

Malaysianisation and the Barlow Boustead Estates Agency

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Abstract

The Malaysian government's approach to soft nationalisation through the New Economic Policy did not involve coerced sale of foreign investments in the country. The Government formulated its policy on an 'expanding cake' theory, where the prospect of gains from economic growth would be offset by the loss of control by the sale of equity to local and indigenous investors. This study examines the complex corporate divestment undertaken by a major foreign-owned agency house in Malaysia, the Barlow Boustead Estates Agency (BBEA) in response to the New Economic Policy. Documents in the Barlow family archive at the University of Cambridge reveal how the Malaysian government's policy of reducing foreign ownership in the economy led to competition among foreign investors to retain ownership up to the allowable limits. Such competition created an unattractive environment for foreign capital and eventually led to 'default nationalisation'. The owners of BBEA were eventually opted to sell to Government-backed institutional investors, although they had no legal obligation to do so.

Keywords: Malaysia, Nationalisation, Business, Palm Oil, Plantation, Foreign Investment

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Introduction

The nationalisation of foreign owned businesses under Malaysia's New Economic Policy (NEP), the affirmative action programme has received a lot of attention among scholars (Gomez 2009; Gomez and Jomo 1999). However, how foreign owners reacted and took decisions to comply with the nationalisation rules of ownership has been scarce in the extant literature. This study contributes to such a lacuna by examining the sale of one of the major foreign owned agency houses in Malaysia, the Barlow Boustead Estates Agency (BBEA).

BBEA was initially established in 1966 as a jointly owned entity between two foreign partners, namely the Barlow family based in London owning 65 per cent of the equity and the Boustead Group, a British owned firm based in Singapore owning the remaining shares. BBEA responded to the Malaysianisation¹ policy by selling 30 per cent of their shares to three Malaysian government approved local institutions in 1974, FELDA, Tabung Tentera and Tabung Haji which each bought a 10 per cent stake. This resulted in the Barlows and the Boustead Group's stake being reduced to 45 per cent and 25 per cent respectively. In a bid to take majority control of BBEA in 1979, the Boustead Group which was also Malaysianised by then, managed to persuade the three Malaysian Institutions to consider swapping their respective stakes in BBEA for shares in Boustead. This would have made the Bousteads majority owners of BBEA and left the Barlows with a minority stake of 22.5 per cent. This move caught the Barlows by surprise and led to significant tension with the Boustead Group. From 1979 to 1982 a number of potential deals emerged as the Barlows attempted to maintain control of the firm, but to no avail. In 1982 they sold up to the Malaysian

¹ This paper will use the term Malaysianisation to refer to the process of the sale of equity shares in foreign-owned businesses to Malaysians and Malaysian investment funds. This process is variously referred to 'Malaysianisation', 'Malaysian Participation', 'Bumiputranisation' and 'Bumiputra Participation.'

institutions and the Bousteads, escaping the challenging investment climate the government inadvertently had created.

This paper departs from previous studies of the New Economic Policy and Malaysianisation in its detailed consideration of the actions taken by a single firm in response to Government policy changes. This study has been made possible by access to the personal and business correspondence of the Barlow family covering this period. The files, archived at Cambridge University Library and Cambridge University's Centre for South Asian Studies, include accounts, memorandums, notes, letters and minutes of private meetings that took place between 1968 and 1983.

These files have allowed the authors of this paper to combine the widely known economic and political events in Malaysian with the private thoughts and responses of the investors who felt their consequences. This paper analyses the interplay between foreign investors and Malaysian officials from the perspective of the Barlow Boustead Estates Agency, and as such, tells the story of how the Agency went through a series of changes that would eventually end with Barlow divestment and a restructuring of the Barlow Group away from Malaysia. We seek to use the new level of detail available to us to answer the question: 'How did individual investors respond to the policy of Malaysianisation?'. In doing so, the paper contributes to an understanding of the motivations of a complex corporate divestment decision with an interplay of both politics and economics.

It will be seen how the soft approach to nationalisation increased competition amongst foreign investors by reducing their share of ownership in the economy. This competition was further intensified by the policy of allowing foreign investors to 'cash out' and take the money made in nationalisation out of the Malaysian economy, meaning that some were prepared to sell their shares at a discount. Accompanied by the strong track record of the

Malaysian Government in running plantations businesses profitably, this led to a split among investors, with some divesting and others competing to retain ownership up to the allowable limits of the remaining share of the pie. This intense competition created an unattractive investment climate and eventually led to foreign divestment. We term this emergent process ‘default nationalisation’.

The sections that follow start with a description of the NEP in more detail, from its conception to its implementation, and a history of Barlow Boustead Estates Agency. The paper is then structured around the key decisions taken by the Barlows as they responded to the NEP, providing details of the context of each decisions and the discussing how the intended outcomes differed from those realised. Finally, the paper concludes by discussing the above research question in light of the new information provided by the events at the Agency.

The New Economic Policy and the Malaysian Business Environment

The NEP was introduced in 1971 following the racially charged riots in May 1969 following a general election where Malaysia’s national opposition parties won a significant share of seats in parliament. The NEP rang the changes for the Government’s attitude to foreign business, introducing requirements for employment of and ownership by ethnic Malaysians, also known as bumiputras.² The changes were implemented over a period of more than a decade, with a final target for implementation of 30 per cent Malaysian ownership in the economy by 1990. Post-independence in 1957, the Government of Malaya³ adopted a policy of accommodation to foreign ownership of businesses in the rubber, palm

² Bumiputra is a term used to describe Malays and other indigenous peoples of Malaysia.

³ The country was known as Malaya from its independence in 1957 till the formation of Malaysia with Sabah, Sarawak and Singapore joining the federation. Singapore became an independent state in 1965 when it was expelled from the Federation of Malaysia.

oil and mining industries. This policy was partly driven by the leaders of United Malays National Organisation (UMNO), the dominant party in the ruling coalition not wanting to limit the influence of foreign firms for the fear that the Chinese would gain control of the economy with the retreat of foreign capital (Gomez 2009).

There is a substantial body of literature regarding the details of the economic policy of Malaysia post-independence. For example, Shakila Yacob and Nicholas White's article on the infamous Guthrie 'Dawn Raid' in 1981, where the Malaysian Government supported the purchase of a controlling share in Guthrie on the London Stock Exchange.⁴ Other articles have considered the impact of the New Economic Policy on foreign investors in Malaysia at an aggregate level. Thillainathan and Cheong discuss the impact of reduced foreign investment on inequality⁵, and Yacob and Khalid consider the success level of investors that chose to adapt to the policy and remain in Malaysia, rather than to divest.⁶ Given the high quality extant literature this paper will not attempt to repeat the full details of the NEP, instead this section provides an overview in the context of its impact on Barlow Boustead Estates Agency.

Previously a collection of smaller states, settlements and colonies, Malaysia (at that point known as Malaya) gained independence as a united country on the 31st August 1957. Despite this political independence, the country could be characterised as an "economic colony" at this time. British and other European investors controlled much of the land and large shares of many of the high value industries, with the indigenous Bumiputra and Malay population relegated to minority shareholders in most of their own economy. To this end, the New Economic Policy (NEP) was introduced by prime minister Tun Abdul Razak. The

⁴ Yacob and White (2010).

⁵ Thillainathan and Cheong (2016).

⁶ Yacob and Khalid (2012).

primary policy objective of the NEP came in the form of the *Second Malaysia Plan* which stated that economic ownership must transition to the ratio 30:40:30 Bumiputra, other Malaysian (although there were many nationalities of resident Malaysian, the Chinese investors had significantly the largest share ownership in the economy) and Foreign respectively. In 1970 this ratio was 3:33:63 averaged across the whole economy. One of the key architects of this plan, Tun Ismail Abdul Rahman, explained that the growth in local ownership was expected to come from an overall growth in the Malaysian economy, thus the *Second Malaysia Plan* could not be regarded as a threat to the prospects of foreign business owners in Malaysia. Chairman of the National Investment Corporation (known as PERNAS)⁷, Tengku Razaleigh Hamzah, said of the plan:

So long as Bumiputras are bystanders and mere members of the audience there is a situation that is not conducive to the stability of the country. We cannot devise a scheme to achieve our objectives that will please everybody. However, the schemes we have devised will not affect either the feeling of the local people or frighten away foreign investment.⁸

Under the leadership of Tengku Razaleigh, PERNAS represented the Malaysian government's main vehicle for increasing participation in the economy. Using loans from the government and foreign and local banks, the state-owned corporation was to purchase shares in large, foreign-owned businesses. It was then expected that income from these investments cover the finance charges on loans and build capital for further investments.

⁷ New Straits Times (1997)

⁸ Cambridge University (CU) Centre for South Asia Studies (CSAS) Barlow 74/2: Transcript of an interview with Tengku Razaleigh Hamzah to the European Institutional Fund Management Group in Kuala Lumpur 22/11/1976

The government also provided mechanisms for individual Malaysian investors to participate through the establishment of state-owned investment funds. These included *Tabung Haji (The Pilgrims' Fund)* and *Tabung Tentera⁹ (The Military Pension Fund)*. As Torii¹⁰ notes, there was disagreement inside the Malaysian government over how to pursue increased participation in the economy. The prime-minister and chief architect of the NEP, Tun Razak, preferred a policy of increased participation through employment and participation in trade, however Tengku Razaleigh favoured a policy of equity participation and land ownership. This lack of alignment at the highest levels of the NEP caused foreign-owned businesses to delay their response. This is clear from exchanges between the Bumiputra Participation Unit (BPU, a government agency) and the Malaysian International Chamber of Commerce and Industry (MICCI). The MICCI represented the interests of private foreign businesses, especially British, in lobbying the Malaysian government. Writing to the MICCI and referring the attitude of foreign private businesses to participation, the BPU noted:

The response from the private sector is not so encouraging... there is only an adequate response from the new ventures which are very competitive and yet to make their foothold in the market. This indicates that the private sector is more keen to share the liability with the Bumiputra and not the credit.¹¹

The BPU goes on to call on the MICCI to make sure the private sector is "acquainted with the objectives of the policy". In answer to the accusations of the BPU, the MICCI responded with a letter quoting a speech from Tun Razak in 1971, when the policy was first announced:

⁹Also referred to as Lembaga Tabung Angkatan Tentera or LTAT

¹⁰ Torii (1997).

¹¹ CU CSAS Barlow 73/2: Quoted in a reply from the Malaysian International Chamber of Commerce (MICC) to Tun Razak on 26/12/1973

We take our cue from the statement made by the Hon'ble Prime Minister... on 12th July 1971 which he said, 'The rights, properties and privileges now belonging to whichever group or individual will not be taken away and given to others. What is envisaged by the Government is that newly created opportunities will be distributed in a just and equitable manner.'¹²

This exchange is typical of the communication between the MICCI and the BPU at the time, and demonstrates the lack of a common position within the government on how to achieve the objectives of the NEP. The result is that British businesses attempted to delay taking steps towards equity participation in their core business, whilst constructing new ventures to deliver growth and appease the government. On 29th January, 1974, the MICCI held a "Discussion on Bumiputra Participation" with Chief Executives of member companies. In a summary of the events of the forum, the MICCI noted:

Progress must take place and be seen to be taking place. Any idea of leaving things until 1989 is just 'not on'. ...The government is clearly under the impression that many businesses are paying mere 'lip-service' to its policies.¹³

Between 1973 and 1974, the Malaysian government conducted a mid-term review of the NEP which led to the finding mentioned above, that foreign businesses were not engaging with the policy. This appears to lead to a change in direction of the Malaysian Government and the BPU, focusing instead on an "expanding cake" theory of participation. Rather than seeking to push foreign businesses into sharing ownership, the BPU explained how the value of foreign shares could still grow, even whilst local participation increased:

¹² CU CSAS Barlow 73/2: Letter from the MICCI to Tun Razak 26/12/1973

¹³ CU CSAS Barlow 73/2: Proceeds of a meeting on 29/01/1974 are quoted in a letter to members of the MICCI on 02/02/1974

The expansion of shares to Malays and other indigenous people... will involve a sizeable decline in the share of foreign interests. The value of shares held by foreigners, however, will grow at a relatively high rate and lead to a share capital holding by them in 1990 which is about five times more than in 1970.¹⁴

Assertions from the BPU that investors could still make money whilst complying with the NEP, as well as increased pressure on the MICCI to ensure compliance of members, eventually led to the MICCI recommending that all members make "a blue-print for participation and submit it in confidence to the BPU". Although the NEP had been in place since 1971, March of 1974 can be considered the beginning of active efforts by foreign businesses to comply with the policy.

This section sought to provide a brief introduction to the New Economic Policy (NEP) and the Second Malaysia Plan, and to explain the environment that foreign investors were operating in from 1974 onwards. These investors faced pressure from the Government, via the Bumiputra Participation Unit (BPU) to increase the participation of indigenous Malaysians in their business on several fronts; through employment, through greater trade and through equity ownership. At the same time, the Government predicted significant growth in Malaysian GDP (6.5 per cent on average between 1970 and 1990) that would allow the value of foreign investment to grow, even whilst participation targets were met, in what was dubbed the "expanding cake" theory of participation.

The Barlow Boustead Estates Agency, a History

The Barlows were one of several British families with significant business interests in Malaysia and other locations in South East Asia since the 1910s, others included Guthrie,

¹⁴ CU CSAS Barlow 73/2: MICCI quoting a letter from the BPU in a letter to all members 25/03/1974

Waugh and Harrisons & Crosfield. Their involvement was mainly in large scale agriculture and the extraction of 'renewable natural resources', primarily palm oil and rubber. Until the late 1960s the Barlow family interests were controlled from London, primarily by the elderly brothers Sir John Barlow and Thomas B. Barlow, who were the directors of Thomas B. Barlow and Bro. (TB&B). Foremost among the holdings was a large share (17 per cent equity) of the Highlands Group of companies. Thomas Barlow (TBB) served as chairman of the Highlands & Lowlands (H&L), at the centre of the Highlands Group.¹⁵

TB&B was a family owned partnership providing secretarial services in London to quoted rubber and palm oil estates, exclusively in Malaysia. As well as H&L, the family owned interests in many of the companies in the secretariat. A network of cross-holdings between these companies made the financial arrangements complex for an outsider to easily comprehend.

A restructuring of the Barlow interests, representing a major change in their approach to Malaysian agriculture, occurred during 1966 when the Barlow holdings were merged with those of the Boustead Group. Boustead ran a successful trading operation in Singapore¹⁶, with (amongst other businesses) a smaller and less profitable business in Malaysian rubber & oil palm horticulture. Conversely, the Barlows had a strong and successful representation in Malaysian estates management, but their Singapore trading operations were limited. The restructuring saw Boustead take control of the Barlows' Singapore trading business and the Malaysian plantation businesses were combined into a new entity called Barlow Boustead

¹⁵ Peyman (1981)

¹⁶ Singapore followed an export orientated manufacturing strategy post-independence (White 2017). The Singapore government encouraged capital from multinational enterprises and did not nationalise foreign owned firms.

Estates Agency Sendirian Berhad (BBEA or occasionally 'Barbeal'). The Barlows owned 65 per cent of BBEA, with the Boustead Group owning the remaining 35 per cent.

Drabble and Drake¹⁷ describe how a series of similar mergers between British businesses occurred in Malaysia between 1960 and 1967, including the merger of Guthrie Singapore and Henry Waugh Limited to create Guthrie-Waugh Berhad. The authors link the rationalisation of businesses to increased uncertainty in affairs international caused by the end of the British Empire.

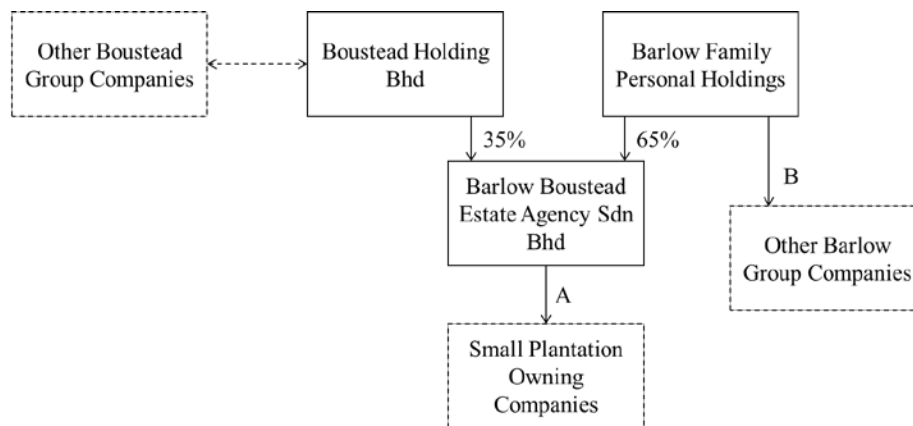


Figure 1 – BBEA Ownership Structure (1970)¹⁸

A – see table 1 for ownership structure, B – These consisted mainly of 'Barlow London Group' which was a group of smaller plantation owning and operating companies in East Asia

¹⁷ Drabble and Drake (1981)

¹⁸ CU CSAS Barlow 66: BBEA Accounts 1970

Capital Held by BBEA (1975)	Directly by BBEA	Through Kaula Sidim
East English Sdn Bhd	100%	-
Selugra Palm Oil Factory Sdn Bhd	100%	-
Kuala Sidim Rubber Co Bhd ¹⁹	53.9%	-
Bekoh Holdings Ltd	6.5%	65%
Selangor Coconuts Bhd	1.2%	56.5%
Bukit Mertajam Rubber Co Ld	-	100%
Kedah Oil Palms Bhd	0.2%	49.9%

Table 1 – BBEA Ownership of Smaller Plantation Companies (1975)²⁰

As an agency house, BBEA had two primary sources of revenue; the first was fees as an agency and the second was from dividends paid by land-owning subsidiaries, to which BBEA provided agency services (this stream of revenue only became significant in 1971 and grew with the acquisition of the financially challenged Kuala Sidim Group). BBEA did not own any land itself, instead it provided plantation management services to land owned by individuals or other organisations. Depending on the needs of clients, the services offered by BBEA spanned the entire value chain: research and development, plantation management, equipment hire and repairs, harvesting, storage, sales and land valuation. Work was carried out by visiting agents and engineers, agency businesses benefited from economies of scale by being able to spread experienced agents across many plantations. In some cases it would be heavily involved in a client's business, often to the extent of providing management support

¹⁹ The Kuala Sidim Group of companies only came fully under BBEA control in 1973, the group had become financially over-extended and needed support from the Barlow family name to maintain bank overdrafts

²⁰ CU CSAS Barlow 67: BBEA Accounts 1975

to the company's board. In 1967, 97 per cent of revenue came from commission charged for agency services.²¹ Between 1966 and 1974, BBEA became established as a land owner through investments in and acquisitions of land owning companies. By 1975 BBEA owned M\$18,000,000 in land through subsidiaries (See table 1 for the ownership structure).

British-owned businesses in Malaysia had traditionally been controlled from offices in London and, in its early years, BBEA was no exception. The key figures were Gordon Lang (Managing Director until his retirement in 1972 and replaced by G. S. Macdonald), Thomas Bradwall Barlow, representing the Barlow ownership, his son Henry Barlow, the finance director, and Alan Charton, Chairman of Boustead Holdings. Along with managers and visiting agents in Malaysia, who were usually British expatriates, these men dictated both the strategy and operations of the firm.

This began to change in 1968, when Henry Barlow moved to Malaysia, and his role expanded from finance director to unofficial chief executive, as he became responsible for most of the operational decision making. In 1971, Thomas gifted to his son, Henry, his stake in BBEA (the Barlow shares had originally been owned 50-50 by Thomas and Sir John Barlow), solidifying control in Malaysia.

First Reactions Malaysianisation

Drabble and Drake, writing while the final form of Malaysianisation was still taking shape, describe how the NEP was initially met with a high degree of uncertainty amongst foreign investors.²² The Malaysian Government failed to make clear what was meant by the concept of 'increased participation' and to what extent the concept was to be legally enforced, rather than being a guideline. Most businesses reacted by relocating their legal and

²¹ CU CSAS Barlow 66: BBEA Accounts 1967

²² Drabble and Drake (1981)

tax bases to Malaysia, doing so on the belief that participation could be achieved by becoming a Malaysian business (at least to some extent).

Other common courses of action in 1971 and 1972 were new issues of shares on the Kuala Lumpur Stock Exchange by foreign businesses and the reorganisation of foreign businesses under Malaysian incorporated holding companies. Many interpreted participation to mean leadership and employment, thus sought to appoint Malaysians to their boards of directors and increase employment amongst their staff. Throughout this early period, the Malaysian Government was still deciding which direction to take with the policy and how to enforce that, as was discussed by Tengku Razaleigh above.

BBEA followed the course of most foreign-owned businesses during this time. They had already relocated their headquarters to Kuala Lumpur and accompanied this with appointing new Malaysian directors. Their staff had consisted of mostly expatriates as visiting agents and engineers, a general shift began to take place towards the employment of more native Malaysians. They did not need to reorganise under a Malaysian holding company as, unlike some other agency businesses, BBEA was already incorporated in Malaysia. However, most of these actions can be considered delaying tactics, aimed at appeasing the Government whilst making little commitment to follow through with the requirements of the NEP. The next section of this paper uses the documents from the Cambridge University Archives to describe the first true steps towards Malaysianisation.

Initial Engagement in Malaysianisation

As pressure grew to Malaysianise, the managers and owners of BBEA were forced to face the decision of whether to engage in the process or to attempt to continue to delay. This section of the paper analyses how the management dealt with this decision and how the government used its power to make foreign-investors comply with its requirements. It is

sufficient to assume that the true decision-making process did not start until 1974, as above, when pressure from the Government and the MICCI forced companies to produce Malaysianisation blue-prints. It may seem that the managers and owners of BBEA did not have the ability to choose whether or not to engage in the Malaysianisation process, however, other options (such as immediate sale of the company) did exist and understanding this initial decision is important to understanding those that follow.

As part of the NEP, from 1973 companies seeking to make investments of more than M\$1,000,000 would be deemed to be expanding and were required to apply to both the Government's Foreign Investment Committee (FIC) and the Capital Issues Committee (CIC)²³ for permission if they did not comply with the required 30:40:30 ownership ratio.²⁴ This posed a threat to BBEA if they chose to continue to delay or avoid Malaysianisation; they were responsible for the maintenance of stores, equipment and plantations, all of which required regular and significant investment. Local Malaysian civil servants were particularly alert to investments by businesses that did not meet the participation requirements. According to the Wall Street Journal:

One company here [in Malaysia] burned out a piece of equipment and sought an import license for a new one, but officials ruled the company was expanding and asked pointed questions about plans for Bumiputra shareholders.²⁵

Threatened with challenges for spending anything more than 1 or 2 per cent of turnover, the pressure was mounting on the management of BBEA to begin the process of Malaysianisation. However, the managers and owners appear to have been concerned with

²³ Investors regarded the CIC as a tougher organisation to pass investments, due to its direct Tun Ismail Mohd Ali, who (Henry observed) had a reputation for playing 'Hard Cop' with foreign companies.

²⁴ CU CSAS Barlow 73/1: Memorandum from PM Varghese to CR Brown and Henry Barlow 25/03/1974

²⁵ Wall Street Journal (1975).

the potential capital gains tax liability that such a sale could generate. The owners sought advice on the tax implications of selling shares in Malaysia, although BBEA was Malaysian incorporated, if the shares were sold directly for cash by the existing shareholders, they would be liable for capital gains tax at the UK rate (30 per cent at the time). In a memorandum to the board of TB&B regarding this issue, dated May 1974, Henry Barlow sets out possible options for a reorganisation of the Barlow Group that would bring all the ownership under a Malaysian-based entity, allowing for negotiations with the Malaysian Government regarding tax.²⁶

The decision facing BBEA in mid-1974 was a choice between two options, either to openly engage in the Malaysianisation process or to avoid doing so - by delaying or by disposing of the business. Considering, the outcomes of the options open to them, disposal of the business is ruled out by management due to the growth potential and the high CGT bill that would be realised. Delaying the process is initially considered attractive, certainly this is the approach taken by most foreign-owned businesses between 1971 and 1974, however, this risks a decline in the value of assets due to the inability to make any large investments.²⁷ The appeal of this delay decision appeared to be that, if the Malaysian regime underwent a substantial change, priorities might change from equity participation to other forms of participation, or other issues altogether. Henry Barlow raises the possibility of this in personal correspondence with family and friends during early 1974.²⁸ The choice to openly accept Malaysianisation is initially considered less appealing than a continued delay, requiring reorganisation of the ownership structure and a loss of total control of the business by the Barlows and Bousteads. However, by openly engaging in the process, there would be

²⁶ CU CSAS Barlow 73/2: Memorandum "Notes on Reorganisation" from Henry to TB&B Ltd board 20/05/1974

²⁷ Yacob and Khalid (2012): Table 2: "The New Economic Policy: Foreign Business Strategies and Outcomes"

²⁸ CU University Library (UL) Barlow 209: "Personal Correspondence, 1973-4"

no limit on investment in the business. Henry, who of all the owners and managers appears to have been most in favour of Malaysianisation, writes to his father, Thomas, in April 1974 arguing that Malaysian investors may bring more revenue by favouring BBEA over other agencies to manage their land investments.²⁹

The decision to actively and openly pursue Malaysianisation was made in September 1974, with a memorandum dated 14th September indicating a decision had been made and providing a roadmap for the process: ‘The problem will be divided into 2 stages: (1) Ascertaining what is the correct vehicle for the Bumiputra participation, and setting this vehicle up. (2) Achieving correct participation on the right terms.’³⁰

This two-stage process indicates the decision points that will be the basis of the following sections of this paper. It is challenging to assess, in isolation, the short-term outcome of the decision to Malaysianise, as the actual outcomes of the process depend heavily on how the process is undertaken (for example, what form each of the two-steps takes). However, an analysis of the accounts of BBEA over 1974 and 1975 demonstrates that management were highly uncertain about impact of the decision on the company’s finances, increasing the "provision for contingencies" in 1974/5 financial year. The following sections will consider influences on, and outcomes of, the decisions that set the parameters of the Malaysianisation process.

The Malaysianisation Process

The form of Malaysianisation represents the setting of three parameters: When? Who? and What Price? ‘When’ refers to the timescale for the process; although the NEP stipulated

²⁹ CU UL Barlow 106: Letter from Henry to TBB 17/04/1975

³⁰ CU CSAS Barlow 74/1: Henry Memorandum to the board of BBEA, “Bumiputra Participation 2-Stage Plan”, 10/09/1974

1990 as the deadline, there was significant pressure to shrink the timescale to be as short as possible. 'Who' refers to who the participants would be on the Malaysian side, and 'What Price' refers to the price per share and any discount against market value that would be offered. This section considers the setting of each of these parameters individually.

When?

After having decided to Malaysianise, the managers of BBEA made the Malaysian officials aware of their intention to comply with the NEP deadline of 1990. The blue-print was to offer 20 per cent in 1975 and 10 per cent in 1980, with the plan that this would prevent any single investor immediately gaining control over 30 per cent of the company. However, this plan was not accepted by Malaysian civil servants, who, as a Wall Street Journal article explained:

...seemed intent on enforcing the 30-40-30 rule not by 1990, but now, and not for whole economy, but for each individual company. Foreign investors say harassment is continuous in an apparent effort to force changes in equity structure.³¹

Although BBEA had set out a clear plan to Malaysianise ten years before the apparent Government deadline, the management were confronted with the reality that an offer of 30 per cent immediately would be the only acceptable terms.³²

The sale of a 30 per cent share would lead to an ownership structure of 45 per cent Barlow, 25 per cent Boustead and 30 per cent Malaysian. The Barlows and the Bousteads made it clear that they would prefer to divide the Malaysian share between multiple

³¹ Wall Street Journal (1975)

³² CU CSAS Barlow 74/1: Letter from Tuan Abdul Aziz bin Eaji Taha (Bank Negara Malaysia) to Mr G McDonald (Chairman of BBEA), 06/08/1975

institutions or individuals to ensure they remained the two largest single shareholders. The next sub-section discusses the extent to which this was possible.

Who?

The Malaysianisation process was heavily controlled by the Malaysian Government, to the extent that institutions could only hold shares as representatives of Malaysians if they had Government approval. In August 1975, only four institutions had permission from the Government, these were: *Perbadanan Nasional (PERNAS, 'The National Corporation')*, Tabung Haji ('The Pilgrims' Fund'), Tabung Tentera ('The Military Pension Fund') and the Federal Land Development Authority (FELDA). The number would grow quickly through 1976 and 1977 as PERNAS established subsidiaries to target the Malaysianisation of specific industries. PERNAS and FELDA invested public money in foreign businesses, the other funds were pension and investment funds that invested private money with government support.

The owners of BBEA decided that offering shares to institutions would be a more effective strategy than an offer to investors on the open market, through the Kuala Lumpur Stock Exchange, as it would allow them greater control of the process.³³ In August 1975 it was agreed by the board of BBEA to offer 20 per cent (or 30 per cent, "depending on negotiations") to Tabung Haji.³⁴ This was not the Barlows' preferred situation, as it led to one investor holding a sizeable proportion of the company, but it had become apparent that Tabung Haji were the only one of the four institutions with the available capital to purchase the shares. A price was set (see below) and a share agreement was drafted, with Tabung Haji

³³ BBEA sought Malay institutional investors rather than Chinese participation since the NEP was designed to increase Malay participation in the economy. Moreover, the general presumption was that the Malay authorities would not have allowed Malaysian Chinese to be brought in as partners.

³⁴ CU CSAS Barlow 74/1: Letter from Henry to Alan Charton (Boustead Holdings Chairman), 23/08/1975

now taking 30 per cent. The agreement also stipulated that Barlow Boustead Estates Agency be given first refusal on the management of all land acquired by Tabung Haji in the future.³⁵ The shares sold to Tabung Haji would come from an enlarged share capital, rather than from the Barlow and Boustead holding companies, meaning the sale would not trigger capital gains (and therefore tax) for the original owners.

The draft agreement was approved by BBEA and Tabung Haji on 22nd September 1975, but by March 1976 the sale was yet to take place. Henry Barlow wrote to a friend who was on the board of *Plantation Agencies Sdn Bhd*, and was experiencing some Malaysianisation challenges of his own:

I am sorry to hear you are having trouble, but then so are we: we still cannot persuade the Pilgrim Fathers [Tabung Haji] to part with their cash, although they continue to maintain that they are anxious to participate. On this basis, I do not think you need to be unduly worried about getting out of step on participation, but you may be right to feel that it is not best to press the issue for the time being....³⁶

This note alludes to a serious problem that threatened to undermine the implementation of the New Economic Policy; the Government had pushed the purchase of equity too far, leading to a lack of capital. In a letter written in response to an article in the *Sunday Times* that supported the NEP and claimed that it was not undermining investment in Malaysia, Henry Barlow wrote:

The NEP... has gone sadly awry because of attempts in the last 6 months to push the policy too far and too fast. This was tacitly admitted by Tan Sri Ismail [Governor of

³⁵ Tabung Haji was already a client of BBEA via the Sungei Mengah Estate in Pahang.

³⁶ CU CSAS Barlow 70//1: Letter from Henry to Hunter Crawford (Plantation Agencies Sdn. Bhd.) 31/3/1976

Bank Negara, negotiating on behalf of Tabung Haji] when he stated that there was insufficient Malay capital to take up what was an offer at agreed prices (cf BBEA experience).³⁷

Henry goes on to say:

The political problems of a slowdown in the pace of Malay participation are appreciated, but then political demagoguery serves no-ones' long term interests. However, at the present rate, the nose is being cut off to spite the face.³⁸

The Barlows had never been particularly warm to the idea of Malaysianisation, but this note makes their feelings abundantly clear. Having been forced to sell shares, then forced to sell more shares than initially planned, they then found themselves facing an investor who could not afford them regardless. It was not until over a year after the initial slow-down in the sale that Tabung Haji finally dropped out of the process, proposing that another Malaysian institution may be able to afford the shares instead:

Henry received a phone call from Tan Sri Ismail indicating that Tabung Haji would not be able to take up the shares, Ismail wished to see these placed and asked... if they would accept Pernas Securities instead."³⁹

Tabung Haji purchased shares using funds provided primarily by Malaysian Muslims paying monthly subscriptions to build up reserves to fund a pilgrimage to Mecca, whereas PERNAS was financed by the Malaysian Government and primarily used loans backed by

³⁷ CU CSAS Barlow 74/2: Henry Memorandum to the BBEA board, "Investment Confidence in Malaysia", 20/10/1976

³⁸ CU CSAS Barlow 74/2: Henry Memorandum to the BBEA board, "Investment Confidence in Malaysia", 20/10/1976. 'The nose being cut off to spite the face' is an English idiom referring to needless self-destructive over-reaction to a problem.

³⁹ CU CSAS Barlow 74/2: Minutes of BBEA Board Meeting, 10/11/1976. Pernas Securities Sdn Bhd was a subsidiary of the PERNAS, the 'National Corporation'.

tax payers' money. The board of BBEA felt that PERNAS were likely to be able to produce the cash needed and agreed to take two weeks to consider the proposal from Ismail. The advice from Henry to the board was that "Ultimately, it would be imprudent to turn down such a proposal".⁴⁰

Once the details of the PERNAS offer had been reviewed by the board of BBEA, it became apparent the offer was on better terms than the original Tabung Haji offer. Whereas Tabung Haji had insisted on adding two new board members to BBEA to represent their interests, PERNAS intended to hold the shares as an investment only and wanted no influence over the day-to-day management of the agency. The loss of Tabung Haji also meant the loss of the potential for the land they would bring under BBEA management. PERNAS was unlikely to acquire land directly because their founding purpose was the purchase of equity in foreign-owned businesses. However, PERNAS did own just under 10 per cent in the Highlands group, which had 70,000 acres of land under BBEA's management. Despite their claims to not exert influence on the companies they owned, the new Highlands group chairman was in place mainly due to PERNAS' support.

A letter from Henry Barlow to Ian Sandbach, Managing Director of France Fenwick Ltd, an insurance company that insured BBEA's goods, describes the opportunities and challenges presented by this new offer:

We believe that this offer provides a chance of tying our largest principal [Highlands Group] more securely to us and, although we are less than happy at the semi-political nature of the animal, on balance we must agree. The Bousteads, I know, will not be

⁴⁰ CU CSAS Barlow 74/2: Minutes of BBEA Board Meeting, 10/11/1976. Pernas Securities Sdn Bhd was a subsidiary of the PERNAS, the 'National Corporation'.

enthusiastic, but I think that if the Barlows present a united front then they will accede.⁴¹

The Bousteads, being the minority shareholder in BBEA, remained concerned that the sale of 30 per cent of the company to a single institution would undermine their influence. Alan Charton, Chairman of Boustead Holdings, proposed an alternative plan: Boustead Holdings had already Malaysianised substantially, selling shares to Tabung Tentera and FELDA (each owning 25 per cent equity). Writing to Henry and Thomas, he explained the details of his plan:

As Boustead Holdings Berhad have now met the requirements of the Malaysian Government in terms of Malaysianisation, perhaps it might be desirable if we made an effort to persuade the Governor and the other Authorities concerned that the taking up of these shares by Boustead Holdings would provide for a more solidly based organisation....⁴²

Charton's strategy was that, instead of selling shares to PERNAS, the Malaysian Government might be persuaded to allow the Bousteads to take a total 55 per cent share in BBEA. This would bring the agency under majority ownership of a Malaysianised investor (since Boustead holdings was now Malaysianised). Charton wrote a detailed explanation of how such a plan could benefit both BBEA and the wider Barlow holdings in a letter to Thomas and Henry Barlow.

This offer was not deemed acceptable by the Barlows, who preferred the closer ties to the Highlands group (which the family also held shares in) over losing majority control to the

⁴¹ CU CSAS Barlow 73/3: Letter from Henry to Ian Sandbach, "Barlow Boustead Insurance", 03/11/1976

⁴² CU CSAS Barlow 70/1: Letter from Alan Charton to Henry and Thomas Barlow, "Barbeal Reconstruction", 01/12/1976

Bousteads. Charton strongly disagreed with the Barlows' plan, arguing that, despite what the Government had told BBEA, PERNAS were unlikely to be able to take up the shares at a good price:

I do not believe, at this stage, that the suggestion [to sell to PERNAS] was motivated by PERNAS' involvement in Highlands and Lowlands affairs. I would go so far as to suggest that they surely cannot be seriously interested in holding equity of a small agency operation such as Barlow Boustead.⁴³

Henry Barlow describes this as a "time of tension between the Barlows and Bousteads".⁴⁴ The Barlows, with their larger representation on the board and their larger shareholding, pushed forward with the sale to PERNAS during December 1976. However, to great frustration amongst the Barlows, Charton was proved right; PERNAS did not have the funds to buy the shares and there was no prospect of them being in a position to buy the shares for at least a year.⁴⁵ They recommended that BBEA consider a combined offer from Tabung Haji, Tabung Tentera and FELDA in their place (each taking 10 per cent equity).

The board had been thrown from institution to institution by the Malaysian Government, as the lack of capital to push the NEP as fast as desired began to undermine civil servants' ambitions. The Federal Government had delegated the implementation of the policy to investment institutions and local officials, whose personal ambitions and hunger for a quick profit had almost caused the collapse of the NEP. Articles in the Sunday Times,⁴⁶ the

⁴³ Ibid.

⁴⁴ Interview with Dato' Henry Sackville Barlow, 02/08/2019

⁴⁵ CU CSAS Barlow 74/1: Letter from Sheikh Mahmud bin Ali (Tabung Haji) to Henry, "30% shares in Barlow Boustead Estates Agency Sendirian Berhad", 31/12/1976

⁴⁶ Sunday Times (1976)

Daily Telegraph⁴⁷ and the Wall Street Journal⁴⁸ all comment on the damaged investor climate in Malaysia and competition presented by Indonesia and China.

With the three institutions approved by the board, negotiations accelerated considerably. A formal agreement regarding price and number of shares was in place by 29th December 1976.⁴⁹ New shares were to be issued, bringing the total number to 8,575,000 and the existing shareholders all waived their right to buy these shares in order to allow them to be sold to the Malaysian institutions. On 5th January 1977 the question of ‘Who’ was finally answered when the shares were sold to the triad of Tabung Haji, Tabung Tentera and FELDA.⁵⁰ After two years of trying it was third time lucky for the Malaysianisation of BBEA.

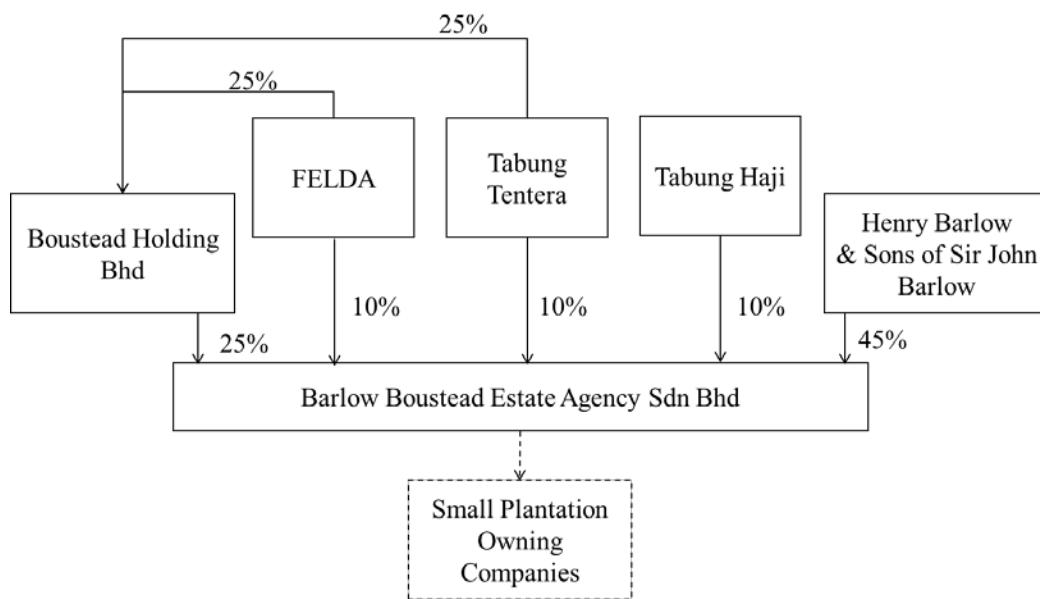


Figure 2 – BBEA Ownership after Malaysianisation (January 1977)⁵¹

What Price?

⁴⁷ Daily Telegraph 5 December 1974

⁴⁸ Wall Street Journal (1975)

⁴⁹ CU CSAS Barlow 74/1: Letter from Mark H. D. Barlow (MHDB) to Henry containing a summary of telex and phone conversations regarding the formal share agreement, 14/01/1977

⁵⁰ CU CSAS Barlow 74/1: Letter from Henry to Gordon McDonald, “Bumiputra Participation in BBEA Sdn. Bhd.”, 24/01/1977

⁵¹ Far Eastern Economic Review (1981)

In any sale of shares, be it a public or private offering, the question of setting the price involves forecasting, estimation and negotiation. The Malaysian Government stipulated, in a letter to businesses dated 25 February 1975, that:

All matters pertaining to the valuation of assets and the price of shares to be offered in the transactions involved as a result of the reconstruction shall be determined by the Capital Issues Committee (CIC).⁵²

The CIC appointed Bank Negara to make an independent valuation of BBEA. Using an assets-per-share price model, where the total assets of the company are divided by the number of shares, a price of M\$1.29 per share was reached. This gave BBEA a total value of approximately M\$11,000,000. However, Henry Barlow argued that this represented the absolute minimum value of the business and did not consider future earnings and dividend payments. As such, Bank Negara revised their suggested price to M\$1.35 per share. This meant an increase in the value of BBEA of around M\$500,000 to include future earnings.⁵³ This change was not sufficient for Henry, who wrote to the board: ‘On the basis of earnings, assumed to be a sustainable level of \$3,000,000 per year, it is not unreasonable to argue that the shares should be worth rather more.’⁵⁴ He suggested that a more appropriate price per share would be between M\$1.57 and M\$1.67, increasing the value of the company to approximately \$2,000,000 more than the CIC price.

Protracted negotiations between Bank Negara and Henry failed to change the price offered for the shares, with the bank and the CIC referring to discounts of 10 per cent or

⁵² CU CSAS Barlow 74/1: Letter from Tuan Abdul Aziz bin Eaji Taha (Bank Negara Malaysia) to G McDonald (Chairman of BBEA), 06/08/1975

⁵³ Ibid.

⁵⁴ CU CSAS Barlow 70/1: Memorandum from Henry to the BBEA board, “Background to the Valuation of Shares in Barlow Boustead Estates Agency Sdn. Bhd.”, 06/01/1976

higher over true value that were expected for Malaysianisation.⁵⁵ In November 1976, days before PERNAS dropped out of the purchase (as described above), the price was formally agreed at M\$1.35 per share. This was described as M\$1.29 share of underlying value in the business and M\$0.06 per share in ‘goodwill’ to include future potential.⁵⁶

The number of shares was increased from 6,000,000 to 8,575,000 with the new offering split equally between Tabung Haji, Tabung Tentera and FELDA. The total price paid was M\$3,476,250 which valued BBEA in total at M\$11,576,250.

Strained Relations: The Future of the Barlow Interest in BBEA

Over 2 years of negotiation, prevarication and difficulty, BBEA had undergone the Malaysianisation in a single move on 6th January 1977. The process had put severe strain on the relationship between the Barlows and Bousteads. The Bousteads had put pressure on the Barlows to reorganise BBEA to give them a greater shareholding, as discussed above. When this failed, they continued attempts to persuade the Barlows that greater Barlow-Boustead unity would be mutually beneficial. The Boustead Group had been reorganised to make more financial support available for future ventures in Malaysia, but the Barlow Group did not have the same assets, creating a sticking point between the partners.⁵⁷

One particular point of contention was over the purchase of shares in the ‘Barlow London Group’ by BBEA, which would have allowed the smaller companies that the Barlows owned in Malaysia to meet the participation requirements. In 1975, the Bousteads had been accepting of this plan, but by 1977 their position had changed, apparently strongly

⁵⁵ The expected discount on the true value was partly due to the Malaysian government policy of allowing foreign investors to repatriate the sale proceeds in cash from divestments in Malaysian assets.

⁵⁶ CU CSAS Barlow 73/3: Memorandum from Henry to the BBEA board “Bumiputra Participation & Barbeal Management”, 20/11/1976

⁵⁷ CU CSAS Barlow 70/2: Memorandum from Henry to the TB&B board “Barlow Interests in BBEA”, 20/07/1977

influenced by their Malaysian shareholders. Alan Charton, representing the Boustead interest, said that such an investment could not be allowed to go ahead due to a lack of capital, but particularly due to the lack of planning and careful management presented by the Barlows.⁵⁸

The final blow in the power struggle between the Bousteads, the Barlows and the Malaysian institutions came on 23rd January 1979. An extract from the minutes of the BBEA board meeting (including hand-written corrections by Henry Barlow) explain what happened and demonstrate the high level of tension:

5. Any Other Business: Mr. Macdonald [Chairman of BBEA] reported that he had received a private letter from Mr. Charton [Boustead representative] indicating that the three Malay institutional shareholders in Barlow Boustead had offered their Barlow Boustead shares to Boustead Holdings Berhad on the basis of one Boustead Holdings share and \$1.45 in cash for each share held by them and that they had accepted the offer. The letter further recorded that Boustead Holdings Berhad would accept any further offers of shares from member of the Barlow family on the same terms. Mr. Charton explained that it might be a further 2 weeks before all the formal approvals had been received, after which a time limit would be given for the remaining shareholders to decide whether to offer their shares on the same terms, or to remain as Barlow Boustead shareholders.

Mr. H. S. Barlow remarked that a private letter of this nature did not appear prima facie to comply with the relevant articles of association (No.37) governing the transfer of shares. He had informed that Counsel's opinion had been sought on this point and that Counsel had confirmed that the procedures were correct.

⁵⁸ CU CSAS Barlow 71/2: BBEA board meeting minutes 03/11/1977

Mr H. S. Barlow recorded his regret that matters had turned out this way, but ~~accepted~~ noted [Henry correction in pencil] that this was a majority decision.⁵⁹

This arrangement would give the Malaysian institutions control of Boustead Holdings and a majority share in BBEA. The Barlows would own 45 per cent of BBEA, with Henry himself owning 22.5 per cent and the other 22.5 per cent held by Sir John Barlow's sons (Henry's cousins) as indicated in figure 3. The critical decision was; What do the Barlows do about BBEA? An important aspect of this decision is whether the Barlows act together, or whether Henry and the other family members will deviate in their decisions. Henry was the only member of the Barlow family engaged in running the business day-to-day. Having moved to Kuala Lumpur and built up BBEA, he clearly felt enough attachment to the firm to want to continue his involvement. His cousins, however, had a more distant relationship with BBEA, contributing very little to the day-to-day running of the firm from London. The frustration with the in-fighting among foreign investors was felt more acutely in London.

Negotiations to find alternative courses of action took place rapidly throughout late January 1979 and the Barlows eventually faced a choice between three possible options:

- (1) Sell the BBEA share to Boustead Holdings Berhad on the terms detailed above
- (2) Continue to hold their shares in BBEA, but have a minority stake
- (3) Offer the BBEA shares to the Highlands Group

The option of an offer to Highlands, who were a major plantation owner, emerged when they expressed an interest in building up their own estate management capability. Suspecting that owning a large share in BBEA might provide a faster solution to their needs, Henry had enquired about their interest and received a warm response. Unwilling to sell their shares to

⁵⁹ CU CSAS Barlow 71/2: BBEA board meeting minutes 23/01/1979, annotated

the Bousteads, as an apparent retaliation for the underhand tactics they had used to gain control of the group, the Barlows considered a sale to the Highlands Group a more favourable option. With the Barlows also holding a 10 per cent share in Highlands, this option would also consolidate the Barlows Malaysian interests to some extent.⁶⁰

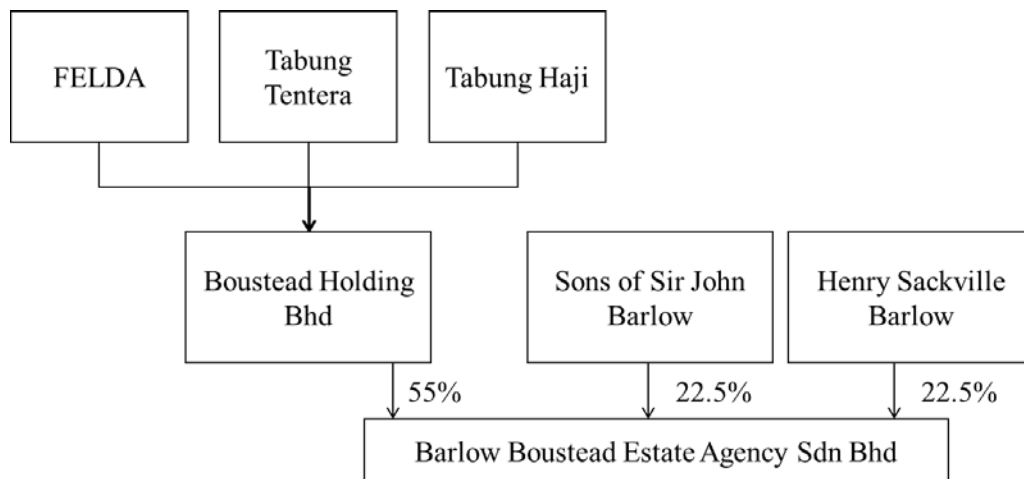


Figure 3 – Ownership of BBEA as proposed by Alan Charton in 1979.

After months of consideration and negotiation, the other Barlows decided that selling the shares to Highlands group or another Malaysian investor would be their best option. Henry, however, had made the decision to continue to own his share in BBEA and to stay on the board as a director. He even considered an attempt to become chairman of the board. This caused frustration amongst the Barlows, and concern from his father, who wrote to Henry in June 1979:

... I feel you should consider selling your shares in Barbeal [BBEA] as well so that the name of the company can be changed, even if you stay on as an employee and director of Barbeal. Mark's [Barlow, son of Sir John and director of Barlow Holdings]

⁶⁰ CU CSAS Barlow 75/1: Henry Memorandum to the TB&B board, "BBEA", 20/02/1979

parting words to me were that if you keep in touch with him direct, this might go a long way to resolving present difficulties and misunderstandings.

This whole matter requires thought and discussion if you desire to remain in Barbeal and try to become a supremo there. You will not want to find yourself with all the responsibility, but little authority or power, which will probably rest with the Malays!⁶¹

By the time the Barlows made their decision the offer from Boustead Holdings had expired. Yet, with Henry not considering selling his stake and thus not helping to orchestrate the deal with the Highlands group that he had been the chief architect of, the Barlows were forced to go to the Malaysian Government to dispose of the shares.

The Malaysianisation process had built up significant momentum between 1975 and 1979. Returns from previous investments were building up the spending power of the Malaysian institutions, in particular PERNAS, and the civil servants running the funds were keen to see them spent. Thus, when the Barlows approached the Government with an offer of an additional 45 per cent share in BBEA, it was warmly received and a process to value the shares began.

As with the first round of Malaysianisation, the CIC (Capital Issues Committee) was called upon to value the shares in BBEA. This time reaching a value of M\$2.79 per share, double the value from the first round, reflecting the 200 per cent revenue growth since 1975 and clearly an attractive offer to the Barlows.⁶² This also alludes to the increased spending capabilities of the Malaysian institutions, now that they were less strapped for cash they

⁶¹ CU CSAS Barlow 75/1: Letter from TBB to Henry, 20/06/1979

⁶² CU CSAS Barlow 75/1: Letter from Tuan Ahmad Bin Sidek (Pernas Group Controller of Planning and Development) to Henry, 20/09/1979

could afford to offer more favourable terms to foreign investors. PERNAS was selected as the institution that would make the investment.

This sale was not well received by the Bousteads, who were intent on gaining 100 per cent of BBEA. In the latest round of boardroom battles between the Barlows and the Bousteads, Alan Charton attempted to block the sale, and the Boustead offer was put back on the table:

Mr. Charton stated that he understood a memorandum on the subject had been submitted to the Prime Minister and regretted that shares were being offered to PERNAS. He stated that he would not be prepared to allow more than 22.5% of BBEA shares to fall into PERNAS hands.... He thought the Barlow family would wish to reconsider the proposals previously made by Boustead Holdings.⁶³

The Barlows rejected this offer from the Bousteads, believing that there was sufficient interest from Malaysian institutions in BBEA that they could get a better price. Henry felt that the Bousteads could have more to give if the Barlows were prepared to negotiate, but the hostility that had developed between the different parties made such discussions unlikely. In 1979, PERNAS emerged as a potential buyer of the Barlow shares. Negotiations centred on the future of BBEA's major agency contracts, particularly with Highlands & Lowlands (H&L), their largest customer.

PERNAS, which owned just under 10 per cent of H&L (which was Malaysianised earlier), was effectively able to use their control of H&L as leverage in the negotiations. The Barlows were prepared to sell to PERNAS, but Henry wanted a 'put and call' option on the shares. The option would have allowed Henry to sell his cousins' shares to PERNAS with a

⁶³ CU CSAS Barlow 71/2: BBEA board meeting minutes 27/11/1979

call option to buy them back if H&L did not renew their BBEA contract. The put option allowed Henry to sell his stake in BBEA to PERNAS within seven years, at the same price.⁶⁴ It appears that the put and call option was a major sticking point in the negotiations, which dragged on until early 1982. Eventually the deal was abandoned as both parties failed to agree terms.⁶⁵

The collapse of the proposed PERNAS deal presented Boustead Holdings with another opportunity to persuade the Barlows to sell their shares to them.⁶⁶ This time the Barlows were prepared to accept the Boustead offer whereby they would sell to Tabung Tentera and FELDA in cash. Tabung Tentera and FELDA would then swap their BBEA shares for Boustead shares. These transactions gave Boustead full control of BBEA. The sale was completed in October 1982, with Boustead Holdings taking control of BBEA and renaming it Boustead Estates Agency Sdn. Bhd.⁶⁷

Discussion and Conclusion

This paper has focused on the Malaysianisation of BBEA between 1970 and 1982, providing an in-depth of analysis that was previously not possible. In Yacob & Khalid (2012) the authors conclude that firms either adapted to Malaysianisation, through new joint ventures and expansion, or divested their Malaysian interests. The case of BBEA demonstrates that using such a dichotomy over-simplifies how investors reacted to Malaysianisation. In fact, the Barlows' and BBEA went through three stages of response: Delay, Adapt, and Divest. Each strategy was adopted emergently in response the changing

⁶⁴ CU CSAS Barlow 75/1: Draft contract for sale of BBEA share to PERNAS 15/06/1981

⁶⁵ CU CSAS Barlow 75/1: Letters between Henry and investment bankers/lawyers. 14/06/1980

⁶⁶ CU CSAS Barlow 75/1: Letters between Henry and John K. Barlow, 1980-81

⁶⁷ Financial Times (25/10/1982)

position of the Malaysian Government. The process was not planned, each time the Barlows changed strategy they expected it to be the permanent solution.

From 1970 to 1974 delay was the approach chosen by the Barlows; they were able to do little more than pay 'lip-service' to the NEP. There were no restrictions on investment and so no impact on the operations of the firm. The Government itself was not yet clear how the NEP would be implemented and how the concept of 'participation' would be interpreted.

This changed in 1974 when the pressure on foreign investors to release equity increased and restrictions on investments came into place. The Barlows could no longer delay and chose to adapt rather than divest. They interpreted the simple requirement for 30 per cent Bumiputra participation by 1990 at face value and set out a plan to achieve it, but in the first of several inconsistent moves by the Government their timeline was shortened from 'by 1990' to 'as soon as possible'. Offering 30 per cent equity, BBEA was thrown from investor to investor as the ambition of Malaysian civil servants to buy foreign equity out-paced the size of their pockets. The lack of clear strategy by the Government soured investor relations, the damage done was irreparable.

The Barlow's perception of the Malaysian Government was weakened immeasurably further by the events of 1978 and 1979, when the Malaysian funds proposed to seize control of the Boustead group. Coupled with the policy of allowing divesting foreign investors to remit money out of the country, there was a clear incentive for the Barlows to get out. Thus, now left minority shareholding in most of their own group, by 1980 the Barlows had begun to re-organise and divest.

When dealing with foreign investors, the Malaysian Government did not seek total divestment, instead using their 'expanding cake' theory in an attempt to persuade foreign business owners that partial nationalisation could be beneficial. The result of this policy of

'soft nationalisation' emerge above, as a smaller share of the growing economy led to in-fighting amongst foreign investors. In-fighting in this case between the Barlows and Bousteads was fuelled by two counter-acting incentives. Firstly, divesting investors could remit money out of the country and so were incentivised to sell-up (and at a discount). Secondly, some investors were confident that the plantations would continue to be profitable under government ownership, so fought to grow their holdings by buying the discounted shares. Here Henry's cousins pursued the former, whilst the Bousteads and Henry Barlow maintained confidence in the Government. An analysis of the accounts of BBEA supports these two stances taken by the shareholders. On the one hand, the BBEA accounts shows a growth in dividends from M\$600,000 in 1974 to M\$2,572,000 in 1980, reflecting a desire to cash out. On the other hand, the asset value of the firm grew by 50% over the same period, supportive of the desire to get the best valuation. The competition for ownership increased over time as a result of attempts to further increase participation by the Government. Eventually, it reached the point where the investment climate was no longer attractive to many foreign investors like the Barlows and nationalisation occurred by default.

The paper contributes to an understanding of the motivations of a complex corporate divestment decision with an interplay of both politics and economics within the Malaysian government's approach to soft nationalisation through the New Economic Policy. The question of whether the Malaysian Government could have increased participation without causing such divestment through a different approach to Malaysianisation is outside the scope of this paper but is an area for further research. Further research into the specific case of the Barlow Boustead Estates Agency could evaluate the quantitative impact of the events described here on the financial performance and business model of the Agency.

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