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From Free Port to Modern Economy:
Economic Development and Social Change in Penang,
1969 to 1990

PENANG
I N S T I T U T E
making ideas work

ISEAS YUSOF ISHAK
INSTITUTE

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Foreword

On the day Tun Dr. Lim Chong Eu passed away on 24 November 2010, I sat in front of Dato' Seri Chet Singh at my then office at Penang Institute, listening to Chet reading out loud his draft eulogy for Chong Eu. I thought to myself, "We must get a book out on Chong Eu and his time."

I was elected to Parliament representing the Penang constituency of Bukit Bendera in 2008, giving me a rare opportunity to interact with Tun Dr Lim during his final years, witnessing first hand his grand world view and his delicate political touch.

In the tide of public sentiment marking his passing, the central theme that stood out was Tun Dr Lim's role as the "Father of Modern Penang". At the funeral, as I walked with many Penangites behind the hearse along Jalan Lim Chwee Leong, a road named after Chong Eu's father, thousands of ordinary people lined up the streets in sorrow. Comments repeatedly heard was that Chong Eu got them out of joblessness.

Chong Eu's dauntlessness and farsightedness helped engineer Penang's rebirth after the crisis of losing its Free Port status; this he did by inviting Foreign Direct Investment to build the manufacturing sector with the ultimate aim of providing decent salaries for a people troubled by a high unemployment rate. In contrast to the prevailing leftist/nationalist climate of the day, his decision to attract investment from countries symbolically regarded as imperialistic/capitalist was an audacious "Blue Ocean Strategy". While Singapore was the regional leader, Penang quickly became the first stop for foreign investment in Malaysia.

Fifty years after that export-led industrialisation strategy which presupposed United States (and to a lesser extent Europe) as the final

export destinations, the scenarios have probably completely changed, especially since the Global Financial Crisis in 2008, which saw growth in the US not being accompanied by much transformative job growth.

But what was central to Chong Eu's project was job creation – a theme that is still very relevant to Penang and Malaysia today.

To move his economic agenda while being constrained by an uncooperative federal bureaucracy, Chong Eu created the Penang Development Corporation (PDC) to bypass the bureaucratic hurdle of the State Secretariat, which was under federal government control. Helmed by the then 35-year-old Chet Singh, the PDC prevailed over numerous limitations to become a powerhouse to be reckoned with. Fifty years after Chong Eu's Gerakan won the Penang Government in 1969, a decade of federal (Barisan) and state (Pakatan) under different parties since 2008, and the new scenario of a federal Pakatan government and a 10-year old Pakatan state government, the federal-state relation and its role in economic development is still something that requires a lot of rethinking and reconfiguring.

Critics often forget that Penang was Chong Eu's last bastion of retreat. He had originally set his sights on national politics, with an eye on international affairs. In May 2009, I attended Tun Dr Lim's private 90th birthday dinner together with the then Penang Chief Minister, Lim Guan Eng. Chong Eu was concise and articulate in discussing the world economy, comparing its current condition with the tumultuous period of post-World War II reconstruction. His insights were uncommonly acute. In the same year, I represented the Chief Minister at the Penang Skills Development Centre's (PSDC) 20th Anniversary celebration. This was most probably the last official function that Chong Eu attended. As the founder of the PSDC, he was invited to officiate at the ceremony. Former Chief Minister Tan Sri Dr Koh Tsu Koon was also present. There was a large treasure chest on stage, in which numerous gold-foiled chocolates lay surrounding a PSDC commemorative book. Tun

Dr Lim was the only guest invited on stage to speak. Before leaving the stage, Tun Dr Lim took two chocolates from the treasure chest with a mysterious smile. Under the glare of the cameras, he slowly made his way down the stage. He paused at the front row to pass a chocolate each to Tan Sri Dr Koh and me, unwittingly providing photographers with the “Kodak moment” of the day. I marvelled at the political savvy of this political giant, even in the tiniest of gestures.

Notwithstanding that, documenting the golden era of Chong Eu marked no easy task. Numerous suggestions were made to Chong Eu himself to allow scholars to write his biography. However, his answer was always noncommittal. His swansong interview – by Penang Economic Monthly editor Dr Ooi Kee Beng – was published in the magazine’s revamped issue in October 2009 by the Socio-Economic & Environmental Research Institute (SERI), of which I was then the executive director.

Nine years after his passing, I am glad that this book, which consists of a collection of articles and essays on Chong Eu’s tenure, is finally available to all especially the younger generation of Penangites who never lived through the Lim Chong Eu era. Half a century after 1969 and on Chong Eu’s centenary birthday, this book is a modest attempt to bring attention to Chong Eu’s legacies and also help us to think through the future of Penang, Malaysia and the region.

Liew Chin Tong
2019

Chin Tong is Deputy Minister of Defence; former Member of Parliament for Bukit Bendera, Penang; and Board Member and former Executive Director, Penang Institute.

INTRODUCTION

While Tun Dr Lim Chong Eu (1919-2010) was undoubtedly a major actor in the early history of Malaya and Malaysia, the role that gave him lasting fame in history books about the country is most undoubtedly that as the Architect of Modern Penang.

In his long political life, he did seem plagued by adversity whenever he managed to reach what seemed a critical point in his career. For example, soon after he became president of the Malayan Chinese Association, having passed on the chance to become the first Chief Minister of Penang, he threw a challenge to the president of the ruling Alliance coalition and founding Prime Minister Tunku Abdul Rahman for an increased number of seats for his party in the upcoming 1959 elections. The Tunku refused to budge and Lim's failure saw support for him dissipate and Lim himself neutralized within his own party.

After leaving the MCA in the early 1960s, he formed the United Democratic Party, and on being elected on that ticket in the 1964 elections, joined with the Singapore-based People's Action Party, the People's Progressive Party and the Sarawak United People's Party to form in early 1965 the Malaysia Solidarity Convention to challenge the Alliance. The separation of Singapore from Malaysia in September that year ended that attempt.

Not one to give up, Lim was instrumental in forming the Parti Gerakan Rakyat in time for the 1969 general elections. The Gerakan did incredibly well in the elections, and managed to gain power in Lim's home state of Penang. He became that state's chief minister on May 12. A day after that auspicious event, racial rioting broke out in Kuala Lumpur and emergency rule was declared throughout the country.

For Lim, his political career must have seemed cursed.

The great dilemma for the Gerakan then was how it was to relate to the idea of the Barisan Nasional, the expanded coalition planned by Prime Minister Tun Abdul Razak Hussein to minimize political disagreements and to centralize power under the Malay-first agenda that was being implemented nationwide. Tensions within the party saw many key members leaving as Lim took his party into the new political configuration. Being now part of the federal government, Lim gained the blessings of Tun Razak to initiate measures in Penang to reboot its economy and establish free trade zones on the island's rural east coast. Indeed, Bayan Lepas became home to the first ever such zone in the country, in 1972.

The rest is history, as they say, and within that history of impressive and resounding economic revival rings most clearly the name of Lim Chong Eu.

Penang Institute's Role

Part of Penang Institute's mandate is to analyse and capture as much as possible of the multifaceted history of Penang, and in lieu of a thorough biography of Tun Dr Lim Chong Eu, has decided to produce a book highlighting particulars in how his administration managed so successfully to turn a once-thriving free port that had fallen on bad times into a modern economy that could contribute quickly and crucially to Malaysian nation building as a whole.

Exhibiting a profound understanding of Penang's economic quandary then which was most clearly symbolized by the termination of its free port status in the late 1960s, Lim pushed for export-led manufacturing through attracting foreign direct investments, following from the budding wisdom of the day. Singapore, for example, had by then expressly rejected the import-substitution model that was popularly tried, often to great detriment, among many newly independent

countries in the 1950s and 1960s.

Collected in this volume are analyses written by selected authors, including Dato' Seri Chet Singh, the man who was at the forefront of this process of economic revival. Penang underwent some of its greatest economic and political challenges in the second decade after Malaysian independence, and a turnaround was far from a given thing. Much imagination, much audacity and much innovative spirit went into the restoration, not only of Penang's economic fortunes but also of the state's intrinsic global connectivity.

But let us first hear in Lim's own words what was accomplished in the 1970s and in the early 1980s. Speaking on 25th August 1985 at the Annual General Meeting of the Associated Chinese Chamber of Commerce and Industry of Malaysia, indeed at a time when the world economy was again in crisis, Lim found it a good occasion to remind the people of Penang of the difficult times they not long ago faced, just a decade earlier in fact, and how they, now, with "the same determination and purpose ... can overcome the problems of the present day".

"In 1970, Penang was faced with an unemployment crisis when our employment rate was between 15 and 16 per cent. This was aggravated further by the entry into the employment market of at least 8,000 school leavers per year. [...] During the period 1970-1985, against the background of the economic doldrums prevailing in the State, particularly following Confrontation and the withdrawal of the Free Port Status, the State Government launched a programme of economic recovery based upon the introduction of Free Trade Zones and the emphasis upon developing the manufacturing and industrial sector in the State. This has successfully made Penang a leading economic growth centre in Malaysia today.

"Between 1972 to 1980, Penang registered a growth rate of 16.9 per cent. Although the growth rate fell to 7.3 per cent from 1980 to 1985,

nevertheless throughout the entire 1970 to 1985 period, the average growth rate prevailing in the State was higher than the average national growth rate, and in absolute terms there was an increase of \$836.5 million between 1971 to 1985.”^{1*}

I was one of the 80,000 school leavers he mentioned, and times were difficult for young Penang people back then, and indeed, much of the brain drain that Penang would experience in the years to come, had its genesis here. But even as sons and daughters of many Penang families were leaving the country for opportunities overseas, the remedy was already starting to work in their hometown, although perhaps a little too late for many of them. The manufacturing sector in Penang, which contributed about 21 per cent to the State GDP in 1971, had by 1980 grown to account for as much as 34.2 per cent of the State GDP. That figure would continue to grow to ensure that the sector would, together with the tourism sector, form the two legs that hold up Penang’s economy today.

This volume of articles starts with a poignant account of Lim Chong Eu’s strategical stance not only in moving from the national political stage to the local Penang stage, but also in grasping what he must have seen as a last chance to seize whatever strategic initiative could be seized in the aftermath of the racial riots of 1969 when the new prime minister Tun Abdul Razak’s “New Economic Policy proclaimed the *political* to be economic, and vice-versa”. Khoo Boo Teik and Toh Kin Woon manages to capture much of the wider complexities of the post-colonial political and economic arena through their insightful examination of the choices Lim made in order to “protect Chinese interests” but yet with the aim of improving Malaysian society as a whole.

Koay Su Lyn and Wong Yee Tuan contribute to our understanding of Penang’s economic revival through a study of the two development

^{1*} Lim Choon Sooi (Ed): *Towards the Future. Selected Speeches and Statements of Lim Chong Eu 1970-1989*. Penang: Oon Chin Seang. 1989: 140-149.

masterplans that set the scene, for better or worse, for the state's future. The Munro Report came at the end of 1964. It offered the advice to the chief minister then, Wong Pow Nee, to continue with import substitution industrialization, a strategy that the country as a whole had adopted. Apart from flaws in the strategy, the vanishing of the entrepot trade after independence and the subsequent repeal of Penang's free port status did not allow for any easy reversal of the state's economic fortunes. The second masterplan came in 1970. This was the Nathan Report, whose advice that Penang should cater to the global market, both in manufacturing and in tourism was accepted by Lim Chong Eu's newly installed government. A restructuring of Penang's basically colonial economy had to be done, and it had to be done without being overshadowed by the heightened nationalist and centralist economic direction propagated by the federal centre.

Now, the vehicle that Lim Chong Eu constructed to realise his dream to turn Penang into a vibrant and globally relevant manufacturing hub in the face of institutional lethargy and resistance was the Penang Development Corporation. As the man who effectively led the PDC for two decades through its most trying times, Chet Singh is indeed the person most knowledgeable about the history of this pivotal organization. While avoiding mention of his own role in the whole process, he provides the reader with an intimate account of how the PDC functioned, what it accomplished and how the strategic and tactical thinking was which lay behind its huge success. This chapter provides in succinct fashion the major details anyone will need to know about the early history of the PDC.

The PDC came into being under great pressure to perform, and so "the decision was taken to break away or move away from the prevailing bureaucracy and have in place administrators thinking and operating like private sector personnel who had to be constantly proactive rather than reactive."

This chapter is supplemented with two appendices—one on the formation of the Penang Skills Development Centre, and the other on the PDC's expanded entry into international consultancy work—which together add deeper dimensions to the impact that its revamping of the state's economy had on Penang's reputation and role beyond its narrow boundaries.

The founding of the PDC and its assumption of many of the functions of local governance took place alongside a transformation of the system of local government in Penang. Most importantly, a management board replaced elected representatives in the local authorities which were now granted financial autonomy. Power was also given to state governments to reconstitute these local authorities. For Lim, what was compelling about these changes was that they allowed for a redistribution of state resources, specialization in staff, and uniformity of by-laws. All these boded well for his plan to restructure the economy of the state. However, Lim's and the PDC's relationship with the councils proved a rocky ride, as this book shows.

Electronics is of course the sector that has been the foundation for Penang's industrialization. Francis H. Hutchinson, who has done comparative studies of Bangalore and Penang, provides the reader here with thorough understanding of how the developmental process at the sub-national level may unfold. Electronic firms may have made up a relatively small portion of companies in Penang's industrial zones, but they employed almost half the workers in these zones. In industrializing Penang in the 1970s and 1980s, the Penang State Government, though subnational, did, in Hutchinson's view, resemble "the Developmental State ideal".

The next chapter, written by Muhammad Ikmal Said, takes a broader view of Penang's industrialization and looks at the national context in which the story unfolded, focusing on issues of poverty and income levels and inequality, and their relation to urbanization.

Rajah Rasiah focuses on Penang's impressive transformation into "the nucleus of integrated circuits firms in Malaysia". Lim Chong Eu's government managed that enviable act, the authors conclude, because it "organized the productive management of its industrial development to first attract MNCs, and subsequently, stimulate technological upgrading by collaborating productively with MNCs and the federal government".

This ability to bring MNCs directly into play while having to handle a central government whose agenda oftentimes would contradict the interests of eager subnational actors, makes for an inspiring story, the authors profess.

The final chapter in this collection, written by Prema-Chandra Athukorala, analyses Penang's success in promoting itself as investment destination and in attracting MNCs not merely to invest in the state but to do so to such an extent that they became deeply rooted in the local economy as well. At the same time, it is fair to say that Penang has matured as an export hub, and more importantly, consolidated its position in global production networks. In that sense, Athukorala concludes, it can with some reservations be seen as a model for other similar sub-national entities eager to engage MNCs in substantive ways.

Penang Institute is proud to present this volume to the world, on the centenary of Tun Dr Lim Chong Eu's birth. Scholars will find it informative, economists will find it inspiring, and Penang lovers will feel pride in the achievements of one of the island's most illustrious sons.

Dato' Dr Ooi Kee Beng
Executive Director
Penang Institute

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We would like to thank the Tun Dr Lim Chong Eu Foundation and the late Mr Ong See Fook for their kind permission to use photos from their collection for this book.