

RESTRUCTURING THE TIN MINING SECTOR UNDER THE NEW ECONOMIC POLICY: A STUDY OF BUMIPUTERA TIN MINING COMPANIES, 1970 -1995*

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With the implementation of the New Economic Policy (NEP) in the early seventies, the government also intervened in the tin mining sector with the aim of enhancing bumiputera corporate stake and participation. The strategy was three-pronged: the government created large scale bumiputera tin mining companies at the federal level, medium scale bumiputera tin mining companies at the state level, and small-scale bumiputera tin mining companies at the individual level. Despite the apparent success of this strategy in creating a bumiputera presence in the sector, the onset of an economic recession and the international tin crisis ("the twin crises") in the mid-1980s brought a halt to this policy. This paper investigates how the twin crises and the subsequent changes in government policies affected the large, medium and small-scale bumiputera companies. Whereas the large-scale bumiputera companies and some medium scale companies were able to survive and transform themselves through unique characteristics (that included political patronage), this was not the case with the smaller scale entities. By ignoring the concerns of such small companies in formulating subsequent plans, the government appears to have abandoned those who needed its assistance most.

Sejurus selepas perlaksanaan DEB, kerajaan telah meningkatkan campurtangan dalam beberapa sektor ekonomi termasuklah sektor perlombongan bijih timah. Dengan sasaran untuk meningkatkan kepentingan bumiputera di dalam sektor ekonomi asli, yang sebelum ini didominasi oleh kepentingan asing dan bukan bumiputera, kerajaan telah mengambilalih kepentingan dalam beberapa syarikat perlombongan bijih timah asing untuk dipindahmilikkan kepada pengurusan bumiputera. Disamping itu kerajaan juga telah mengalakkan

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penglibatan bumiputera dalam sektor perlombongan khususnya dalam sektor pam kelikir dengan penubuhan syarikat-syarikat berskala kecil di peringkat pusat maupun di peringkat negeri. Namun itu kemelesetan ekonomi dan kejatuhan harga bijih timah pada pertengahan 1980-an telah menjejaskan hampir keseluruhan ketahanan syarikat-syarikat perlombongan bijih timah bumiputera maupun bukan-bumiputera. Kajian ini melihat bagaimana ketahanan syarikat-syarikat perlombongan bijih timah bumiputera skala besar, sederhana dan kecil selepas ia diwujudkan dan melihat antara lain faktor-faktor yang telah mempengaruhi ketahanan organisasi bumiputera yang terlibat dalam sektor perlombongan bijih timah. Kesan peralihan dasar pembangunan kerajaan kearah industri berteknologi tinggi dan berat serta dasar-dasar penswastan yang diperkenalkan pada awal dekad 1980-an, terhadap ketahanan sebahagian daripada syarikat tersebut juga dilihat. Hasilnya menunjukkan bahawa (i) hubungan langsung antara pengurus syarikat dengan kerajaan, (ii) saiz modal dan aset pelaburan yang besar, (iii) tahap kemahiran kejuruteraan serta (iv) strategi pelaburan amat mempengaruhi ketahanan syarikat-syarikat perlombongan tersebut. Disamping itu artikel ini juga mengemukakan pandangan terhadap proses perlaksanaan dasar yang kurang menitik beratkan selok belok pengendalian syarikat tersebut di peringkat individu yang turut menjejaskan ketahanan syarikat-syarikat tersebut.

INTRODUCTION

The New Economic Policy (NEP) was implemented in the early 1970s to overcome inter-ethnic economic disparity and to achieve national unity in Malaysia after the country experienced inter-ethnic riots in 1969. Despite the dominance of UMNO in the government, the role of the bumiputera¹ in commerce and industry was limited during the first decade after independence. Concerned by the slow economic progress, bumiputera elite demanded that the government play a more significant role in helping them achieve a 30 percent stake in the corporate sector within twenty years. Thus, under the New Economic Policy (NEP), the Government intervened in the corporate, financial, plantation and mining sectors of the economy. While official attempts at increasing the bumiputera stake in the corporate sector through the purchase of equities and shares have received much attention in the literature, its intervention in the mining sector has received scant attention. This sector, traditionally dominated by European and Chinese interests and generally viewed as a 'sun-set' industry, was a peculiar choice to begin with; the reasons that guided the choice merit a separate study. However, the focus of this paper is on the nature, scope and impact of government intervention in the mining

¹ Defined as the Malays and other indigenous people of the country.

sector as part of its overall policy to increase Bumiputera participation in the economy.

GOVERNMENT INTERVENTION IN THE TIN MINING SECTOR

The Pre-NEP Phase

The federal government exerted an important influence on the tin mining sector since the sector's inception. It formulated and regulated development policies affecting the sector, including financial procedures pertaining to the collection of relevant taxes imposed on it². Consequently, the role of state governments in the mining sector prior to the NEP was minimal, although the Malaysian constitution provides wide discretionary powers to the state in matters pertaining to land, including the granting of leases for mining land. The state also controlled the conversion of agricultural land for mining, but it was a right that it gave out hesitantly since state authorities only received the land premiums and some 10 percent of the export duties on the mineral. Not surprisingly, therefore, prior to the NEP, there was little incentive for the state to grant land for mining purposes. This was reflected in the slow and often 95 delayed processes in granting requests for mining activities (Joll, 1977:115-119). Another reason for the reluctance of state authorities with respect to requests for mining land was the low level of bumiputera participation in the sector, especially in terms of share ownership in limited companies involved in mining. In contrast, the European and Chinese communities dominated (see Table 1) the dredge and the gravel pump sectors, respectively.

Nonetheless, even prior to the NEP, the government, through its assigned agencies such as the mines department, has been active in the mining industry. Individual bumiputeras have also been involved in small scale mining activities (gravel pump sector). But insufficient capital and the lack of management expertise had limited their extent of participation. This fact was already well-recognized by the government because an agenda of the National Land Council in 1958, relating to the low involvement of bumiputera in the economy, had pointed out the need to create a group of professional bumiputeras such as engineers, accountants and management executives. This was necessary in order to overcome the gap at the management level and to help the bumiputeras to play a more significant role in commercial activities (Yip, 1969: 378).

² Taxes collected by the federal government included export duties, surcharge on export duties, income tax, development tax, import duties and surcharge on import duties.

Similarly, during the Bumiputera Economic Congress in June 1965, a paper entitled, "Mining Land within Malay Reservations", described the steps taken to exploit bumiputera land for mining activities. It suggested that the gravel pump method was more appropriate to be utilized on Malay lands because of the size, location and topographical character of the land concerned (Yip, 1969:378). However, the focus was on the resources available to the bumiputeras at that period and overlooked the possibility of massive government intervention on their behalf. Nevertheless, the government took cognisance of the proposal and attempted to implement them in a small way during the period (First Malaysia Plan: 126). For example, in 1967, the government created a loan scheme known as the Exploitation of Minerals in Malay Reservation Loan Fund (EMMR) to help bumiputera entrepreneurs in mining. It was an attempt to provide initial capital up to RM500, 000 for the purchase of mining equipment to potential bumiputera miners. The fund was managed by a committee supervised by the Mines Department, under the administration of the Mineral Investigation Drilling Unit (MIDU). The government also started to provide two gravel pumps for loan to potential bumiputera miners in Perak during this period. The pumps were to be returned to the department after a certain period, for distribution to other promising miners (Yip, 1969: 378).

Table 1 Corporate Interest in Shares of Limited Companies According to Ethnicity and Sectors, Malaysia, 1970 (in %)

Sector	Bumiputera	Chinese	Indian	Foreign
Agriculture, Forestry & Fisheries	0.99	22.4	0.1	75.3
Mining & Quarrying	0.7	16.8	0.4	72.4
Manufacturing	2.5	22.0	0.7	59.6
Construction	2.2	52.8	0.8	24.1
Transportation & Communications	13.3	43.4	2.3	12.0
Commercial	0.8	30.4	0.7	63.5
Finance & Insurance	3.3	24.3	0.6	52.2
Others	2.3	37.8	2.3	31.4
Total	1.9	22.5	1.0	60.7

Source: Low, 1985: 26

The Post NEP Period

In the post NEP period, the government intervened at three levels of the mining sector to create a more significant pool of bumiputera miners. First, at the federal level, the government through PERNAS (the national trading body) acquired a majority share in the foreign-controlled *London Tin Corporation* and merged it with *Charter Consolidated* to form the *Malaysian Mining*

Corporation (MMC). This later merged with *Malayan Tin Dredge* (Hua, 1983: 185). After its creation, the MMC controlled most of the major large-scale mining operations which included, *Austral Amalgamated Tin*, *Berjuntai Tin Dredging*, *Kampong Lanjut Tin Dredging*, *Kramat Tin Dredging*, *Kuala Kampar Tin Fields* and *Tronoh Mines Malaysia Berhad*.

The large-scale bumiputera tin mining company created at the federal level had several features that enabled them to succeed in the face of the twin crises (to be discussed subsequently). First, these companies operated tin mining on a large scale, primarily in the dredge sector of the mining industry, previously controlled by European companies. Second, these large-scale companies possessed massive capital (i.e. more than RM3 million) and extensive landed properties. The shares in these companies were held through government intervention, and the management was transferred to bumiputeras. Third, because of the long involvement of companies (that were bought over) in the mining sector, they possessed long experience and skilled expertise in related engineering fields. Fourth, the corporate organizational structure of these public limited companies enabled them to tap expertise not only in the engineering field, but also in other fields, in anticipation of the downward trend of the industry. This enabled them to diversify their activities even *before* the twin crises occurred. Fifth, the activities of these companies extended *beyond* national boundaries. Finally, because these companies were initially government-sponsored, there was a close relationship between their leaders and leaders of the government. This was further strengthened by interlocking directorships.

At the second level, state governments created medium-scale bumiputera mining companies and there were two types: mergers or joint ventures with existing companies and the creation of new companies. An example of the first type was the joint venture involving the Perak State Economic Development Corporation (SEDC) and the existing foreign-owned company, the *Gopeng Consolidated Private Limited Company (Gopeng PLC)*. This had been a British owned tin mining company that was created after the merger of *Gopeng Mining Company* and *Ulu Gopeng Limited* in 1912 (Yip, 1969:97). In 1981, the lease on 667 acres of mining land held by *Gopeng PLC* was terminated. After negotiations between the *Gopeng PLC* and the Perak SEDC, it was agreed that 30 percent of the shares in the company would be assigned to the Perak SEDC. In return, the state authorities renewed the request for water supply and granted rights for the disposal of mining waste. On 9 November 1983, the operational headquarters of the new company was transferred locally. Subsequently, 51 percent of the company shares was allocated to the Perak SEDC. This 51 percent of the shares was reserved for bumiputeras, in line with the aspirations of the NEP. Thus the *Gopeng Consolidated Private Limited Company* became

Gopeng Berhad in 1983. Consequently, several bumiputera politicians and bureaucrats were assigned to be on the board of directors of the new company.

In 1986 the Perak SEDC retained the majority share of 50.03 percent of the company while the *Straits Trading Company* held 8.27 percent. Meanwhile, the SEDC, through collaboration with MMC, created another medium scale tin mining company *Timah Dermawan*, by taking over an ex-European tin mining company (see Badhrol, 1999:102-113).

The second type of medium scale tin mining companies involved bumiputera entrepreneurs who wholly owned and managed these entities. The Perak SEDC, also created several medium scale bumiputera tin mining companies in the gravel pump sector. They operated in areas such as Sahom, Sungai Senudang, Kampar, Hutan Simpanan Chikus, Tapah, Sungai Bekor, Parit and also in Trong, Taiping. Examples of such companies include *Timah Bersama*, *Maju Timah* and *Timah Matang*.

Generally, the basic characteristics of the first category of medium scale bumiputera tin mining companies were similar to the federal government engineered entities. These companies were created by way of government intervention at the state level, either through the acquisition of shares or through takeovers (as in the case of *Gopeng Berhad* and *Timah Dermawan*), or through the creation of new bumiputera tin mining companies (as was the case of *Timah Bersama* and *Maju Timah*). But in both cases the Perak SEDC retained management control of the companies through nominated bureaucrats and politicians sitting on the board of directors. Second, some of these companies invested much capital (often exceeding RM3 million) in the mining sector as well as in the non-mining sectors (such as in oil palm and quarrying). In contrast, the newly created bumiputera medium scale tin mining companies of the second type, such as *Timah Bersama* and *Maju Timah*, did not possess these characteristics. Additionally, although some companies of the first type were involved in the dredge and gravel pump sector, all companies of the second type tended to be in the gravel pump sector. Also, the first type of companies was ex-European tin mining companies, had well-developed corporate organizational structures and had forged close connections with the government directly and through interlocking directorships. Companies of the second type, however, had little experience in mining and did not have close ties with the government.

Finally, a team of professionals with vast experience and expertise in mining and engineering managed the first type of companies. The second type, on the other hand, was impeded by the lack of experience and expertise, which became glaring when the mining sector was faced with the twin crises.

At the third level, the government helped various individual bumiputera entrepreneurs to establish either their own small-scale mining companies or form partnerships with experienced Chinese miners. The government frequently provided financial aid and professional expertise as well.

These companies were characterised by several features. All of the small-scale tin mining entities were private limited companies operating gravel pumps jointly owned by several miners in partnership. However, they tended to lack capital and resources, as compared to the first and second level companies. Capital was usually below RM1 million and the workforce did not exceed a hundred workers. Furthermore, the operations of these companies were confined largely to Malay Reserve Lands or ex-state mining lands. At any rate, the growth and progress of these mining companies at all three levels seemed satisfactory.

Despite the fact that problems of land tenure, low yield of mining lands, inefficient land administration procedures, capital and financial problems, escalating costs of production and tax problems had not been fully resolved, it could be argued that the government's interventionist policy in the mining sector enhanced bumiputera participation. More importantly, it carved out a significant share of the corporate tin mining sector for the bumiputera, as is evident from Tables 2, 3 and 4.

Table 2: Ownership of Tin Mines in Perak 1973-1978

Year	Bumiputera Mines (A)	Bumiputera and Non-Bumiputera Mines (B)	Bumiputera Mines but Operated by Non-Bumiputera (C)	Non-Bumiputera Mines (D)	Non-Malaysian Resident Mines (E)
1973	22	13	20	600 (including non- Malaysian resident)	
1974	39	17	9	561	56
1975	38	12	5	520	63
1976	16	12	21	434	57
1977	16	12	21	434	57
1978	22	9	25	-	11

Source: Hassan (1992): 31

Table 3: Tin Mines Ownership in Perak 1979-1985

Year	Bumiputera Mines (A)	Bumiputera and Non-Bumiputera Joint Venture Mines (B)	Mines Operated by Government Agencies (C)	Limited Companies with Bumiputera Shares (D)	Non- Bumiputera Mines (E)
1979	23	9	-	16	246
1980	38	3	14	24	172
1981	26	3	-	22	123
1982	22	1	-	20	97
1983	22	1	-	20	97
1984	15	1	-	17	77
1985	6	1	-	19	29

Source: Hassan (1992): 31

Table 4: Tin Mines Ownership in Perak 1986-1991

Year	Bumiputera Mines (A)	Bumiputera and Non- Bumiputera Joint Venture Mines (B)	Mines Operated by Government Agencies (C)	Limited Companies with Bumiputera Shares (D)	Non- Bumiputera Mines (E)
1986	6	-	-	16	18
1987	8	-	-	17	30
1988	12	-	-	21	25
1989	12	-	-	25	36
1990	4	-	-	18	14
1991	3	-	-	17	3

Source: Hassan (1992): 31

THE TWIN CRISES: ECONOMIC RECESSION AND THE COLLAPSE OF THE INTERNATIONAL TIN MARKET

The real test of the restructuring exercise came during the unexpected onset of an economic recession in the early 1980s and the collapse of the International Tin Market in 1985. This "twin crises" had different impacts on the mining companies created at the three different levels of implementation of economic policy.

The unresolved internal problems facing the tin mining sector, coupled with the onset of the twin crises in the 1980s forced the government to reappraise its

strategy of intervention in the tin mining sector. The economic recession resulted in three effects: the prices of major exports commodities, including tin, fell (see Table 5); foreign debts of the country increased; and public expenditures were forcibly cut because they became difficult to sustain (see Table 6).

Table 5: Unit Price for Primary Commodities, 1970-92

Year	Rubber (cts/kg)	Tin (RM/tonne)	Sawn Timber (RM/m3)	Palm Oil (RM/Tonne)	Petrol (RM/Tonne)
1970	128.1	10,938.7	72.3	657.5	43.1
1971	105.0	10,394.4	73.2	663.5	49.2
1972	95.1	10,311.9	64.9	520.3	52.4
1973	153.0	11,000.6	97.5	584.7	70.4
1974	183.9	17,671.3	107.9	1,204.1	214.0
1975	138.8	15,473.9	79.1	1,136.9	226.9
1976	192.4	18,724.5	120.9	914.6	244.6
1977	204.4	25,610.0	113.4	1,292.6	258.8
1978	223.1	28,800.8	99.6	1,235.3	245.5
1979	271.5	32,111.2	108.2	1,300.4	350.1
1980	302.7	36,048.7	172.7	1,152.7	597.6
1981	250.0	32,182.2	155.5	1,131.1	682.4
1982	192.7	30,543.1	175.3	973.4	642.6
1983	234.4	30,070.5	149.9	1,015.6	553.4
1984	230.8	29,351.5	165.7	1,524.6	529.6
1985	191.8	28,714.4	141.2	1,226.2	520.8
1986	209.9	16,086.2	150.8	696.6	287.4
1987	241.6	16,907.4	186.5	802.8	349.5
1988	326.3	18,625.4	195.0	1,089.6	307.4
1989	265.6	23,463.3	206.4	944.9	370.2
1990	229.1	17,118.4	198.5	776.6	481.2
1991	237.6	16,126.3	212.2	906.8	451.2
1992	227.8	15,962.0	214.8	974.1	405.0

Source: Jomo, Khoo and Chang (1996): 79

Table 6: Macroeconomic Indicators, 1973 - 1993 (in Million Ringgit)

Year	Fixed Capital Formation		Consumption	Investment	Exports/GNP		Imports/GNP	Real GNP growth	Inflation
	Public	Private			NP	NP			
1973	1,203	2,908	74.53	26.52	50.51	50.27	-	-	10.5
1974	1,644	4,154	78.73	25.93	47.08	46.61	7.67	-	17.4
1975	2,110	3,492	69.90	22.96	53.84	42.98	2.22	2.22	4.5
1976	2,505	3,701	71.47	24.03	52.20	44.39	11.42	11.42	2.6
1977	3,078	4,387	73.08	24.53	53.70	47.71	7.47	7.47	4.8
1978	3,419	5,058	67.02	25.15	60.27	50.31	6.59	6.59	4.9
1979	4,135	6,701	71.33	30.19	61.65	57.73	7.76	7.76	3.6
1980	5,338	9,559	76.11	34.72	54.44	60.87	8.55	8.55	6.6
1981	7,206	12,044	74.88	38.11	53.35	62.49	7.23	7.23	9.7
1982	11,378	11,367	72.44	38.48	54.62	60.72	10.16	10.16	5.7
1983	12,521	12,692	69.20	34.23	58.20	56.15	3.86	3.86	3.7
1984	12,046	13,345	72.54	32.13	59.11	53.59	6.69	6.69	3.6
1985	10,854	12,270	72.63	28.18	60.20	53.68	-1.26	-1.26	0.4
1986	8,639	10,226	66.81	24.46	68.03	52.98	2.70	2.70	0.6
1987	7,271	11,009	67.45	25.56	71.62	60.64	5.41	5.41	0.8
1988	7,946	13,976	69.23	31.09	77.73	71.15	9.45	9.45	2.5
1989	11,097	18,966	69.60	33.85	80.12	78.04	9.13	9.13	2.8
1990	13,283	24,207	72.30	37.38	85.37	91.55	11.29	11.29	3.1
1991	14,749	31,423	67.98	36.14	82.15	80.33	7.46	7.46	4.4
1992	16,653	34,044	64.48	34.88	83.74	78.65	7.55	7.55	4.7
1993	18,632	36,836	63.28	35.13	85.32	80.19	8.70	8.70	3.5
1994	22,340	40,224	-	-	-	-	8.57	8.57	3.4

Source: Jomo, Khoo and Chang (1996): 79

The second crisis, that is, the collapse of the international tin market between 1985-86, had a more crucial impact on the sector, (see Tables 7 and 8). Even though the government attempted to intervene in the international tin market, its efforts failed and, consequently, the number of active tin mines fell dramatically (see Jomo, 1990a).

Table 7: Tin Mining Statistics of Malaysia 1980 -1995

Year	Price (average) RM/Kg	No. of Mines	Production of Tin (Kg)	No. of workers
1980	35.70	852	61,404	39,009
1981	32.34	710	59,938	35,198
1982	30.06	626	52,342	28,432
1983	30.20	542	41,367	25,641
1984	29.16	449	41,307	23,623
1985	29.67	279	36,884	16,829
1986	15.39	197	29,134	11,797
1987	16.80	221	30,388	10,964
1988	18.49	219	28,866	11,445
1989	23.05	255	32,034	12,695
1990	16.45	141	28,468	8,508
1991	15.05	92	20,711	6,594
1992	15.31	79	7,489	5,165
1994	14.32	67	6,458	2,122
1995	15.50	66	6,401	1,875

Source: Mineral Economic Unit, Mines Dept., Ministry of Primary Industries Malaysia

Table 8: Tin Mines Statistics Malaysia 1980-90

Year	Dredge			Gravel Pump			Total Empl.
	No.	Prod.	Empl.	No.	Prod.	Empl.	
1980	54	18,223	8,955	746	34,484	24,961	39,009
1981	60	17,353	9,741	593	33,308	20,356	35,198
1982	43	16,629	7,775	521	27,479	15,815	28,432
1983	38	13,879	6,927	430	20,320	13,728	25,641
1984	30	12,728	6,576	353	21,577	12,586	23,623
1985	29	11,301	6,091	207	18,517	6,977	16,829
1986	31	12,090	5,303	122	11,147	3,461	11,797
1987	30	12,713	5,034	146	11,577	3,812	10,964
1988	32	13,140	5,066	144	9,799	3,919	11,445
1989	34	11,963	4,860	176	13,263	5,330	12,695
1990	24	10,267	3,985	88	12,216	2,636	8,508

Source: Mines Dept. Malaysia

In response to the recession, it was decided to downsize the public sector, promote "high-tech" and heavy industrialization and deregulate the economy through the privatization policy. The emphasis on high-tech and heavy industrialization was aimed at: (i) decreasing the economy's dependence on capital imports, (ii) creating an alternative industrial architecture with upstream and downstream manufacturing industrial activities; and (iii) emphasising the importance of a heavy industrial sector to boost the country's development process (Lin, 1994:340).

Table 10: Production Structure (1970 - 2000) (in 1978 prices)

Sector	1970 (GNP%)	1980 (GNP%)	1990 (GNP%)	2000 (GNP%)
Agriculture & Forestry	29.0	22.9	18.7	13.4
Mining & Quarrying	13.7	10.1	9.7	5.7
Manufacturing	13.9	19.6	27.0	37.2
Construction	3.8	4.6	3.5	3.5
Services	6.2	40.1	42.3	45.4
GNP	100.0	100.0	100.0	100.0

Source: Malaysia: 1991, Second Outline Perspective Plan, 1991-2000

Accordingly, the government proposed the Second Outline Perspective Plan, 1991-2000 (OPP2) which contained an economic growth blueprint until the year 2000 (see Table 9). Based on the OPP2, the government forecasted that the manufacturing sector's share in the GNP would increase from 13.9 percent in 1970 to 19.6 percent in 1980 and, further, to 37.2 percent by the year 2000. In tandem with this, the share of agriculture and forestry was expected to decline from 29 percent in 1970 to 13.4 percent by the year 2000. The share of mining and quarrying was also expected to fall from 13.7 percent in 1970 to 5.7 percent in 2000. Hence, the mining sector was given a backstage role while the industrial and manufacturing sectors were given the task of spearheading economic expansion.

In 1983, the deregulation of the economy also began in earnest. One of the policies was the privatization of public entities. The program saw a steep rise in the number of major government entities privatized between 1987-93. For example, in 1987 five government entities were privatised. By 1990, a total of 13 government entities had been privatised. In 1992, sixteen more were privatized while 1993 saw another eleven cases (Rugayah, 1993:85). This privatization policy was to provide an important lifeline to the large-scale bumiputera mining companies trapped in mining because it opened up

opportunities for these companies to diversify and relocate its activities outside mining. Unfortunately, the smaller bumiputera concerns could not benefit from this. Hence, the twin crises saw the survival rates varying significantly across the large, medium and small-scale bumiputera mining companies.

Facing the Twin Crises: Case Examples

How and why were some bumiputera tin mining companies successful in surviving the crises through diversification while others were not? The basic structure and characteristics of the three levels of companies in the sector, discussed earlier, provides clues.

Large Scale Bumiputera Tin Mining Company: MMC Berhad

As noted earlier, the large-scale bumiputera tin mining companies were managed by government nominated politician and bureaucrats. This important element helped them identify and capture opportunities for diversification being created by the privatisation process. Through direct connections with the government and interlocking directorships, the company gained allocations to various engineering and other projects. Based on early reports of the MMC (MMC Annual Report 1980, 1986, 1991), it is evident that in the initial phase of its creation, it was managed by politicians and bureaucrats with direct connections to the government. They included Tan Sri Azman Hashim, Y. M. Raja Badrol, En Junus Sudin, En Baharuddin Maarof and En. Abdul Rahim Aki. Subsequently, in the 1980s, some of the government nominees on the board of directors included Desa Pachi, Haji Faisal Siraj, Tan Sri Nasruddin Mohamed and Tan Sri Jaafar Hussein. The presence of these ex-bureaucrats or politicians suggests the continuation of the close relationship between the political elite and the board of directors of the company.

Interlocking directorship as explained by Lim (1981:39) refers to a situation in which a director of one company also sits on the board of directors of one or more other companies. Through pyramiding, the directors of the holding company have the power to appoint one or more directors to the board of the companies acquired. This, in turn, results in the possibility of inter-company transactions -- like the sale of one subsidiary to another subsidiary or the routing of profitable business to one subsidiary, in preference to another (quoted from Gomez, 1990:15). What is relevant here is that through direct connections with the government and interlocking directorships, the MMC, was able to diversify its activities and investment and endure the declining tin prices.

A second factor was that large-scale bumiputera mining companies, such as the MMC, possessed the corporate organisational structure and the ability to

anticipate the down turn of the industry. This ability, perhaps, helped it to diversify into non-mining activities since the early 1980s, well before the onset of the international tin market crisis in 1985 (MMC Annual Report 1980, 1986, 1991, 1995). Among the measures undertaken were (i) holding 100% share in *Bradken Malaysia Berhad*, in 1983. This company was involved in metal castings and related downstream engineering activities; (ii) acquiring a 15 % share in *PERSTIMA Sdn Bhd*, a company undertaking tin plating activities; (iii) purchasing a 51 % share in *Diamondcutting (M) Sdn Bhd*, producing high grades mineral; (iv) undertaking engineering pipe works for the Peninsula Gas Works Project for *Petronas* in 1991; (v) undertaking a highway construction project between Bandar Utara-Selatan, Gurun Section to Ladang Petani in 1991 and another PLUS project through the *Highway Consortium Butterworth - Kulim Sdn Bhd* in 1993 and 1994 and (vi) producing 218 units of bogies train for *Malayan Railway (KTMB)* in 1990.

It cannot be denied that the government was perceived to be giving contracts under its privatization policies to bumiputera companies that showed promise. Naturally, some of these projects were allocated to the large-scale bumiputera mining companies.

The MMC also possessed another strength that allowed it to survive the crisis. As a company involved in the tin mining sector since the start of the century, it had solid expertise in engineering. Hence, it was able to realign itself and accept various projects outside the mining sector, including in construction, manufacturing, and infrastructure works. MMC's involvement included: (i) investments in subsidiaries that produced pipefitting, magnetic tapes, metal castings products, cement and other products; (ii) establishing *Dana Vision Sdn. Bhd* which produced electronic tapes in the early 1990s; (iii) forming *MMC Engineering Services Sdn. Bhd* and *MMC Utilities Bhd*. which were involved in the engineering sector; (iv) setting up *MMC Kinta Sdn. Bhd*, which did construction work; (v) providing special engineering expertise through *MMC Oil and Gas Engineering Sdn. Bhd*; (vi) maintenance of electrical sub-stations through *MMC Power Sdn. Bhd*. and (vii) production of weather strips through *Seginiaga Rubber Industries Sdn. Bhd*. (see MMC Annual Report 1980, 1986, 1991, 1995).

In all its efforts at diversification, MMC's tremendous capital reserves and land holdings proved to be valuable assets. For example, in 1986, out of its total capital of RM669 million, MMC set aside 67.5% or RM452 million for investment outside mining (MMC Annual Report 1986). By 1991, 64.6% of its total capital of RM944 million or RM610 million was invested outside mining (MMC Annual Report 1991).

MMC also invested in agricultural projects such as cashew nut and starfruit growing, palm oil cultivation and so forth by converting former mining lands under its control into commercial agriculture.

To summarise, a large mining based company such as the MMC survived the twin crises by moving out of mining. Its political connections, skilled engineering base and experience, and its huge capital base and land bank assisted it in making this transition quickly and without serious repercussions.

The Case of Two Medium Scale Bumiputera Tin Mining Companies

Almost similar factors allowed the medium scale bumiputera tin mining company, *Gopeng Berhad*, to survive the twin crises. However, a different fate awaited another medium scale tin mining company, *Maju Timah* that lacked these special characteristics.

Gopeng Berhad

Gopeng Berhad was an ex-European tin mining company that had come into existence since the start of the century. The company was involved in several activities besides tin mining even before the twin crises. Beside its corporate organizational structure and close connections with the government, *Gopeng Berhad* also had a solid capital and land base. It quickly opted for commercial oil palm cultivation on its former mining lands in Kota Bharu, Sang Lop and Gopeng from the middle of the 1980s. It also ventured into commercial fruit cultivation and was involved in a wide range of activities such as the production of granite, marble and limestone at its quarry in Simpang Pulai and Gopeng.

As a result of gains made during privatization, *Gopeng Berhad* diversified further into cement production through its share in *Perak Hanjoong Cement Company* in 1993. It also gained the contracts for highway construction, production of concrete poles, maintenance and management of a water treatment plant and moved into residential construction as well. And to round it up, the company was active in the engineering sector through the *Gopeng Precision & Engineering Sdn. Bhd.*, a metal fabrication company (Gopeng Berhad Annual Report 1987, 1988, 1991, 1995).

The political connections were also in place since most of the early bumiputera directors of the company were from the Perak SEDC. Without these special attributes, this medium-sized company would not have been able to weather the crises.

Maju Timah Sendirian Berhad

There was another group of medium sized companies that were established with government assistance but did not enjoy the patronage in a direct and active manner. These companies, as noted earlier, were established with government assistance but were largely run by small bumiputera entrepreneurs on their own.

In the face of the crises, the little assistance they obtained from government was lost as the public sector downsized its activities. Consequently, most of the companies that came into existence through government aid, but without the unique features discussed above, had to cease mining operation or look for alternative sources of income.

The case of *Maju Timah Sdn. Bhd.* best illustrates this point. This tin mining company was created on 17 January 1975 with a wholly bumiputera management under the supervision and assistance of the Perak SEDC. The company had an initial capital of RM500 thousand and started tin mining operations in the Gopeng and Kampar areas (Majutimah Pte. Ltd. Annual Report, 1984). The company was involved solely in the gravel pump sector of mining. It was directed by En. Hamdan Hazizi, the Perak SEDC general manager at the time. Initially, some of the nominated members of the board of directors were serving politicians and bureaucrats; by the mid-1980s, most of the middle level managers of the company were drawn from the lower ranks of the Perak SEDC. Despite this, in 1983 the company produced RM460,649 worth of tin and, in 1984, this had increased to output worth RM545,237.

Following the twin crises, the company tried to diversify into printing and investment by creating *Peter Chong Printers* and *Faza Holdings*, holding 51 percent of the shares in each. Subsequently, in 1991, the company began to venture into the transportation industry, passenger ferry, tourism and machines and equipment supplies (Majutimah Pte Ltd. Annual Report, 1991). With effect from 3 September 1992, the company changed its name to *Pan Silver Corporation Sdn Bhd* and ceased to be a tin mining company (Pan Silver Corporation Pte. Ltd. Co. Annual Report, 1993).

In other words, following the twin crises and without the unique characteristics, as possessed by the large and some medium scale tin mining companies, this company (and others like it) faced an uncertain future.

The Case of Small Scale Bumiputera Tin Mining Companies

Two companies which were involved in the tin mining industry from the start of the NEP are *Syarikat Bahanor* and *Syarikat Tualang Tujuh*. Although there

were numerous other companies that came into existence after the NEP, by the early 1990s only a handful of these companies remained in operation. These two companies were formed under the aegis of the NEP in the late 1970s and early 1980s by individual bumiputera miners.

Syarikat Bahanor and Tualang Tujuh

Haji Baharun bin Uda Mat Jali, is a bumiputera from Batu Gajah, Perak. After attending a brief technical workshop by the Mines Department in Ipoh, Perak, in 1974, he received a lease of 200 acres of land in Kampar from the government for the purpose of mining tin. On 24 November 1984, he registered the company called *Bahanor Private Limited Company No. 2* (Bahanor No. 2 Pte Ltd. Annual Report, 1981, 1984, 1986, 1994). Besides being involved in tin mining (by gravel pump method), the company was also engaged in commercial activities such as contract-work, housing, printing, import and export business, gas supplies, quarrying and transportation. Subsequently, on 20 March 1982, he registered another company called *Tualang Tujuh Private Limited Company*. Apart from mining, this company too was engaged in other activities such as amang processing, quarrying, import and export business, agriculture, housing, and general investment (Tualang Tujuh Pte Ltd. Company Annual Report, 1982). After the twin crises, the companies failed to progress and remained dormant except for a few activities outside the mining sector.

Clearly, the OPP2 and IMP failed to take into consideration the fate of these small scale-mining companies. Other small bumiputera tin mining companies that have been studied, like *Yom Ahmad and Sons*, *Lombong Timah Teja* and *Lombong Zame* suffered a similar fate in the face of the crises (see Badhrol, 1999). Possibly because they were inconspicuous and did not possess the political connections, they fell victims to the crises and the subsequent policy that emphasised high-tech heavy industrialization and privatization. On the one hand, these companies had neither the skills, resources nor the connections to tap into the opportunities that were created by the new policy. On the other hand, it is not evident that the government made any special effort to help these small entrepreneurs to cope with the challenges that they faced.

CONCLUSION

As part of the push under the NEP to increase bumiputera participation in sectors that they were under represented, the government helped to establish bumiputera companies in the mining sector. These companies were created at three levels: large companies established with federal government participation and assistance; medium-sized companies established with state government

assistance and (sometimes) participation; and finally, assistance to individual bumiputera entrepreneurs to set up small mining operations.

Despite significant progress in establishing bumiputera presence in mining, the staying power of these companies varied as became evident when the economy hit a recession and the international tin market collapsed. The first and second level companies survived, diversified and have become significant national players in a wide range of economic activities. They were able to benefit from the new opportunities generated as the government de-emphasised the primary commodity sector and moved to heavy industrialisation and privatisation. In contrast, the third level companies operated by small individual bumiputeras suffered a sad fate when the government abandoned its interest and participation in the mining sector. And it is not clear that the government had formulated any plan to help these small companies when it decided to abandon its interest in the sector.

In the light of the policy change, large and strong companies that did not need help to survive apparently received government patronage while smaller and more deserving cases were left to fend for themselves. It is regrettable that small and medium scale bumiputera mining companies manned by middle level managers who were in need of assistance but never got it.

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