business in post-colonial Malaysia cannot be entirely blamed on the ‘dead hand of government’. In March 1967, the Singapore prime minister proposed to Herbert Bowden, Britain’s Commonwealth Secretary, that ‘British merchants no longer seemed adventurous and, as a result, the British position throughout the whole region was weakening’.83 For Mahathir Mohamad, meanwhile, once the imperial crutch had been kicked away, and the ‘race chauvinism and loyalty’ of the colonial administration terminated, British companies could not keep up with the Malaysian Chinese.84 These were unfair judgements since there is plenty of evidence to suggest that British businesses in Southeast Asia remained enterprising and remarkably efficacious throughout the Tunku era. As we saw in the Introduction, high rates of profitability were maintained as the agency houses diversified into oil palms and secondary production, while also divorcing themselves from uncompetitive British suppliers. Consolidations and mergers created more streamlined, tightly controlled conglomerates.

This was not enough, however, to satisfy the long-serving chief executive officer of the RGA. On a visit to Malaysia and Singapore in the autumn of 1970, W.G.G.Kellett was disappointed to discover that the British plantation groups lacked ‘a “Big Business” outlook’ as well as the general ‘drive, the pulsating energy, [and] the sense of purpose’ of local business leaders. The successors to the enterprising British pioneers who had built up the Malaysian rubber estates had ‘lost the faith’ and appeared ‘unwilling, or unable, to develop that industry, as it should be developed under rapidly changing conditions, not only in Malaysia but in today’s world’. Despite consolidations, the annual output of the biggest
British rubber company in Malaysia was still less than six months’ production of a single rubber-processing factory in the Lee Rubber Company. Nor were the plantation groups still anywhere near the size of the chemical companies, such as the Canadian Polymer Corporation, producing synthetic rubber in the West. The relatively small UK rubber companies would continue to fall like ‘ripe plum[s], into the hands of local interests’, unless there was further consolidation and expansion into a few giant companies, commanding assets worth at least £15 million each. Such rubber and oil palm behemoths would also be able to integrate production, processing and marketing, so eliminating the numerous ‘middlemen’, particularly from the selling of Malaysian commodities. Prices would thus be reduced, allowing natural rubber to undercut its synthetic rival. Moreover, a huge UK conglomerate to process and market rubber could also ally itself with Lee Rubber, guaranteeing supplies of high- and low-grade rubbers from both Malaysian estates and smallholdings. But Kellett appreciated that entrepreneurial dynamism was being held back by the vested interests of the numerous expatriate ‘number ones’ in Malaysia, as well as the multitude of board members and brokers in the City.85

Indeed, British business in Malaysia was hardly the integrated monolith portrayed in neo-colonial narratives. Internecine rivalries and jealousies had plagued British business groups in Malaya during the colonial era.86 These fissures continued after independence, reducing the bargaining power of expatriate enterprise with government. Despite the consolidations and mergers of the post-colonial era, there remained cut-throat competition and no love lost between the various agency houses. Hence, in late-colonial Sarawak, the Jardine Matheson subsidiary Henry (later Jardine) Waugh was known to be attempting to poach agencies from BCL and was ‘notorious for having little regard for business ethics’.87 On a visit to the Borneo territories in 1959, Sir John Barlow discovered that H&C and BCL were ‘having a cut at each other’. Before the 1950s, H&C and BCL had agreed to confine their activities on Borneo to Sabah and Sarawak respectively, but the former was now trying to grab the latter’s Unilever agency in Sarawak.88 In shipping, Ocean managers came to the conclusion that they could ‘not trust’ the directors of the Ben Line.89 This rivalry became particularly fraught in the Rejang timber trade during 1962 and 1963 as both Ocean and Ben accused each other, and their respective agents, BCL and Harper Gilfillan, of various sharp practices.90

In the City, such divisions were exaggerated by the activities of the unpredictable and cantankerous Sir John Hay, managing director of Guthries from 1930 until 1963 and a director of the Mercantile Bank after 1941. Although a remarkably talented entrepreneur, the septuagenarian Scot was regarded by both British business leaders and government officials as a dangerous ‘loose cannon’ by the late 1950s. Hay’s independent line of action could prejudice British business interests as a whole. A typical example occurred in the summer of 1958 when, at a rubber company annual general meeting, Hay publicly aired a grievance concerning the RGA’s lack of representation in Malayan delegations to
international rubber conferences. Tan Siew Sin, the Federation’s minister of commerce and industry, was furious at Hay’s audacity, and considered reconstituting the RPC in Kuala Lumpur to permanently exclude RGA representatives. Local business leaders, such as the manager of the Chartered Bank and the president of the FMSCC, deprecated Hay’s outspokenness for risking British long-term interests and making public a minor spat which could have been amicably settled in private. In London, meanwhile, Hay’s insistence on International Rubber Study Group representation for a City-based director to represent the interests of shareholders split the RGA council. By the early 1960s, Hay’s fellow directors in the Guthrie group became increasingly alienated by Sir John’s authoritarian methods and his failure to prepare the way for a younger, less acerbic successor. In 1963, following the resignation of four out of the six directors of the Guthrie Estates Agency, and the intervention of the big City ‘institutions’ as well as the Bank of England, Hay was finally deposed.

Sir John died soon after in 1964. But divisions and squabbles continued on the RGA council. In Kuala Lumpur, the RGA special representative, Sir Claude Fenner, commanded considerable respect amongst Malaysian officials and ministers (as was demonstrated during the Malaysianisation dispute examined in Chapter 2). Yet, as Fenner despaired to Henry Barlow in the late 1960s, his efforts were undermined by the failure of ‘the RGA community to pull together’. Moreover, the lack of a ‘continuous dialogue’ between London principals and their local representatives in Malaysia restricted the ability of the RGA’s machinery in Kuala Lumpur ‘to deal more impressively with matters which required...immediate reaction’.

The British commercial associations, then, were hardly invincible. Moreover, there existed a multitude of often uncoordinated, competing organisations. As F.O.S. Man, a director of Barbeal, pointed out at the end of 1966, for the rubber industry alone, ‘There is a great deal of duplication of interests in the representation on existing bodies [in Kuala Lumpur] which we feel should be eliminated [i.e. the office of the RGA special representative, UPAM, and the multiracial RPC]’. Such overlap was supposed to be nullified by the formation of the overarching MCAGB in London in the last years of empire. But, despite the efforts of W.C.S.Corry, the MCAGB never commanded much affection amongst British business leaders. Tom Barlow, for one, regarded the MCAGB as a ‘nuisance’, having ‘supplanted a very efficient Straits Merchants Association’. In Malaya, meanwhile, the MCAGB’s influence was feared, illustrated by the bitter squabbles immediately after merdeka concerning the possible creation of a ‘British European Association’ (BEA) in Kuala Lumpur. In the City, Errol Shearn, RGA chairman, 1957–58, and leading light in the MCAGB, backed the BEA proposal. Shearn, formerly a top corporate lawyer in Malaya, accumulated an array of rubber and tin directorships on retirement to London, and wished to defend these interests by creating an overarching body in Malaya, closely linked to the MCAGB in the City. Currently fragmented into a number of rubber, tin, commercial and banking associations, the fire-power of British business ‘on the spot’ would be concentrated...
in the proposed BEA. In Kuala Lumpur, however, Shearn was generally regarded by the local heads of the big British firms as an ‘empire builder’. Moreover, any drawing together of British business interests would actually constitute them into a more attractive target for penal taxation and sequestration. Representations to the Malayan authorities were best made on an ad hoc basis. Rather than ganging up a group of ‘British’ interests, it was best to approach government in association with Chinese, Indian and Malay business representatives as multiracial ‘Malayan’ concerns. Yet, to the CRO mind, experience in India and Sri Lanka had shown that it was ‘essential for there to be local institutions purely British in membership and representing purely British interests, to which the High Commissioner and organisations in London can turn for advice’.98

The dispute over the proposed BEA also exposed the warring factions within the British tin-mining industry. Sir Douglas Waring of Anglo-Oriental also opposed a local branch of the MCAGB. LTC had long believed that working through local business associations and cultivating local politicians best protected British business interests. Waring was also opposed to the BEA because Shearn, a director of the LTC’s rival tin group, Tronoh, promoted it. By the post-colonial era, LTC had acquired controlling interests in both Malayan Tin Dredging Ltd and Southern Malayan Tin Dredging Ltd (the latter being controlled by the former), two of the largest members of the group. But Tronoh executives would not allow LTC to appoint directors to the boards,99 illustrating the bitter rivalry between the two tin groups which exhibited itself in divisions over the efficacy of the ITA (see Chapter 4). At the same time, the import-export mangers of the British agency houses were divided geographically between Penang and Kuala Lumpur and, hence, between the PCC and the FMSCC. Age-old jealousies between the settlement and the mainland meant that it was only in 1965 that the two bodies were merged as the SMCC. The isolation of the Penang merchants from the centre of power in Kuala Lumpur was a factor in the northern port’s stagnation for much of the 1960s.100 We noted also in Chapter 2 the reluctance of British interests in Sabah to join the Malaysian common market. The Sabah Planters’ Association did affiliate with UPAM on the creation of Malaysia in 1963, but by 1969 both the chairman and the deputy chairman, R.G.Barrett and Leslie Davidson respectively, believed that Sabah, and East Malaysia generally, were poorly served by UPAM and so sought direct representation on the RPC or OPGC to facilitate better contact with the federal government.101

But, even without these divisions, there remained a fundamental flaw in the approach of most of the big British business groups in post-colonial Malaysia. The fancy financial footwork of the 1950s and 1960s to create more tightly controlled investment groups was their Achilles heel, for rationalisation belied a siege mentality, a fundamental fear of sharing commercial power with Malaysians. Indeed, if there was a post-colonial British entrepreneurial failure in Malaysia it manifested itself in an inability to fully integrate with the Malaysian political and economic elite after independence.102 In Kuala Lumpur, British business leaders did rub shoulders with their Asian counter-parts on the multiracial RPC, OPGC,
Tin Advisory Committee and the United Chambers of Commerce. But a former manager of the Chartered Bank reported to a Board of Trade official in late 1961 that there was less social contact between the European community and the leading Malaysians than in any other part of Asia. A high official in the Malayan Railways, who was in a position to influence much of their purchasing, had never been invited to any of the European’s houses in Kuala Lumpur.103

As we observed in Chapters 2 and 5, even where Malaysian participation was grudgingly accepted as necessary, the agency houses would not surrender ultimate financial control in local subsidiaries. Chinese entrepreneurs were particularly distrusted. The HSBC’s manager in Singapore warned against cooperation with the OCBC in 1958. The bank’s managing director, Tan Chin Tuan, could ‘be quite affable when it suits him…but there is little doubt that his ultimate aim is to take away as much business as he can from the foreign banks’.104 Such attitudes were ultimately self-defeating. By the early 1970s, the OCBC group was reckoned to command assets of M$4.3 billion—almost one-third of Malaysia’s GNP—encompassing banking, insurance, tin mining and smelting, rubber plantations, trading, hotels, properties, investments, manufacturing, and management services.105 Through a wide ‘cultural gap’, therefore, the agency houses found themselves politically isolated in their reluctance to engage in the emerging world of ‘crony capitalism’. In contrast, Japanese trading companies and manufacturing concerns were more attuned to local political and business realities than their British counterparts (see Chapters 2 and 5). British firms were reluctant even to open up management positions to Malaysians. In a remarkable incident in November 1958, a Chinese manager was rejected by BCL for a senior appointment in Borneo on the grounds that his wife was ‘rather “too local”’, ‘not well versed in European ways and would not make the grade’ in Sarawak’s late-colonial society.106 Breaking out of colonial modes of behaviour certainly proved difficult for the boxwallahs. In the summer of 1962, Ismail at the Bank Negara felt it necessary to warn HSBC executives to avoid ‘offend[ing] any of the new Asian ministers or officials’ in Malaya by ‘talking down to them’.107 Leslie Bateman, Malaysia’s rubber research supremo, reported to ODM officials in 1968 that Guthries ‘were the most far-sighted’ of the plantation agencies in Malaysia. But the firm’s executives combined their entrepreneurial dynamism ‘with a lack of appreciation of the political and psychological realities. The Malaysians do not like being patronised.’108

Hence, a major entrepreneurial weakness of the leading British firms in post-colonial Malaysia did not concern an inability to engage with the realities of the international economy or the demands of local industrialisation, but, rather, represented a reluctance to embrace the possibilities of a Commonwealth commercial and financial partnership. In this sense, the smooth transition to independence, and the survival and brief revival of British economic sway, was ultimately damaging since it encouraged the agency houses to continue to operate in time-honoured fashion. This lingering of ‘orientalist’, colonial cultures, and a general inability to fully comprehend the political realities of the new
Commonwealth in Southeast Asia, were also exposed by British business reactions to the separation of Singapore from Malaysia in August 1965 (see Chapter 3).

The prolonged survival of British firms at the head of the Malaysian economy can also be seen as largely fortuitous. According to Singapore’s prime minister, Lee Kuan Yew, a government takeover of the British rubber estates was contemplated seriously by the Kuala Lumpur government following HMG’s refusal of additional aid in 1966. But the agency houses were saved by Malaysian inter-ethnic rivalry: ‘since there was no Malay talent, the Chinese would have to run the estates and the idea had therefore been dropped’.109 As we also noted in Chapter 5, British dominance in the early phase of Malayan ISI was assisted by a Malay fear of Chinese economic preponderance. In the meantime, as Dr Bateman discovered, ‘The Malaysians…preferred not to get involved with the Japanese.’110 As the late, great Ronald Robinson argued, the clear advantage of independence over colonial rule was that ‘little brothers’ could now effectively pick and choose in new global economic and political markets which ‘big brother’ (or family of ‘big brothers’) would exploit them in the future.111

As such, once British business was deemed no longer capable of providing the services required of it by the Malaysian government, it proved relatively easy for the post-colonial state to extricate itself from the expatriate business grip. Frustrated by the reluctance of British firms to open up financial and managerial opportunities for Malaysians,112 and desirous of providing the Malays with a place in the economic sun, an intensified economic nationalism and statist capitalism—the NEP—was unleashed after 1971. In this, the role of parastatals, particularly PERNAS and MARA, was expanded. The NEP did not completely eschew foreign or British investment, and, in providing opportunities for British managerial and technical consultancy work, the FCO believed in 1972 that ‘our economic interests are well served by the way in which the SMP [Second Malaysia Plan] seems to be working out’.113 Yet the objective, as outlined by Prime Minister Razak in May 1971, was to increase Malay ownership in all industrial and commercial fields from 1.5 to 30 per cent by 1990; the remaining 70 per cent would be constituted by reducing the shares held by foreigners from around 60 to 30 per cent, while raising the non-Malay Malaysian participation rate from around 25 to 40 per cent.114 The NEP, then, also enhanced Chinese and Indian ownership of the economy. Once Malaysian government coffers were swelled by East Malaysian oil revenues, and the repatriation of sterling balances with the demise of the sterling area, attention was focused on cutting down the British agency houses, particularly in the traditional area of their dominance, the plantations. The first target was Sime Darby, where OCBC and PERNAS combined to unseat the British management, and Tan Siew Sin—who has proved so central to this story—became chief executive of a locally owned and controlled Sime Darby Holdings Ltd in February 1977.115 To try and avoid the adoption of ‘a “fortress” mentality of trying to hold everything in European hands with control too obviously exercised from London’, Barbeal sought a Malay director from September 1971.116 Yet the agency houses had woken up to the business ambitions of senior Malays rather too late. Under
pressure from the government authorities, Barbeal arranged in 1976 for an increase in capital, issued in equal proportions to *Lembaga Urusan dan Tabong* (the Pilgrim Fund), *Tabong Tentara* (the Armed Forces Fund) and FELDA. Thus 30 per cent of the enlarged share capital was held by *bumiputera* organisations, and the balance, 45 and 25 per cent respectively, by Barlows and Bousteads. In 1981, Barlows’ interests in the estates were reduced further to a 30 per cent shareholding in Barlow Plantations Sdn. Bhd. Two years later, this remaining stake was also sold to *bumiputera* interests.¹¹⁷ By then, the premier British business group, Guthries, had similarly succumbed to complete local control, and Prime Minister Mahathir declared that Malaysians should ‘Look East’ and ‘Buy British Last’. As was hinted at in Chapter 5, a new phase of EOI industrialisation benefited high-tech subsidiaries of East Asian- and North American-based transnationals. The effective end of British domination of the Malaysian economy came in 1989 with the buyout of H&C’s remaining stake in the plantations.¹¹⁸ As this study has shown, the seeds of that demise were clearly sown in the 1950s and 1960s, and British business had proved itself no match for the tenacious Malaysian state.

**Notes**

1 PRO, DO 189/219, note on ‘The Malayan Economy’, c. July 1962; see also copy of McKelvie to Sharp, Board of Trade, 11 January 1962. The Tunku’s regional economic plans were thwarted, to the late 1960s at least, by political tensions with Indonesia and the Philippines. However, his original intentions were quite radical. As the Tunku recalled in the 1970s, ‘when ASA started, its aims were to build up a form of common market for South East Asia to strengthen the economy of these countries, and to prevent them from being exploited by the greater and stronger capitalist nations’: *Looking Back*, p. 156.


3 See Chapter 2. The autonomy of the Malaysian state from the expatriate financial sector was confirmed in November 1967 when the boards of the Eastern banks in the City were ‘greatly concerned’ at the decision in Kuala Lumpur to maintain the old parity after the drastic devaluation of sterling. Particularly alarming was the central bank’s policy of paying only 85.71 Malaysian cents for the pre-1963 currency and the application of this ruling to the old dollars bought by the banks as agents of the Bank Negara: FCO 24/35, telegram from CWO to British High Commission, Singapore, 23 November 1967.


5 Jomo, *Question of Class*, p. 223.


7 Jesudason, *Ethnicity and the Economy*, pp. 47–8. Jesudason still insists, however, on describing the Tunku’s economic policies as being contained ‘within a laissez-
faire framework; that is, the state restrained itself from going beyond the provision of public goods": ibid., pp. 51–2.


9 Lee, Towkays; Amarjit, East Malaysia, pp. 142–3, 189. In Sabah, this tendency began under late-colonial rule: see the complaints of the British firms in CO 1030/755.


11 Jomo, Question of Class, p. 248.

12 PRO, FCO 24/250, Duncan to Mound, 17 September 1968.


14 Means, Malaysian Politics, p. 216.

15 PRO, FCO 24/155, copy of Duffy to Duncan, 12 February 1968; FCO 24/250, enclosure by Duncan in Walker to Thomson, 2 April 1968.

16 PRO, CO 1030/559, brief of 13 December 1957.

17 PRO, OD 39/148, enclosure in Taylor to Wilson, January 1969.

18 PRO, OD 35/9759, Tory to Home, 2 January 1959.

19 ANM, AE/97/A, FMSCC Yearbook 1958, President’s Address, 29 April 1959, pp. 18–19.

20 RGACM, MS 24863/69, 6 April 1959, Report of the Malaya Committee; ibid., 5 October 1959, draft UPAM memorandum appended to Report of the Malaya Committee.

21 ISEAS, S.Q.Wong papers, SQW XII/1, copy of cablegram from H.M.J.Jensen, Assistant Manager, Singapore Traction Company, to London Office, 10 December 1958; SQW XII/2, letter from Jensen to Pullen, London Secretary, Singapore Traction Company, 12 December 1958.

22 ANM, AE/97/A, SMCC Yearbook 1964, President’s Address, 28 April 1965, p. 12.


25 PRO, OD 39/90, Beale to Bellamy, 4 July 1969.

26 Ibid. It was appreciated, however, that it would be impolitic to make ‘a demarche with the top level in Government’ since the head position in the Directorate of Marine had just been Malaysianised.

27 Shaw, Tun Razak, pp. 135, 137.

28 PRO, OD 39/138, copy of note by Turner, 25 July 1969; FCO 24/1450, Johnston to Douglas Home, 26 June 1972. This incident was especially embarrassing since Razak had lauded the Jengka scheme to the business community as a masterpiece
of ‘careful planning’: PRO, OD 39/148, copy of letter from Taylor to Wilson, enclosing text of speech to business community, 22 January 1969.

29 RGACM, MS 24863/81, 30 March 1972, Minutes of Meeting of the Trade and Technical Committee, 21 March 1972.

30 Falkus, Blue Funnel Legend, p. 253.

31 IA, MS 27182, OGM Minutes, 7 December 1961.

32 IA, MS 27013, AR&A/Cs, 1963 and 1964, Chairman’s Reviews.


35 HSBC, MB Hist 2166, MCAGB Bulletin 51, December 1967, p. 4. During 1966 and 1967, there had been attempts by both the Sarawak and the Sabah govern ments to assert a greater degree of state autonomy. In Sarawak, the federal government directly intervened and replaced Stephen Kalong Ningkan as chief minister with the more amenable Tawi Sli. In Sabah, Kuala Lumpur’s interference was slightly more subtle, with the marginalisation of Donald Stephens and the eventual appointment of Datu (later Tun) Mustapha as chief minister: James Chin, ‘The politics of federal intervention in Malaysia, with reference to Sarawak, Sabah and Kelantan’, Journal of Commonwealth and Comparative Politics 35 (1997):101, 103.


38 IA, MS 27182, OGM Minutes, 15 December 1960.


40 Guthries had moved into the White Commonwealth from the early 1950s, but Griffith-Jones’s particular innovation was to diversify through vertical integration. Hence, GCL acquired UK industrial concerns, such as carpet manufacturers, which used rubber (both natural and synthetic): Sjovald Cunyngham-Brown, The Traders: A Story of Britain’s South-East Asian Commercial Adventure, London: Newman Neame, 1971, pp. 308, 313–14; Drabble and Drake, ‘Agency houses’, p. 318.

41 IA, MS 27298, ‘Attachment l’ to Simpson to Young, 3 January 1961.

42 IA, MS 27182, OGM Minutes, 3 December 1958.

43 Ibid., 26 November 1964; MS 27185, AR&A/Cs, 1962, Chairman’s Statement, 4 November 1963.

44 IA, MS 27193, letter to shareholders from Ranfurly, 22 November 1966.

45 IA, MS 27008/12, BDM, 20 September 1961 and 18 December 1962; MS 27008/13, BDM, 30 April 1969. Lowson was also motivated here by opportunities for self-enrichment. Anglo-Thai’s board was being inadvertently sucked into a murky world of share price manipulation in a vast network of investment companies and unit trusts, clandestinely controlled by Sir Denys. He was finally exposed, and resigned as Anglo-Thai’s chairman in May 1973, but died in 1975 before the case against him was due to be heard. See Lord Blake and C.S. Nicholls, The Dictionary of National Biography, 1971–80, Oxford: Oxford University Press, 1986, pp. 520–1.
46 CUL, Barlow papers, 63/855, Sir John to Tom Barlow, 11 July 1969; see also 63/852, Henry to Tom Barlow, 11 April 1972.

47 Falkus, Blue Funnel Legend, pp. 337–41.

48 PRO, DO 189/553, ‘Note of Meeting in Permanent Under-Secretary’s Room, CRO, 26 August 1965’; Thoburn, Multinationals, Mining and Development, pp. 66–7.

49 IA, MS 27281, Malcolm to Pearson, 4 May 1961, enclosing copy of Malcolm to Loudon, BAT, and president of MCAGB council, 4 May 1961; MS 27260, Malcolm to Young, 8 May 1961; Malcolm to Donald, 29 August 1961.

50 BoE, G 1/183, Note by Thompson-McCausland for the Governor, 1 October 1964; CSAS, Barlow papers, Malayan Visits, 1965–68, letter to Sir John Barlow, 9 February 1965. By May 1965, the UPAM had become impatient with Head also, who had allegedly ‘not “shown his face” enough among the British planting community’: ANM, SP 95/B/11, R. Fletcher, Secretary, UPAM, to H.F.O’B.Traill, Chairman, Planting Section, UPAM, 18 May 1965.


52 PRO, OD 39/18, Minute by Mathieson for Wilson, 11 December 1968.

53 PRO, DO 189/540, copy of letter from Taylor to Bullard, 16 December 1966.

54 White, Business, Government, and the End of Empire, p. 212; PRO, DO 35/9730, Minute by Jasper, 18 November 1957; DO 35/9901, Snelling to Tory, 30 May 1958; RGACM, MS 24863/74, 1 February 1965, Report of London Rubber Study Group Committee.


56 PRO, FCO 24/345, Minutes by Tarlton for Ward, 20 August and 4 September 1969; Minute by Ward, 8 September 1969.


58 HSBC, MB Hist, MCAGB Bulletin 47, August 1966; White, ‘Survival, revival and decline’.

59 PRO, FCO 24/35, enclosure in Falle to Moreton, 24 November 1967.

60 BoE, OV 44/144, Note by Haslam, 1 December 1967.
61 See BoE, EC 5/543, enclosure in John Wilson, Chartered Bank, to Stone, 30 October 1972.
63 PRO, DO 189/597, Sir Maurice Parsons, Deputy Governor, to Sir Arthur Snelling, Deputy Under-Secretary of State, 28 July 1966.
64 *Financial Times*, 19 August 1967. As we saw in Chapter 5, palm oil exporters also feared the consequences of Britain ganging up with ‘the Six’.
65 A point also made by Darwin: ‘Diplomacy and decolonisation’, p. 18.
66 IA, MS 27189, Minutes of BCL Motor Group Meeting, 25 August 1961.
67 CUL, Barlow papers, 14/217, cutting from *British Industry Week*, 28 June 1968.
68 RGACM, MS 24863/79, 7 December 1970, Minutes of a Meeting of the Accountancy and Taxation Committee, 13 November 1970; RGACM, MS 24863/81, 30 March 1972, Director’s Report; material in PRO, FCO 24/837–8. The issue of high taxation was compounded by the continued absence of a double-taxation agreement between the UK and Malaysia, largely because of HMG’s inflexibility regarding the treatment of profits from shipping services: see RGACM, MS 24863/81, 7 June 1971.
69 CUL, Barlow papers, 58/786, speech by High Commissioner Walker, 8 January 1971.
70 Hack, *Defence and Decolonisation*, pp. 287–8. The Tories also formalised British cooperation in the air defence of the area with the Integrated Air Defence Scheme, and Britain agreed to make available five ships and one battalion as part of an ANZUK force.
71 IA, MS 27013, AR&A/Cs, 1971, Chairman’s Review.
73 Lipton and Firn, *Erosion of a Relationship*, p. 222.
74 BoE, G 1/183, Note of 1 October 1964.
75 PRO, FCO 24/254, copy of ‘Directive to the British High Commissioner in Malaysia. Note by the CRO, 23 September 1963’.
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108 PRO, OD 39/136, note of meeting at ODM, 15 August 1968.
109 PRO, FCO 24/294, extract from record of meeting with Commonwealth Secretary, 3 March 1967.
110 PRO, OD 39/136, note of meeting, 15 August 1968.
112 Reported in Straits Times, 11 October 1971. The worst offender here was H&C, which hardly had any local directors on its boards and jealously defended its British ownership into the 1980s: Lim, Ownership and Control, p.107.

113 PRO, FCO 24/1450, Minute by Webber, 7 July 1972.

114 Second Malaysia Plan, pp. 40–1, Table 3.1. The end of the NEP in 1990 only left foreign interests with 25 per cent of total corporate equity, 5 per cent over target: Drabble, Economic History, p. 203

115 Lim, Ownership and Control, pp. 78–9.

116 CUL, Barlow papers, 53/739, Henry to Tom Barlow, 5 September 1971.

117 CSAS, Barlow papers, AR&A/Cs.

118 Barlow et al., World Rubber Industry, p. 173. For further details on the localisation of ex-colonial firms under the NEP, see Lindblad, Foreign Investment, pp. 108–9.
Glossary

Malay[s]ian terminology

baba historically, a term used to refer to Straits-born Chinese who had local cultural characteristics.

Rapa Merdeka ‘father of independence’; affectionate term for the Tunku.

bin son of (often abbreviated to ‘b.’).

bumiputera ‘sons of the soil’; a term employed today by the Malaysian government to refer to Malays and all other indigenous groups in the country.

Dato, Datu a non-royal chief or title of distinction.

Dewan Negara the Senate, the upper house of Malay[s]ia’s parliament.

Dewan Rakyat the House of Representatives, the lower house of Malay[s]ia’s parliament.

dulang wooden tray used to wash for tin ore, particularly by Malay miners.

Enche, Endk Mr, Mrs, Miss, Ms

godown warehouse, corrupted from the Malay word, gudang.

kampung Malay village.

kongsi Chinese business partnership.

Menteri Besar Chief Minister.

merdeka independence; freedom.

Min Yuen ‘mass movement’; the civilian support units of the MCP guerrillas.

Koa Kunrenjo ‘youth training schools’ during the Japanese occupation.

negam state; nation.

Orang Puteh White Man

pikul a traditional measure of weight in the tin industry, about 62.5 kg.

pribumi East Malaysian equivalent of bumiputera.

raja prince.

rakyat common people.

Sdn. Bhd. Sendirian Berhad; Malay equivalent of ‘Company Limited’.

Tan Sri title of distinction, above Dato.

Tengku, Tunku a royal title approximating to Raja.

towkay Chinese business leader.

Tuan Besar European manager or head of a company

Tun the highest title awarded to a Malaysian, confined to only twenty-five at any one time.

Yang diPertuan Agung Paramount Ruler; King of the Federation of Malaysia, chosen on a five-year rotation from among the Sultans of the States.
Technical terminology

**bucket-dredging** capital-intensive method of tin mining superior to hydraulic sluicing and gravel-pumping since dredges are more effective in swamp areas and can more profitably extract tin from ground with a lower ore content.

**currency** the Malayan dollar (today known as the ringgit) consisted of 100 Malayan cents and equalled 2s/4d in sterling to November 1967; despite Malaysian attempts to maintain the old parity after devaluation, until June 1972 the average exchange rate was M$7.36 to the pound. Thereafter, Malaysia left the sterling area and chose the US dollar as the instrumental currency which would regulate the movement of the ringgit.

**estate** an agricultural production unit which was defined officially in Malaya as a holding of over 100 acres.

**GR-S** general purpose synthetic rubber.

**latex** natural rubber whose liquidity from the tree has been preserved; much in demand from manufacturers after the Second World War through its suitability for ‘dipping’ (e.g. in the production of rubber gloves and condoms) and for the manufacture of foam in upholstery.

**SBR** styrene butadiene rubber—a synthetic copolymer; much in demand during the 1960s given its resistance to abrasion and hence suitability for use in automobile tyres.

**smallholding** agricultural production unit below 100 acres; subdivided into medium holdings (25–100 acres) and ‘true’ smallholdings (below 25 acres).
Abdul Rahman, Putra Al-Haj, Tunku (Tunku Abdul Rahman) (1903–90). One of many sons of Sultan Abdul Hamid of Kedah. Education: St Catherine’s College, Cambridge. Entered Kedah government service, 1931; served as director of education (Kedah) and director of passive defence during Japanese occupation; returned to UK to resume legal studies, 1946; began career in national politics in 1951 when he succeeded Dato Onn as UMNO president; promoted (with H.S.Lee and Tan Cheng Lock) electoral accommodation with MCA in 1952; subsequent leader of the Alliance from 1953; chief minister, Federation of Malaya, 1955; prime minister, Malaya/Malaysia, 1957–70; after retirement from politics, he wrote a weekly column in the Star newspaper, Penang—many of these reminiscences served as the basis of the Tunku’s memoirs, Looking Back.


Barlow, Thomas (Tom) Bradwall (1900–88), younger brother of above. Education: Leighton Park, Reading, and Haverford, Pennsylvania, US. Joint partner, Thomas Barlow & Bros, and director and chairman of estate companies
in Barlow group; chairman, British Association of Straits Merchants, 1937;
chairman, RTAL, 1942–43; vice-chairman, RGA, 1944–45; chairman, RGA, 1945–46; chairman, British Association of Malaysia, 1965; director of City
insurance companies in 1960s.

Davis, Leslie Harold Newsom (1909–), CMG 1957. Education: Marlborough,
and Trinity College, Cambridge. Joined MCS, 1932; private secretary to Governor
and High Commissioner, 1938–40; attached to 22nd Indian Infantry Brigade as
liaison officer, 1941; POW in Singapore, 1942–45; district officer, Seremban,
1946–47; British resident, Brunei, 1948; assistant adviser, Muar, 1948–50;
secretary to member for education, Federation of Malaya, 1951–52; member for
industrial and social relations, 1952–53; secretary for defence and internal
security, Singapore, 1953–55; permanent secretary Ministry of Communications

Education: Highgate School. Joined FMS police in 1936; served with underground
Force 136 during Japanese occupation; returned to police service in Malaya after
1946; deputy secretary (Security and Intelligence), Prime Minister’s Department,
1958; commissioner of police, 1958; director of police affairs, 1962; inspector
general of police, Malaysia, 1963–66; RGA special representative, Malaysia,
1966–78.

Griffith-Jones, Sir Eric (Newton) (1913–79), KBE 1962. Education:
Cheltenham College. Barrister-at-Law, Gray’s Inn, 1934; advocate and solicitor,
Straits Settlements, and Johor, 1935; crown counsel, Singapore, 1939; military
service, 1941–46 (POW, 1942–45); crown counsel, Malayan Union, 1946, and
various legal positions in the Federation after 1948; moved to Kenya in the 1950s,
becoming Deputy Governor, 1961–63; succeeded Sir John Hay as head of Guthries
in 1963 and, with assistance of Bank of England and Barings, reorganised the
group; chairman, GCL and associated companies after 1965; chairman, RGA,
deputy chairman, CDC, 1970–71; chairman, 1972–79; also held directorships with
City insurance companies.

Hay, Sir John George (1883–1964), Kt. 1939. From an impoverished Fife
background with limited education, joined Guthrie & Co., 1902; assistant cashier,
1904; chief cashier of accounts department, 1907; director, United Sua Betong
Estates, 1919; chairman, 1927; general manager and owner of one-sixth of
Guthries, 1925; managing director, 1930–63; chairman of numerous rubber, oil
palm and tin-mining companies in the Guthries group; director, Mercantile Bank,
1941–64 (deputy chairman, 1952–54); chairman, RGA, 1930–31; president,
Association of British Malaya, 1936–37; member, Colonial Economic Advisory
Committee, 1944–45; Rubber Consultative Committee, 1946–53; UK and
colonial delegations to international rubber conferences, 1946–57.

Home, Alexander Frederick Douglas- (Lord Home) (1903–95), 14th Earl of
life peer 1974 (Baron Home of the Hirsel). Education: Eton, and Christ Church,


Kipping, Sir Norman (Victor) (1901–79), KBE 1962. Education: University College School, and Birkbeck College, London. Worked as an engineer in the UK before Second World War; head of regional division, Ministry of Production, 1942–45; under-secretary, Board of Trade, 1945; director-general, FBI, 1946–65 (retired on formation of CBI); led missions for FBI to India, Japan and Nigeria, and for HMG to Zambia; showed no interest in leading an FBI mission to Malaya at merdeka but did visit and report on the Federation and Singapore in early 1959.

Laithwaite, Sir (John) Gilbert (1894–1986), GCMG 1953 (KCMG 1948). Education: Conglowes, and Trinity College, Oxford (Scholar). Appointed to India Office after serving in First World War; principal, 1924; involved in Round Table conferences on India of 1930s; private secretary to the Viceroy of India, 1936–43; assistant Under-Secretary of State for India, 1943; an under-secretary (civil) of the War Cabinet, 1944–45; deputy Under-Secretary of State for Burma, 1945–47, for India, 1947, for Commonwealth relations, 1948–49; UK ambassador to the Republic of Ireland, 1950–51; High Commissioner for the UK in Pakistan, 1951–54; permanent Under-Secretary of State for Commonwealth relations, 1955–59; deputy chairman, Inchcape & Co. Ltd, 1960–64; director, 1964–69; chairman, UK


Mohar bin Raja Badiozaman, Raja Tun. A grandson of Sultan Abdullah of Perak (signee of the Pangkor Engagement with the British in 1874); attended *Koa Kunrenjo* during the Pacific war; emerged as leading Malay official in the Ministry of Commerce and Industry by independence; chairman MIDFL, 1960; chaired committee in the mid-1960s which recommended EOI strategy; official head of the Ministry of Finance by late 1960s and chairman of Malayawata steel project at Perai; chairman of Malaysia Airways in 1970s; director and chairman of numerous other bumiputera companies after retirement from MCS.


Mustapha bin Datu Harun, Tun Datu (1918–95). Worked as a clerk in Kudat, Sabah, before escaping to the Philippines during the Japanese occupation of North Borneo; joined resistance movement and became a captain in the regular army on ‘liberation’ in 1945; appointed native chief in the new colonial administration; Legislative Council, 1954; Executive Council, 1956; formed United Sabah National Organisation (USNO), 1961, and dominated the party thereafter; Yang diPertuan Negara (head of state), Sabah, 1963; chief minister, Sabah, with Kuala Lumpur’s assistance, 1967; ruled Sabah as personal fiefdom in alliance with timber towkay Khoo Siak Chiew; resigned as chief minister, 1975, after Abdul Razak’s regime suspected Mustapha of separatist tendencies; briefly returned to the political limelight with Mahathir Mohamad’s assistance in the early 1990s when Mustapha dissolved USNO to form UMNO Sabah.

Nik Ahmed Kamil bin Nik Mahmood, Dato (1909–77). Education: Malay College, Kuala Kangsar, and Bristol University. Lincoln’s Inn, 1926–30; administrative service in native Kelantan during 1930s; mainstay of local administration during the Japanese/Thai occupation plus the Allies’ principal contact in Kelantan; founder member of UMNO, 1946, but defected to Onn’s Independence of Malaya Party (later Party Negara), 1951; rose to be Kelantan’s Menteri Besar, 1948–53; federal legislative councillor and member, 1948–55;

**Tan Siew Sin** (1916–88). Son of MCA founder and leading Melaka baba, Tan Cheng Lock; returned from law studies in London to take over the family plantation business, 1939; worked for the British Information Services in exile in India during Second World War; appointed member of Legislative Council, Federation of Malaya, 1948; elected member for Melaka, 1955; minister of commerce and industry, 1957; Alliance treasurer, 1958; came into conflict with the ‘KMT diehards’ in the MCA under H.S. Lee (the latter advocated a tougher line on Chinese rights while Tan held out for full cooperation with UMNO); after Lee’s banishment to the political wilderness, Tan was rewarded by the Tunku with a new Cabinet post as minister of finance, 1959; elected president of MCA, 1961; vice-chairman of the Alliance, 1964; resigned as finance minister but appointed minister for special functions (and later minister for the restoration of parliamentary democracy) after the 13 May riots; resumed role as minister of finance, 1971; resigned as MCA president and minister of finance, 1974; chief executive of Sime Darby after full Malaysianisation in 1977 (Tan’s family had long been associated with the agency house).

**Tan, T.H. (Tan Tong Hye)** (1914–85). Education: Rafiles College, Singapore. After passing Senior Cambridge Examination, turned to journalism and became cub reporter on the Malay Tribune (chairman, Tan Cheng Lock, later founder of the MCA); also worked for Sunday Tribune, Straits Times, Singapore Free Press, Sunday Times before 1942; rejoined the Straits Times after the Japanese occupation, but de facto ‘colour bar’ prevented Tan’s promotion to top management, so organised Singapore Standard for the philanthropist Aw Boon Haw; 1950, Tan Cheng Lock persuaded T.H. to join MCA as chief executive secretary; 1955–69, served as Secretary-General of Alliance and accompanied the Tunku on constitutional missions to London, 1954 and 1956; nominated head of Dewan Negara, 1959; entered business world after merdeka, particularly in secondary production with Japanese firms, e.g. Malayawata Steel; led Selangor and ACCC; honorary president, Federation of Malaysian Manufacturers, and Japan Club of Malaysia; member of the board of the Central Electricity Board/National Electricity Board of Malaya, 1959–78.


Traill, Harry F.O’Brien. Leading British rubber and oil palm planter at Tennamaram Estate, Selangor, who took on Malaysian citizenship after merdeka; chairman, SPA, 1961–62; chairman, planting section, UPAM, 1965–66; president, UPAM, 1967–69; amateur historian of Malaysia and anonymous political commentator; private papers at the ANM are a major source for the Malaysian plantation industry after 1957.


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