SOUTHEAST ASIAN LABYRINTH:
RESTRICTIVE FOREIGN INVESTMENT
REGULATORY POLICIES OF MALAYSIA,
THAILAND AND SINGAPORE FROM
1970 TO 1980

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ABSTRACT

This thesis examines the levels of restrictive foreign investment regulatory policies of Malaysia, Thailand and Singapore from 1970 to 1980. The study seeks to explain why their policies varied. It presents a descriptive comparison of each country's policies restricting foreign investment. This discussion deals with general quantitative limits on foreign ownership, restrictions on certain economic sectors, restrictions on the operations of foreign-owned corporations, and the use of government-owned corporations as instruments of control over foreign investment. Based on the comparison, the study concludes that Malaysia placed greater restrictions on foreign investment than Thailand or Singapore.

It is argued that differences in the domestic political and economic settings of Malaysia, Thailand and Singapore explain Malaysia's greater restrictiveness. The thesis examines each state's past experience with a colonial power, economic strategies of the political elites, domestic political pressures, and the presence of ethnic minorities. It also looks at such contributing factors as the size of the natural resource sector, the prevalence of industries with old technology, and the level of foreign ownership of industry in each country.
This thesis concludes that Malaysia placed more restrictions than Thailand or Singapore because it had a very different domestic setting: an economically-dominant ethnic minority, domestic pressure for restrictions, and a nationalistic and interventionist economic strategy. Taken together, these differences explain Malaysia's greater restrictions on foreign investment. Of the explanatory variables, ethnic factors are the most important.
TABLE OF CONTENTS

<table>
<thead>
<tr>
<th>CHAPTER</th>
<th>Title</th>
<th>Page</th>
</tr>
</thead>
<tbody>
<tr>
<td>I</td>
<td>Introduction</td>
<td>1</td>
</tr>
<tr>
<td>II</td>
<td>Comparison of Policies to</td>
<td></td>
</tr>
<tr>
<td></td>
<td>Restrict Foreign Investment</td>
<td>21</td>
</tr>
<tr>
<td>III</td>
<td>Explanation for Malaysia's</td>
<td></td>
</tr>
<tr>
<td></td>
<td>Greater Restrictions</td>
<td>46</td>
</tr>
<tr>
<td>IV</td>
<td>Conclusion</td>
<td>88</td>
</tr>
<tr>
<td></td>
<td>SELECTED BIBLIOGRAPHY</td>
<td>101</td>
</tr>
</tbody>
</table>
LIST OF TABLES

Table 1: Summary of Findings .................................... 91
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CHAPTER I

Introduction

Many observers in the 1980s have expressed their belief that the next century will be dominated by the countries of the Pacific. American Secretary of State George P. Schultz, in his message to the Third Pacific Economic Cooperation Conference held in Bali, Indonesia during November 1983, echoed this view:

The Pacific is rapidly becoming the world's most dynamic economic region. Its economies have achieved a remarkable record of sustained growth over the last decade, and are increasingly assuming positions of leadership in our global economic system. This prosperity has brought unprecedented benefits to the people of our region. Much of this success has been achieved through a commitment to free economies and market principles, as well as to sound management. It has also been a product of our global free market system, which has allowed nations -- particularly those of the Pacific -- to expand their overseas markets and to reap the benefits of their skill and industry.

The Asia-Pacific region in particular, with half of the world's population, has become a centre of world economic and political attention. During the decade of the 1970s, the Asia-Pacific region experienced an economic rate of growth which was twice as high as the level achieved by the countries of the Organization for Economic Cooperation and
Development (OECD). Moreover, as a group, the Asian-Pacific countries accounted for the second highest proportion of global trade after the European Economic Community (EEC). The Canadian government has recognized the long-term economic potential of the Asia-Pacific, and in 1985 ordered the Department of External Affairs to reallocate from other areas an additional $10 million annually to promote Canadian trade with Pacific countries.

While the economies of the industrialized countries performed sluggishly through the tumultuous years of the 1970s, Malaysia, Thailand and Singapore had real annual Gross Domestic Product (GDP) growth rates of 7.8%, 7.2%, and 8.5%, respectively. Canada, conversely, had a corresponding figure of only 3.9%. Even taking into consideration that economic growth tends to slow down in the more mature economies of developed states, the economic achievements of these three members of the Association of Southeast Asian Nations (ASEAN) are impressive. Singapore, with a per capita GDP in 1980 exceeding U.S. $4500, is now considered a newly industrialized country (NIC). The upgraded classification has caused Singapore to lose some trade preferences given to developing countries by the industrialized states. Malaysia's per capita GDP in 1980 was approximately U.S. $1700 which places it among the
highest 25% of developing countries. The figure for Thailand, however, was about U.S. $700 which classifies it as a middle income developing country.6

Canada's economic relations with ASEAN are growing in importance, even though they are dwarfed by Canada's dealings with the United States and Japan. In 1980, ASEAN had a GDP which was about two-thirds of the figure for Canada and a population over ten times larger. Canada's imports from the ASEAN states grew from U.S. $57 million in 1970 to U.S. $332 million in 1980. Similarly, Canada's exports to ASEAN expanded over the decade from U.S. $87 million to U.S. $603 million. Although total trade between Canada and ASEAN represents under 1% of each other's global trade, it grew approximately 649% from 1970 to 1980.7 In 1984, overall trade between Canada and ASEAN was $1.5 billion. ASEAN as an entity is Canada's eighth largest trading partner, surpassing France and Italy.8 Canadian investment in the six ASEAN states exceeded $1.6 billion in 1984.9

This thesis is a study of the restrictive foreign investment regulatory policies of Malaysia, Thailand and Singapore from 1970 to 1980. The study will seek to explain why their policies varied. Before beginning the analysis, the thesis will discuss why these states and this
time period were chosen for the study. It will also explain why the three countries want foreign investment and then outline the explanatory hypotheses to be examined.

Although they have significant differences which will be discussed later in this thesis, the countries of Malaysia, Thailand and Singapore were chosen for the study because they have several common characteristics. They are geographically connected in Southeast Asia. The three countries basically form one long North-South extension of the Malay peninsula from Thailand to Malaya (Peninsular Malaysia) to Singapore. To the East are the non-contiguous Borneo Malaysian states of Sarawak and Sabah. All three countries have a tropical monsoon climate. In addition, each of the countries has historical ties with an English-speaking industrialized state. Malaysia and Singapore were British colonies, while Thailand, although never formally colonized, had close connections with Britain in the 19th century. Thailand ceded substantial territory to the colonial powers in the early 1900s, including four southern Malay areas to Britain in 1909, which later became part of Malaysia. With the start of the Korean War in 1950, Thailand became an anti-Communist ally of the United States in Southeast Asia.

Population in the three states tends to be
geographically concentrated. Malaysia's people are largely settled on the West coast of Peninsular Malaysia, whereas Thailand's citizenry are congregated around Bangkok and the Central Plains area. Singapore is a city-state and is the most densely populated of the countries to be examined.

The ethnic Chinese community is significant in the three states. Malaysia's Chinese made up about 35% of the country's population in 1980, while Malays, Indians, and other minorities accounted for 53%, 11%, and 1%, respectively. Ethnic minorities totalled a large 47% of the population of Malaysia. Although the majority Malays dominate politically, the Chinese are preeminent economically. This situation in Malaysia has had serious consequences which will be examined later in the thesis. Thailand, on the other hand, also had the Chinese as its biggest minority group, but they represented only approximately 7% of the population. Although they are economically dominant, the Chinese are only a relatively small minority and are fairly well assimilated in Thailand. In Singapore, about 76.9% of the population in 1980 were Chinese, whereas Malays and Indians made up most of the remaining 23.1%. The Chinese dominate both politically and economically in Singapore.

These states practice variations of Western
parliamentary democracy, even though their governments have authoritarian tendencies, mirroring their cultural traditions. Competitive elections occur, but significant limits on political activity exist. Although the three are not likely to succumb to communist insurgents in the near future, their governments have had to deal with communist groups trying to seize power.

Finally, Malaysia, Thailand and Singapore are market economies with generally pro-West orientations. They rank among the most industrialized of the developing countries and all three attempt to attract foreign investment. In 1980, agriculture accounted for 22% of GDP in Malaysia, while manufacturing and mining made up 21% and 5%, respectively. Malaysia is the world's biggest tropical timber exporter and both the largest exporter and producer of tin, natural rubber, palm oil, and pepper. The country also exports oil. Agriculture had a 25% share of Thailand's GDP in 1980. Manufacturing contributed 21% and mining represented 2%. Thailand is an important rice exporter and is the second biggest producer of tin in the world. The state is an oil importer. In Singapore, manufacturing accounted for 23% of GDP in 1980, but agriculture and mining together made up only 2%. Being a city-state, Singapore has very few natural resources, but
it is a very large oil refining centre. About 37% of Malaysia's population is involved in agriculture and fishing. The government defines almost half of those in the agricultural sector as being poor. The bulk of the rural poor are Malays and the Malaysian government has striven to alleviate their poverty. Rice has traditionally been Thailand's biggest merchandise export and roughly 70% of the country's people are still involved in growing the crop. Thailand is responsible for 40% of the global rice trade. Many rural people in the Northeastern, Northern, and very Southern sections of the country do subsistence farming. They are poor and have not been very affected by Thailand's economic growth over the last twenty years. In stark contrast to Malaysia and Thailand, Singapore has an insignificant agricultural sector.

This thesis analyzes the period from 1970 to 1980. The year 1970 was chosen as a dividing line because American President Richard M. Nixon announced the beginning of the withdrawal of American troops from Vietnam in September 1969. The departure of the United States had a profound impact on Southeast Asia and provides a good starting point for the study. The international economic instability of the 1970s makes the decade a particularly
interesting period to examine. The aftermath of the second oil crisis of the decade makes 1980 a reasonable termination point for the analysis.

After the impressive economic growth of the 1970s, Malaysia, Thailand and Singapore have suffered economic slumps in recent years. Falling commodity prices combined with growing protectionism in the industrialized countries have hurt Malaysia's foreign exchange earnings from exports. This has led to increased foreign debt and a GDP growth rate of only approximately 0.5% in 1986. Similarly, Thailand has also been adversely affected by dropping commodity prices. Besides low global prices for its agricultural exports, the Thai economy has been injured by the EEC's various agricultural trade barriers and subsidies and by the United States' subsidies to American rice farmers. Nevertheless, Thailand still managed a 3.8% rate of GDP growth in 1986. Singapore suffered a negative economic growth rate of 2% in 1985. In February 1986, a government Economic Committee chaired by Brigadier General Lee Hsien Loong, Minister of Trade and Industry and son of the Prime Minister, issued a report on Singapore's economy. The Economic Committee sought to stop Singapore's economic decline through various policy changes. The report of the Economic Committee marked the end of the Second Industrial
Revolution, a development strategy adopted by the government in 1979. This strategy emphasized higher technology industries which were capital-intensive and required more skilled and more highly paid labour. The Economic Committee's report stated that Singapore's recession was caused by a decline in the country's international competitiveness, falling commodity prices, and an economic slowdown in the United States. Singapore's GDP growth rate recovered somewhat in 1986 to reach 1.9%.

Malaysia, Thailand and Singapore, like developing countries in general, want to industrialize and, thus, modernize. As a result, their governments believe that foreign investment is needed because it brings capital, technology transfer, and access to markets. In the early stages of economic development, the less developed countries (LDCs) usually do not have enough domestic capital to industrialize at the rate that they desire. Domestic savings may be quite low relative to a state's Gross National Product (GNP). Moreover, political and economic instability, together with uncertainty concerning profitability, may deter local people from investing in their country. Developing states, therefore, look to foreign sources of capital to help them reach the desired levels of investment. The capital is initially used to
build up infrastructure, such as electricity, water, transportation networks, and communication systems. Once adequate infrastructure is in place, profits expand, which in turn lead to both increased domestic savings and incentive to invest. Theoretically, the need for foreign investment to alleviate domestic capital shortfalls will gradually decline.¹³

Technology transfer is another reason that developing countries want overseas investment. The technology often gained through foreign investment involves both management and production. The management skills needed to organize an entire industrial process are considered control technologies, while production technologies are the techniques used for actually making a product. Both types of technologies are sought by developing states, where traditional methods of production dominate the economy. Without adequate control technologies, production technologies cannot be properly utilized. Moreover, less developed countries may even be unaware of the technology available, causing them to buy technology that is not well suited for their circumstances, and at a premium price. Thus, investment from foreign sources is desired because it can lead to the transfer of valuable information.¹⁴

Lastly, market access is a crucial factor contributing
to the general perception among developing states that they require foreign investment. Developing countries usually begin industrialization by supplying their domestic markets through a degree of import substitution. However, to achieve the most efficient economies of scale, less developed states generally attempt to expand beyond their limited domestic markets by promoting exports to other countries, especially industrialized ones. Furthermore, exports generate foreign exchange, which allow the LDC to import the capital goods, such as equipment and other materials, essential to industrialization. Multinational corporations (MNCs) provide established global trading networks and access to markets of developed countries. Hence, most developing states try to attract multinational corporations.¹⁵

Dependency theorists generally argue that the economic development of the developing states has been stymied in the past because it was based on the needs of the colonial powers. Therefore, Third World economies focussed mainly on exporting natural resources to the industrialized countries. Foreign investment dominated these economies and stifled the formation of a domestic business class. According to dependency theorists, this situation caused the peripheral LDC economies to be dependent on the core
industrialized economies. As a result, the dependent economies suffer the effects of changes in the dominant economies and do not have the power independently to alter this relationship. Dependency theorists argue that MNCs perpetuate the inequitable, dependent relationship that LDCs have with the industrialized states. Despite the warnings of dependency writers, most developing countries still want MNCs to participate in their economies. The governments of LDCs believe that modernization requires foreign investment and that alternatives to foreign investment do not exist. Although they are aware of the destabilizing effects of dependency, as shown by their desire to attract corporate headquarters in order to prevent rapid MNC departures, developing countries generally feel that the benefits of foreign investment and modernization outweigh the costs of continued dependency.16

Malaysia and Thailand, like most other developing countries, encourage foreign investment because they believe that it provides the capital, technology transfer, and market access that they require in order to industrialize and modernize. Although Singapore has a relatively large supply of accumulated domestic capital in its Central Provident Fund, a government-managed pension fund, Singapore attempts to draw foreign investment mainly
for the latter two reasons of technology transfer and market access. Nevertheless, restrictions on foreign investment do exist in all three countries, although in varying degrees. This thesis asks the central question: why did Malaysia place more restrictions on foreign investment than its neighbouring fellow ASEAN states, Thailand and Singapore, during the period 1970 to 1980?

For the purposes of this thesis, "foreign investment" will be defined as capital supplied through both direct and portfolio investment. Direct investment involves the transfer of capital via the acquisition of assets, such as factories and properties, by a foreign corporation or individual. Portfolio investment, on the other hand, entails the forwarding of capital through the purchase of securities, like shares and bonds, by a foreign company or person. "Restrictions" will be narrowly defined as four specific types of policy actions: general quantitative limits on foreign ownership, restrictions on certain economic sectors, restrictions on the operations of foreign-owned corporations, and the use of government-owned corporations as instruments of control over foreign investment.

This thesis will put forward various explanatory hypotheses for examination. The study will argue that a
country which has been dominated economically by a colonial power is more likely to impose restrictions on foreign investment than other states due to economic nationalism and reasons of national security. Economic nationalism refers to the feeling of hostility which a country's elites and/or general population have toward the prevailing pattern of corporate ownership if it is one of economic domination by the former colonial power. The LDC's citizens want to eliminate the last vestiges of colonialism, exert their independence and, in their view, control their own destiny. Similarly, the national security rationale is based on the government's desire to regain control over sectors of the economy which are considered vital, such as utilities and mass communication, to the state's national security. If a country has not had the experience of being dominated economically by a colonial power it is less likely to impose restrictions.

The study will further argue that a country whose elites follow an economic strategy based on economic nationalism and favourable to heavy government economic intervention is more likely to impose restrictions. The flip side of this hypothesis is the argument that a country whose elites do not follow a nationalistic and interventionist economic strategy is less likely to impose
restrictions. In addition, if a state's governing group perceives that it is vulnerable to domestic political pressure from economic nationalist advocates of restrictions, the country is more likely to invoke restrictions on foreign investment. If the governing group does not perceive that it is vulnerable to domestic pressure from economic nationalists, the country is less likely to invoke restrictions.

Another hypothesis which this thesis will consider is the proposition that in a country where the majority ethnic group is politically dominant, but economically subordinate, government action aimed at redressing perceived economic imbalances vis-à-vis large, minority, domestic ethnic groups can have the secondary effect of also restricting foreign investment. If a country does not have an economically dominant minority ethnic group, government action having the secondary effect of restricting foreign investment is less likely to occur.

Moreover, the study also will argue that a country with a high proportion of natural resource industries is more likely to legislate restrictions in the natural resource sector. These industries, as exemplified by mineral extraction and agriculture, are relatively visible, have symbolic value to economic nationalist sentiment, and
raise basic questions about foreign ownership of natural, often depletable, resources. In addition, they are often poorly integrated into the local economy, tend to dominate either the state's GDP or exports, and frequently employ relatively large numbers of local workers in low skill jobs. These industries tend to export natural resources as low value-added, primary products, whose prices are dictated by world markets. The flip side of this hypothesis is the contention that a country which has a small natural resource sector is less likely to impose restrictions.

A further hypothesis to be examined is the view that a country which has a high prevalence of industries where the technology is relatively old and fairly readily accessible, such as car parts, is more likely to invoke restrictions due to perceptions of decline in the value of foreign firms' contributions to the country's economic development and consequently in their bargaining power and the perception that others, possibly even the host country, could operate that enterprise. If a country does not have a high prevalence of industries with old technology, it is less likely to impose restrictions.

Lastly, this thesis will put forward the proposition that a country with high foreign ownership of industry is
more likely to legislate restrictions. If a country does not have high foreign ownership of industry, it is less likely to pass restrictions.

The central argument of the study is the contention that more restrictions on foreign investment occurred in Malaysia than in its neighbouring fellow ASEAN states, Thailand and Singapore, because of their different domestic political and economic situations. These differences are found in economic strategies, domestic political pressures, and the economic position of ethnic minorities. Of these differences, ethnic factors form the paramount explanatory variable.

The rest of this thesis is divided into three chapters. The next chapter will present a descriptive comparison of each country's policies restricting foreign investment. The discussion will deal with general quantitative limits on foreign ownership, restrictions on certain economic sectors, restrictions on the operations of foreign-owned corporations, and the use of government-owned corporations as instruments of control over foreign investment. Chapter III will seek to explain Malaysia's greater restrictions on foreign investment by analyzing differences in the domestic political and economic settings, which have been affected by each state's
experience with a colonial power, by the economic strategies of the political elites, by domestic political pressures, and by the presence of ethnic minorities. It will also look at such contributing factors as the size of the natural resource sector, the prevalence of industries with old technology, and the level of foreign ownership of industry in each country. Finally, the last chapter will provide a summary of the key findings of the thesis and put forward some conclusions.
CHAPTER I


2. For the purposes of this discussion, the countries of the Asia-Pacific region include Japan, China, Malaysia, Thailand, Singapore, Indonesia, the Philippines, Brunei, Hong Kong, South Korea, and Taiwan.


5. The member states of ASEAN are Malaysia, Thailand, Singapore, Indonesia, the Philippines, and Brunei.


15. Ibid., pp.308-309.

CHAPTER II

Comparison of Policies to Restrict Foreign Investment

Malaysia, Thailand and Singapore all encouraged foreign investment during the period from 1970 to 1980. However, at the same time, all three also imposed restrictive measures on foreign investment, though to differing extents. This chapter will look at each country's policies regarding general quantitative limits on foreign ownership, restrictions on certain economic sectors, restrictions on the operations of foreign-owned corporations, and the use of government-owned corporations as instruments of control over foreign investment. Chapter II will argue that Malaysia was more restrictive in certain areas and generally placed more restrictions on foreign investment than Thailand and Singapore. Explanations for Malaysia's greater restrictiveness will be put forward in Chapter III.

General Quantitative Limits on Foreign Ownership

Malaysia set general quantitative limits on foreign ownership in the New Economic Policy (NEP) which was adopted in 1971.

The adoption of the New Economic Policy led to policies which were geared toward a reduction if not of the role, at least of the share, of foreign participation in the economy. However, Malaysia's attitude toward
foreign investment remained one of 'welcome' but it by and large dropped its laissez-faire economic posture for one which its policy-makers call 'economic nationalism'.

The objectives of the NEP were set out in the Second Malaysia Plan, 1971-1975, which stated that "The Government has set a target that within a period of twenty years, Malays and other indigenous people will manage and own at least 30% of the total commercial and industrial activities in all categories and scales of operation." The NEP was trying to regulate the ownership of equity in order to redistribute wealth to Malaysians in general and bumiputra (Malays and other indigenous peoples) in particular. The NEP had the goal of increasing the bumiputra ownership of corporate assets from 1.9% in 1970 to 30% in 1990. Other Malaysian (largely ethnic Chinese) ownership was to expand from 23.5% in 1970 to 40% in 1990, while the share of foreigners was to fall from 60.7% to 30%. The balance of equity in 1970 was mainly owned by federal and state governments. The NEP planned this redistribution of ownership to occur in an environment of high economic growth so that foreign investment would grow in absolute terms, but would shrink relative to the bumiputra portion.

Registration with the Ministry of Trade and Industry and licenses from the Ministry were necessary for new
investment in manufacturing and for investment to expand existing companies. During the time period under consideration, the Malaysian government sought to reach the NEP ownership objectives by ordering all companies licensed after 1972 to meet the general ownership requirements of 30% held by bumiputra, 40% by other Malaysians, and 30% by foreigners before the end of 1990. The foreign ownership guidelines were later relaxed in 1984 and 1986 largely due to economic recession.

Thailand, conversely, placed few serious restrictions on foreign capital during the decade. There were no official limits on foreign ownership as in Malaysia. Investments from foreign sources simply required registration with the Department of Commerce and the Ministry of Finance's Bureau of Revenue. Nevertheless, the government generally preferred joint ventures between Thais and foreigners.

Similarly, Singapore did not attempt to significantly limit overseas capital. Totally foreign-owned companies were permitted, although investment in manufacturing had to be registered with the registration board and joint ventures were promoted. Specific legislation regarding foreign takeovers of Singaporean corporations did not exist, but the Council on Security Industries oversaw
corporate takeovers according to the general Singapore Code on Open-bid Stock Purchase and Merger because the government, at least in principle, supposedly did not differentiate between domestic and foreign investors.

Restrictions On Certain Economic Sectors

In Malaysia, foreigners were officially permitted to directly invest in all industries, except public utilities. Despite the public position of openness, there were unpublished lists of areas where new investment was not allowed. Moreover, the Industrial Coordination Act (1975) set out certain restricted economic sectors. The Act, focussing on manufacturing companies, stated that total Malaysian ownership was mandatory in enterprises aimed at the domestic Malaysian market if similar firms existed or if the technology utilized was readily obtainable. However, if the technology involved was not available, up to 30% foreign ownership was permitted in import-substituting sectors of the economy. Companies utilizing imported parts to produce export goods, on the other hand, could have 51%-70% foreign ownership if 80%-99% of the goods were exported. If all production was sold overseas, then 100% foreign ownership was allowed. Export-oriented enterprises using renewable Malaysian raw materials could have 30%-55% foreign ownership contingent
on the fulfillment of various other market criteria. Finally, non-Malaysians were allowed to own up to 45% of a corporation's share equity if the firm was export-oriented and used non-renewable domestic raw materials, but they had to formulate a time-table to decrease their ownership to 30%. Companies formed prior to 1970 (and, thus, the NEP) did not have required levels of Malaysian equity and employment. Nevertheless, they were encouraged to establish long-range corporate strategies which took into account the objectives of the NEP, and any expansion of existing facilities or manufacture of new products were subject to the Industrial Coordination Act (1975). 7

The Thai government also placed restrictions on certain economic sectors during this time span, but the legislation was not as significant as in Malaysia because few of the specified activities had major foreign investment. The Alien Business Law of 1972, which was relaxed in 1979, required majority Thai ownership of companies in particular industries. These restricted business activities were largely in agriculture, trade, services, and handicrafts. During the period of civilian government, 1973-1976, some foreign corporations were forced to reduce their interest in a number of business enterprises in order to achieve majority ownership by Thais. 8
Singapore, on the other hand, permitted foreign capital in all economic sectors except public utilities. Although foreign investment in banking, insurance, stock brokering, and trade required approval from the appropriate government department or statutory board, Singapore did not impose restrictions on particular economic sectors to the extent done by Malaysia and, to a lesser degree, Thailand.  

Restrictions On Operations

The Malaysian Industrial Coordination Act (1975) required manufacturing companies with shareholders' equity of M$500,000 or greater and which had twenty-five or more employees to obtain a license from the Ministry of Trade and Industry. These licenses restricted the operations of foreign-owned corporations by setting out the specific operating conditions for each firm as a means of achieving the goals of the NEP. The Malaysian Industrial Development Authority (MIDA) managed the licensing process and reviews. Operating regulations covered, among other things, the area of jobs. Non-Malaysians, for example, were usually only allowed to hold positions which demanded technical or managerial expertise not found among the domestic population. This policy of Malaysianization was designed to induce foreign investors to train Malaysians for more skilled positions.
A further restraint on operations concerned borrowing by foreign-owned companies. Corporations with non-residents as majority owners required the authorization of the Controller of Foreign Exchange before they could borrow over M $500,000 locally. Permission was generally forthcoming if the loan did not surpass the firm's combined total of share equity, reserves, and long-term foreign loans. Usually, foreign investors had to utilize a large amount of their own capital before they could secure loans locally and at least 50% of their domestic borrowing had to be from Malaysian incorporated financial institutions if these banks had sufficient financial capacity. Transactions involving non-residents lending over M $100,000 to residents also needed the permission of the Controller of Foreign Exchange.$^{11}$

Moreover, foreign firms had to have the approval of the Foreign Investment Committee (FIC) before they could take over a Malaysian company. The FIC, established in 1974, created and administered guidelines to ensure that foreign investment conformed with the NEP and was the central agency which directed all other government bodies dealing with foreign investment. FIC guidelines regulated the acquisition of corporate assets, mergers, and takeovers so that these actions ultimately led to an increase in
Malaysian, particularly bumiputra, ownership. The Committee also aimed to use foreign investment to expand exports, diversify the economy, and generate jobs and training for Malaysians. Parties involved in planned acquisitions, mergers, ortakeovers needed to convince the FIC that their activities would eventually benefit Malaysia economically. FIC guidelines covered foreign purchases of 15% or more of the assets of a Malaysian company and any purchases of assets valued over M $1 million. Takeover of a firm through a technical assistance agreement or management control was also subject to the guidelines.

Lastly, the activities of foreign banks were significantly constrained. At the end of the time span being discussed, seventeen of Malaysia's thirty-eight commercial banks were incorporated in other countries. Foreign banks, except for those established in Malaysia prior to independence, were allowed only one business centre, which was situated in Kuala Lumpur. In addition, all commercial banks, including foreign-owned ones, were required to direct a minimum of 8% of their loans to agricultural enterprises, 10% to housing, and 17% to bumiputra-owned businesses.

Like Malaysia, Thailand imposed various restrictive measures against the activities of foreign companies during
the period under consideration. The Ministry of Industry, through the Factory Control Act of 1962, had the power to preclude the formation of a new company or the expansion of a current company into the manufacture of particular products. In the late 1970s, these product lines included plastic mats, jute products, car parts, canned pineapple, and fishing nets. The Industry Ministry made its decisions in response to requests from troubled domestic producers or if it concluded that the Thai market was saturated by a certain product. The Factory Act also authorized the Ministry of Industry to apply domestic content requirements. Motorcycles, for example, had to have 70% domestic content in 1979.14

Under the auspices of the Alien Employment Act of 1973, the Thai government, similar to its Malaysian counterpart, regulated the hiring practices of foreign firms. Companies with over ten employees had to hire Thais for at least half of the positions available. Government price controls also impinged on foreign corporations' freedom of operations. The Ministry of Commerce managed price controls on supposedly essential products, such as rice, sugar, and energy. However, in practice, even manufactured goods, like car batteries, tires, and cement, were placed under price controls. Finally, foreign
corporations had to gain the central bank's approval before they could repay capital or remit profits, dividends, interest, and royalties overseas. If an investment had been held for a minimum of two years, 20% of the dividends could be remitted annually.  

In the area of banking, the Thai government restricted the operations of foreign banks to Bangkok. In addition, the Bank of Thailand (the central bank) generally limited the entry of foreign banks into Thailand. No new licenses for foreign banks were awarded from 1977 to the end of the period being discussed in this study. Banking became essentially a restricted economic sector toward the conclusion of the decade. There were sixteen Thai commercial banks, accounting for 90% of deposits, compared to fourteen foreign banks with commercial branches. All commercial banks, including foreign ones, were required by the central bank to issue 13% of their loans to the agricultural sector either by depositing funds with the Bank for Agriculture and Agricultural Cooperatives or by directly lending to agricultural business concerns. Foreign banks were permitted to function mainly as conduits for capital flowing into Thailand from overseas. Thus, foreign banks were given only a small niche within which they could operate.
Singapore, on the other hand, had very few restrictions on the operating conditions of foreign investment. The decisions of the National Wages Council, created in 1972 to advise the government on wage policy, impinged on the freedom of all companies, including foreign-owned ones, to negotiate salaries. The National Wages Council recommended specific wage increases which the Singaporean government always accepted and employers and employees followed. Thus, the government actually set wages. Under the policy of the Second Industrial Revolution, for example, the government decided to adopt a high wage stance in 1979 which resulted in a 13% growth in average earnings the following year. Banking, however, had more serious limitations. Singapore had three basic categories for commercial banks: full license, restricted license, and offshore. Full license banks had no restrictions on regular commercial operations. Restricted license banks, on the other hand, were permitted only one business centre and were limited to wholesale financial transactions. Retail banking was the preserve of full license banks. Finally, offshore banks were generally confined to securing overseas capital for on-lending to other countries. Their transmitting of capital occurred outside of the domestic banking system of Singapore.
Although the restricted license was originally intended as a restrained operational status for foreign banks when it was introduced in 1971, the government did not award any new licenses for foreign-owned restricted license, or full status, banks from 1973 to 1980. As in Thailand, banking in Singapore became virtually a restricted economic sector. Foreign banks were left only with offshore status, which was created in 1973. However, Singapore differed significantly from both Thailand and Malaysia because foreign-owned banks dominated Singapore's financial sector. In 1970, twenty-six out of thirty-seven full license banks were foreign. At the end of the decade, the figures were twenty-four out of thirty-seven.  

**Government-Owned Corporations**

The Malaysian government made extensive use of government-owned corporations as instruments of control over foreign investment during the period covering 1970 to 1980. For example, the Petroleum Development Act (1974), which created the government oil company PETRONAS, granted it sole rights to the exploration and exploitation of oil in Malaysia. Therefore, foreign oil companies had to enter into exploration and production-sharing contracts with PETRONAS to operate in the country. The government, led by then PETRONAS Chairman Tengku Razaleigh, even went so far
as to propose in 1975 that PETRONAS be allocated the authority to obtain 1% of the stock of foreign oil companies in special "management shares" worth the equivalent of 500 shares of common stock each. Through a system of weighted voting, these "management shares" would have given PETRONAS effective control of all foreign oil companies in Malaysia. The harshly negative reaction of foreign investors, whose capital the Malaysian government continued to desire despite the proposal, caused the nonimplementation of this surreptitious attempt at semi-expropriation.18

The joint ventures of PERNAS, the largest government organization responsible for increasing bumiputra involvement in business, and its subsidiaries further demonstrated the Malaysian government's use of state-owned corporations as regulatory instruments. PERNAS was established in 1969 and was government-funded. By 1975, PERNAS had equity in forty-seven firms and controlled eight wholly-owned subsidiaries which in turn had interests in another thirty-nine companies. These subsidiaries were involved in securities, real estate, construction, engineering, insurance, and trading. The company had joint ventures in various sectors.19 PERNAS "preferred to work with foreign firms which were prepared to provide technical
expertise while allowing the Corporation to maintain effective control." During the 1970s, joint ventures of this form between foreign corporations and companies owned by the Malaysian government became increasingly common. MNCs joined these business enterprises to garner political favour and to take advantage of tax and other incentives provided by the government. The Malaysian government, on the other hand, promoted these joint ventures because they allowed the state to receive more foreign investment, while controlling it.

Turning to a few of PERNAS' wholly-owned subsidiaries, PERNAS Securities, formed in 1971, managed the portfolio investments of its parent corporation and functioned like a private company. The firm invested in business enterprises in order to increase bumiputra ownership of corporate stock. PERNAS Engineering, set up in 1971, however, entered into joint ventures in the manufacturing sector. To illustrate, PERNAS Engineering created a joint venture electronics corporation, PERNAS NEC-Multiplex, in 1973 with the Japanese firm Nippon Electronic Company. PERNAS Engineering was majority owner of the joint venture, which utilized overseas capital and foreign advanced technology in a labour intensive, export-oriented enterprise. Soon after its formation, PERNAS NEC-Multiplex received a big
supply contract from the Malaysian Department of Telecommunications, which probably indicated some political favouritism. Established in 1973, PERNAS Mining, in the same way, strove to increase bumiputra financial interests in mining, with special emphasis on tin, which accounted for 8.9% of Malaysia's total exports and 4.9% of its gross domestic product in 1980. Conzinc Riotito Malaysia, a foreign-owned corporation, was awarded in principle the tin prospecting and extraction rights for the seabed off the coasts of Perak, Penang, and Selangor in 1969. Two years later, the Malaysian government removed these rights and later bestowed them to PERNAS. In 1974, PERNAS Mining discovered tin in the Perak coastal seabed. PERNAS Chairman Tengku Razaleh denied allegations that political motives were behind the rights withdrawal.

This more aggressive approach to restricting foreign investment via government companies became dominant in the late 1970s when PERNAS changed its policy of participating mainly in joint ventures to one of buying very large amounts of shares in certain foreign-owned corporations, especially those involved in tin and in plantations. The Malaysian government decided that successful implementation of the NEP required more control over the economy, particularly in sectors where foreign and domestic
investors were not supportive of its economic policies. PERNAS appeared to target frequently corporations for takeover bids because they were unwilling to yield to the government's wishes.²⁵

In 1975, for example, PERNAS tried to take over Haw Par Brothers International, a multinational corporation based in Singapore, and use it to, in turn, win control of London Tin, which was the world's biggest tin company. However, the Singaporean government, through the Singapore Securities Industry Council and the Singapore Stock Exchange, together with the London City Takeover and Merger Panel of Britain, effectively blocked the takeover by imposing conditions which were not acceptable to PERNAS. The state company responded the following year by establishing New Tradewinds, a joint venture between PERNAS Securities and a British corporation called Charter Consolidated. In a complicated maneuver involving the joint venture company, PERNAS bought effective control of London Tin in 1977. Charter Consolidated, which had the second biggest mining interests in Malaysia after London Tin, then sold its mining holdings to New Tradewinds for 28.65% of the joint venture's stock. PERNAS, through its majority ownership of New Tradewinds and, thus, effective control of the mining concerns of London Tin and Charter
Consolidated, owned the world's biggest tin production corporation. New Tradewinds soon afterwards was renamed the Malaysian Mining Corporation. It controlled over 25% of Malaysia's total tin output, about 66% of the output of foreign based companies in Malaysia, and almost 15% of global tin production. This new corporation also had tin holdings in Thailand and Nigeria. In 1977, the mining companies controlled by the Malaysian Mining Corporation began to transfer their corporate headquarters to Malaysia. PERNAS, using state capitalism, thus gained control of one of Malaysia's key export and natural resource industries.²⁶

A further prominent illustration of the Malaysian government's more aggressive approach to regulating foreign investment during this time span was provided by PERNAS' takeover of Sime Darby, a British based company. Sime Darby had large plantation interests and industrial concerns in Malaysia along with holdings in Hong Kong and China. Throughout the mid-1970s, the Malaysian government negotiated with Sime Darby in an attempt to restructure and Malaysianize the corporation in order to further the goals of the NEP. Sime Darby's management was not cooperative and in 1976 clashed with the Malaysian Capital Issues Committee over a new issue of stock. Sime Darby felt it was not subject to the Committee's authority because the
company was incorporated in Britain. The Chairman of the Capital Issues Committee and Bank Negara, Tan Sri Ismail Ali, responded by a statement which said "There is no place for pirates and business buccaneers in this country...All shares must be listed before they can be dealt with. We expect those who operate in this country to comply with our regulations." Neither PERNAS nor Sime Derby's management owned a majority of the widely capitalized company's shares. After a struggle for proxy votes, PERNAS succeeded at the end of 1976 in electing Malaysians to half of the positions on Sime Darby's Board of Directors, including the corporation's chairmanship. The Malaysian government had again used a government-owned corporation to control foreign investment while implementing the NEP.

Shortly before Malaysia felt the moderating effects of a major recession, government agencies even went so far as to take over Boustead, one of the first foreign corporations to comply with the NEP. Boustead, a British plantation, engineering, and trading company, offered 30% of its shares to bumiputra bodies in 1976. Nevertheless, in 1980, government organizations took control of the corporation in an aggressive move to further the goals of the NEP.

In contrast, Thailand's use of government-owned
corporations was not as far-reaching as the actions taken by Malaysia. Although the Thai government's often stated intention was to focus on private enterprise to achieve economic development, government bodies did directly manage business ventures. The government was involved in banking, paper manufacturing, and sugar processing. Moreover, in 1975, the government revoked the offshore tin concession of the Thai Exploration and Mining Company, a joint venture between Shell and Union Carbide, and awarded it to the government-owned Offshore Mining Organization, though Billiton Thailand, a subsidiary of Shell, did receive a portion of the concession in 1976. Similarly, the Petroleum Authority of Thailand participated in the development of the petrochemical industry. Therefore, despite the government's free enterprise orientation, state-owned companies operated businesses, particularly as joint venture partners with overseas investors. Joint ventures yielded the government a fairly considerable amount of formal and informal leverage over foreign investors.29

The utilization of government-owned companies was very prevalent in Singapore, where the government had an economic philosophy which advocated a mixed economy. In the 1970s, the government had major equity holdings in
petrochemicals, construction, and real estate. As government emphasis shifted to technology and human resources in the 1980s, so did the activities of government corporations. Intraco, for example, was established in 1968 with the government as its biggest shareholder. By the end of the period under consideration, Intraco had gone from being a simple trading company to computers, robotics, resource and plantation development, travel services, and corporate securities. Intraco had seventeen wholly-owned subsidiaries and twenty-one associated companies. Some influence over the actions of foreign corporations was gained by the government through public enterprises undertaking joint ventures and minority shareholdings in foreign companies. To illustrate, the 49% government-owned Development Bank of Singapore (DBS) in turn owned 35% of Singapore Nomura Merchant Banking, a joint venture with Nomura Securities of Japan, until 1981. Similarly, DBS held 50% of DBS Daiwa Securities International, a joint venture with Daiwa Securities of Japan from 1971 to 1983. By the end of the time span being examined, DBS had sixteen real estate subsidiaries, an associated real estate firm, ten financial subsidiaries, and eight associated financial companies. The Singaporean government obviously could informally exert control over foreign investors through
joint ventures and minority shareholdings. Foreign firms were unlikely to be willing to raise the ire of one of their government connected partners or part-owners. This wielding of government-owned companies as instruments to control foreign investment probably reached its zenith in 1981 when the Government of Singapore Investment Corporation (GISC) was created with the Prime Minister as its head. The GISC manages all the investments of the government and has the official intention of investing mainly in foreign companies.

This chapter has examined the policies of Malaysia, Thailand and Singapore in four areas. Only Malaysia through its NEP had official general quantitative limits on foreign investment. All three countries, on the other hand, had restrictions on certain economic sectors. From 1973 to 1976, Thailand even forced some foreign investors to reduce their holdings in particular companies so that majority Thai ownership prevailed. Nevertheless, Malaysia, under its Industrial Coordination Act (1975), had the most extensive range of restrictions on specific economic sectors. In general, both Malaysia and Thailand had several significant restrictions on the operations of foreign-owned corporations, while Singapore had quite few. However, regarding banking in particular, all three states
imposed substantial limits, with Singapore acting perhaps the most restrictive. Lastly, in the area of government-owned corporations, the three countries used them to control foreign investment, especially via joint ventures and minority shareholdings. Malaysia, nevertheless, was the only one to utilize the stock market extensively to undertake hostile takeovers of foreign-owned corporations by government companies. Malaysia was clearly more restrictive than Thailand and Singapore in three of the four areas studied. Malaysia, therefore, placed more restrictions overall on foreign investment than the other two countries.
NOTES

CHAPTER II


4. Centre, p.94.


10. Centre, p.94; Darwood, pp.20 and 25; and Karunaratne and Abdullah, pp.263-264.

11. Karunaratne and Abdullah, pp.263-264; Darwood, p.25; and Centre, p.94.

12. Darwood, pp.19-20, Crone, p.105; and Saravanamuttu, pp.119-120.


18. Centre, p.53; and Saravanamuttu, pp.117-118.


21. Ibid.

22. Gale, pp.102-103; and Saravanamuttu, p.118 fn.


27. Quoted in Gale, pp.127-128.

28. Ibid., p.188.


CHAPTER III

Explanation for Malaysia's Greater Restrictions

This chapter will attempt to explain why Malaysia placed more restrictions on foreign investment than Thailand and Singapore during time span covering 1970 to 1980. The argument will be put forward that important differences in the national political and economic settings of the three states caused Malaysia's greater restrictiveness. The chapter will analyze each country's past experience with a colonial power, economic strategies, domestic political pressures, and the presence of ethnic minorities. It will also look at the size and political importance of the natural resource sector, the prevalence of industries with old technology, and the level of foreign ownership of industry in each state. Various hypotheses, related to the political and economic characteristics under discussion, will be examined. This chapter will conclude that ethnic factors are the key explanatory variable among the differing national settings.

Past Colonial Control

One significant variable is each country's past experience with a colonial power. The related hypothesis is that a country which has been dominated economically by a colonial power is more likely to impose restrictions than
one that has not, due to economic nationalism and reasons of national security. Economic nationalism refers to a feeling of hostility toward the prevailing pattern of ownership, while national security alludes to the desire to regain control over sectors of the economy considered vital to national security. If a country has not been dominated economically by a colonial power in the past, it is less likely to impose restrictions.

Malaysia was a former British colony and its foreign investment policies in the pre-1970 period were laissez-faire in nature. This resulted in foreign ownership and domination of virtually every major sector of the economy which, in turn, through a process of feedback, led to a rise in economic nationalism. In 1970, foreign ownership accounted for approximately 75% of the agricultural and fishery sector in Malaysia, 72% of mining, 63% of commerce, 60% of limited companies, and 59% of manufacturing.¹ British business interests were preeminent in commerce, mining, and agriculture during the colonial era. In the interwar period, over 70% of foreign investment in Malaysia was of British origin. By the 1970s, however, Japan had become the biggest source of overseas investment in Malaysia.²

Then PETRONAS Chairman Tengku Razaleigh voiced the
feelings of many economic nationalists when he said in 1975 that "Foreign firms are not responsive to the needs of the people. The time has come for Malaysians to free the nation from foreign domination of the economy." Similarly, the national security aspect was put forward by then Minister of Foreign Affairs Tengku Ahmad Rithauddeen when he wrote in an article for the *Far Eastern Economic Review* in 1975 that "Malaysia, in line with other Third World nations, believes that an independent state must exercise full sovereignty over its natural resources rather than allow a situation to develop where it will be at the behest of multinational corporations." In the same article, Tengku Ahmad Rithauddeen also reiterated that foreign investment was still desired by Malaysia, despite the government's simultaneous wish to control the country's economy:

Foreign investment in Malaysia is always welcome so long as the operations of foreign entrepreneurs are in accord with the aims of our New Economic Policy (NEP). Indeed, the outline Perspective Plan recognizes the continuing role of foreign investors and assures them a 30% share of economic activities by 1990, a reduction from the preponderant 62% exercised at present. It has often been found that many foreign companies pay only lip-service to the NEP, particularly in regard to participation by [bumiputras].
The Malaysian situation, thus, very clearly supports the hypothesis stated earlier in this section.

Thailand, conversely, was never formally colonized, though it had close relations with Britain in the 19th century, starting with the Bowring Treaty, and opened its urban centres to foreign commercial interests in order to avoid giving the colonial powers any pretext for seizing control, and even ceded large tracts of land to colonial powers in the early years of this century. With the outbreak of the Korean War in 1950, Thailand allied itself with the United States to follow a policy of containment in Southeast Asia. American aid, investment, and trade flowed into Thailand. The United States began to gain a great deal of influence over the Thai government. Foreign and domestic companies coopted many influential bureaucrats and military officers during the 1950s. These senior government officials were appointed to the boards of directors of major corporations and were brought in as shareholders and partners of businesses. A symbiotic relationship was formed. The Thai business community formed joint ventures with foreign investors and became more prosperous with increased flows of capital and trade. Hence, the support of the important urban middle class for foreign investment was achieved.⁶
Most foreign investment in Thailand went to the manufacturing sector, which accounted for only 10% of GDP in the early 1960s. In the past, the agricultural sector, which formed the backbone of the Thai economy, had little foreign investment. Moreover, foreign investment was generally not very significant in the pre-1970 period. Thais owned 69.2% of registered capital in their country during the interval from 1960 to 1973, while Americans, Europeans, and Japanese accounted for 5.0%, 5.9%, and 11.5%, respectively. Thailand received merely U.S. $39 million of foreign investment in 1971, whereas Singapore obtained U.S. $116 million and Malaysia procured U.S. $188 million.

Except for two interludes of civilian government, 1945 to 1948 and 1973 to 1976, the military basically governed Thailand from 1932 to 1980. Thailand's anti-Communist alignment with the United States resulted in the American development of Thailand's economic infrastructure. After the American withdrawal from Vietnam, the Thai government asked the United States to remove its troops from Thailand, which was completed by 1976. The Thai government in this manner acquired control of various economic sectors considered crucial for national security and developed due to the American military presence.
Displays of Thai economic nationalism in the mid-1970s were directed largely at Japanese investment. However, the relatively big flow of capital from Japan did not occur until the 1960s. Unlike Malaysia, Thailand was never a colony, was not dominated by foreign ownership, and did not have a relatively developed economic infrastructure until the American military presence expanded in 1950. Thailand supports the flip side of the hypothesis and the difference between Thailand and Malaysia in this aspect is one reason Malaysia was more restrictive toward foreign investment.

Singapore was a former British colony and foreign ownership was prevalent in its economy. In 1972, capital from foreign sources accounted for 80.4% of total investment in Singapore. Japan alone was responsible for 40.8% while the United States and the EEC supplied 12.7% and 10.4%, respectively. Nevertheless, Singapore did not react to foreign economic domination in the same manner as Malaysia because of a few mitigating factors.

Singapore had substantial economic difficulties after World War II. It had functioned as the entrepot of Southeast Asia, but by the end of the 1950s, entrepot trade began to decrease in comparative terms because of the rise of economic nationalism in the region. Countries preferred to have direct links with their trading partners.
addition, from 1947 to 1957, Singapore had a 4.3% annual rate of increase in population, which was one of the highest in the world at the time. Therefore, unemployment and housing became a major concern in the late 1950s. The Singaporean government decided at the end of the decade to focus on industrialization. New investment from overseas, largely by MNCs, flowed into Singapore to utilize the state as an intermediate manufacturing base. Singapore's trade ties were created or strengthened through foreign investors. Most of the MNCs involved had established markets around the world and Singapore's small domestic market was not large enough to support a policy of import-substitution. Hence, foreign investment was welcomed by the Singapore government, particularly when the government switched its strategy to export-oriented industrialization in the mid-1960s.  

Because of their country's lack of natural resources and small market, the Singapore government believed that national survival depended on industrialization and, consequently, foreign investment. Prime Minister Lee Kuan Yew lucidly put forward the government's reasoning in February 1968:

Cooperation between educationally not advanced and industrially underdeveloped countries can only produce miniscule economic gains to be divided between large
numbers of poor and hungry people
..... To make progress which can be more quickly felt by the people, the underdeveloped countries of South and Southeast Asia must be associated with the most industrially advanced and prosperous to borrow on fairly generous terms not only the capital and equipment, but also the expertise in management, technological and industrial techniques education and training methods.  

The hypothesis put forward earlier in this section is refuted by the case of Singapore, which was a former colony and was dominated by overseas capital, because of the state's unique circumstances. Although Malaysia also wanted foreign investment, Singapore's perception of its overriding need for foreign investment offset any historic proclivities toward substantially restricting capital from overseas.

Economic Strategy and Domestic Pressure

The variables being examined in this section are the economic strategy of elites and domestic political pressure. Two hypotheses are relevant. One is that a country whose elites follow an economic strategy based on economic nationalism and favourable to heavy government economic intervention is more likely to impose restrictions. The flip side of this hypothesis is the argument that a country whose elites do not follow a
nationalistic and interventionist economic strategy is less likely to impose restrictions. The other hypothesis argues that a country whose governing group perceives that it is vulnerable to domestic political pressure from economic nationalist advocates of restrictions is also more likely to impose restrictions. If the governing group does not perceive that it is vulnerable to domestic pressure from economic nationalists, the country is less likely to invoke restrictions.

Malaysia's shift to more restrictive foreign investment regulatory policies in the early to mid-1970s reflected a change in the dominant economic strategy of the state's governing elites. Together with important domestic factors which will be discussed later, the transformation of the international environment influenced the shaping of the new prevailing strategy. With Britain's withdrawal from areas East of the Suez Canal in the mid to late 1960s, the Soviet Union's espousal of a policy of peaceful co-existence, and the United States' departure from Vietnam, Malaysia began to lean more toward a foreign policy posture of neutralism and non-alignment. Although Malaysia still maintained a fairly pro-West foreign policy, a Third World orientation was emphasized. This new stance coincided with the coming to power of a new group of people
in the United Malays National Organization (UMNO), which was the dominant political party in the permanent coalition (called the Alliance Party and later the National Front) governing Malaysia. A change from the *laissez-faire* foreign investment policies of the pre-1970 era occurred. The new leadership followed an economic strategy advocating economic nationalism and a mixed (interventionist and capitalist) economy.15

This economic strategy was partly explained by Prime Minister Tun Razak in September 1974 at a conference on "Southeast Asia's Natural Resources and the World Economy":

...We in Malaysia believe in economic nationalism in guiding the exploitation of our natural resources in such a way that our people and country will obtain the greatest benefit. We believe that private enterprise, whether domestic or foreign has an important role to play in our development. Our objective is to bring about an effective and equitable mixture of domestic and foreign enterprise on the one hand, and private and public enterprise on the other, so that our national interest can be advanced to the context of an expanding, stable and equitable world economic order.16

Malaysia practised a version of Western parliamentary democracy with elections, political parties, and a legislative assembly. Some UMNO politicians may have felt it was politically advantageous to appear hard-line in
public and to use nationalistic rhetoric in order to inflame nationalist sentiments and gain votes. These sentiments stemmed from the country's past economic domination by a colonial power and with concerns over economic control. Although the governing group in Malaysia was basically pro-West and continued to desire foreign investment for development purposes throughout this period, the provocative public statements of advocates of economic nationalism probably caused the government to feel some political pressure to take a more nationalist stance. This domestic political pressure likely had some influence on the government's decision to try to control foreign investment.

Tengku Razaleigh, who served as Finance Minister under Tun Hussein Onn and, for a while, under current Prime Minister Dr. Mahathir Mohamad, was perhaps the most prominent hard-line economic nationalist. Razaleigh seemed to have used nationalist statements and actions to gain the honorary title of Bapa Ekonomi Malaysia (Father of the Malaysian Economy) in 1975 from the Malay Chamber of Commerce, where he was Chairman. In the same year, Razaleigh was elected as one of three Vice-Presidents of the UMNO. Besides the positions already mentioned, during the 1970s, Tengku Razaleigh also served as the original
Chairman of PERNAS and the Chairman of PERNAS Securities, PETRONAS, and Bank Bumiputra. In a speech to the Malay Chamber of Commerce in July 1975, Razaleigh epitomized his statements during this period when he said "If other countries have legislation and regulations to ensure that their economies do not fall into the hands of others, the time has come for Malaysians themselves to control the nation's resources." Political pressure from economic nationalists, like Razaleigh, must have affected the government's position on foreign investment. Thus, both hypotheses under consideration in this section are valid for Malaysia.

In Thailand, on the other hand, the governing elites followed an economic strategy which was anti-communist and market economy oriented. "Over the past half-century there have been numerous changes in leadership (including experiments with full democracy), but these changes have altered very little the conservative outlook of the Bangkok government." Coups in Thailand were usually utilized by senior military officers as a method of changing the people holding positions of leadership. "There was never any threat of any dramatic political rupture or changing of Thailand's abiding anti-communist, pro-Western ideology." Even during the 1973-1976 interregnum of democratic,
civilian government, when public demands for nationalist economic policies were fairly strong, the elites in government adhered to a strategy based on an open economy. In August 1975, Prime Minister Kukrit Pramoj, during a speech to mark the formation of a Foreign Investment Advisory Council for the Board of Investment, said unequivocably that "This nation realizes that we cannot do without foreign business." In this same speech to a gathering of the heads of foreign chambers of commerce, Kukrit went further:

I am realistic enough to understand that it is unreasonable to ask foreign companies to invest large amounts of money and to expect them to give management control to Thai nationals. That is a ridiculous request... Thailand has no intention of asking foreign investors with large investments to turn over their management, or the majority of their equity structure, to Thai nationals. What we ask is that foreign companies should work here as partners, so that your investments here can be meaningful in terms of financial gains and at the same time they should benefit my country.

In contrast to their Malaysian counterparts, the Thai elites in government did not adopt a nationalistic and interventionist economic strategy.

However, the governing group in Thailand did receive substantial political pressure from supporters of economic
nationalism in the early to mid-1970s. During the 1960s, the inflow of foreign capital was encouraged and the economy grew strongly. Foreign investment, particularly from Japan, expanded. However, the start of the withdrawal of American troops from Southeast Asia in 1969 precipitated the end of the Thai economic boom. The National Student Center of Thailand (NSCT) was established in 1970. Although the NSCT targeted most of its political actions against the military regime led by Thanom Kittikachorn and Prapat Charusathirita, it also organized an increasing number of student demonstrations against what the student leaders believed was the Japanese economic colonization of Thailand. These student demonstrations reached their intensive peak when the Japanese Prime Minister visited Thailand in January 1974.23

Concomitant with the student demonstrations was a rising level of economic nationalism among the general population. Most Thais did not communicate much with foreign investors and did not understand them. Some xenophobia appears to have contributed to increasing nationalism. Many Thais believed that foreigners benefited more than their Thai associates from joint ventures and other business dealings in Thailand.24 The Japanese were singled out for their perceived exploitation of Thais,
although "...the widespread resentment of the Japanese was provoked more by the visible aspects of 'Japanese presence' such as the flood of Japanese goods, gaudy advertisements, samurai movies, and swarms of Japanese tourists, than by colonialism in the internal labor markets of Japanese subsidiaries and affiliates in Thailand."  

The growing nationalistic feeling among the urban populace was backed up by the criticisms of many Thai intellectuals. Educated Thais openly voiced their views just prior to and during the period of democratic, civilian government, 1973-1976, that Thailand's economy was becoming dominated by multinational corporations and other foreign investors who were not satisfactorily assisting the development of the country. They argued that foreign companies failed to adequately train Thais and place them in senior positions. They also believed that the small amount of technology transfer that had occurred through foreign investment profited only the few urban Thais who were partners in joint ventures and was, therefore, increasing economic disparity in the country. A large number of Thai intellectuals also felt that the Japanese were particularly exploitative of Thai labour in terms of treatment and promotions. Nationalistic intellectual unrest appeared publicly in the April 1972 issue of the
Chulalongkorn University Social Science Review. The whole issue dealt with the non-Thai control of Thailand's economy. Criticism focused on the ethnic Chinese living in Thailand and on the Japanese. A movement to boycott Japanese products formed a few months after the journal's publication.26

All this outpouring of economic nationalism put a great deal of political pressure on the beleaguered military regime of Thanom and Prapat, which fell in October 1973 and was replaced by a democratic, civilian government. During the three years of unstable democratic government, students organized frequent demonstrations and strikes and several different civilian coalitions formed the government for varying lengths of time. The Thai government was vulnerable to the political pressure emanating from economic nationalists in the early to mid-1970s. As a result, policies restricting foreign investment, such as the Alien Business Law of 1972 and the Alien Employment Act of 1973, were passed by various Thai governments. However, the military coup d'etat which installed Tanin Kraivixien as Prime Minister in October 1976 "... submerged those elements that opposed foreign investment."27 The wave of economic nationalism in Thailand subsided.

The rise of discontent toward foreign investment in
the early 1970s was perhaps as much an attack on Thailand's military government and economic structure as it was a criticism of overseas capital. Many people were disturbed by the growing economic disparities in society and by the domination of the military elite and their associates in the business sector.  "Foreign business and foreign investments, being the most conspicuous symbol of economic disparities, became a convenient target for public attack on the country's economic structure." The government's rescinding of the Thai Exploration and Mining Company's offshore tin concession in 1975, for example, was largely a result of charges of fraud and corruption against certain military officers, in addition to the more general complaints about multinational corporations.  

Restrictive measures taken against specific foreign companies could sometimes also be a reflection of struggles within the Thai bureaucratic polity. If a particular military and bureaucratic group was ascendant in the government, their foreign partners in joint ventures and associates heading foreign companies would often receive preferential treatment in the application of foreign investment regulations. The reverse was also true. Thus, "[i]t is impossible to tell to what degree anti-Japanese policy statements are a result of economic nationalism..."
or whether they are merely a reflection of fractional strife..."31 Nevertheless, it is clear that economic nationalism had some influence on policies.

Thailand's elites in government did not follow a nationalist and interventionist economic strategy; therefore, the flip side of the first hypothesis given for this section is correct. Although the governing group in Thailand did react to a certain degree to political pressure from economic nationalists in the early to mid-1970s, domestic pressure for restrictions ceased to be significant with the military coup of 1976. Therefore, the case of Thailand also supports the flip side of the second hypothesis. Nationalistic and interventionist economic strategy and domestic pressure for restrictions were not important factors in Thailand as they were in Malaysia.

The preeminent economic strategy of Singapore's governing elites focussed on the concept of survival. According to the strategy, the survival of Singapore as an independent state was contingent upon the achievement of economic growth, which, in turn, required foreign investment. The Singaporean elites generally believed that Singapore had to form interdependent relationships in a growing world economy. This implied a free-flow of goods and capital between countries to achieve economic growth.
and prosperity.\textsuperscript{32} The government's adherence to this view was exemplified by then Foreign Minister and later Deputy Prime Minister S. Rajaratnam in February 1972 when he said "... we draw sustenance not only from the region but also from the international economic system to which we as a Global City belong and which will be the final arbiter of whether we prosper or decline."\textsuperscript{33}

The dominant economic strategy also emphasized a mixed economy with the government actively participating where deemed appropriate. Survival was the overriding factor. "In essence, this means that Singapore's perception of issues is based primarily on the assessment of their relevance to the economic development of Singapore."\textsuperscript{34} Although the governing People's Action Party (PAP) called itself a democratic socialist party, it did not follow a rigidly socialist economic philosophy. The PAP was quite flexible regarding the means used to attain the ends. Ensuing from the economic strategy, the PAP encouraged private enterprise and a relatively free market was maintained. At the same time, a fair amount of government economic planning and state ownership of business enterprises occurred.\textsuperscript{35} Prime Minister Lee Kuan Yew explained the pragmatic economic philosophy of his government in 1980 when he stated that government
corporations played a key role in particular sectors, but only "when the private entrepreneurs were hesitant or over-cautious. The Singaporean Government was willing to venture state capital...[but] these enterprises had to survive the test of competition in a free-market economy." Hence, the government was interventionist economically, but not nationalistic. The case of Singapore supports the flip side of the first hypothesis stated in this section.

In terms of domestic political pressure from economic nationalists, the governing group was not vulnerable. Singapore practised a form of Western parliamentary democracy and the PAP has won a majority in every general election since 1959. There were no opposition members of parliament from 1968 to 1981. Economic nationalists advocating restrictions on foreign investment were not a factor. Singapore differed substantially from Malaysia regarding the economic strategy of their elites and domestic political pressure.

Economically Dominant Ethnic Minority

The situation being analyzed next is the economic position of ethnic minorities. The hypothesis here postulates that in a country where the majority ethnic group is politically dominant, but economically
subordinate, government action aimed at redressing perceived economic imbalances vis-à-vis, large, minority, domestic ethnic groups can have the secondary effect of also restricting foreign investment. If a country does not have an economically dominant ethnic minority, government action having the secondary effect of restricting foreign investment is less likely to occur. In explaining Malaysia's greater restrictions toward foreign investment, the country's ethnic situation is a crucial factor.

According to 1980 census results, about 53% of Malaysia's population were Malays. Chinese accounted for approximately 35%, while Indians and other minorities made up 11% and 1%, respectively. Ethnic minorities taken together represented a huge 47%. This ethnic breakdown of the population was the result of British colonial policy. In the late 1800s, immigrant Chinese labourers were brought into Peninsular Malaysia to work in the tin mines and indentured Indian workers were engaged for the rubber estates. These Chinese and Indians were considered sojourners, so the British did not attempt to integrate the ethnic groups. When Malaysia was created in 1963, Malays dominated politically, but they were mainly employed in small-scale agriculture and in the civil service. Large-scale agriculture, industry, and commerce were
controlled by foreigners and ethnic Chinese. A big fall in the price of rubber in the 1960s increased perceived economic inequalities among the different ethnic groups. Civil unrest broke out with racial riots on May 13, 1969. These riots were a major catalyst leading to changes in domestic politics and had serious ramifications for foreign investment.

After a long election campaign in 1969, the ruling Alliance Party coalition was reelected with 66 out of 103 seats in Parliament. This was the party's worst showing in an election. A mainly ethnic Chinese opposition parties' celebratory parade occurred in Kuala Lumpur on May 12. The following day, a responding Malay march resulted in wide-spread ethnic violence centered largely in the capital. After the riots, then Prime Minister Tunku Abdul Rahman was pressured to resign. Nationalistic dissidents within the UMNO, known as "ultras", used the riots to undermine party and public confidence in Tunku Abdul Rahman. Dr. Mahathir Mohamad and Datuk Musa Hitam, who later became Prime Minister and Deputy Prime Minister, respectively, were generally considered "ultras". From May 1969 to February 1971, Malaysia was governed by a National Operations Council headed by Deputy Prime Minister Tun Abdul Razak. During this period, Razak and his advisors
decided that, although Malays were politically dominant, Malay dissatisfaction about their ethnic group's lack of economic power was the main reason for the racial riots. When he became Prime Minister in 1970, Razak appointed both Mahathir and Musa to his cabinet. Razak also put forth new economic measures to placate the "ultras". As a result, the New Economic Policy was formulated with a central objective of increasing bumiputra ownership of share capital to 30% of the total by 1990. A National Consultative Council, comprised of representatives from the various major interest groups in the country, was formed in 1970 and, among other things, approved the NEP. Hence, the NEP was adopted by the Malaysian government as a way to regain national unity and prevent future racial riots.  

The NEP, however, had the secondary effect of restricting foreign investment. The government, through the NEP, sought to produce an economic balance in corporate ownership among bumiputra, other Malaysians (Chinese and Indians), and foreigners so that bumiputra would control a perceived fair share of the economic assets of their country, particularly vis-à-vis the Chinese minority. The NEP aimed to alleviate and eliminate poverty and to end the identification of economic function with race. According to the Second Malaysia Plan 1971-1975:
Economic balance, in a growing and dynamic economy, refers to the equitable and legitimate sharing of the rewards and responsibilities of economic development. The principal reward of economic development -- the growing income generated by the national economy -- must be equitably distributed...Balance also refers to racial shares in management and ownership and in employment in the various sectors of the economy. At present, non-Malays and foreigners dominate the manufacturing and commercial sectors...The Government has set a target that within a period of 20 years, Malays and other indigenous people will manage and own at least 30% of the total commercial and industrial activities in all categories and scales of operation.

To partly alleviate conflicts between the bumiputra and other Malaysians, especially the ethnic Chinese, which could occur due to the economic and social restructuring caused by the NEP, the Malaysian government expected a context of economic expansion, and for all Malaysians to benefit at the expense of foreigners. The government planned for total investment, including capital from foreign sources, to expand in absolute terms, but the relative share of foreign ownership was slated to fall from 60.7% to 30%. At the same time, equity ownership by both bumiputra and other Malaysians was supposed to grow in absolute and relative terms.

To achieve the objectives of the NEP, the Malaysian
government, as stated earlier, intervened substantially into the economy. Government corporations were set up to buy share capital "in trust" for the bumiputra. PERNAS expanded into a very large conglomerate entering into joint ventures with foreign corporations and acquiring major share holdings in both foreign and Malaysian firms. The company acted as a surrogate for the bumiputra. Through the time period under consideration, the bulk of the equity designated as being owned by bumiputra was actually held by government bodies, such as PERNAS and State Economic Development Corporations (SEDCs). The government believed that the bumiputra business class was not yet strong enough to compete with Malaysian Chinese and foreigners. Therefore, the government, through the Council of Trust for the Indigenous Peoples (MARA), set up a financial consortium in 1972 to assemble and invest bumiputra savings. Similarly, in 1974, the Ministry of Trade and Industry established a trust fund to purchase shares in industrial companies in order to resell them or otherwise eventually transfer them to bumiputra individuals. The government-owned corporations and bumiputra investment trust funds usually acquired the shares of foreign-owned companies.

In Malaysia, ethnic factors were the crucial reason
for restrictions on foreign investment. Although the Malaysian government wanted increased foreign investment, policies aimed at redressing perceived economic imbalances between Malays and ethnic Chinese had the secondary effect of restricting foreign ownership. Thus, the case of Malaysia supports the hypothesis postulated for this section.

The Thai situation, in contrast, differed considerably from that faced by Malaysia. According to estimates, the Chinese, the biggest minority group, only accounted for about 7% of the population. Moreover, much intermarriage and assimilation has occurred. Major Chinese immigration started in the late 1700s. By 1970, Chinese made up the majority of the Thai middle class and dominated commerce, while Thais controlled mining, agriculture, and fishing. Prior to 1970, different regimes in government passed laws aimed at reducing the domination of the business sector by Chinese. In addition, the unrest of economic nationalists in the early to mid-1970s was directed at both the Japanese and the Chinese living in Thailand. Nonetheless, beginning in the 1950s, Thai military officers, politicians, and bureaucrats established a sort of informal, symbiotic relationship with the Chinese business community. Government officials sat as directors of company boards or
acted as business partners in return for supporting Chinese economic interests. These officials felt they needed the financial backing, which the Chinese provided them, in order to strengthen their political power. The Chinese, unlike the Malaysian situation, were only a relatively small minority in Thailand and were quite assimilated. Although they were economically strong, they coopted many Thai government officials for their business ventures. Significant government action aimed redressing economic imbalances vis-à-vis the Chinese did not occur in the 1970 to 1980 period. Thailand supports the hypothesis.

In Singapore, the majority ethnic group was both politically and economically dominant. About 76.9% of the population in 1980 were Chinese. Malays and Indians accounted for most of the remaining 23.1%. The national political and business elite of Singapore was composed largely of ethnic Chinese who had received local and Western education. The circumstances in Singapore uphold the hypothesis. In stark contrast to Malaysia, ethnic factors did not influence the government's policies toward restricting foreign investment.

Size of Natural Resource Sector

This section discusses the size of the natural resource sector in the three countries. The hypothesis
here postulates that a country with a high proportion of natural resource industries, such as mineral extraction and agriculture, is more likely to pass restrictions in the natural resource sector. This increased likelihood occurs because natural resource industries are relatively visible, have symbolic value to economic nationalist sentiment, and raise basic questions about foreign ownership of natural, and often depletable, resources. Furthermore, they are often poorly integrated into the local economy, tend to dominate either the country's GDP or exports, and frequently employ relatively large numbers of local workers in low skill jobs. These industries tend to export natural resources as low value-added, primary products, whose prices are dictated by world markets. The flip side of this hypothesis is the contention that a country which has a small natural resource sector is less likely to impose restrictions.

In 1980, agriculture and mining accounted for 27% of Malaysia's GDP, whereas manufacturing was responsible for 21%. Approximately 37% of Malaysia's people were employed in agriculture and fishing. The bulk were Malays and the government categorized half of them as poor. As a result, natural resource industries were highly salient in Malaysia.
The Malaysian Industrial Coordination Act (1975) stated that companies using imported parts to manufacture export items were permitted 51%-70% foreign ownership if 80%-100% of the products were sold overseas and they could have 100% foreign ownership if total production was exported. Export-oriented firms using renewable Malaysian raw materials, on the other hand, were allowed 30%-55% foreign ownership. Significantly, if a company was export-oriented, but utilizing non-renewable domestic natural resources, foreigners were permitted only 45% ownership and were required to plan a schedule to decrease their share equity to 30%. Natural resource industries, particularly those employing depletable raw materials, had more restrictions regarding foreign ownership than manufacturing firms using imported parts to make goods for overseas markets. This upholds the hypothesis.

The actions of PETRONAS and PERNAS, as cited in Chapter II, give further weight to the hypothesis of this section. In 1975, PETRONAS unsuccessfully tried to control all foreign oil companies through the proposed creation of "management shares". Moreover the act which created PETRONAS resulted in foreign oil companies having to sign exploration and production sharing agreements with PETRONAS before they could operate in Malaysia. Similarly, seabed
tin prospecting and extraction rights were removed from a foreign corporation and given to PERNAS in 1971. PERNAS took over Sime Darby, a British-based company with big Malaysian plantation holdings, in 1976 and foreign-owned London Tin in 1977. Another British-controlled company with plantations in Malaysia, Boustead, was acquired by the government in 1980 even though the company had fulfilled NEP ownership requirements four years earlier. PERNAS and PETRONAS quite clearly sought to restrict foreign investment in natural resource industries. The hypothesis is shown to be valid by the case of Malaysia.

The natural resource sector was also large and important in Thailand. Agriculture and mining represented 27% of the country's GDP in 1980, while manufacturing accounted for 21%. About 70% of Thailand's population was involved in growing rice.

Nevertheless, Thailand imposed very few significant restrictions in the natural resource sector. The Alien Business Law of 1972 required majority Thai ownership in various agricultural business activities. However, Thai measures were generally very weak compared to the actions taken by the Malaysian government. The case of Thailand somewhat refutes the hypothesis postulated for this section.
In Singapore, manufacturing made up 23% of GDP in 1980, but agriculture and mining accounted for only 2%. Singapore is a city-state with almost no natural resources. Consequently, the natural sector was small and unimportant in Singapore and significant restrictions were not invoked. The case of Singapore supports the hypothesis.

Prevalence of Industries with Old Technology

The situation being discussed next is the prevalence of industries with old technology. The study postulates the hypothesis that a country with a high prevalence of industries where the technology is relatively old and fairly readily available is more likely to invoke restrictions due to perceptions of a decline in the value of foreign firms' contributions to the country's economic development and consequently in their bargaining power and the perception that others, possibly even the host country, could operate that enterprise. If a country does not have a high prevalence of industries with old technology, it is less likely to impose restrictions.

Like most developing countries, Malaysia's industries generally used technology that was relatively old and fairly readily available. Manufacturing focussed on labour-intensive products. Turning once again to restrictions described in the previous chapter, one finds
that the Industrial Coordination Act (1975) made complete Malaysian ownership obligatory in companies aimed at the domestic market of Malaysia if the technology involved was readily accessible. If the technology was not easily obtainable, import-substituting firms were allowed 30% foreign ownership. The operation of foreign companies were regulated along the same lines. Non-Malaysians were usually only permitted to hold jobs which needed technical or managerial expertise not found among the domestic population. Malaysia, therefore, upholds the hypothesis.

Thailand's industries also usually utilized old technology. Because of the strength of the country's agricultural sector, Thailand did not significantly develop manufacturing until the 1960s. In Thailand, the Factory Control Act of 1962 gave the Ministry of Industry the authority to prevent new firms or existing firms from expanding into the production of certain items, such as car parts. The Ministry acted whenever it decided that the domestic market was saturated by a particular product or in response to submissions from Thai companies. The product lines targeted, where foreign and domestic companies were restricted, occasionally involved industries using relatively old and accessible technology. However, in general, Thailand did not have the technology-related
restrictions that occurred in Malaysia. Thailand refutes the hypothesis. Singapore's industries on the other hand tended to use higher technology than either Malaysia or Thailand. Moreover, in 1979, the Singapore government adopted a development strategy known as the Second Industrial Revolution. This new strategy emphasized higher technology industries which were capital-intensive and required more skilled labour. Rather than negative inducements, a Byzantine array of tax incentives was offered to foreign investors to encourage them to invest in high technology industries in Singapore.  

Singapore had relatively fewer industries with old technology and was less restrictive than Malaysia; therefore, it supports the hypothesis.

Level of Foreign Ownership of Industry

The last situation being analyzed is the level of foreign ownership of industry. The related hypothesis is that a country with high foreign ownership of industry is more likely to legislate restrictions. If a country does not have high foreign ownership of industry, it is less likely to invoke restrictions.

In Malaysia, foreigners owned about 75% of the agricultural and fishing sector, 72% of mining, and 59% of manufacturing in 1970. This high level of foreign
ownership resulted in restrictions. The Malaysian government encouraged joint ventures and gave a multitude of incentives to promote joint ventures between foreign investors and Malaysians. Negative inducements were also used. As previously detailed, the Industrial Coordination Act (1975) set out the levels of foreign ownership allowed in different types of industrial enterprises. Wholly-owned subsidiaries of foreign corporations were required to become partially Malaysian owned if they wanted to operate in certain industrial sectors. In some cases, such as export-oriented companies utilizing non-renewable Malaysian raw materials, foreign investors had to reduce their shareholdings so that wholly-owned firms became companies where foreigners retained only a minority position. 48

Government-owned companies and foreign corporations established many joint ventures during the 1970s. To operate in Malaysia, foreign oil companies were required to sign exploration and production-sharing contracts with PETRONAS. They were essentially forced into joint ventures with the state oil company. PERNAS' takeovers of major companies, like London Tin and Sime Darby, further demonstrated that foreign-owned firms were more likely to face restrictions. Moreover, as pointed out previously, the Malaysian government acquired Boustead, even though it
was 30% owned by Malaysians. Because foreigners were still majority owners, Boustead was targeted for takeover. Hence, the Malaysian examples substantiate the hypothesis.

Thailand had fairly low foreign ownership of industry. Historically, most foreign ownership in Thailand went to manufacturing, which accounted for only 10% of GDP in the early 1960s. The agricultural sector, which was the foundation of Thailand's economy, had little foreign investment. Unlike Malaysia, Thailand did not have a large plantation sector owned by former colonial rulers. Most Thai farmers were self-employed. During the pre-1970 period, foreign investment in general was not very significant. Thais owned 69.2% of registered capital in their country from 1960 to 1973. Thailand did not have the high foreign ownership which existed in Malaysia and, therefore, had fewer restrictions. The case of Thailand supports the hypothesis.

Singapore had a high level of foreign ownership. In 1972, capital from foreign sources accounted for 80.4% of total investment in Singapore. Despite high foreign ownership of industry, especially in manufacturing, Singapore had few restrictions. The case of Singapore refutes the hypothesis.

This chapter has analyzed several domestic political
and economic situations of Malaysia, Thailand and Singapore in order to explain why Malaysia placed greater restrictions on foreign investment than the other two countries. Explanatory hypotheses related to the differences were postulated and their validity was examined. Looking at each state's past experience with a colonial power, the study found that the hypothesis, regarding economic domination by a colonial power in the past, was supported by Malaysia and Thailand. The case of Singapore refuted the hypothesis.

Two hypotheses concerning economic strategy and domestic political pressure were put forward. The first hypothesis, relating to a nationalistic and interventionist economic strategy, was upheld by all three countries. The second proposition, involving domestic political pressure for restrictions, was also supported by the circumstances in the three states. Thailand and Singapore supported the flip side of these two hypotheses. They were not nationalistic in their economic strategies vis-à-vis foreign investments (although Thailand has always been somewhat nationalistic in terms of reserving certain occupations for ethnic Thais) and they were not interventionist in the commercial sector (although Singapore has intervened in related sectors, such as with
government housing and with hospital and school construction). Neither has experienced significant domestic political pressures to impose restrictions. Malaysia, on the other hand, had a nationalistic and interventionist economic strategy and had domestic pressure for restrictions. These characteristics were partial reasons for Malaysia's higher level of restrictions.

The hypothesis postulated for the situation of the presence of an economically dominant ethnic minority was proven valid by each of the three cases. Malaysia had an economically dominant ethnic minority and was substantially more restrictive than either Thailand or Singapore, who did not have an economically dominant minority ethnic group. Much of Malaysia's most significant restrictions on foreign investment stemmed from its fairly unique ethnic situation. Ethnic factors, therefore, were a key reason for Malaysia's greater restrictiveness.

The study also looked at the size and importance of the natural resource sector. The hypothesis stated that there was a greater likelihood of restrictions on foreign firms in the natural resource sector if the country had a high proportion of natural resource industries. Malaysia and Singapore supported the hypothesis, but Thailand refuted it.
Turning to the hypothesis related to the prevalence of industries with old technology, the chapter found that Malaysia and Singapore again supported the hypothesis, while Thailand refuted it. Finally, the hypothesis dealing with the level of foreign ownership of industry was upheld by the circumstances in both Malaysia and Thailand, but the evidence in Singapore refuted the hypothesis.

The preceding examination of national political and economic characteristics revealed major differences among the three countries. Malaysia's greater restrictions on foreign investment are explained by its uniqueness regarding a nationalistic and interventionist economic strategy, domestic pressure for restrictions, and an economically dominant ethnic minority. The economic strategy and domestic pressure arose largely from Malaysia's ethnic circumstances. Therefore, ethnic factors were the paramount reason for Malaysia's placing of stronger restrictions on foreign investment during the time span from 1970 to 1980.
NOTES

CHAPTER III


5. Ibid.


7. Wawn, p.150.


10. Ibid., p.138.

11. Sura, pp.254 and 256.


16. Quoted in Saravanamuttu, p.117.

17. Milne, pp.240, 244, 249-250 and 257; Mauzy, p.179; and Gale, pp.108-109.

18. Quoted in Saravanamuttu, p.119.


22. Ibid.

27. Neher, p.53.
29. Sura, p.257.
30. Wawn, p.156.
33. Quoted in Seah, p.317 fn.
34. Pacific, p.(18) 2.
35. Low, p.276.
36. Quoted in Far Eastern Economic Review, 1 August 1980, p.44.
37. Mauzy, pp.161-163; Saravanamuttu, pp.128 and 130; Gale, pp.28-29; and Milne, p.235.
40. Milne, pp.143, 240, 244-246, 249-250 and 257; Mauzy, p.179; and Gale, pp.108-109.
41. Neher, pp.34-36; Milton Osborne, Southeast Asia: An Introductory History, 2nd ed. (Sydney, Australia: George Allen & Unwin, 1983), pp.90 and 95-97; Crone, p.113; and Koji, p.378.


45. Darwood, pp.20-21 and 25; Karunaratne and Abdullah, pp.263-264; and Centre, p.94.


47. Tan, pp.50-51; and Nyaw and Chan, pp.459 and 465.

48. Darwood, pp.20-21 and 47.

49. Saravanamuttu, pp.117-118.
CHAPTER IV

Conclusion

This study has examined the levels of restrictive foreign investment regulatory policies of Malaysia, Thailand and Singapore from 1970 to 1980. The three countries have several common characteristics. They neighbour each other in the same geographical area in Southeast Asia and they are members of ASEAN. All three were either British colonies or had close ties with Britain during the colonial era. The three states each have a significant ethnic Chinese community. Malaysia, Thailand and Singapore have fairly authoritarian governments, but they practise their own modified forms of Western parliamentary democracy. They also have generally pro-West orientations. The three countries have market economies and are considered among the most industrialized of the developing countries.

Malaysia, Thailand and Singapore encourage foreign investment. They want to modernize through industrialization. The governments of these countries believe that foreign investment is essential because it results in the acquisition of capital, technology transfer, and access to markets. These elements are judged to be vital for rapid industrialization. Even when the three
countries placed restrictions on investment from overseas sources, they continued to want foreign investment.

The three states imposed differing degrees of restrictive measures during the period from 1970 to 1980. The second chapter evaluated each country's policies concerning limits on foreign ownership, restrictions on certain economic sectors, restrictions on the operations of foreign-owned corporations, and the use of government-owned corporations as instruments of control over foreign investment. It was found that extensive limits on foreign investment existed only in Malaysia through its NEP. All three countries had restrictions on certain economic sectors, but Malaysia had the most extensive range. Both Malaysia and Thailand placed major restrictions on the operations of foreign-owned corporations. Except for the specific sector of banking, where it set perhaps the most restrictions, Singapore had few significant restrictions on operations. Finally, the second chapter found that although all three states used government-owned companies to control foreign investment, only Malaysia engaged in extensive hostile takeovers of foreign-owned corporations on the stock market by government companies. While all three had restrictions, Malaysia was considerably more restrictive than Thailand.
and Singapore in the areas assessed by the second chapter. Thus, it was concluded that Malaysia generally placed more restrictions on foreign investment than Thailand and Singapore.

Chapter III sought to explain Malaysia's greater restrictiveness by looking at differences in the various domestic political and economic situations of the three countries (see table 1 below). The study analyzed each state's past experience with a colonial power. The related explanatory hypothesis postulated that a country which has been dominated economically by a colonial power in the past is more likely to impose restrictions due to economic nationalism and reasons of national security. If a country has not been dominated economically by a colonial power in the past, it is less likely to impose restrictions. This proposition was supported by the cases of Malaysia and Thailand, but refuted by the situation in Singapore. The Singapore government's perception of its country's overriding need for foreign investment offset historic influences toward significant restrictions.

The third chapter then analyzed the economic strategy of elites and domestic political pressure in the three countries. The first hypothesis in this section argued that a country whose elites follow an economic strategy
### TABLE 1

#### Summary of Findings

<table>
<thead>
<tr>
<th>Hypothesis</th>
<th>Malaysia</th>
<th>Thailand</th>
<th>Singapore</th>
</tr>
</thead>
<tbody>
<tr>
<td>1. Past colonial control—restrictions or no past colonial control—openness</td>
<td>Supports</td>
<td>Refutes</td>
<td>Supports</td>
</tr>
<tr>
<td>2. Nationalistic and interventionist economic strategy—restrictions or lack of nationalistic and interventionist economic strategy—openness</td>
<td>Supports</td>
<td>Supports</td>
<td>Supports</td>
</tr>
<tr>
<td>3. Domestic pressure for restrictions—restrictions or lack of domestic pressure for restrictions—openness</td>
<td>Supports</td>
<td>Supports</td>
<td>Supports</td>
</tr>
<tr>
<td>4. Economically dominant ethnic minority—restrictions or lack of economically dominant ethnic minority—openness</td>
<td>Supports</td>
<td>Supports</td>
<td>Supports</td>
</tr>
</tbody>
</table>
TABLE 1—Continued

<table>
<thead>
<tr>
<th>Hypothesis</th>
<th>Malaysia</th>
<th>Thailand</th>
<th>Singapore</th>
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</thead>
<tbody>
<tr>
<td>5. Large size and importance of natural resource sector—restrictions</td>
<td></td>
<td></td>
<td>Supports</td>
</tr>
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<td>or</td>
<td></td>
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<tr>
<td>Small size and unimportance of natural resource sector—openness</td>
<td>Supports</td>
<td></td>
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<tr>
<td>6. Prevalence of industries with old technology—restrictions</td>
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<td>scarcity of industries with old technology—openness</td>
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<td>7. High foreign ownership of industry—restrictions</td>
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<td>Refutes</td>
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<td>low foreign ownership of industry—openness</td>
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<td>Supports</td>
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</table>
based on economic nationalism and favourable to heavy government economic intervention is more likely to impose restrictions. The flip side of this hypothesis is the argument that a country whose elites do not follow a nationalistic and interventionist economic strategy is less likely to impose restrictions. The hypothesis was supported by all three countries. Although Singapore was economically interventionist in some sectors, it was not nationalistic. Moreover, Singapore's intervention was generally in areas that were not of great interest to foreign investors. These areas included construction of low cost housing, creation of industrial estates, health care, and education. The second hypothesis in this section stated that a country whose governing group perceives that it is vulnerable to domestic political pressure from economic nationalist advocates of restrictions is more likely to impose restrictions. If the governing group does not perceive that it is vulnerable to domestic pressure from economic nationalists, the country is less likely to impose restrictions. The hypothesis was upheld by all three states.

Turning to the situation of an economically dominant ethnic minority, the study put forward the hypothesis that in a country where the majority ethnic group is politically
dominant, but economically subordinate, government action aimed at redressing perceived economic imbalances vis-à-vis large, minority, domestic ethnic groups can have the secondary effect of also restricting foreign investment. If a country does not have an economically dominant minority ethnic group, government action having the secondary effect of restricting foreign investment is less likely to occur. This hypothesis was also supported by each of the three countries.

The study then examined the size and importance of the natural resource sector. It was postulated that a country with a high proportion of natural resource industries is more likely to pass restrictions in the natural resource sector. The flip side of this hypothesis is the contention that a country which has a small and unimportant natural resource sector is less likely to impose restrictions. Malaysia and Singapore supported the hypothesis, while Thailand refuted it. Although Thailand required majority Thai ownership in various agricultural business activities, in general Thailand passed very few significant restrictions in the natural resource sector. Thai actions were quite weak relative to the measures taken by Malaysia. Even though the natural resource sector was crucial to Thailand's economy, the country did not have the
overwhelming foreign ownership that existed in Malaysia. As a result, the natural resource sector in Thailand was not a highly visible target for foreign investment restrictions.

The situation discussed next was the prevalence of industries with old technology. The study postulated the hypothesis that a country with a high prevalence of industries where the technology is relatively old and fairly readily available is more likely to invoke restrictions due to perceptions of a decline in the value of foreign firms' contributions to the country's economic development, in their bargaining power, and in the difficulty of running the enterprise. If a country does not have a high prevalence of industries with old technology, it is less likely to impose restrictions. Once again, Malaysia and Singapore upheld the hypothesis, whereas Thailand refuted it. Similar to the previous hypothesis, Thailand's much lower level of foreign ownership, relative to Malaysia, partly explained its correspondingly lower level of restrictions. On the other hand, although Singapore supported the flip side of the hypothesis, the Singapore government did utilize indirect and informal means of pressuring MNCs with old technology, such as government imposed higher wages and personal
persuasion by government officials.

The level of foreign ownership of industries was the last characteristic evaluated by Chapter III. The related explanatory hypothesis postulated that a country with high foreign ownership of industry is more likely to legislate restrictions. If a country does not have high foreign ownership of industry, it is less likely to impose restrictions. The cases of Malaysia and Thailand supported the hypothesis. However, the case of Singapore refuted it. Singapore had a high foreign ownership of industry, but other factors intervened to offset any tendencies toward significantly restricting foreign investment. The country is a Chinese majority city-state with a small domestic market and almost no natural resources. It has a manufacturing and service-based economy. The Singapore government believed that national survival depended on industrialization, strong economic links to the developed countries, and, therefore, foreign investment.

Moreover, the Singapore government did exert some indirect and informal influence over foreign investors, through minority shareholdings in foreign companies, the setting of wage levels, and personal discussions with government officials, such as the Prime Minister himself. Because Singapore was very attractive to foreign investors,
it did not require many formal restrictions to achieve what the government considered to be adequate control.

As shown in table 1, the case of Malaysia supported all seven of the explanatory hypotheses, while the cases of Thailand and Singapore each supported five. Thailand's refutation of two hypotheses is largely explained by its much lower level of foreign investment relative to Malaysia. On the other hand, Singapore's refutation of two hypothesis is mainly due to the government's perception of the country's overriding need for foreign investment and its use of informal and indirect means of control.

Three hypotheses were supported by the evidence in all three countries. As a result, some generalizations can be made. Firstly, a country whose elites follow an economic strategy based on economic nationalism and favourable to heavy government economic intervention is more likely to impose restrictions on foreign investment. If a country's elites do not follow a nationalistic and interventionist economic strategy, the country is less likely to impose restrictions. Secondly, a state whose governing group perceives that it is vulnerable to domestic political pressure from economic nationalist advocates of restrictions is more likely to invoke restrictions on foreign investment. If the governing group does not
perceive that it is vulnerable to pressure from economic nationalists, the country is less likely to invoke restrictions. Thirdly, in a country where the majority ethnic group is politically-dominant, but economically-subordinate, government action aimed at redressing perceived economic imbalances vis-à-vis large minority domestic ethnic groups can have the secondary effect of also restricting foreign investment. If a country does not have an economically-dominant minority ethnic group, government action having the secondary effect of restricting foreign investment is less likely to occur.

In an attempt to answer the central question of why Malaysia placed more restrictions on foreign investment from 1970 to 1980 than either Thailand or Singapore, this study has looked at many variables and evaluated several explanatory hypotheses. In the third chapter, it was found that Malaysia differed from both Thailand and Singapore in three of the domestic political and economic situations examined, namely economic strategy, domestic pressure, and the presence of an economically-dominant ethnic minority. The generalizations derived from the related explanatory hypotheses explain Malaysia's higher level of restrictiveness.

Malaysia's fairly unique ethnic situation was the most
important reason for Malaysia's greater restrictions on foreign investment. Malaysian government action aimed at redressing perceived economic imbalances between the politically-dominant, but economically-subordinate, Malay majority and the large Chinese minority had the secondary effect of also restricting foreign investment. An economically-dominant Chinese minority and Malay political hegemony indirectly resulted in much of Malaysia's most significant foreign investment regulatory policies. The NEP and related legislation and rules were the main vehicles for Malaysia's restrictions. In contrast, the Chinese were only a fairly small minority in Thailand and were quite assimilated. Moreover, Chinese formed the majority ethnic group in Singapore and were both politically and economically dominant.

Domestic political pressure for restrictions was a significant, secondary explanatory variable. Malaysia's ethnic situation, together with a high level of foreign ownership, led to domestic political pressure for restrictions from Malay economic nationalists. This pressure influenced the Malaysian government's decision to try to control foreign investment. Although the governing group in Thailand did react to a certain degree to pressure from economic nationalists in the early to mid-1970s,
economic nationalists lost all significance with the military coup of 1976. Economic nationalists advocating foreign investment restrictions were also insignificant in Singapore.

Finally, economic strategy was also an important, secondary explanatory variable. Malaysia's political elites followed an economic strategy based on economic nationalism and favourable to heavy government economic intervention. The desire by Malaysia's leaders to control their country's economy arose from the other two explanatory variables, the presence of an economically dominant ethnic minority and domestic Malay political pressure for restrictions. Thailand and Singapore did not have a similar domestic setting, and consequently did not parallel Malaysia's adoption of a nationalistic and interventionist economic strategy.

Thus, Malaysia placed more restrictions on foreign investment than Thailand or Singapore during the period covering 1970 to 1980 because it had a very different domestic setting: an economically-dominant ethnic minority, domestic pressure for restrictions, and a nationalistic and interventionist economic strategy. Taken together, these differences explain Malaysia's greater restrictiveness. Of the explanatory variables, ethnic factors were the most important.
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