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*The 'Unfinished Business' of Malaysia's Decolonisation: The Origins of the Guthrie 'Dawn Raid'**

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Abstract

In a 'dawn raid' on the London Stock Exchange on 7 September 1981, the premiere British rubber and oil palm conglomerate in Malaysia, the Guthrie Corporation Limited, was taken into local control in less than four hours. This

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Finally, and more persuasively (as will be argued), the Dawn Raid can be viewed as a logical outcome of Malaysia's New Economic Policy (NEP) and the longer-term aspirations of a key figure within the Malay elite, Tun Ismail Mohamed Ali, the former governor of Malaysia's central bank—Bank Negara—and the chairman of PNB from 1978 to 1998. The Guthrie takeover, therefore, tells us much about what Tim Harper has called the 'unfinished business' of *merdeka* (independence)[9]—in this case, despite constitutional independence for the Federation of Malaya in 1957 and the creation of Malaysia six years later, the Malay(si)an economy remained dominated by foreign (and especially British) companies, and, concurrently, the widely held belief that there remained a perilous economic imbalance between *bumiputera* (Malay and other 'indigenous' Malaysians) and non-*bumiputera* communities.

This article can provide a more objective and searching analysis of these issues given its interrogation of the currently available primary sources. Unfortunately, the directly relevant government papers—in both Malaysia and Britain—are not yet in the public domain. Meanwhile, the Guthrie archives at the School of Oriental and African Studies, London, consist of a few ledger books and marketing records rather than high-level policy-making material. There was, however, rich commentary on the Dawn Raid in contemporary magazines, journals and newspapers, and these have been revisited and reassessed. Moreover, under the UK government's Freedom of Information Act, access was granted to the Bank of England files which deal with the raid and its aftermath. More importantly still, this archival material has been supplemented by interviews and correspondence with key participants on both the Malaysian and British sides.

In the course of the authors' research, the Dawn Raid became a live issue once again in Malaysia in the context of 50 years of *merdeka*. A war of words broke out during the April 2007 Ijok by-election, when the candidate for the opposition Parti Keadilan Rakyat (formerly known as the National Justice Party, thereafter People's Justice Party) and chief investment officer of PNB in 1981, Abdul Khalid Ibrahim (now

relations with Britain and Singapore in 1981' in *Contemporary Southeast Asia*, 4, 3 (December 1982), pp. 351–3; Khoo Boo Teik, *Paradoxes of Mahathirism: An Intellectual Biography of Mahathir Mohamad* (Kuala Lumpur: Oxford University Press, 1995), pp. 54–7.

9 T. N. Harper, *The End of Empire and the Making of Malaya* (Cambridge: Cambridge University Press, 1999), p. 341.

however, Ismail 'would never talk to H&Cs', an antipathy apparently based upon Finlay Gilchrist, H&C's chairman from 1962 to 1977, 'never visiting Malaysia and calling on him [Ismail]'.[36] Harrisons was 'deeply resented' by leading *bumiputera*, given its intransigent attitude towards Malaysianisation. Whereas GCL had at least devised the Guthrie Ropel scheme, Harrisons in the early 1980s was still in negotiation for the Malaysianisation of its major subsidiary, Harrisons Malaysian Estates (in which H&C held 80% of the shares), discussions which had been going on since 1976. PNB held only about 8% of H&C in 1981 compared to one quarter of Guthrie.[37]

As Khalid Ibrahim has revealed, the principal reason why Guthrie was targeted in 1981 was the dispersed pattern of GCL's ownership, involving a number of share blocks which were easily identified and could be negotiated with either by PNB directly or by the London merchant bank, N. M. Rothschild & Sons Ltd., acting on PNB's behalf. Moreover, a number of those blocks were held by parties 'friendly' with PNB. With the 25% which PNB already held, acquisition of these congenial holdings would allow the investment agency to control over 40% of GCL's equity, and hence the London board.[38] These pro-PNB interests were Genting Berhad (through building up a casino and resorts business from the 1960s, Genting's chief executive, Lim Goh Tong, necessarily developed a close relationship with successive Malaysian prime ministers, and it was partly through sales from Genting that PNB had earlier picked up 8% of H&C's shares); Bank Simpanan Nasional (Malaysia's national savings bank under Finance Minister Tengku Razaleigh Hamzah); the Kuwait Investment Office (Ismail Ali was also head of Malaysian-Kuwaiti Investment); and the Oversea-Chinese Banking Corporation (OCBC) (which in remaining a 'neutral' shareholder had permitted PERNAS to secure control of Sime Darby in 1976).[39]

As it turned out, the OCBC chairman, Tan Chin Tuan, decided not to sell his bank's block of Guthrie shares despite a long, late lunch

[36] Letter to White, 21 April 2003.

[37] 'A respite, not a reprieve: Sime Darby gives up its chase of Guthrie Corporation and pockets a healthy profit in the process' and 'Out of the doldrums' in *FEER*, 19 December 1980 and 26 June 1981.

[38] Interview with Khalid Ibrahim, 2 November 2007; Leela Barrock, 'When the big boys came home', Merdeka Special in *The Edge*, 3 September 2007, pp. 30–31.

[39] 'Genting group: Farewell to our founder: Tan Sri Dato Seri (Dr.) Lim Goh Tong' in *New Straits Times*, 26 October 2007; 'Out of the doldrums', 26 June 1981; Gomez, *Chinese Business*, pp. 49–58.

manager had any chance of concluding a deal in Edinburgh![44] Moreover, one London broker had told the *Far Eastern Economic Review* (*FEER*) in December 1980 that 'Harrisons has a certain mystique' and 'The City would defend it come hell or high water' as a 'bastion of old fashioned integrity and diligence'.[45] GCL was also attractive to PNB because it held prime properties for industrial and residential development outside of Kuala Lumpur along the Klang Valley: as Khalid appreciated at the time, by increasing the value of Guthrie land by 20–30% PNB would be able to recoup its purchase price of £282 million.[46]

It should also be appreciated that the GCL management was faced with an impossible dilemma. Necessarily, the Guthrie board had obligations to its existing British shareholders. As John Gullick, a non-executive director of GCL in 1981, has explained:

> The GCL directors were willing to facilitate a substantial Malaysian participation in the ownership of the Guthrie group. But as directors of a UK public company they deemed it essential to retain majority control of its enterprise, if only at a level of 51 per cent. To go further than that would require the approval of GCL shareholders in a general meeting, and the directors were unwilling to recommend such a policy to shareholders, since they did not think that retaining only a minority stake would be satisfactory.[47]

Ranked 68 out of the top 100 British companies on the LSE in September 1981, GCL shares were also well worth hanging on to.[48]

At the same time, GCL's diversification strategy should be contextualized and rationalized. The group did have plans to develop new plantations in partnership with state development corporations in both peninsular and East Malaysia, but, as the *FEER* appreciated, plantation companies had not been able to expand their acreage in Malaysia since the early 1970s. There was no official policy barring land alienation to non-Malaysians: 'The answer has never been no when such projects have been proposed—it simply has never been yes'. The only alternative—again to meet shareholder obligations—was to expand outside Malaysia. Yet, it was precisely the GCL board's strategy of diversifying with capital earned in Malaysia that

[44] Interview with Khalid Ibrahim, 2 November 2007.
[45] 'A respite, not a reprieve', 19 December 1980.
[46] Interview with Khalid Ibrahim, 2 November 2007; 'When the big boys came home', 3 September 2007.
[47] Gullick note, 26 April 2007.
[48] Gent interview, 19 April 2007.

supersonic aircraft on its flights to Australia.[61] Mahathir regarded this as a 'cavalier attitude', epitomising the lingering of a colonial 'master–servant mentality' in the United Kingdom.[62]

Moreover, immediately after the Dawn Raid, Malaysian leaders were convinced that the amendment of the Substantial Acquisition of Shares Rules on the LSE, allowing minority shareholders a greater period of reflection during takeover attempts (see below for more details on this complex issue), was directed at Malaysia as a consequence of PNB's acquisition of GCL. The amended rules came into effect barely two weeks after the Dawn Raid, and following the 'strong and open hints of possible future take-overs of other British companies in Malaysia, for instance Dunlop, Barlow, Harrisons & Crossfields [sic], along similar lines to the Guthrie take-over'.[63] The Malaysian view was that the amended legislation was another hangover from the colonial past, demonstrating Britain's stubbornness in clinging to its economic legacy in Malaysia. As Mahathir told the *FEER* in October 1981, British complaints about 'back door nationalisation' on the part of Malaysia when PNB was openly buying equity at the market rate and according to LSE rules, followed by British amendment of those dictates, seemed 'more like British economic nationalism rather than Malaysian economic nationalism'.[64]

Three months after his appointment as prime minister and just over a month after the Dawn Raid, Mahathir officially announced the 'Buy British Last' campaign. After 10 October 1981, the Prime Minister's Department vetted every proposed future Federal government purchase of British goods. This hit certain British companies hard—for example, Dunlop Malaysia Industries, the local manufacturing plant of the British multinational, had held a government contract for the supply of truck tyres since it began production in 1963. But this was suddenly lost to Goodyear of the United States, and the 'uncertain' future in Malaysia was a factor in Dunlop's decision to sell out to local

[61] Gent interview, 19 April 2007; Kershaw, 'Anglo-Malaysian relations', p. 637, n. 16.

[62] Mahathir interview, 17 July 2007.

[63] Chew, 'Changing directions', p. 353.

[64] 'A tough guy takes over' in *FEER*, 30 October 1981. Mahathir was still smarting in 1996 during an address at St. Catherine's College, Cambridge: 'The British Government immediately stepped in, declaring that "dawn raids" were henceforth to be regarded as illegal. Since we did it before it was declared illegal, it should have been accepted in good spirit. However, Malaysia was accused of back door nationalisation'. 'Market Economy and Moral and Cultural Values—A Malaysian Perspective', 16 April 1996.

February 1982 in which bilateral relations, particularly with regard to trade and education, were discussed.[67]

A year later, Her Majesty's Government announced that it would give Malaysian students special preference under a new scheme providing £4 million in additional Commonwealth scholarships. Over 600 Malay students were now able to enter Oxbridge. The intercession of Sir Donald Hawley (former British High Commissioner to Malaysia) and Ismail Ali also paved the way for Thatcher and Mahathir to dine together in March 1983 at 10 Downing Street in the 'presence of assorted nabobs'.[68] The following month, the 'Buy British Last' directive was withdrawn. In July, Ghazali began an official two-day visit to Britain, and in August a new programme of technology transfer, sponsored by the BMITA, in conjunction with Malaysia's Public Services Department, allowed 20 senior Malaysian government employees an 11-month secondment at British firms such as BP Malaysia, Lever Brothers, Inchcape, the Chartered Bank, Malayan Cement, ICI Malaysia and the General Electric Co. to enhance their management expertise and skills. Funded also by the UK's Overseas Development Administration, this was the end result of talks between Mahathir and British business leaders following the 'Buy British Last' announcements.[69] Despite Mahathir's bravado, therefore, there was never any intention of ditching the Commonwealth relationship—British investments were still welcome in Malaysia, so long as these complied with NEP requirements, and British firms were assured that if they were taken over, expatriate managers would be retained as long as they cooperated with Malaysia's development objectives.[70]

At the same time, Mahathir was not personally instrumental in the planning or execution of the Dawn Raid. As Deputy Prime Minister after 1976, and particularly after his additional appointment as Minister of Trade and Industry in 1978, Mahathir had certainly been concerned with boosting *bumiputera* equity participation, and was therefore fully in support of PNB's objectives to acquire large companies to rapidly increase the Malay share of the corporate economy. Yayasan Pelaburan Bumiputera (YPB; the Bumiputera

[67] 'Studiously ignored' in *FEER*, 18 December 1981, pp. 52–3; Chew, 'Changing directions', pp. 358, 359.

[68] Mahathir interview, 27 July 2007; Interview with Sir Donald Hawley, Salisbury, UK, 10 April 2007; 'Malaysian students get more British aid' in *FEER*, 24 February 1983.

[69] 'The thaw continues' in *FEER*, 4 August 1983.

[70] Chew, 'Changing directions', p. 357; Mahathir interview, 17 July 2007.

A 'new breed' of Malay political leaders pursued a changing politico-economic agenda which was clearly reflected in both Malaysia's internal and external relations after the inter-communal violence of May 1969 in Kuala Lumpur. The Malay 'anglophiles' were replaced by the 'ultras' such as Harun Idris, Mahathir Mohamad and Musa Hitam who questioned the viability of economic liberalism being pursued by the Alliance government and insisted that Malay/*bumiputera* economic and political 'rights' be addressed via the restructuring of the economy. The Abdul Razak and Hussein Onn administrations of 1970–1976 and 1976–1981, concerned with reducing British ownership, took a number of measures to gain control of British-owned firms in the resource-based industries as a means to ensure the successful implementation of the NEP. Indeed, as early as November 1974, the *Sunday Telegraph*'s Kuala Lumpur correspondent reported that 'the winds of change are now blowing strongly' through Malaysia's primary industries, and the Malaysian government 'will press ahead with its policy of bringing 70 per cent equity control plus the management of its major industries to Malaysia and it could happen in a shorter time than anticipated'. There would be 'no question of nationalization or forced acquisition of shareholdings at low prices but published guidelines on acquisitions and takeovers and the mid-term review of the Second Malaysia Plan leave little doubt that running tin mines and plantations from boardrooms in London and Singapore is no longer acceptable'.[83]

This determination to reduce British control of the primary producing sectors coincided with increasing state intervention in the economy and public–private partnerships in 'Malaysia Inc.' modelled on Japan.[84] The growth of government-linked corporations from the mid-1960s, and particularly after 1971, led to an increased volume of equity assets in the Malaysian economy being held 'in trust' for the 'indigenous' peoples by *bumiputera*-dominated institutions. The most important of these parastatals was PERNAS, formed in 1969 following the second government-sponsored Bumiputera Economic Congress in Kuala Lumpur. From the mid-1970s, under the leadership of Tengku Razaleigh, PERNAS turned away from majority control of joint ventures with foreign interests in the manufacturing sector

[83] Ivan Fallon, 'British firms under pressure to toe the line' in *New Straits Times*, 5 November 1974.

[84] Khadijah Khalid, 'Malaysia-Japan Relations: Explaining the Root Causes of the Pro-Japan Orientation of Malaysia in the post-1981 Period', PhD Thesis, School of Oriental and African Studies, London, 1999, chapter 2.