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Ethnic Minority Business in an Ethnic Hegemonic State: The Case of SP Setia as a Chinese Business in Malaysia

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Abstract

The development of ethnic minority business under the shadow of an ethnic hegemonic state is often at the mercy of the political contestations and bargaining between the dominant ethnic group and the ethnic minority concerned. The dominant ethnic group would resort to state intervention in order to control the economic resources and its distribution in the country. This policy of economic preference in favour of a particular group inevitably leads to encroachment upon the interests of other ethnic groups. The ascendancy of a Malay-hegemonic state in the aftermath of the 1969 racial riots under the initiative of the United Malay National Organization (UMNO) has dictated the course of Malaysian political and economic development. The political elites of UMNO have applied state intervention and affirmative action to address the economic backwardness of the Malays. This policy of affirmative action is realized through the efforts of state-owned enterprises and government-linked companies (GLCs). However, this endeavour has encroached upon the economic interest of the Chinese community. This article examines the relationship between the Malay hegemonic state and Chinese business groups and how it impacted the Chinese business. A case study on the acquisition of a Chinese-owned company, SP Setia, by a government-linked investment company (GLIC), Permodalan Nasional Berhad (PNB), is used to illustrate this negative impact.

Key words: Malaysia, state intervention, UMNO, government-linked companies, Chinese business

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Introduction

Ethnic contestation is a major theme in the study of plural society. Other than political power, the competition over economic resources which dictates the course of national development and the power relations among various ethnic groups gains attention from various scholars. Weiner (1987: 35-36) suggests that the process of nation-building that employs an ethnic hegemony approach would lead to the negation of power and influence of other non-dominant ethnic groups. He observes that:

> Ethnic hegemony has been exercised in a variety of ways from the repression of ethnic and religious minorities to the more benign use of state power to provide preferences in education and employment to the dominant ethnic group.
>
> (Weiner, 1987: 36)

Weiner coins the term "ethnic hegemonic state" to describe a political structure whereby one hegemonic ethnic group exerts overwhelming control over the state resources.

Existing literature on ethnic contestation for economic power in Malaysia are cast largely against the backdrop of the implementation of pro-Malay affirmative action policy known as the New Economic Policy (NEP) from 1971, and focuses mainly on the dynamics of Malay-dominated state versus Chinese capital. State-owned enterprises, government-linked companies (GLCs) and government-linked investment companies (GLICs) are set up in an effort to develop Malay enterprises and entrepreneurship. Some of the important studies are Jesudason (1989), Lim (1981), Gomez (1999) and Heng (1992 and 1997). The study by Jesudason (1989) on the relationship between ethnicity and economic development provides insightful findings on this theme. He contends that the pursuit of economic wealth along ethnic line by the state has impacted on the economic development in Malaysia. In his study, Lim Mah Hui (1981) notices a significant rise in the Malay capital, especially the state capital which has successfully penetrated the business sectors controlled by Chinese businessmen. Heng (1992 and 1997) shows how the Chinese capitalists have to seek the patronage of Malay political elites and services of retired high-rank Malay officials in order to operate in the hostile business milieu under the tentacles of wide-ranging economic redistribution measures initiated by the interventionist state. In addition, Gomez (1999) shows that the implementation of the NEP has contributed to the dependency of Chinese capitalists on the state capital and Malay patrons for the advancement of their businesses.

This study examines the dynamics of ethnic contestations in Malaysia through the lens of a Malay hegemonic state in the face of local Chinese capitalists. With a demographic strength at a diminished 23.4 per cent currently, the Chinese have experienced continuous political marginalization and erosion of their economic interests. They have to succumb to ethnic-biased policies and more importantly they have to compete with the state-sponsored and state-protected GLCs. Hence they have to adapt and strategize their business endeavours in order to stay resilient. This article aims at identifying and evaluating the challenges of the Chinese entrepreneurs in relation to the advancement of GLCs and the overpowering presence of the GLICs in Malaysian business. A case study of SP Setia is put forward to portray the dilemmas of Chinese businessmen in the face of the encroachment of their economic interests.

Evolution and Formation of Ethnic Hegemonic State in Malaysia

Malaysia achieved independence through the efforts of the political elites of the Malays, Chinese and Indians and this also entrenched the communal nature of the Malaysian polity. The racial bargains among different ethnic groups that took place before independence paved the way for the emergence of coalition politics which has lasted until today. After independence of the Federation of Malaya in 1957 and that of Malaysia in 1963, the leaders of the ruling regime have to address the difficult process of nation-building. The new nation-state comprises a plural society of diverse ethnic groups each with different interests and expectations. Its communal politics was marked by contestations and contentions in almost every aspect of social and economic lives.

The racial riots of 1969 had a far-reaching ramification in the development of Malaysian polity. The consequence was that the political configurations of the country underwent palpable changes in favour of the UMNO Malay political elites. These changes bear heavily on the development of the politics of ethnicity and citizenship in the post-independence period. In the new political order, the UMNO elites have fully controlled the state and its apparatus. The entrenchment of UMNO-Malay political supremacy then is unable and never challenged by the non-Malay communities in the country. The elites in UMNO have taken full advantage of their political clout to implement various state policies that cater to Malay interests. This has been made possible by the shift in political and economic resources to the state and the UMNO-Malay elites.

In reference to this new political order, Vasil (1980: 222) argues that, “the politics of accommodation was given up once and for all”. Mauzy (1993: 111) depicts the new power sharing as “accommodation on essentially Malay terms”. It has led to the institutionalization of UMNO-Malay political supremacy on the one hand and to the erosion of the Chinese political and socio-economic rights on the other. Hence the domination of UMNO’s elites over the Malaysian polity has reached an unprecedented scale and many scholars espouse “hegemony” as the terminology that best describes this political supremacy.

Manifestations of ethnic hegemony started to surface as soon as Abdul Razak took over the reign of the government in 1970. In his swearing-in statement as Prime Minister of Malaysia, he made it clear that “this government is based on UMNO… the government must follow the wishes and desires of UMNO and it must implement policies which are determined by UMNO" (Funston, 1980: 225). Under the fourth premiership of Dr. Mahathir, it was a strategic imperative that the interventionist state continued to uplift the economic status of the Malay community through various pro-Malay policies laid down by Razak. In addition, new pro-Malay policies relating to the economy, culture and education were given the utmost priority in his first decade of tenure as Prime Minister. The outcome of these policies was that Malaysia was heading along an assimilationist path towards the formation of a Malay nation.[1] Under the UMNO-dominated state, the government practices various policies that place priorities on Malay Bumiputera interests. The state-sanctioned notion of nation-building privileges a Malay Bumiputera-defined identity and many aspects of Malay culture as the core of the Malaysian national identity while recognizing peripherally, the cultural symbols of other ethnic groups.

State Intervention Through the New Economic Policy

The NEP was translated into a pervasive intervention of the Malay state to restructure the Malaysian society in favour of the Malay interests. In promulgating the NEP as the main national policy to address the problem of ethnic imbalances, Razak was seemingly responding correctly to grievances and demands of the Malays. It was the economic nationalism of the Malay political elites and intellectuals that was behind those demands.[2] In this regard, Razak adopted the strategy of an interventionist state to alleviate the economic backwardness of the Malay.

NEP had a two-prong strategy in national development. The first strategy was to restructure the Malaysian society in order to alleviate ethnic imbalances in economic development. The other was to eradicate poverty in society irrespective of racial group. As the Malay community lagged behind in economy development, the UMNO hegemonic state through the NEP aimed "to reduce and eventually eliminate the identification of race with economic function". Its final goal was "the emergence of a full-fledge Malay entrepreneurial community within one generation," and to achieve 30 per cent Bumiputera ownership of the corporate equity by 1990 (Chin, 2007: 293).

Under the objective of eradicating poverty, the initial primary concern of the NEP was to provide poor children with quality education. The state allocated huge expenditure in building schools, colleges and universities. In order to help the rural Malay students, special colleges and training centres were set up nationwide. The most out-standing example is the MARA colleges, which later were turned into universities that operate in every state of Malaysia. This institution has trained an enormous number of Malay professionals and technicians. The state also provided various types of scholarship to Malay students to pursue their tertiary education overseas and locally. The fruitful outcome of this government effort is the spectacular emergence of a Malay middle class in the 20 years' implementation of NEP (Abdul Rahman Embong, 2002).

The subsequent primary focus of the NEP, particularly from the early 1980s was the nurturing of a Malay business class. During the 1970s, public holding companies, now referred to as GLICs, were established to acquire corporate equity on behalf of the Bumiputera. Two of the leading public holding companies set up in the initial stage of NEP are Perbadanan Nasional or National Corporation (Pernas) and Permodalan Nasional Berhad or National Equity Corporation (PNB). At the state level, 13 State Development Corporations (SEDCs) were formed mainly in the early 1970s to complement the NEP effort. These 3 entities were established mainly to accumulate corporate assets directly, while MARA and Urban Development Authority (UDA) were supposed to focus on promoting private Malay entrepreneurship (Jesudason, 1990: 85).

The New Economic Policy and Chinese Business

Under the impetus of Malay economic nationalism and the interventionist policies, the Chinese community suffered a steady erosion of its economy interests. The main political party of the Chinese, Malaysian Chinese Association (MCA) lost two important cabinet posts to its counterparts in UMNO after the racial riots. When the parliamentary system resumed in 1971, the portfolio of Minister of Trade and Industry, which under the NEP has assumed even greater significance, was assigned to an UMNO leader. In 1974 the portfolio of Minister of Finance, the last bastion of Chinese strength in the cabinet was too given to an UMNO leader. Without these important posts, MCA was no longer seen by the Chinese corporate figures and tycoons as capable of protecting their interests. Under this circumstance, Chinese business tycoons have to turn to the UMNO political elites and seek their patronage (Heng, 1997).

With the formation of an enlarged governing coalition renamed Barisan Nasional and the incorporation of another Chinese-based party, Gerakan, the political bargaining power of Chinese in the ruling coalition was supposed to be enhanced. However in actual fact, the reverse has happened. This is due to the fact that both parties have to compete between themselves to gain approval and favour from the leaders of UMNO and this situation render them ineffective in protecting and fighting for the Chinese interests. Moreover, under the Malay political hegemony, Gerakan too faces the same predicament as the MCA. In general, both parties are ineffective in devising a plausible strategy to arrest the decline in the Chinese political position and its relatively lack of influence over major state policies affecting the economic, cultural and educational aspirations of the community. Yet, as they are component parties of the ruling coalition, the Chinese populace expect them to remedy those NEP policies which encroach upon the Chinese interests. Hence they are in fact in a very difficult situation and their dilemma is best coined as "the agony of coalition" (Khoo, 1995). In addition, the NEP period was also referred to as the era of "Chinese dilemma".

The ascendancy of Dr. Mahathir as the national leader caused much apprehensions among the non-Malays, as he was labelled an ultra Malay politician in the 1960s, who always strived hard to change and transform the fate of the Malays. In championing this cause, he stated that where necessary, laws must be enacted to render effective various economic policies in addressing the economic imbalances incurred by the Malays. Harsh punitive measures should also be meted out to those who impede the elevation of the Malays to equality with other races (Mahathir, 1982: 60). In his first decade (1981-1990) as the Prime Minister, the non-Malays' apprehensions were justified. His government set out for the mission to alleviate the various problems and dilemmas of the Malays, with many affirmative and preferential measures being endorsed as state policies. The 1980s also witnessed a few turning points in the implementation of Bumiputera Commercial and Industrial Community (BCIC) programmes.[3] Heavy industry development programmes were pursued. Mahathir emulated the model of Japan's development. In order to realize his vision, Mahathir launched the national car project and heavy industry projects.

In the late 1980s the focus of the state shifted to a massive privatization of state entities, which would facilitate capital accumulation in the hands of individuals from BCIC community. This turning point elevated the expansion of a Bumiputera capitalist class and concentration of individual wealth as policy priorities. These state-sponsored entrepreneurs have become a class of Malay new rich. Under this new endeavour, Malay entrepreneurial development was to be achieved through a process of handing over privatized state-owned enterprises to individuals, hand-picked more through political connection than competitive selection (Lee, 2013: 213). At the initial stage these privatizations did successfully created a group of Malay new rich. These state-sponsored capitalists include the emergence of Yahaya Ahmad through Proton, Tajuddin Ramli through MAS, Halim Saad through UEM and a few other examples. Syed Mohktar Al-Bukhary is the more recent Malay capitalist that amasses his wealth through privatization and political patronage. He gains control of the privatized Johor Port and Tanjung Pelepas.

The implementation of NEP which aimed to achieve equity redistribution among races and nurture Malay entrepreneurs had impacted on business development of the Chinese. The Chinese economic activities were undermined under the state-led economic development. Nevertheless, Chinese entrepreneurs practice high level of adaptations in their business development. They endure the hostile milieu in business transactions in the NEP and post-NEP era by employing different business strategies. Consequently, they are described as resilient entrepreneurs and they still possess economic prowess in various sectors. The table below shows the economic status of the Chinese in year 2004:

Table 1. Ownership of Share Capital (par value) of Listed Companies, by Ethnic Group and Sector, 2004

Sector	Bumiputera	Non-Bumiputera				Foreigners	Total
		Chinese	Indians	Others	Nominee companies		
Agriculture	16.4	52.9	0.8	0.2	6.6	23.0	100
Mining	12.3	39.5	0.2	0.1	25.4	22.5	100
Manufacturing	8.1	24.5	0.6	0.1	1.9	64.7	100
Utility	6.3	8.9	0.2	0.1	17.2	67.3	100
Construction	35.2	42.6	1.1	0.3	5.9	14.9	100
Wholesale and retail trade	20.4	50.7	2.0	0.6	0.7	25.6	100
Transportation	26.7	27.7	2.5	0.4	11.4	31.4	100
Finance	12.5	10.2	0.3	0.04	17.5	59.5	100
Services	18.7	39.5	1.1	0.2	10.9	29.5	100
Others	24.3	45.7	1.8	1.1	3.9	23.2	100
Total	18.9	39.0	1.2	0.4	8.0	32.5	100

Source: Chin, 2007: 295

From Public Enterprises to Government-linked Companies: A Strayed Mission

During the implementation of NEP, Malaysian government had adopted a state-centric approach to enterprise development. Various agencies were created or reinvigorated to support Malay business and the formation of BCIC, especially in the 1970s and 1980s. State-owned enterprises or public enterprises at the start of NEP burgeoned from 22 in 1960 to 1,149 in 1992, at an average annual increasing rate of 9 per year in the 1960s, 55 in the 1970s, and 41 from 1980 to 1992, with the largest numbers in manufacturing, services, agriculture, finance and construction (Lee, 2011: 259). Hundreds of these public enterprises acquired economic resources on behalf of the Malays and a target of 30 per cent equity of all listed firms had to be transferred to Bumiputera. In the first decade of the 20-year NEP, since much of this equity was channelled to public enterprises and Bumiputera trust agencies, there was little emphasis on promoting Malay entrepreneurship (Gomez, 2013: 90).

Subsequently, government-linked holding companies bought shares or even undertook reverse takeover to acquire ownership of formerly British-owned companies from 1970s onwards and facilitated the entry of Malay managers and professionals into new sectors. This provided the much needed opportunities and trainings in business sector to the Malay young graduates which were lacking in this type of exposure at that time. Other than the managers, these GLCs and other public enterprises employed administrative staff and semi-professional workers mostly from among the Malays. These initiatives were part of the effort of the state to establish BCIC. Coupled with the priority of the government in recruiting Malay as government servants, the socio-economic status of the Malays have been substantially elevated during the implementation of NEP.[4] The outcome of this achievement is the formation of a Malay middle class. Hence we could conclude that the early stage of public enterprises had performed their historical task of assisting the Malay community by providing education, job trainings as well as employment.

As explained in the previous section, under the tenure of Mahathir's premiership, state-owned enterprises were privatized and handed over to individuals who have political connections with UMNO elites. For Mahathir, selective patronage involving privatization of public enterprises created or developed during the early NEP years was a key mechanism to nurture a new breed of successful Malay entrepreneurs (Gomez, 2013: 91). With the onslaught of 1997-1998 financial crisis, the efforts of the state to nurture Malay entrepreneurs through political patronage and privatisation was derailed and failed to produce fruitful outcome. This crisis seriously hit many state-sponsored Malay capitalists and conglomerates, triggering a policy reversal and massive renationalization. Consequently, the aim of the state in nurturing this class of new rich to assist and expedite in the formation of BCIC encountered serious setbacks. The Malaysian developmental state was then left with little choice but to hand to the GLCs the responsibility of promoting Malay corporate development. GLCs continue to play pertinent roles in Bumiputera managerial and professional employment and development and have been tasked to assist Bumiputera enterprises (Lee, 2013: 214). This development reflected the bitter reality that the Malay new rich created through the state efforts are not as resilient as their Chinese counterparts.[5]

Other than the impact of 1997-1998 financial crisis, intra-ethnic rivalry among UMNO elites also influenced the development of Malay enterprises. The well-connected Bumiputera firms that had emerged by the mid-1990s, such as the Heavy Industries Corporation of Malaysia (Hicom), UEM/Renong, RHB and Malaysia Airlines were handed back to the government or other well-connected firms following disputes or soured relationship with the state elites. As a result, this nexus of politics and business based on patronage and political loyalty inevitably served to severely undermined the development of Bumiputera entrepreneurship (Gomez, 2012: 76). More importantly, the prevalence of patronage and corruption would seriously affect genuine entrepreneurship and domestic investment as a whole in Malaysia, a point openly acknowledged by the government in 2010 following the 2008 financial crisis (Gomez *et al*., 2013: 15). These problems handicap the reform efforts in the affirmative action programmes carried out by the state.

The objective of wealth redistribution in the affirmative programmes targeting the Malay community has failed. Although NEP had created a substantial Malay middle class but the wealth that was dispensed by the state only accumulated in a group of Malay elites that have good connection with UMNO leaders. This group enjoyed most of the benefits generated by the state-led developmental projects. Most importantly, UMNO has become the vessel for the transfer of government-held shares and interests to individuals or semi-privatized companies.

UMNO leaders emerged as the biggest interest group and developed an intertwined relationship with GLCs and other well-connected Malay and Chinese capitalists which have vested interests in many state-led business transactions (Wain, 2012: 114-116).

Increased Dominance of Government-linked Companies and Its Effects on Chinese Business

After the financial crisis of 1997-1998, the Malaysian developmental state began using the GLCs and GLICs more efficiently to generate economic growth. The state, through the GLICs, is a major owner of publicly listed equity. By 2009, the leading firms in the Malaysian corporate sector were the GLCs, and in spite of active privatization efforts initiated by the government, Malay entrepreneurs failed to lead their firms to high achievement. Six of the top 10 publicly listed companies in 2009 were GLCs (Gomez, 2012: 74). In spite of the enormous state support for the development of Malay capital, not even one among them was owned by a Bumiputera. Before the currency crisis in 1997, a number of well-connected Bumiputera had emerged as owners of the top 20 listed enterprises. Of these, only Azman Hashim secured a place in the top 20 in 2009. Those Malay capitalists nurtured by the state in the eighties and nineties, such as Halim Saad, Tajuddin Ramli, Rashid Hussain and Yahya Ahmad were vulnerable and failed to survive the crisis. The table below shows the importance of GLCs in the Malaysian stock market and economy:

Table 2. Ownership of the 20 Largest Companies, Malaysia, 1997 and 2009

Rank	Name of Corporation	Owner
1997		
1	Telekom	Government
2	Tenaga Nasional	Government
3	Malayan Banking	Government
4	Petronas Gas	Government
5	Genting	Lim Goh Tong family
6	Resorts World	Lim Goh Tong family
7	Sime Darby	Government
8	United Engineers (Malaysia) (UEM)	Halim Saad
9	Malaysia International Shipping Corporation (MISC)	Government
10	Renong	Halim Saad
11	Rothmans of Pall Mall	Foreign
12	Development & Commercial (D&C) Bank	Rashid Hussain
13	Malaysia Airlines	Tajudin Ramli
14	AMMB Holdings	Azman Hashim
15	Public Bank	Teh Hong Piow

Rank	Name of Corporation	Owner
16	YTL Corporation	Yeoh family
17	TR Industries (TRI)	Tajudin Ramli
18	Magnum Corporation	T. K. Lim
19	Perusahaan Otomobil Nasional (Proton)	Yahya Ahmad
20	Nestle	Foreign
2009		
1	Sime Darby	Government
2	Malayan Banking	Government
3	CIMB Bank	Government
4	Public Bank	Teh Hong Piow
5	Maxis	T. Ananda Krishnan
6	IOI Corporation	Lee Shin Cheng
7	Tenaga Nasional	Government
8	Malaysia International Shipping Corporation (MISC)	Government
9	Genting	Lim Goh Tong family
10	Axiata	Government
11	PPB	Robert Kuok
12	Petronas Gas	Government
13	Kuala Lumpur Kepong (KLK)	Lee Loy Seng family
14	Genting Malaysia (GENM)	Lim Goh Tong family
15	DiGi	Foreign
16	PLUS	Government
17	AMMB Holdings	Azman Hashim
18	YTL Power	Yeoh family
19	YTL Corporation	Yeoh family
20	Hong Leong Bank	Quek Leng Chan

Source: Gomez, 2012: 75

In the name of investment, GLICs acquire a controlling share of particular private enterprises with good prospect and then take over and develop them into the leading firm in a particular sector. This is the modus operandi of the Malaysian government in establishing GLCs. In brief, these state-owned companies employ a short cut in their corporate development. They expand their business capacity after acquiring or taking over companies in a particular sector and merge them into a conglomerate. A conspicuous example of this development is the takeover of SP Setia by PNB on 28 September 2011. Prior to this acquisition, PNB has controlled Sime UEP Properties Berhad, Island & Peninsular Bhd., Petaling Garden Bhd., Pelangi Bhd. and Mah Sing, which are the main developer companies in Malaysia. In addition, government-linked UEM Land Bhd. had acquired Sunrise Bhd. (another Chinese company) in

2010 before PNB's takeover of SP Setia. It looks like PNB has proceeded methodically with the takeover and merger process and the merged entity would possibly become the country's largest property group by market capitalization (*The Edge Financial Daily*, 29 September 2011).

Due to the size of its business and state patronage, such conglomerate has an edge over smaller firms and hence can develop into a leading enterprise in a specific field with ease. Despite their apparent success in business expansion, it is doubtful that GLCs possess entrepreneurial capacity. Growth through acquisition, mergers and takeovers, the standard mode of growth by most GLCs, is hardly entrepreneurial (Gomez *et al*., 2013: 13). The main problem encountered by GLCs after acquisition is the departure of the original management teams and talents. As a result some GLCs have an arduous task of maintaining the performances of these acquired companies.

Furthermore the boundary of GLCs and private enterprises are blurring after a series of acquisition and takeover. When GLICs undertake to purchase a sizeable share of the equity of specific private companies, the GLICs emerge as the main shareholder of these private enterprises and this raises the question of how these enterprises should be categorized. Can we still consider these enterprises as private companies? For instance, one of the GLICs in Malaysia, the Employees Provident Fund (EPF), holds 70.74 per cent of the equity of IJM Land. Another important GLIC, Lembaga Tabung Angkatan Tentera (LTAT), has increased its share in Bousted Holding to 58.24 per cent.

This type of corporate development employed by the GLICs poses challenge and threat to private enterprises. This is especially true among the Chinese entrepreneurs. Many of them have endured the competitive business environment and hostile NEP measures and successfully developed their business through hard works. When their companies have bright prospect and potential, they become the target of acquisition and takeover by GLICs. The recent takeover of Sunrise Corporation and SP Setia by GLICs reflects some of the predicament encountered by Chinese entrepreneurs.

The setting up of the GLCs in Malaysia is aimed at developing the strategic business sectors and ventures into new business opportunities. These two areas are seldom ventured by private companies. However, the development of GLCs at the latter stage witnessed their involvement in the traditional business sectors. As a result, they become the competitors to private enterprises. Due to the protections and concessions given by the state, GLCs have many advantages against private companies. The case of Pernas, an anchor GLIC in 1985 that monopolizes the import of Mandarin oranges from China before Malaysian Chinese celebrate their Chinese New Year best reflected the severe restriction encountered by Chinese businessmen.

After spearheading the strategic sectors, GLCs refuse to withdraw from market due to huge economic benefits. This tendency causes the shrinking of business opportunities and the private enterprises have to compete among themselves. Chinese entrepreneurs who are normally at a disadvantage position due to pro-Malay affirmative action policies face stiffer competition. Furthermore, new business opportunities are controlled by GLICs, for instance Khazanah Nasional monopolizes Iskandar Malaysia Special Economic Zone which was launched in the state of Johor. Hence the widespread presence and the overbearing influence of GLICs have undermined private investment in Malaysia. It is estimated that the dominance of GLCs is highest in the utilities sector, at 93 per cent, and transportation and warehousing sectors, at 80 per cent (Menon, 2012: 2). In the aggregate, the GLCs' share in Malaysian corporate market is approximately one-third, unusually high for a country presenting itself as an open and modern market economy.

Case Study: The Takeover of SP Setia by PNB

SP Setia Berhad is a Malaysia-based developer company which was established in 1974. The company, through its subsidiaries, develops property, operates clubs, and also operates as a building and road contractor. SP Setia started off as a construction company (*Syarikat Pembinaan* as conveyed in its initials SP). SP Setia is presently a listed company with an annual revenue at US$300 million and a current market value of US$1.5 billion. The company currently has a total of 23 active and upcoming projects with a combined value of US$13 billion, and has expanded into Vietnam, Australia, Singapore and Britain. SP Setia was Malaysia's biggest listed developer by sales in the year 2011. Although the company was established in 1974, its development only gained momentum in 1996. The success story of SP Setia is closely related to Tan Sri Liew Kee Sin, a young and ambitious Chinese entrepreneur who joined the company in 1996 at the age of 32.

Liew Kee Sin started his career as a bank employee but left the bank as he was not doing well there. He joined a developer company in 1990 but in the same year ventured into his own developer business with the purchase of Syarikat Kemajuan Jerai Sdn.Bhd. His acquisition of this company was mainly due to its great development potential as it possessed 225 acres of land in Ampang, which is at the outskirt of Kuala Lumpur (Poh, 2013). He and his good friend, Voon Tin Yow developed this piece of land into Taman Bukit Indah Ampang (a housing project) in 1990. Subsequently, the dynamic duo developed Pusat Bandar Puchong. The success of these two projects attracted SP Setia to acquire Syarikat Kemajuan Jerai Sdn.Bhd. on a share swap basis in 1996 and the two became directors and shareholders of SP Setia. Liew later became the chief executive of this company. Liew turned SP Setia into a big-time property developer when he injected two projects-Pusat Bandar Puchong and Bukit Indah Ampang into the company in 1996. Liew and Voon then invited Teow Leong Seng, the banker who helped finance their first acquisition in 1990, to join them. These three aspiring entrepreneurs later become the anchor men of SP Setia and their partnership lasted for 18 years.[6]

Under the leadership of Liew and his two right-hand men, SP Setia was transformed into a vibrant developer company that has a high reputation in the property market. It has since embarked on numerous projects that include townships, eco sanctuaries, luxury residences, high-rises and integrated commercial developments in various parts of Malaysia:

Table 3. Projects by SP Setia in Malaysia

State	Name of Projects
Penang	Setia Pearl Island
	Setia Vista
	Setia Greens
	Setia V Residences
	11 Brook Residences
	SPICE
Selangor,	Setia Alam
Kuala Lumpur,	Setia Eco Park
Putrajaya	Divina Residential Tower
	Setia Walk
	Trigon@Setia Walk
	Setia Federal Hill
	Kenny Hills Grande
	KL Eco City
	Setia Eco Glades
	SetiaNgle
	Setia EcoHill
Johor	Bukit Indah
	Setia Indah
	Setia Tropika
	Setia Eco Gardens
	Setia Eco Cascadia
	Setia Business Park
	Setia Business Park II
	Setia Sky 88
Sabah	Aeropod

Source: Compiled by author

Apart from local market, SP Setia ventured overseas in 2007 when Vietnam's top state-owned conglomerate, Becamex IDC Corporation chose it as a partner to develop the 558-acre EcoLakes in My Phuoc. Since then SP Setia has ventured into Singapore, Australia and China. In September 2012, the developer, via a joint venture with Sime Darby Property Bhd. and Employees Provident Fund (both are GLCs), acquired the iconic landmark Battersea Power Station in London. The 40-acre site has a gross development project worth £8 billion. Table 4 portrays the international projects of SP Setia:

Table 4. International Projects of SP Setia

Country	Name of Project
Vietnam	EcoLakes
	EcoXuan
Australia	Fulton Lanc
	Parque Melbourne
Singapore	18 Woodsville
	Eco Sanctuary
China	Qinzhou Industrial Park
Indonesia	Representative Office
United Kingdom	Battersea Power Station

Source: Compiled by author

The hottest topic among the business community in Malaysia for the year 2011 was the attempt by PNB, Malaysia's largest asset manager, to acquire a controlling interest in SP Setia. It raised its stake in SP Setia to 33.2 per cent on 27 September 2011, exceeding the 33 per cent threshold that requires the buyer to extend a takeover offer under the Malaysian corporate regulations. Consequently, PNB issued a notice of a conditional takeover to acquire by cash all SP Setia shares at RM3.90 per share and its warrants at 91 cent per unit on 28 September 2011. On 30 September, PNB bought an additional 23.5 million shares in the open market for RM3.868 a share and sought to raise its stake to over 50 per cent with its RM3.90 offer, which was about an 11 per cent premium over the closing price before the announcement of its notice of takeover. Other major shareholders of SP Setia include the Employees Provident Fund (EPF) with 13.4 per cent, Kumpulan Wang Amanah Persaraan (Retirement Fund) with 5 per cent and over 40 per cent are in the hands of minority shareholders.

The hostile acquisition bid by PNB came to a twist on 20 January 2012 as Liew Kee Sin and the buyer announced a joint effort to take over SP Setia at RM3.95 a share. This new initiative secured for Liew a management agreement which gave him total executive powers subject to board control in governance and strategic matters. Hence the day-to-day operations of the company would be led by Liew for the tenure of the management agreement which was 3 years, unless his appointment was terminated earlier. As a result his tenure with SP Setia was expected to end some time in March 2015 though many business analysts expected him to leave earlier. As an incentive for Liew to stay on, PNB gave a put option to Liew to sell his direct 8 per cent stake in SP Setia in three tranches over three years at a fixed price of RM3.95 a share. Under this arrangement, although it was a joint offer but in essence PNB would still be doing the buying and Liew was on the selling side.[7] Liew's imminent departure from SP Setia materialized when he made his resignation announcement on 20 January 2014. He left his business empire which he founded 18 years ago on 30 April 2014. His left hand man and Chief Financial Officer, Teow Leong Seng followed his move on the same day. By May 2013, PNB became the major shareholder of SP Setia with 64 per cent stake in the firm and it had two representatives in the directorship of the company. With this development, PNB was on track to form a conglomerate of developer firms that would control the property market of Malaysia.

Less than a year after PNB's takeover of SP Setia, a new and rapidly rising name in property market emerged, Eco World Development which was making waves throughout the property circle in Malaysia. The emergence of this property developer is closely related to Liew. In fact, Eco World Development is staffed by former executives (consist of 15 per cent) of SP Setia. Interestingly Liew's son, Liew Tian Xiong at 23 is the director of this company. Meantime, Eco World Development, together with Tian Xiong, has bought a 65 per cent stake in listed developer Focal Aims at RM1.40 a share or some RM230 million and is making an offer for the remaining shares. Through this acquisition, Eco World Development's assets which have a gross development value of RM30 billion are injected into Focal Aims via a backdoor listing. Of the 65 per cent shares, 35 per cent is owned by Tian Xiong and that would have cost about RM124 million. At this young age, it was unlikely for Tian Xiong to have this amount of money at his disposal and it was not difficult to conclude that it was his father, Liew Kee Sin who was behind this transaction. The appointment of Liew to sit on the board of directors of Eco World Development on 5 May 2014 marks the return of Liew to the Malaysian property market and his mission is to create a new SP Setia.

Conclusion

Malaysia's economic development is based on a state-led model. Under this model, the state which is UMNO-Malay dominated dictates the course of the nation's development. The implementation of NEP has successfully produced a robust Malay middle class and significantly addressed the problem of Malay poverty. However the essence of this affirmative action is still intact until today due to political expediency. The promulgation of Bumiputera Economic Empowerment Policy by Najib Razak on 14 September 2013 has further confirmed the state's direction in its economic development. The UMNO-dominated state also utilizes affirmative action as a rent-seeking mechanism that benefits its political elites and cronies which in turn could prolong the life of the ruling regime. With this intricate relationship among political elites and well-connected capitalists, Malaysia economy may be characterized as crony capitalism. As a result the Chinese businessmen continue to encounter various hindrances in their enterprise development. Although they are undermined to some degree by the state's policies but they still possess acumen in business sector. Just as their counterparts in other parts of Southeast Asia, Malaysian Chinese businessmen exhibit a high degree of adaptations and resilience. The hostile business environment has constantly forced them to adjust and this has spurred their capacity to thrive in Malaysian economy (Gomez, 2003).

The recent spate of corporate takeover bids of Chinese-owned enterprises by the GLCs is not a healthy sign of corporate development in Malaysia. Without taking ethnic factor into consideration, the business practice by GLCs through takeover and acquisition rarely generated entrepreneurial development in the GLCs. Although these GLCs may make good returns in the short term but in the long run they may undermine the growth of the acquired enterprise due to lack of expertise and good management team. This is the case in the acquisition of SP Setia as its Chief Executive Officer, Liew Kee Sin and Chief Financial Officer, Teow Leong Seng had departed from the company while their expertise in property development was badly needed in SP Setia.

The widespread presence and overbearing influence of GLCs in recent decades has generated an economic milieu that induced growth without private investment in Malaysia. The state is playing an even greater role in enterprise development. State's involvement through the GLCs is reaching a critical degree that would undermine the dynamism of private enterprises in Malaysia. Even the ruling regime led by Najib Tun Razak admitted that Malaysian economic development must be private sector-led but his administration is trapped in a vicious circle resulting from the pervasive influence of crony capitalism. Consequently, Malaysia is actually in a state of dilemma in its economic development as the vitality of the private business sector, in which the Chinese business constitutes a major component is not harnessed at its optimal level. In this regard, Chinese businessmen and entrepreneurs will continue facing various challenges and ramifications from the state economic policies that give preferences to the accumulation of the Malay capital.

Notes

1 In an interview with Johan Jaafar in 1996, then Chief Editor of *Utusan Malaysia*, Mahathir admitted that the state policy in nation-building before 1990s was pursued along the "assimilationist" pathway, see *Utusan Malaysia*, 7 August 1996.

2 Shamsul Amri (1997) had made an insightful study on the elevation of Malay economic nationalism and its impact on the promulgation of the NEP.

3 In order to address the backwardness of Malays in business sector, the NEP had clearly spelt out that its implementation was to create a Bumiputera Commercial and Industrial Community (BCIC) in a period of 20 years.

4 For a detailed discussion on the emergence and the influence of the Malay middle class in Malaysia, see the seminal work Abdul Rahman (2002).

5 For an account of how the Chinese entrepreneurs survive in the 1997-1998 financial crisis, see the work of Lee and Lee (2003).

6 Their long endured partnership only came to an end with the departure of Liew Kee Sin on 30 April 2014 after the takeover of SP Setia by PNB.

7 Liew Kee Sin sold his first lot of share on 25 June 2012 and his last 2.76% of SP Setia share on 21 March 2014.

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