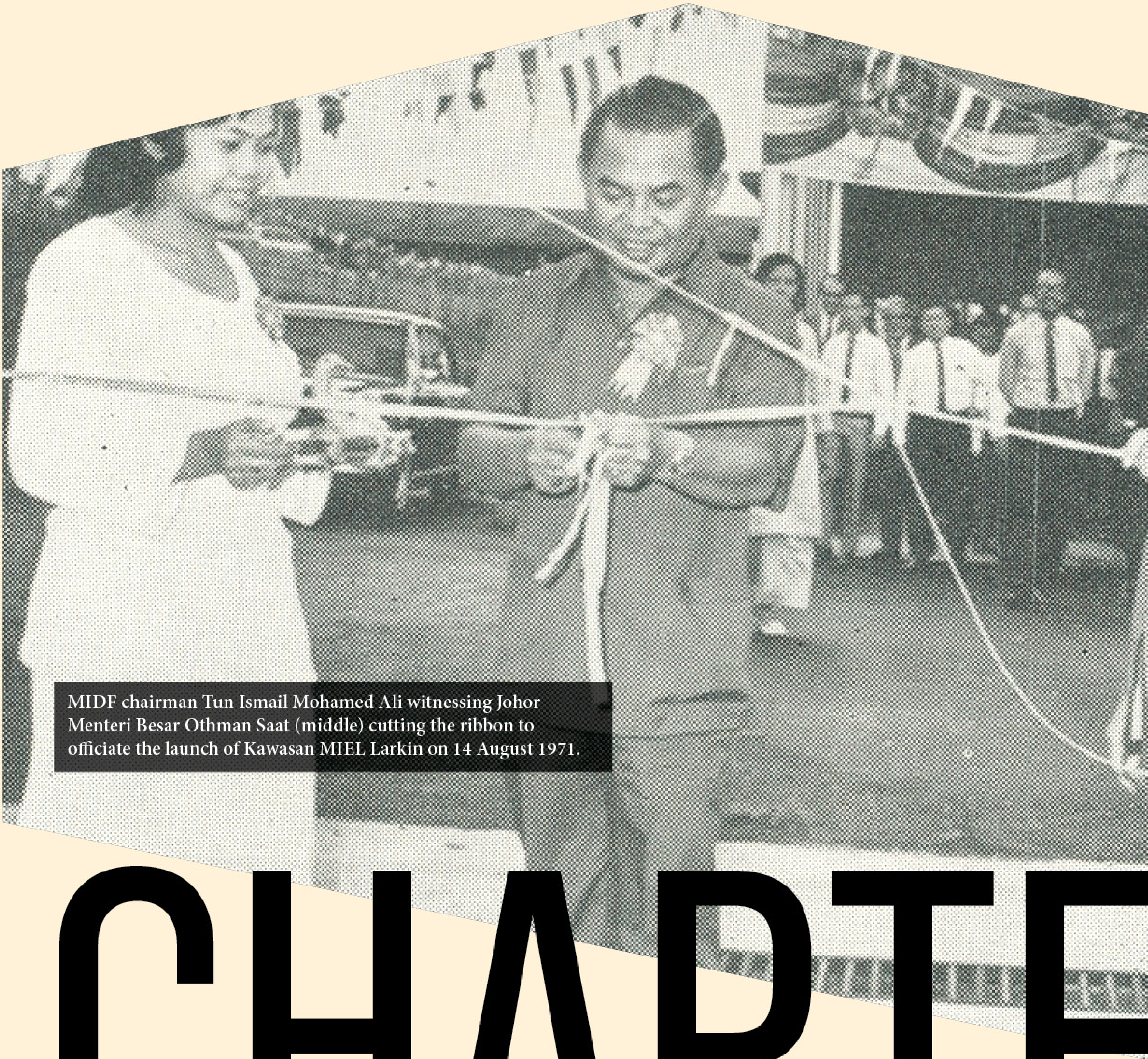
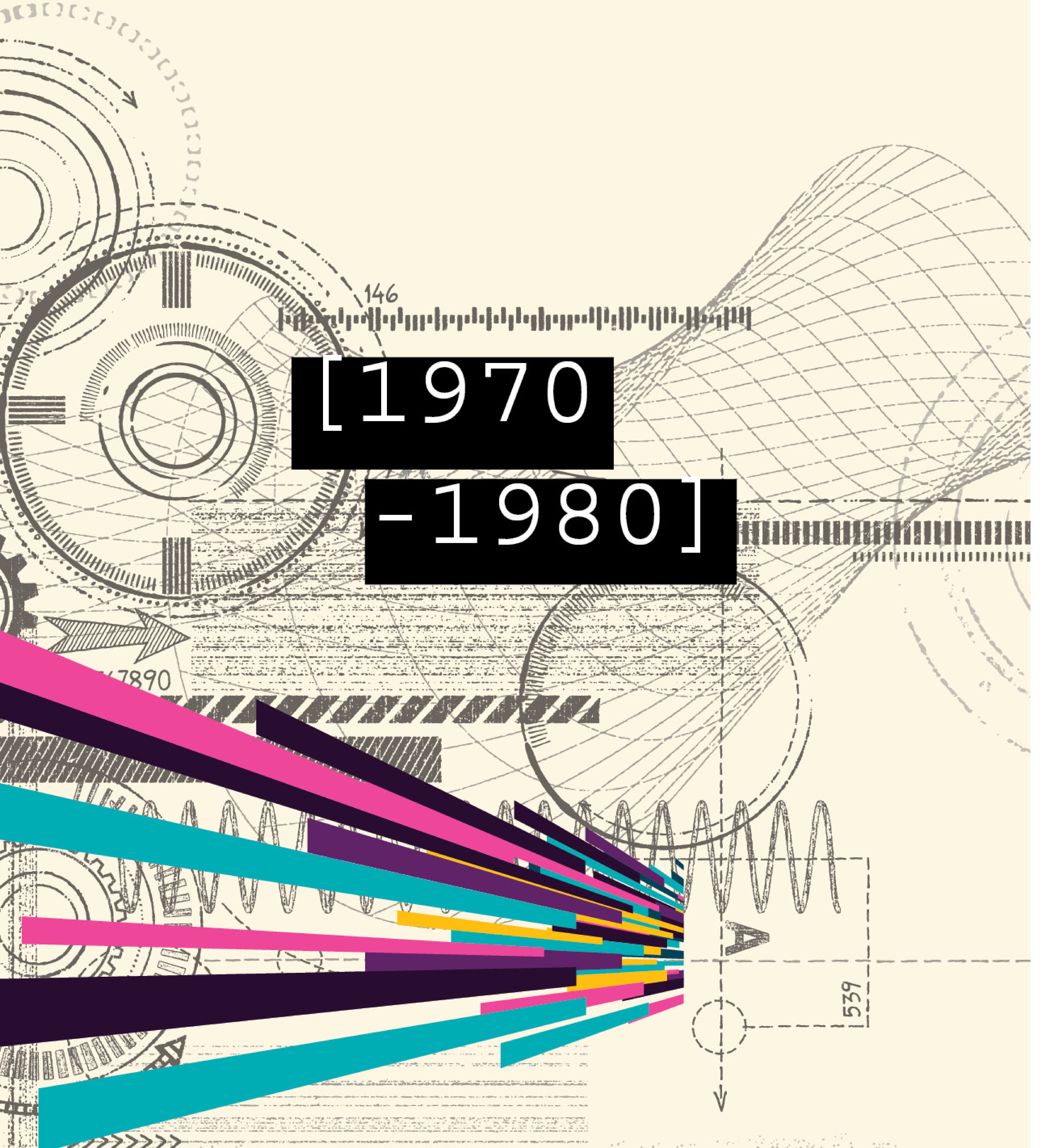


MIDF chairman Tun Ismail Mohamed Ali witnessing Johor Menteri Besar Othman Saat (middle) cutting the ribbon to officiate the launch of Kawasan MIEL Larkin on 14 August 1971.

# CHAPTE

# RAPID EXPANSION

ER 3



# [1970 -1980]

# RAPID EXPANSION

The May 13 riots in 1969 brought into sharp focus the socio-economic dimensions of industrialisation. The ethnic imbalance in this sector at that time was stark—as at March 1970, of the 400 companies with pioneer status, fewer than half a dozen were owned by Bumiputeras. There was also a dearth of Malay capital and skills, and Malay managers. According to the Socio-Economic Survey of households in 1967/68, 62.1% of all persons engaged in manufacturing were Chinese and 32.2% were Malay. Furthermore, industrial development was highly concentrated on the west coast of Peninsular Malaysia.

The New Economic Policy (NEP) was introduced in 1970, with the aim of reducing poverty across all communities and restructuring the economy to reduce income disparities between the ethnic groups.

MIDF's loan business was not severely affected by the May 13 incident. As a development bank, its main role continued to be the financing of industrial growth in Malaysia. However, it now also had the additional responsibility of assisting Bumiputera industries for the ethnic diversification of the manufacturing sector, and encouraging the dispersal of industries (and jobs) to the less developed parts of Malaysia to narrow income disparities.

MIDF general manager Mr. Leembruggen, who held the position from 1968 to 1981, said in a 1973 interview that MIDF supported the objectives of restructuring society, particularly so that the ownership of assets is more reasonably balanced between Malaysians and non-Malaysians on the one hand, and among all Malaysians, on the other.

MIDF was well-positioned to assist because its target group—small enterprises—was seen as a good vehicle to disperse industries, promote entrepreneurship and provide jobs. Small industries tended to be less concentrated geographically than larger enterprises, and they offered a seedbed for entrepreneurial talent. Furthermore, they were generally labour-intensive and could absorb the growing labour force.

While MIDF remained a private corporation, it had considerable government shareholding and funding. By May 1973, the government's shareholding had increased from 10% to 33%.

# BUILDING **BUMIPUTERA** INDUSTRY

Up to this time in 1969, MIDF had yet to grant any loan to Bumiputera enterprises. This had become a concern, notably as the matter was raised in the House of Representatives during the debate on the Loan Guarantee Bill to authorise the government to guarantee the World Bank loan to MIDF in 1963. In that debate, prior to the passing of the Bill, a request was made for MIDF to give financial aid to Malay companies. In reply, Finance Minister Tun Tan Siew Sin said the government would try to persuade MIDF, but could not direct it as there should not be government or political interference in the company.

MIDF made its first loan to a Bumiputera enterprise in November 1969—a loan of $38,000 to the wholly Bumiputera-owned Sharikat Mohamed Ismail Printing Ink Sdn. Bhd. to acquire machinery for the production of printing ink and dyes. A few months later, it gave another loan of $48,000 to a Bumiputera printing establishment to acquire factory premises.

By 1972, MIDF had approved some 32 loans amounting to $23.6 million for Bumiputera projects. The value of the loans ranged from $1,000 to $5 million, with 21 of the loans for small projects of $100,000 and less. By 1979, this figure had risen further to 296 loans valued at $98.1 million. The early loans were mainly for the food, beverage and tobacco sectors.

One interesting early Bumiputera loan was a $17,000 loan in 1972 to Sharikat Taba, a silverware producer in Kelantan, to purchase machinery to triple its production capacity and meet the increasing local and overseas demand for its silverware. Its products ranged from earrings, brooches and necklaces to vases, tea sets and tableware.

In addition, through its underwriting and issuing house operations since its inception, MIDF had placed shares amounting to $23.7 million in various public and investment companies run by Bumiputeras.

Attorney General Tan Sri Abdul Kadir Yusof, replying on behalf of the Trade and Industry Minister in Dewan Negara in 1974, explained that MIDF's slow start in assisting Bumiputera industrialists could be attributed to lower interest rates offered by agencies, such as Majlis Amanah Rakyat (MARA), to Bumiputera businesses. However, MIDF had since picked up pace and by 1974, its average total annual loans to Bumiputeras, including joint ventures, had reached $16 million.

MIDF chairman Tun Ismail reaffirmed in its Annual Report 1972 that it was MIDF's objective to substantially increase the amount of Bumiputera investment in less-developed states, and towards this end, it had set up branch and regional offices outside of Kuala Lumpur.

In 1974, MIDF expanded its Bumiputera operations by setting up a dedicated Bumiputera unit, with three officers and a unit head. This unit became instrumental in promoting larger Bumiputera loans by helping entrepreneurs to create bankable projects through advisory services in the planning stages.

The unit expanded into a full-fledged department in 1978, and beyond making loans, it also introduced an equity participation facility during this time. Tun Ismail said it was MIDF's hope that the availability of these equity funds would enable more Bumiputera industrialists to venture into the industrial sector. However, it was not MIDF's policy to take up a majority interest in the companies, and it would dispose of these shares to Bumiputera interests, preferably the sponsors of the project, as soon as they were in a position to buy back the shares. This facility was to assist Bumiputera enterprises in raising share capital and non-Bumiputera enterprises in diversifying the ownership of their share capital in accordance with the NEP. MIDF offered this facility to complement its loans, not as a standalone facility.

MIDF's efforts to grow its Bumiputera business bore significant results, but it was challenging. From 0.2% of its loans in 1970, the number of its Bumiputera loans rose sharply to 30% in 1976. However, this fell to 16% in 1980 as the economy slowed down. The figure hovered under 20% by 1984, as reported by the World Bank in its appraisal of a loan application from Malaysia for the small enterprises sector.

> "This is merely an indication of a common phenomenon often experienced in trade and industry—that is the ups and downs that reflect the current situation, the state of the market, the international situation and the economy as a whole."
>
> **— said Tun Ismail Mohamed Ali.**

The loan trajectory, in part, reflected the economy's ups and downs. Tun Ismail said while Bumiputera loans had declined from 1977 to 1979, it did not mean that MIDF's efforts had declined or that the Bumiputera interest in industry had wavered. By the late 1970s, the national economy was slowing amidst a global slowdown. MIDF's overall business had also seen a sharp drop due to the fewer number of projects and a lack of demand for factory units.

"This is merely an indication of a common phenomenon often experienced in trade and industry—that is the ups and downs that reflect the current situation, the state of the market, the international situation and the economy as a whole," Tun Ismail said.

There were also other challenges that made it difficult to maintain a high level of Bumiputera loans. MIDF general manager from 1981 to 1984, En. Abdul Shukor Nagor outlined the challenges in managing such loans. MIDF had found that only half of the Bumiputera-owned factories that it funded had succeeded, largely due to the Bumiputera enterprises' unfamiliarity with the challenging manufacturing sector, and concentration in sectors that were highly competitive, but provided poor returns.

A study by MIDF showed that there were four factors causing failure: capital, management, expertise, and marketing. Many of the projects failed because of a lack of detailed and careful planning as well as poor management. Bumiputera enterprises had also concentrated in the printing, food processing, furniture making and masonry industries, which had high competition and poor profitability. There were few Bumiputera entrepreneurs in the chemical, mineral, engineering, plastics, textiles, and rubber industries—fields that necessitated a high level of expertise and experience.

MIDF's Bumiputera Development Department was absorbed into the larger Development Finance Division in the 1990s, but assistance to Bumiputera entrepreneurs remained a priority.

(L–R) Kelantan Menteri Besar Datuk Mohamed Nasir, MIDF chairman Tun Ismail Mohamed Ali and Terengganu Menteri Besar Tan Sri Wan Mokhtar Ahmad during a briefing by MIDF on 23 July 1975.

# GEOGRAPHICAL EXPANSION

MIDF expanded its operations to Sarawak, Sabah and Singapore following the formation of Malaysia in 1963, and changed its name to Malaysian Industrial Development Finance Ltd. in February 1964.

In 1970, MIDF opened offices in Penang, Kuching and Kota Kinabalu, followed by Kuantan and Kota Bharu in 1971, and subsequently in Ipoh and Johor Bahru.

Its first East Malaysian loan was made in 1967 to Tong Kwong Co Ltd. of Kuching, Sarawak for an animal feed plant. In 1968, it financed its first factory in Sabah, with a loan to a veneer plywood factory in Sandakan.

In line with the government's policy to disperse industries away from the industrialised west coast, MIDF adjusted its loan policy in 1970 to make it more attractive for industries to set up their operations in Development Areas. These Development Areas—the rural and less-developed parts of the country—were designated by the Capital Investment Committee as priority areas for development. MIDF offered concessions such as lower rates and more flexible loan conditions, including longer repayment periods.

The results were swift. By 1971, a year after its expansion outside Kuala Lumpur, MIDF granted 24 loans totaling $8 million for projects in the east coast and East Malaysia, accounting for 80% of such loans since its establishment. MIDF continued to give priority to the less-developed states – in 1971, about 15% of its loans went to these states (other than Selangor, Penang, Perak and Johor), and, a decade later, the figure doubled to 32%.

In the 1970s, MIDF's factory-building subsidiary, MIEL, also expanded nationwide, including to East Malaysia. It acquired five acres of land in Bintawa near Kuching in 1969 and, a year later, it completed its first East Malaysian project of six warehouses and one factory, all reserved for local industrialists.

“As more and more industrial estates are set up, MIEL’s business automatically grows as it assists state governments in planning and building standard factories for the small industry.”

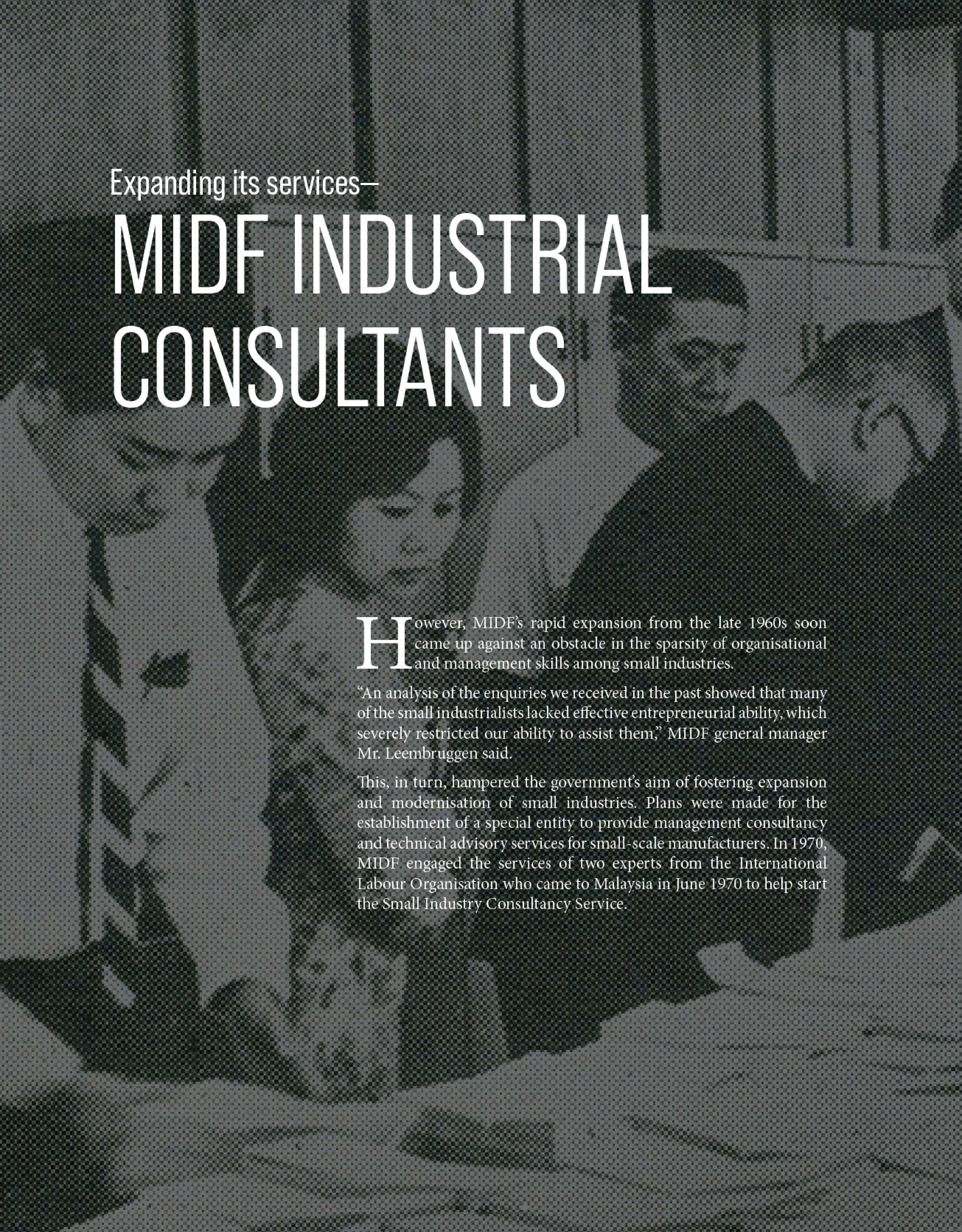
**— said Mr. Harold Francis Geoffrey Leembruggen.**

“The completion of the Bintawa project is a small step towards the industrialisation of undeveloped areas but it is an important step. Somehow, we have to break ground there to prove that we can help open up East Malaysia and that we mean business when we say that we will aid the small and medium scale industries,” said MIEL’s project officer for east coast and East Malaysia, Mr. Selan Nasution during a site visit.

Having become a successful estate developer, MIEL received many requests from the state governments in Malaysia to assist in building industrial estates for their small-scale sector and advise on the general development of the area, with Kawasan MIEL (MIEL industrial estates) acting as growth centres.

“As more and more industrial estates are set up, MIEL’s business automatically grows as it assists state governments in planning and building standard factories for the small industry. This is because MIEL has become a specialist in this,” MIDF’s general manager, Mr. Leembruggen said in a media interview in 1973.

By the end of the decade, MIEL owned land banks around Malaysia, and had built over 500 factory units, from standard units to sophisticated owner-designed ones, costing $69.5 million, in 19 locations throughout the country.



## Expanding its services—

# MIDF INDUSTRIAL CONSULTANTS

However, MIDF's rapid expansion from the late 1960s soon came up against an obstacle in the sparsity of organisational and management skills among small industries.

"An analysis of the enquiries we received in the past showed that many of the small industrialists lacked effective entrepreneurial ability, which severely restricted our ability to assist them," MIDF general manager Mr. Leembruggen said.

This, in turn, hampered the government's aim of fostering expansion and modernisation of small industries. Plans were made for the establishment of a special entity to provide management consultancy and technical advisory services for small-scale manufacturers. In 1970, MIDF engaged the services of two experts from the International Labour Organisation who came to Malaysia in June 1970 to help start the Small Industry Consultancy Service.

In 1971, MIDF established its second wholly-owned subsidiary, MIDF Industrial Consultants (MIDFIC), to provide consultancy services to small businesses, in particular, its loan clients. MIDFIC focused on small industries and their needs, offering services in areas such as engineering and technology, management, marketing, market research, finance and the general business aspects of running a profit-making concern. It would act as consultants to entrepreneurs intending to start new businesses and to troubleshoot for existing concerns saddled with problems.

As MIDFIC aimed to support MIDF's loan clients, it did not undertake many standalone consultancy contracts. However, in 1978, MIDFIC was engaged to provide management consultancy services to Federal Land Development Authority (FELDA), where it assisted with FELDA's management information systems and electronic data processing. In its first 10 years, MIDFIC carried out more than 250 assignments to help clients, including a large number of Bumiputera industries, to improve their organisational structures and knowledge of markets, and to create bankable projects.

**The underwriting of United Motor Works (Malaysia) Holdings Berhad's $9 million rights issue in 1972 was the first major exercise by Malaysian International Merchant Bankers (MIMB).**

## Expanding financial offerings –

# MALAYSIAN INTERNATIONAL MERCHANT BANKERS (MIMB)

Functioning as the first development bank in Malaya, MIDF had been active in many aspects of merchant banking from advisory services to raising funds through new share issues, long term loans, and syndicated loans. It was commended by the World Bank in 1963 as having played a significant role in pioneering institutional means for mobilising local and foreign capital for investment in local industry.

Therefore, it was natural that MIDF would step up as a driver in the development of merchant banking, which was introduced in Malaysia in 1970 by Bank Negara Malaysia to help traditional family businesses in trade and property to diversify into industry, and to help mobilise sufficient capital for their expansion.

In 1971, MIDF participated in the establishment of Malaysia's first international merchant bank, Malaysian International Merchant Bankers Berhad (MIMB). (The Chartered Merchant Bankers, which received permission to operate in Malaysia in October 1970, was a Singapore merchant bank.)

MIMB was incorporated on 3 December 1970 under the name of International Merchant Bankers Bhd, and changed its name to Malaysian International Merchant Bankers Bhd on 1 February 1971. It commenced operations a few months later, with the objective of nurturing the restructuring and rapid expansion of the corporate sector.

MIDF took a 26% equity to help establish MIMB in 1971. The major local partners of MIMB were MIDF and Malayan Banking Berhad while the foreign partners were Crown Agents (for overseas governments and administrations), Continental Illinois National Bank, and Trust Co. of Chicago, which held minority equity shares. MIMB had a sister bank in Singapore – International Merchant Bankers, which was set up in the same year with the same shareholders.

"a multinational financial institution of tremendous strength in resources and connections."

In a statement issued at the launch of its operations, MIMB stated that this joint venture brought together—for the first time in Malaysia—a multinational financial institution of "tremendous strength in resources and connections."

Its first chairman and managing director was Mr. Yong Pung How, who held the post until 1976. Mr. Yong was also elected as a director of MIDF in 1968. (He later became the Chief Justice of Singapore in 1990.)

Besides Mr. Yong, other directors of MIMB included Tan Sri Taib bin Haji Andak, Tan Sri Y.C. Foo, Mr. D.B. Johns and Mr. John C. Colman. MIMB's first office was located at Lee Wah Building on Jalan Medan Pasar in Kuala Lumpur. In October 1976, MIMB opened a branch in Penang, becoming the first merchant bank with operations outside of Kuala Lumpur.

With an issued capital of nearly $6 million, MIMB's first activities were corporate finance, short-term finance, investment management, underwriting of debt and equity issues, and financial advisory service. Its general manager, Mr. Peter L. Russell said it was MIMB's intention to encourage and assist Malaysian private companies to go public. MIMB had also established a special unit to assist Bumiputeras in commerce and industry.

The establishment of modern merchant banking in Malaysia was welcomed as being of "tremendous benefit, particularly to the smaller and medium-sized companies" seeking to expand beyond a family enterprise or partnership or to go public.

MIMB's first major exercise was the underwriting of United Motor Works (Malaysia) Holdings Berhad's $9 million rights issue in 1972, which was the first of its kind, wholly organised by a Malaysian bank. MIMB later went on to record other firsts, such as the introduction of the use of banker's acceptances in Malaysia, and advising the government on the country's maiden privatisation and public flotation of national carrier Malaysian Airline System Bhd in 1984.

In 1976, Barclays Bank International, the largest of the UK-based international banks, became a shareholder of MIMB. Three years later, MIDF bought over Malayan Banking Berhad's stake in MIMB to obtain a controlling majority, and eventually owned 70% of MIMB while the remaining 30% was held by Barclays.

In 1975, MIDF participated in the establishment of Arab Malaysian Development Bank Bhd, which later became Arab Malaysian Merchant Bank (AMMB). This bank was formed to link local banking interests with expertise from the Middle East. MIDF took a majority shareholding of 55%, but sold its entire stake in 1982 to conform to a Bank Negara ruling that a finance institution could not have conflicting interests in two merchant banks.

# VOLVO CARS

MIDF invested in an automobile joint venture in 1967 through a loan of $1.45 million to Swedish Motor Assemblies to build an assembly plant for Volvo cars. The $3.8 million plant at the Batu Tiga Industrial Estate was a joint venture between AB Volvo of Sweden and Federal Auto Company Ltd., the local distributors of Volvo cars in Malaysia and Singapore. The factory assembled Volvo cars from parts imported from Sweden, and used some locally-produced components, such as tyres, batteries and paints.

The first locally-assembled car, a Volvo 144, was driven out of the plant in December 1967 by Transport Minister Tan Sri Sardon Jubir and donated to the Boy Scouts Association of Malaysia. This plant was the second to be set up in Malaysia to assemble cars and was to produce 100-120 Volvo cars a month for a start. The on-the-road price for an imported Volvo car at that time was around $11,000.

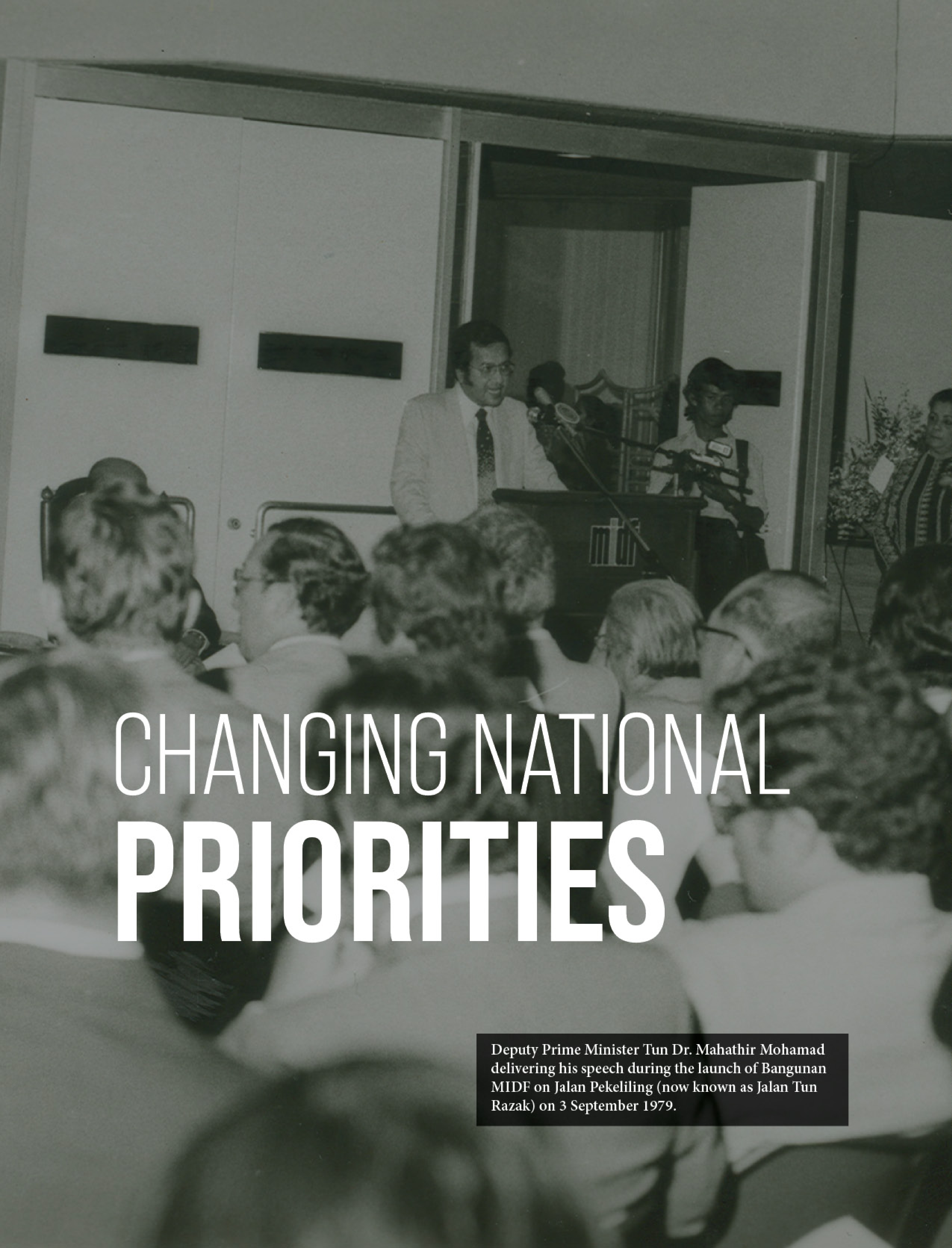

Minister of Transport, Tan Sri Sardon Jubir driving the first car, a Volvo 144, out of the assembly line of Volvo's factory in Batu Tiga for a test drive on 14 December 1967. Behind him was national chief commissioner of the Malaysian Boy Scouts Association, Dato' Syed Esa Alwee. Partly hidden was Assistant Minister of Culture, Youth and Sports, Dato' Ungku Mohsein bin Abdul Kadir. (Photo from New Straits Times)

# MALAYAWATA STEEL PROJECT

MIDF provided two loans for the construction of Malaysia's first integrated steel mill, Malayawata, which was a joint venture between Malaysian businessmen of Malayawata Steel Project and Japanese industrialists of Yawata Group.

Completed in 1967, it was the first heavy industry to come to Malaysia and the single largest industrial project in Malaysia at that time. MIDF granted a \$2.4 million loan in 1964 and invested \$2.2 million in the mill. It approved a second loan of \$4 million in 1969 for an expansion of the plant.

The Minister of Commerce and Industry, Tan Sri Dr. Lim Swee Aun, described the steel mill as "the greatest industrial achievement of the country since the pioneer industries programme was launched ten years ago".



# CHANGING NATIONAL PRIORITIES

Deputy Prime Minister Tun Dr. Mahathir Mohamad delivering his speech during the launch of Bangunan MIDF on Jalan Pekeliling (now known as Jalan Tun Razak) on 3 September 1979.

> **The manufacturing industry had been growing rapidly, but by the end of the 1960s, it had become evident that small import-substitution industries could not create enough jobs for the growing population.**

After a hesitant start in its first decade, MIDF's second decade of operations proved to be one of rapid growth and expansion. It was no longer a question of not having enough applications as was the case in the 1960s. Its loan business grew rapidly in the 1970s, with 80% of its lending since its inception taking place in this decade.

MIDF remained focused on small loans, having become more flexible with its original floor limit of $50,000, with loans as small as $1,000 were also given out. It maintained a rate of about 75% in small loans, with the majority being below $50,000. The smaller loans went to industries as diverse as battery plates, animal feed, plastic bottles and containers, aluminum door frames, castors and wheels, electric bulbs, metal zip fasteners, polyester buttons, fresh orange juice, instant noodles and rice milling.

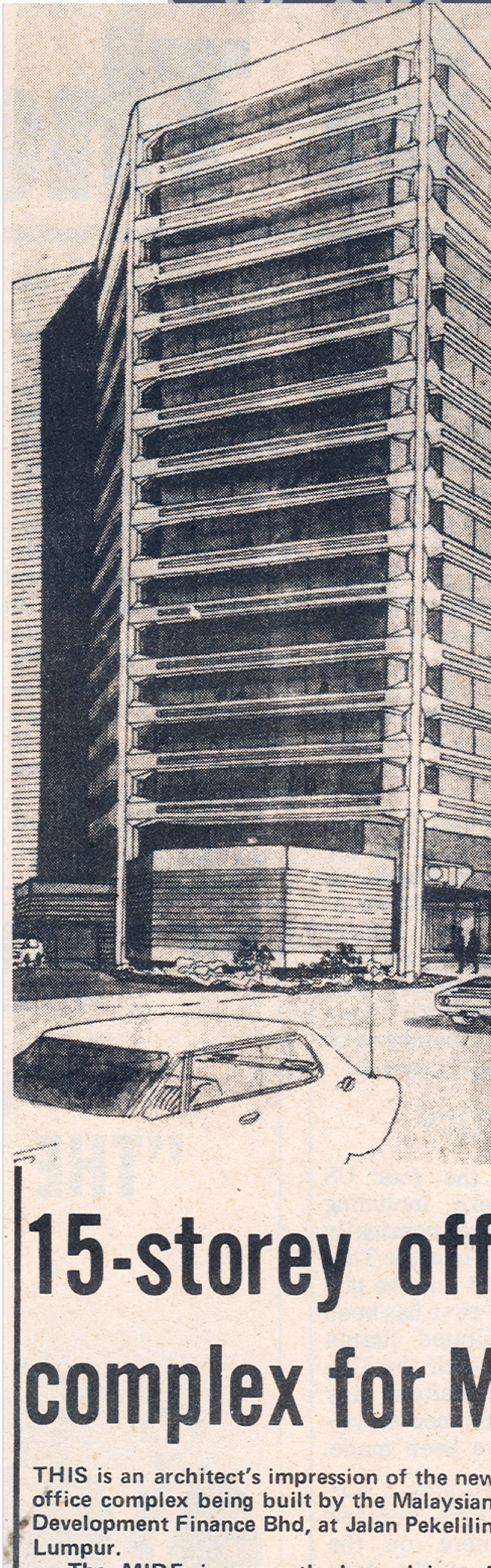
The manufacturing industry had been growing rapidly, but by the end of the 1960s, it had become evident that small import-substitution industries could not create enough jobs for the growing population. In the late 1960s, unemployment reached 7–8%, and could become a difficult social problem if unemployment continued to increase at the present rate of 2.5% a year, noted the World Bank Report on the 'Development Problems and Prospects on Malaysia', issued in 1971.

MIDF was aware of this problem. In its Annual Report 1969, it commented that "of greatest concern was the further deterioration in the unemployment situation in West Malaysia during the year." Three-quarters of the unemployed were under the age of 25, with almost 30% of the young urban first-time job seekers unable to secure employment. The growth in jobs had slowed, partly because the agriculture and mining sectors had become more efficient and required fewer workers. Agriculture was expected to absorb 165,000 more workers during the First Malaysia Plan (1966–1970), but only three-quarters of that had been achieved.

A commentary in the Straits Times in 1969 noted: "As the progress raises expectations to levels where they must be met, the lack of jobs ensures that they will not be. The combination is explosive."

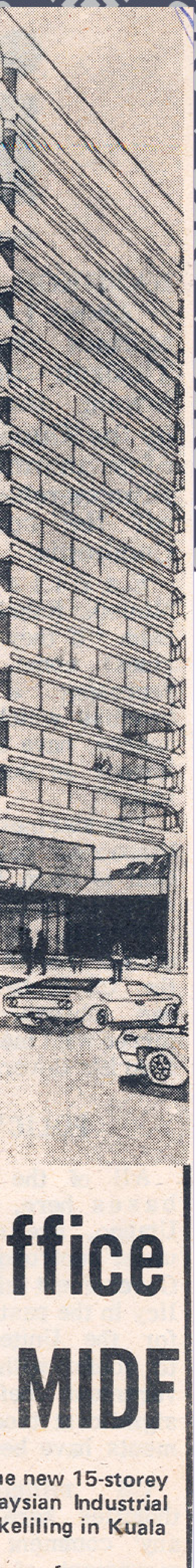
Like most developing countries, Malaysia's initial industrial development had taken the form of import substitution, particularly consumer goods. While the manufacturing sector had grown in the 1960s, it was still relatively undeveloped with only about 10% of its manufacturing production being exported. Given its limited domestic market, it had become evident that Malaysia would have to depend on overseas demand and exports as an important part of its industrial policy to grow its manufacturing sector. The government had begun taking a more active pursuit of industrialisation through encouraging labour-intensive industries based on local raw materials, geographical decentralisation of industries to help decelerate the urban drift of the rural population, and increasing its efforts to expand and modernise small-scale industries.

MIDF adjusted its policy to offer loans at special terms to small entrepreneurs to set up factories in rural areas and areas designated for development purposes. To qualify for the loans, the enterprise must be labour-intensive. MIEL stipulated similar criteria in allocating its low-cost factory units – the industry should be a labour-intensive one that utilised as much raw material as possible, was able to earn foreign exchange and emphasised training to raise the technical know-how in the country.



15-storey off
complex for M

THIS is an architect's impression of the new office complex being built by the Malaysian Development Finance Bhd, at Jalan Pekelilin Lumpur.




Thus, while the initial impetus of industrialisation had come from investment in simple and basic resource-based industries, the focus in the second half of the 1970s switched to labour-intensive export-oriented industries, particularly in the textiles and electronics industries, to generate employment for the growing labour force.

Some of the loans made by MIDF during this decade were for production of construction material. For example, a loan to the Poh Kwong Quarry and Development of Sarawak in 1972 to expand its production capacity for the industrial development of East Malaysia, a loan to the Batu Arang Brick and Tiles factory to produce bricks and clay roofing tiles to meet the industry's increasing requirements, and a loan to the Federal Brickworks in Johor Baru to swerve the brick market in Johor and Singapore. MIDF also approved over $15 million in loans to the palm oil processing industry to build or expand processing plants in line with the government's policy of promoting agro-based industries.

By 1980, as it marked its 20th year in business, MIDF had grown from a small financial institution to four companies offering an expanded range of financial services to industries. Its loans had crossed the $1 billion mark. Over the two decades, it had approved $1.08 billion in financing for 2,689 projects in nearly all the major sectors of the manufacturing industry. These projects had created 199,334 jobs, and generated foreign exchange earnings of $1.073 billion and effective foreign exchanges savings of $345 million.