Since the colonial era, Chinese businesses in Malaysia have adapted to economic and political changes by evolving from tin-mining and rubber cultivation to commodity production, banking and finance, construction and property development, and industrial and advanced technology manufacturing. Simultaneously, intra-ethnic and Chinese family businesses have evolved into inter-ethnic and plural enterprises in order to adapt to government policies that favour indigenous people. With the onslaught of globalisation, Chinese entrepreneurs have transformed anew, proving once again that Chinese entrepreneurship is not static but dynamic.

From tin to Ali Baba's gold: the evolution of Chinese entrepreneurship in Malaysia

Chin Yee Whah

Tin men, rubber men, middle men: Chinese entrepreneurs under British rule

The Chinese dominated tin-mining in Malaysia before Europeans introduced dredging technology in the early 20th century. Subsequently, Chinese mining companies lost out to European joint-stock companies with more sophisticated technology and capital. Moreover, colonial government discrimination and intervention favoured European companies over Chinese firms (Jomo 1988).

In the early 1900s Chinese entrepreneurs incorporated rubber-production into their established gambier and pepper economic networks. In the 1930s, following the development of rubber plantations and trading and the inter-war expansion of manufacturing, they established banks to address the financial needs of Chinese businessmen (Tan 1953, Tan 1982). All early Chinese banks were clan- and ethnic-based and possessed only limited amounts of capital.

Most Chinese manufacturing during the inter-war years consisted of raw material-processing that required simple technology to produce rubber sheets, foodstuffs such as breads, biscuits, sweets and beverages, building materials and metal goods, and to process tin ore (Huff 1994). Chinese also monopolised rice mills in northern Malaya (Wu 2003), and, by 1955, owned an estimated 80-90% of the two minor sectors of manufacturing and construction (Wheelwright 1963).

Manufacturing activity, however, was small-scale owing to the British policy of importing most manufactured goods and to Britain's reluctance to promote large-scale industry alone. After the war, between 1947 and 1957, most Chinese manufacturing remained in agriculture and commodity-processing such as rubber-milling, rice-processing, pineapple-canning, tin-smelting, and coconut oil- and palm oil-refining. The Chinese also controlled the export-based timber industry (Puthucheary 1979) and played the important role of 'go-between', linking European importers to the rural and urban populace. Nonetheless, the British owned or controlled the economy's major sectors.

From miniscule to 'manufactory': independence and Chinese business expansion

With independence, the new government adopted a laissez-faire economic system that aimed to encourage foreign direct investment (FDI). This helped create many small and medium-scale enterprises (SMEs). The government's greater national orientation in its development programmes, and the Malaysian Chinese Association's (MCA) role in preventing excessive bureaucratic interference in private business, further enhanced the growth of Chinese businesses.

In the 1960s, Chinese participation in the manufacturing sector mostly remained small-scale and focused on food, plastic, rubber and wood-based industries. Most of these businessmen lacked the capital, technical know-how and managerial skills to compete with foreign interests. Moreover, with limited government incentives and support, Chinese companies remained small and were often dependent on foreign technology (Khor 1983:25). But their earlier success in rubber and tin allowed them to diversify in the financial sector, thereby spurring additional industrial and property development activities. Scores of banks were incorporated in the 1960s, all substantially controlled by Chinese with the exception of Bank Bumiputera (Hara 1991, Tan 1982). In the absence of a strong Malay entrepreneurial class, Chinese contractors and developers played the most significant role in the construction and property development of both private and state projects (Jesudason 1989, Lim 2004, Tan 2006).

Mostly small-scale, but a few Chinese conglomerates did emerge. For example, the Kouk Group used capital accumulated in rubber, sugar, rice, tin and trading to build large manufacturing plants, such as Malaysia's first and largest sugar refinery, Malayan Sugar, mainly through partnership with foreign companies and the government. Loy Hean Heong, who accumulated his capital from speculating in rubber estates, ventured into manufacturing by acquiring a fledging carbide company, an adhesive tape and rubber band company and an aluminium foil lamination company (Jesudason 1989). The Hong Leong group, originally from Singapore, also exerted a strong presence in the manufacturing of construction materials (Tan 1982). In 1968 the late Loh Boon Siew, the sole distributor of Honda motorcycles and vehicles, established the first-ever fully Malaysian 'manufactory' and launched production well before the country's first industrial development push (Flower 2006). Meanwhile, the Tan family, who controlled the Tan Chong Group, the franchise-holder for Nissan vehicles in Malaysia and Singapore since 1958, and the Chua family, who controlled the Cycle & Carriage Company, became aggressively involved in the automobile industry (Troii 1991).

These large-scale Chinese manufacturers acquired knowledge and technology in related businesses by partnering with foreign companies, while the majority of Chinese entrepreneurs were small, family-based, possessed minimal capital and had limited access to sophisticated technology. That said, overall Chinese involvement in the economy clearly showed a notable shift from primary production to manufacturing.

Malaysian policy, Chinese response: the makings of the Ali-Baba alliance

Following the racial riots of 13 May 1969, the Malaysian government implemented the New Economic Policy (NEP, 1971-1990) 'to reduce and eventually eliminate the identification of race with economic function'. Its ultimate goals were 'the emergence of a full-fledge Malay entrepreneurial community within one generation' and increasing Bumiputera ownership of the corporate sector to 30% by 1990. In accordance with this affirmative action policy, ethnic quotas were introduced. Consequently, Bumiputeras were favoured in the awarding of government contracts, tender, loans and credit.

One of the controversial NEP regulations was the 1975 Industrial Coordination Act (ICA). Firms with more than RM100,000 in shareholder funds and more than 25 employees were required to employ a workforce that was 30% Malay and to reserve 30% of their equity for Malay interests. The ICA had its greatest effect on SME family-based businesses, but large companies were not spared. The Chinese business community responded in five different ways.

First, they shifted investment from the manufacturing sector to commerce, finance, construction, property development and other sectors that could generate quick returns and were not subject to the ICA (Jesudason 1989; Hara 1991; Yasuda 1991). Second, large companies relocated their headquarters and shifted most of their capital abroad, resulting in 'capital flight'. Third, those who stayed in Malaysia changed their business strategy to accommodate NEP requirements by incorporating influential Bumiputeras and integrating Bumiputera capital into their family-owned businesses (Gomez 1999, Searle 1999). Fourth, scores of companies maintained their paid-up capital just below the limit that required a company to offer 30% of its equity to Bumiputera shareholders.

Finally, Chinese businessmen maintained their economic position by forming 'Ali-Baba' alliances. 'Ali', or the Malay partner, was the less active or 'sleeping partner', contributing his political influence and connections. 'Baba', or the Chinese partner, was the more active half of the alliance, contributing his capital, skills and technical know-how. This kind of partnership gave Chinese access to licenses and lucrative government contracts reserved for Bumiputeras, especially in the construction and transportation sectors (Nonini 1983). In the wholesale and retail sector, Chinese entrepreneurs demonstrated their business network power and control by boycotting Bumiputera attempts (with government support) to cut off Chinese wholesales and retail access to the fruit market (Kuo 1991).

Equal partnership: 'new wealth' and the indispensable Bumiputera 'technopreneur'

Thus we can identify three types of Chinese wealth. 'Old wealth' includes businesses that developed into conglomerates before the NEP. 'New wealth' emerged in the 1990s after businesses successfully conformed to the NEP. 'Declining wealth' refers to those business groups that lacked entrepreneurial drive when the second or third generations took over and did not try, or failed, to adapt successfully to the NEP, and as a result either stagnated or declined (Heng and Sieh 2000).

At the corporate level, the new NEP-Malay capitalist class is closely integrated with Chinese 'new wealth' in various joint ventures. Consequently, in the 1990s, the concept of interdependence and the practice of complementing each other developed at the elite level. This new inter-ethnic corporate culture marks an important structural shift from Chinese family-based organisations to Sino-Bumiputera alliances (Gomez 2003, Searle 1999, Heng and Sieh 2000, Wazir 2000).

When the NEP officially came to an end in 1990, the National Development Plan (NDP, 1991-2000) was implemented to pursue the NEP's 'unachieved objectives', one of which was to advance the formation of the 'Bumiputera Commercial and Industrial Community' (BCIC), a Malay or Bumiputera entrepreneurial class. The NDP aimed to transfer entrepreneurial skills to Bumiputeras at the micro-level by encouraging joint ventures between them and non-Bumiputera or foreign investors. Bumiputera 'technopreneurs' would then become active in technology-based industry (Malaysia 2000). Scores of formal Sino-Bumiputera partnerships materialised in the late 1990s. These new 'strategic' partnerships, officially endorsed as 'genuine' joint ventures, signaled a major evolution in Sino-Bumiputera partnerships, occurring in industries such as tin-mining (Badhrol 1999), food-catering and shoe manufacturing (Rugayah 1994) and combine rice-harvesting (Rutten 2003). Partnerships shifted from construction to manufacturing and resulted in significant Bumiputera acquisition of technology, knowledge and skills. Knowledgeable and capable Bumiputeras created more value for their companies in technology-based industries, showing that government policies influenced both Chinese and Bumiputera business culture (Chin 2004, 2006).

Following the emergence of a capitalist and new Malay middle class (Abdul Rahman 2002), Chinese entrepreneurs began to see Bumiputera participation as crucial to enhancing business development, especially to placing the company on the fast track to public listing (Sin Chew Jit Poh 5 November 1995). The changes within these two ethnic societies, and high economic growth, gave birth to the Sino-Bumiputera 'equal' partnership. As a result, Chinese entrepreneurship has become more plural in the post-NEP and post-NDP era. Even though exclusive or intra-ethnic practices persist, Chinese business culture in Malaysia is gradually breaking away from intra-ethnic partnerships.

Adapting to new challenges in the global economy

The economic liberalisation that began in 1986 signifies a gradual lifting of ICA regulations. Since 1990, SMEs are no longer subject to the ICA stipulation of Bumiputera equity participation. This change indirectly encouraged Chinese-dominant SMEs to expand in terms of production scale and revenue. Thus Chinese entrepreneurs not only adjusted to Malaysia's changing environment but also to global capitalism, weathering the 1997 financial crisis through state assistance and their own responses (Chin 2003). Although the crisis is over, advances in science and technology and the liberalisation of trade under the Asian Free Trade Area and World Trade Organisation (WTO) regimes present new challenges, particularly to SMEs, which have yet to prove capable of withstanding global market demands and technological change. In this advanced technological age, Chinese Malaysian entrepreneurs continue to draw on their own resources – cultural values, acquired knowledge, accumulated experiences, skills and social network – to remain globally competitive. Their success has varied, but their adaptation, like the change that makes it necessary, has been constant for a century.

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