

**REASSESSMENT OF PENANG'S INDUSTRIALISATION AND ECONOMIC
TRANSFORMATION: FROM CHIEF MINISTERS WONG POW NEE TO LIM
CHONG EU, 1960s–1980s**

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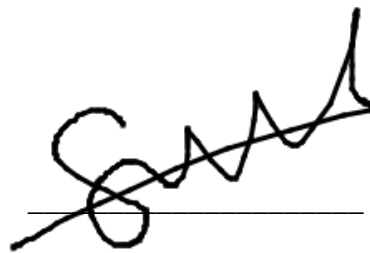
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DECLARATION

I hereby declare that the thesis is my original work and it has been written by me in its entirety. I have duly acknowledged all the sources of information which have been used in this thesis.

This thesis has also not been submitted for any degree in any universities previously.

A handwritten signature in black ink, appearing to read 'KS Lyn', written over a horizontal line.

Koay Su Lyn
10 August 2021

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SUMMARY

Once a prosperous trading port under the British colonial government, Penang, in present-day Malaysia, witnessed numerous political-economic changes that altered the direction of its entrepôt economy. Having already endured numerous encroachments on her free port status, major economic turmoil after the Second World War and rising economic nationalism after Malaya's independence in 1957 and the Indonesian Confrontation were some later challenges. Malaysia's formation in 1963 saw fresh political-economic directions and centralised control, which inevitably precipitated the free port status's erosion, profoundly affecting Penang's economic mainstay. Plagued by high unemployment amidst economic uncertainties, Penang had to engage within the Malaysian common market by industrialising. However, with little industrial drive in this outlying state, whose capital (George Town) was only accessible by ferry, a practical and comprehensive industrial plan was needed.

This burden was shouldered by Wong Pow Nee, Penang's first chief minister, who kickstarted Penang's early industrialisation by adopting the strategies of the Penang Master Plan 1964 (i.e., the Munro Report), which promoted import-substitution industrialisation (ISI). However, ISI's unanticipated shortcomings, coupled with the absence of institutional reforms such as human capital development hindered the plan's long-term effectiveness. These misgivings, alongside Pow Nee's constrained authority under the federal-state structure, his arm's-length relations with key federal ministers and mellow personality placed him in a poor position to propel Penang's interests. The abrupt cancellation of the free port status during a period of active political agitation saw Pow Nee's downfall in the 1969 Malaysian general election. His burden was inherited by Chief Minister Dr Lim Chong Eu, who circumvented Pow Nee's shortcomings under the constrained federal-state structure

by engineering new governance structures and social reorganisation to propel industrialisation. Driven by his charismatic personality, Chong Eu built upon and completed Pow Nee's foundational schemes, successfully steering Penang out of its economic doldrums through export-oriented industrialisation (EOI), as recommended by the Penang Master Plan 1970 (i.e., the Nathan Report) which linked the state to global markets via electronics manufacturing and free trade zones (FTZs). More importantly, Chong Eu succeeded by forging close, unparalleled ties with Tun Abdul Razak's federal government, thus safeguarding Penang's long-term developmental interests.

While Penang was eventually transformed into the "Silicon Valley of the East", its swift progress would not have taken shape without Pow Nee's pioneering contributions, laying down the foundational blueprints later built upon by Chong Eu, who was credited for the eventual fulfillment of ambitious schemes such as the Penang Bridge and an urban renewal scheme which resulted in Kompleks Tun Abdul Razak (KOMTAR). Yet without Pow Nee's early contributions to paving the initial industrial road, the trajectory of Penang's postwar economic development would likely have been different. In retrospect, both chief ministers made lasting contributions to the connected chapters of Penang's industrialisation—in reality, one could not have succeeded without the other, even if this story is often studied sectionally. Thus, Penang's current global industrial standing would not have materialised without the fortuitous combination of Pow Nee's foundational contributions and Chong Eu's charismatic leadership, administrative skill and perseverance.

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LIST OF ABBREVIATIONS

BN	Barisan Nasional (successor to the Alliance)
DAP	Democratic Action Party
EIC	British East India Company
EOI	Export-oriented industrialisation
FDI	Foreign direct investment
FMS	Federated Malay States
FTZ	Free Trade Zone
Gerakan	Parti Gerakan Rakyat Malaysia
ISI	Import-substitution industrialisation
ITT	International Telephone & Telegraph
Jaycee	Junior Chamber of Commerce
KOMTAR	Kompleks Tunku Abdul Razak
MCA	Malayan Chinese Association
MIC	Malayan Indian Congress
MIDA	Malaysian Industrial Development Authority
MNC	Multinational corporation
NEP	New Economic Policy
NOC	National Operations Council
PATA	Pacific Area Travel Association
PDC	Penang Development Corporation
PMIP	Pan-Malaysian Islamic Party (later popularly known as PAS)
PPP	People's Progressive Party
PSDC	Penang Skills Development Centre
RDC	Rural District Council
SCBA	Straits Chinese British Association
SEDC	State economic development corporation
SF	Socialist Front
UDP	United Democratic Party (later Gerakan)
UMNO	United Malays National Organisation

US	United States of America
USM	Universiti Sains Malaysia
WW2	Second World War

CHAPTER ONE

INTRODUCTION

Being born and raised in Penang, I often heard Dr Lim Chong Eu's name mentioned in conversation with my grandmother, especially regarding Penang's economic hardship after the Second World War (WW2). Even at ninety, my grandmother remains fond of Chong Eu, the state's second and longest-reigning chief minister (serving 1969–90), commending him for bringing factories to Penang which provided jobs for unemployed school leavers during that period. My uncle was one of them, and she would recall how he was trained as an engineer in a technical institution for stable employment in the new industrial Free Trade Zone (FTZ) of Bayan Lepas. To my uncle and young Penangites in the 1970s and 1980s who could not afford higher education, this was a dream come true. To them, Chong Eu was not only their chief minister, but a "Father of Modern Penang" for bringing industrialisation, jobs and prosperity to the state. His legacy outlived his death in 2010 and many Penangites of that generation have still not forgotten Chong Eu.

Although I never lived through that era, I naturally grew up "knowing" him as Penang's industrial pioneer. As for his predecessor, Wong Pow Nee, it was not until my research career in history that I "met" him. Penang's first chief minister upon Malayan independence in 1957, Pow Nee's pioneering efforts to industrialise Penang in the early 1960s were oft-forgotten and overshadowed by Chong Eu's achievements, having stepped down in 1969. Not only were Pow Nee's efforts neglected, but few have significantly discussed or examined his role in the early chapters of Penang's industrialisation. In this light, what role did Pow Nee play in kickstarting industrialisation? Was Chong Eu truly the pioneer of industrialisation, who single-handedly transformed Penang? Why did the former fail, but the latter succeed? More

crucially, could Chong Eu have succeeded without Pow Nee's efforts? Thus my thesis journey began, based on these intriguing research questions.

Transitioning from a postwar commercial slum to a modern industrial state, Penang's economic development has a long history. Once a thriving port and settlement under the British colonial government, Penang suffered a significant postwar economic downturn. The emergence of economic nationalism at the new federal centre of Kuala Lumpur after Malayan independence, followed by fresh political-economic directions and control upon Malaysia's formation in 1963, precipitated the erosion of Penang's free port status, gravely sapping its entrepot trade—the state's traditional mainstay. To salvage the economy, Pow Nee's state government adopted the Penang Master Plan 1964 (henceforth the Munro Report), which emphasised import-substitution industrialisation (ISI)—a strategy that focussed on domestic market production, one which the country as a whole had adopted. Apart from the strategy's unanticipated flaws, other inherent factors such as Pow Nee's constrained jurisdictional authority under the existing federal-state structure, his mellow personality and arm's-length relations with key ministers at the federal core, followed by the abrupt repeal of Penang's free port status in 1969, did not allow easy reversals of Penang's economic misfortunes. The replacement Penang Master Plan of 1970 (henceforth the Nathan Report) under Chong Eu recommended an economic reorientation which promoted the shift towards export-oriented industrialisation (EOI) catering to international markets, complemented by Chong Eu's engineering of new governance structures and social reorganisation—including human capital development—enabling Penang to successfully ride the wave of electronics manufacturing via FTZs. Supported by strong state leadership and unparalleled federal-state dynamics fostered by Chong Eu's personal friendship with Prime Minister Tun Abdul Razak, Penang's successful transformation occurred. For all Pow

Nee's supposed failures, this reassessment argues that he laid the foundational schemes for Penang's later industrialisation, brought into fruition under Chong Eu.

While existing works with a specific focus on Penang's industrialisation under their respective regimes are rare, the limited pool of extant literature generally frames the story of Penang's industrialisation within the conventional Chong Eu "success story", with little mention of Pow Nee. In fact, this story has always been studied through a sectional lens (i.e., separately), split into two separate processes as per their respective tenures. In this sense, scholars and commentators have naturally focussed on Chong Eu's outstanding achievements—for one thing, he ultimately industrialised Penang and completed Pow Nee's initial schemes, employing what were considered "mega", loftier concepts. Indeed, the successful reversal of Penang's economic misfortunes quickly became his administration's success story, which earned him his aforementioned, long-standing reputation. In this way, his twenty-two years of accomplishments inevitably overshadowed and even outshone Pow Nee's limited achievements during his brief twelve-year tenure. Thus, the sectional view overlooks Pow Nee's early contributions to Penang's industrialisation foundations.

My reassessment seeks to demonstrate that this was *both* a progressive and connected process (thus, it cannot be studied sectionally), gradually built upon under Pow Nee's and Chong Eu's tenures. Therefore, it sheds light on Pow Nee's neglected contributions and his role in kickstarting industrialisation, before demonstrating how Chong Eu successfully overcome the setbacks faced by Pow Nee's administration, thus bringing his predecessor's schemes to completion. More importantly, this thesis argues that the contributions of *both* chief ministers are inextricably connected, in that the latter could not have succeeded without the former. By covering the crucial twenty-year period of Penang's industrial development (1960–80), this thesis will also situate Penang's case for industrialisation not only within the

state's local context but also the national post-independence context. The Malayan nation's advance towards industrialisation provides a crucial backdrop to Penang's own industrialisation requirements under both administrations, while enabling fresh insight into its lasting significance.

Literature Review

The earliest attempt to analyse Penang's industrialisation under Wong Pow Nee was Julie Tang Su Chin's unpublished academic exercise, *Pembangunan Pulau Pinang semasa pentadbiran Ketua Menteri, Tan Sri Wong Pow Nee, 1957–1969* (The Development of Penang under the Administration of Chief Minister, Tan Sri Wong Pow Nee, 1957–1969). It sought to unearth and make sense of Pow Nee's chief policies in the state's rural development and early industrialisation, as per the Munro Report's recommendations. It included an analysis of Pow Nee's subsequent failure to resolve Penang's economic woes, resulting in his electoral loss in 1969. However, this sectional analysis was confined to only Pow Nee's tenure, with hardly any mention of the continuation of industrial development under Chong Eu. Furthermore, Tang failed to recognise that Pow Nee laid the foundations for industrialisation, which were subsequently built upon by Chong Eu.

Pow Nee's early leadership role is briefly studied in *Unsung Patriot: Memoirs of Wong Pow Nee*: the only such biographical account. I co-wrote it in 2014 with his son, Peter, and must emphasise that Peter, as the primary author, pieced the entire biographical account together while I fact-checked the draft and supplemented it with my initial findings on the Munro Report and Pow Nee's early contributions to industrialising Penang. Nevertheless, this book remains biographical in nature; centring upon Pow Nee's family roots, early life, political career and post-political involvements, with limited analyses of his role and

contributions to industrialisation. It is also confined to Pow Nee's administration, with no mention of Chong Eu's subsequent role.

The first study of Chong Eu's leadership role was attempted in Cheah See Kian's *Dr Lim Chong Eu: A Political Profile*. Centring on Chong Eu's life and political career, especially his leadership of Penang, this descriptive account is restricted to his management of the Parti Gerakan Rakyat Malaysia (Gerakan) party's politics, without any elaboration or analysis of his efforts in developing and industrialising Penang. Moreover, the book's portrayal of Pow Nee as a passive "side actor" who paled in comparison to Chong Eu also fails to paint an accurate picture of the former's leadership ability in paving the foundations for industrialisation. More recently, Tew Peng Kooi's unpublished dissertation, *Kepimpinan Tun Dr. Lim Chong Eu di Pulau Pinang sehingga 1974* (The Leadership of Tun Dr Lim Chong Eu in Penang until 1974), similarly seeks to expound upon Chong Eu's leadership's significance. Following lengthy descriptions of his political leadership and administrative feats against the backdrop of Gerakan's internal politics, it suffers from the same shortfalls as Cheah's—i.e., limited analyses of Chong Eu's industrialisation strategies. Furthermore, there is limited reference to the recommendations of the Nathan Report, which formed the bulk of Chong Eu's socioeconomic policies.

Penang's industrialisation under the two chief ministers and their respective developmental master plans are discussed more directly in two recently published English-language books: *Pilot Studies for a New Penang*, edited by Ooi Kee Beng and Goh Ban Lee; and *From Free Port to Modern Economy: Economic Development and Social Change in Penang, 1969 to 1990*, edited by Chet Singh, Rajah Rasiah and Wong Yee Tuan. However, they also analysed Penang's industrialisation through a sectional lens, with more focus paid to Chong Eu's administration and achievements and little analysis of Pow Nee's initial

foundations. The introduction of *Pilot Studies* traces the history of Penang's development planning and the key master plans that helped shape its economy. Although the book briefly acknowledges the Munro Report, a deeper analysis of its contributions and how Pow Nee founded the pillars of Penang's industrialisation based on its recommendations are lacking.

A more detailed account of Penang's industrialisation is encapsulated in *From Free Port to Modern Economy*, containing five essays on the subject. The essay that most directly discusses this thesis's subject is the second one, which I co-authored with Wong Yee Tuan in 2016 during my five-year employment as a researcher with Penang Institute, the state government's think-tank. I was selected as the main author in because of my initial findings on the Munro Report from my work on Pow Nee's biography. Wong, my head of department, assisted by sourcing the relevant Chinese-language newspaper reports, fact-checking and proofreading. I briefly analysed the Munro Report and its failures, before looking at how and why the Nathan Report succeeded—I attributed its success to the political will and foresight of Chong Eu. Since this book marked the Penang state government's official tribute to him, its contents were confined solely to his tenure and therefore I hardly mentioned Pow Nee's role in propelling the Munro Report's recommendations.

Nevertheless, my two works provoked deeper questions. Could Chong Eu have succeeded without the Munro Report as a foundation? Were political will and foresight alone sufficient for ensuring the prompt implementation of the Nathan Report's recommendations, which swiftly propelled Penang's economic transformation? Deepening my research by using these works as bases, this thesis addresses those significant questions through a deeper analysis of Pow Nee's role by looking at Penang's industrial inception as a connected process *initiated* by Pow Nee and *inherited* by Chong Eu.

Returning to the collection, I also wrote the fourth essay tracing the restructuring of Penang's local authority under Chong Eu's regime. While it does not directly concern Penang's industrialisation, I have built upon its initial findings here by linking the overall restructuring of the local authority to the bigger picture—as part of his wider administrative reforms and social reorganisation crucial for circumventing the administrative pitfalls and federal-state jurisdictional limitations faced by Pow Nee.

The three remaining essays analyse Penang's transformation solely under Chong Eu's tenure from different angles. Francis Hutchinson studies Penang's transformation by looking at the unfolding of the developmental process at the sub-national level. During industrialisation in the 1970s and 1980s, he argues that the Penang state government resembled the “developmental state” ideal, albeit at a sub-national level. Rajah Rasiah focusses on the nucleus of integrated circuit firms in Malaysia to study Penang's transformation. He professes that by first organising the productive management of its industrial development, Chong Eu's government successfully attracted multinational corporations (MNCs) and subsequently stimulated technological upgrading by collaborating productively with these MNCs and the federal government. This ability to bring MNCs into direct play while handling a central government whose agenda oftentimes contradicted the interests of eager sub-national actors contributed to the success of Penang's industrialisation. Finally, Prema-chandra Athukorala analyses Penang's transformation in terms of how the state effectively promoted itself as an investment destination and attracted MNCs, which not merely invested but also became deeply rooted in the local economy. As Penang gradually matured as an export hub, it became a model for similar sub-national entities eager to substantially engage MNCs.

While these aforementioned works have sought to conceptualise Penang's industrialisation, their limited sectional analyses have not sufficiently presented Pow Nee's role and contributions in securing the initial success of Munro's recommendations. This issue notwithstanding, the existing literature not only tends to overemphasise the Chong Eu success story (particularly for EOI, which indeed enabled Penang's industrialisation), but oft-overlooks various supporting roles—i.e., institutional reforms, social reorganisation and manpower development. More crucially, the current literature also fails to discuss Pow Nee's administrative limitations within the context of federal-state jurisdictions, including his arm's-length relations with federal ministers in executing the Munro Report's recommendations, and how these were resolved through Chong Eu's unparalleled federal-state dynamics and deep administrative reforms in propelling the economic redirections recommended by the Nathan Report. By reassessing their successive tenures through their development master plans and respective roles in propelling industrialisation, my thesis seeks to provide a more holistic understanding of Penang's economic revival that set the scene for the state's—and even Malaysia's—future. In turn, the significance of Penang's transition to an industrialised economy through a *progressive and connected* process enables a better understanding of a crucial development period in Malaysia's overall manufacturing landscape.

Methodology and Sources

In examining and analysing Penang's transformation from a free port to modern economy from the 1960s to 1980s, I consulted a range of primary materials, mainly reports from the Penang state government, Penang State Assembly and Penang Institute such as the *Draft Development Plan of Federation of Malaya* (1950), *Second Five Year Plan* (1961–1965), *First and Second Malaysia Plans* (1966–1975) and their *Mid-Term Reviews*, *Penang Master Plan of 1964* (Munro Report), *Penang Master Plan of 1970* (Nathan Report), *Penang Today*

1969 circular series, the *World Bank Report on the Economic Aspects of Malaysia 1963*, *Report of the Free Port Issue of Penang Island 1967* and the *Report of the Proceedings of Penang Legislative Assembly (1960–1980)*, followed by a wide range of secondary material. To further reconstruct the historical context, I consulted different volumes of English-, Chinese- and Malay-language newspapers, including the *Sunday Tribune* (Singapore) (1940–51), *Malaya Tribune* (1940–51), *Singapore Free Press* (1940–51), *Straits Echo* (1951–80), *The Star* (1977–80), *The Straits Times* (1940–80), *New Nation* (1970–88), *Nanyang Siang Pau* (南洋商报, 1940–80), *Sin Chew Jit Poh* (星洲日報, 1951–80), *Lianhe Zaobao* (联合晚报, 1980–88) and *Berita Harian* (1957–80).

These newspapers constitute valuable resources that provided useful information on both the Pow Nee and Chong Eu administrations. Moreover, they contain local information that enabled me to examine the social responses towards their respective economic policies. In seeking to further affirm and fill in the potential gaps within the existing literature, my research also involved oral interviews with key personalities who were directly involved with both administrations and the immediate family members of the two chief ministers.

Thesis Outline

Chapter Two discusses the rise and decline of Penang’s free port. Since its founding as a colonial trading post in 1786, its port was steered by changing political-economic directions and colonial priorities. Yet there was little interference in free trade, and Penang’s port developed and flourished under the “free hand” of private enterprises. During the Great Depression, the government sought to curb this economic liberty by establishing a Malayan customs union, although these restrictions took effect only after WW2. The private enterprises resisted and initially scored several victories. However, subsequent rise of economic nationalism and the new constitutional reframing of Malaya as the new nation-

state of Malaysia in 1963 brought about the eventual decline of Penang's free trade and its inclusion into the customs union. There was little alternative but to industrialise under Pow Nee.

Chapter Three closely examines Pow Nee's approach in tackling Penang's new problems by propelling industrialisation. Deriving his policies and plans from the recommendations of the Munro Report, Pow Nee sought to revive Penang's economy based on ISI on the mainland while developing tourism on the island. His focus centred on the provision and improvement of existing infrastructure and facilities that would attract capital investment to Penang's industrial sites and tourists to the island. Nevertheless, the ISI's unanticipated shortcomings, coupled with the absence of institutional reforms and development of human capital, hindered the Munro Plan's long-term effectiveness, worsened by Pow Nee's constrained jurisdictional authority under the federal-state structure, his arm's-length relations with key ministers at the federal core and mellow personality. The abrupt termination of Penang's free port status in 1969 saw Dr Lim Chong Eu succeeding him.

Chapter Four analyses Chong Eu's different approach to addressing the issues that Pow Nee completely failed to resolve. Chong Eu circumvented existing pitfalls and limitations under the constrained federal-state structure by engineering new governance structures and conducting social reorganisation (including human capital development) which prepared Penang to successfully ride the electronics wave through FTZs, as per the Nathan Report's reorientations. Improved administrative support, efficiency and coordination, girded by Chong Eu's formidable leadership abilities, charisma and more importantly, renewed and unparalleled federal-state relations with Tun Razak's government, followed Pow Nee's

foundational schemes to successfully reverse Penang's economic misfortunes and turn it into an important, industrialised state.

The conclusion, Chapter Five, summarises the findings by emphasising Pow Nee's pioneering contributions in paving the road for industrialisation and recapitulating the central argument—i.e., although Chong Eu's reforms and astute state leadership (especially unparalleled federal-state relations) enabled Penang's eventual transformation, he was equally aided by Pow Nee's groundwork, without which Penang's economic woes would not have been successfully reversed within a relatively short eleven-year span. Without this connected and progressive combination (Pow Nee's developmental foundations and Chong Eu's charismatic leadership, administrative experience and perseverance), Penang's industrialisation story might have been different.

CHAPTER TWO

THE RISE AND DECLINE OF PENANG'S FREE PORT AND THE POLITICAL TRANSFORMATION OF MALAYA

This chapter explores the rise and decline of Penang as a free port, the island's crucial economic lifeline, highlighting the changing political-economic nexus that steered the direction and influenced the development of its free port status. As this chapter outlines, the port of Penang enjoyed the advantage of free trade with few customs duties and little interference from the British colonial government, steered by the free hand of the mercantile community over several centuries. This economic freedom was nearly curbed after the Great Depression by the proposal for a Malayan customs union, but the mercantile circles resisted and emerged victorious. Therefore, it was not until after WW2 and the Malayan Union's formation in 1945 that such a union officially took effect. Eventually, the political-economic transition to Malaysia in 1963 led to the eventual decline of Penang's free trade and its subsequent inclusion into the Malaysian customs union.

The Founding of a British Trading Post with a Free Port Status

Renamed the Prince of Wales Island in 1786 by Francis Light, acting agent of the British East India Company (EIC), and acquired from the Kedah Sultanate, Penang was bestowed with a free port status from its inception for the sole purpose of facilitating trade. Thus, Penang was founded and developed largely based on political-economic factors—thus giving Britain a share in the profitable trade of the Malay Archipelago, especially important given the active presence of several competing foreign powers in the region. The French naval forces were active not only in the Indian Ocean but were also interested in the tin trade of the Tenasserim coast in the early 1780s, while ports throughout the Dutch East Indies

were closed to British ships in 1782 to 1783, further compounded by the Dutch conquest of Riau in 1784.¹ Thus, the free port of Penang was designed to put a stop to growing Dutch influence in the Malay Peninsula by enticing traders and mercantile enterprises away from the restricted, Dutch-controlled ports to the new British possession, while protecting the safety of the EIC's Indian possessions from the looming threat of French interference.

Since the China tea trade was of paramount interest to the British at the end of the eighteenth century, Penang served as a strategic stopover port for vessels to break their journey between India and China.² In this sense, its politically motivated founding meant that it was to be no more than a trading post. Although the objective of establishing a naval port was originally identified in the numerous considerations for the acquisition of Southeast Asian territory, the EIC explicitly “regarded Penang in essence, as an anchored country trader, not a naval base or as a political objective, but as a bazaar...”.³ Besides ensuring full control over Penang's harbour, the EIC later secured a strip of land on the Kedah mainland, opposite the island, that became known as Province Wellesley (present-day Seberang Perai) in 1800. By controlling the strait between the island and the mainland, the British inevitably dominated a crucial portion of the trade route entering the northern mouth of the Strait of Malacca. In short, Penang's strategic location enabled it to develop rapidly as an international entrepôt.

Geographically, Penang is surrounded by the western Malay States of Perak and Kedah to the east and Aceh of northern Sumatra on the west. Towards Penang's north are Rangoon (Yangon) and Mergui of southern Burma as well as Phuket of southwestern Siam (Thailand),

¹ Wong Yee Tuan, *Penang Chinese Commerce in the 19th Century: The Rise and Fall of the Big Five* (Singapore: ISEAS – Yusof Ishak Institute, 2015), 14–15.

² C.D. Cowan, “Early Penang and the Rise of Singapore, 1805-1832”, *Journal of the Malayan Branch of the Royal Asiatic Society* 23, no. 2 (152:2–210), March 1950: 3–5.

³ K.G. Tregonning, *The British in Malaya: The First Forty Years 1786-1826* (Tucson: University of Arizona Press, 1965), 42.

while to the south are Selangor, Malacca (Melaka) and Singapore.⁴ Starting as an outpost in an almost uninhabited jungle, the total value of Penang's trade reached \$853,592 Spanish dollars by 1789.⁵ With no customs duties on trade items except for opium, alcohol and tobacco, the principal manufactures of Britain and India such as opium, cotton, woolen products, silk cloth, gunpowder, steel, iron and chinaware were imported for distribution throughout the Malay Archipelago, whose products (known as "Straits produce") such as rice, tin, rattan, spices, pepper, ivory and gold dust were transmitted to China, India and Britain in return.⁶ Among the ports in the Strait of Malacca which had close trading ties with Penang were Kedah, Aceh, Melaka, Selangor and Pedir.⁷ The English formed the majority of Penang's traders, alongside various Asian traders such as the Chulias, Malays, Burmese and Chinese, followed by those from the United States of America (US) and continental Europe.

Contrary to most claims, Penang's lucrative trade did not immediately suffer after the establishment of Singapore's free port by Stamford Raffles in 1819. In fact, both settlements enjoyed a mutual, flourishing trade. While some trade was driven away from Penang, Singapore's increasing trade had a beneficial spillover effect. Not only did Penang continue to be an important distribution point for commodities from Singapore to the northern states, but it also became a crucial pickup point for Straits produce (e.g., tin and pepper) for the Singapore market. In this manner, Penang continued to service the trading routes between northern Sumatra, southern Burma, southwestern Siam and the western Malay States.⁸

⁴ Wong, *Penang Chinese Commerce*, 15.

⁵ L.A. Mills, *British Malaya, 1824-67* (MBRAS Reprint No. 22) (Kuala Lumpur: Malaysian Branch of the Royal Asiatic Society, 1961), 54.

⁶ *Ibid.*

⁷ Located on the east coast of Sumatra, Pedir and Aceh supplied pepper, betelnut and forest produce to Penang. Meanwhile, Penang received tin and various food products from Selangor, Kedah and Melaka. These were traded with India and China for products such as Indian cloth, opium, sugar, salt and spices. See Nordin Hussin, *Trade and Society in the Straits of Melaka: Dutch and English Penang, 1780-1830* (Singapore: NUS Press, 2007), 70–75.

⁸ Wong, *Penang Chinese Commerce*, 16–17.

Moreover, the eastern trade initially lost to Singapore was compensated by an improvement in trade, primarily in pepper imports, with Aceh and ports on the eastern coast of Sumatra.⁹ A revenue of \$949,109 in Spanish dollars in 1818–19 increased to \$1,182,370 in 1824–25 (the immediate years after Singapore’s founding).¹⁰ Trade continued to flourish in Penang, and although Singapore was made the capital of the Straits Settlements in 1832, it was not until the last quarter of the nineteenth century that its trade superseded Penang’s.

Although Penang was a prosperous entrepôt, the colonial authorities paid little heed to the absence of control mechanisms and inadequate regulations at its port. Traders whose businesses were disrupted by piracy or localised fighting received little assistance and repeated instances of smuggling were common owing to poor policing.¹¹ Following limited government intervention, the development of Penang’s port was left to private enterprise, mainly led by the British, Baba Chinese (i.e., Straits Chinese) and other local merchants. While this prosperity is often credited to the EIC and British merchants in most Eurocentric accounts, an exceptional role was played by the Baba merchants—the owners and operators of most of Penang’s shipping, to whose regional networks the entrepôt’s rise can be substantially attributed. Without their contributions, Penang would not have been able to supersede Malacca, which had been increasingly losing its share of Baba merchants to Singapore.¹² Ultimately, Penang’s mercantile community took charge of the management of the port’s landing and shipping operations. In 1837, having decided to deal more effectively with colonial officialdom by forming a forceful voice that would garner improved responses, merchants formed the Penang Chamber of Commerce and Agriculture. In 1903, the Baba merchants established their counterpart—the Penang Chinese Chamber of

⁹ Nordin, *Trade and Society*, 96–97.

¹⁰ Loh Wei Leng and Jeffery Seow, *Through Turbulent Terrain: Trade of the Straits Port of Penang* (MBRAS Monograph No. 50) (Kuala Lumpur: Malaysian Branch of the Royal Asiatic Society, 2018), 56.

¹¹ *Ibid.*, 68.

¹² Wong, *Penang Chinese Commerce*, 17.

Commerce. Ultimately, the government's non-interference policy gave Penang liberty in running daily port businesses, thus enabling the advantages of the free port to benefit both the government and locals.

Becoming a British Malayan Port

By the time Singapore's trade overtook Penang's in the 1890s, the British government had realigned its port to focus on mainly serving British Malaya's economic interests, having made significant inroads into dominating the local governance and economy. Following the growing importance of tin and rubber, by the 1870s Penang was dedicated to servicing the peninsula's export needs. However, it is misleading to conclude that Penang had totally abandoned its function as an international port, since it still maintained its long-standing regional connections and continued to service the usual trading networks from adjacent territories (i.e., northeastern Sumatra, western Siam and Burma). Nevertheless, the change in its political-economic direction was due to new developments in the last quarter of this century.

The opening of the Suez Canal in 1869, followed by increasing industrial development in Europe, witnessed the invention and dominance of steamships. This enabled a new trans-regional route between Europe and Asia via the Strait of Malacca, initially benefiting Penang since it was geographically located at the north of the strait. Moreover, Penang's reputation as an entrepôt had consolidated its standing as the first port-of-call east of the Indian subcontinent, thereby linking regional trade with the global economy while serving as a vital link in the international telegraph system.¹³ These developments coincided with the abandonment of Britain's non-interference policy in the native affairs of the Malay States.

¹³ C.M. Turnbull, "Penang's changing role in the Straits Settlements, 1826-1946", in *Penang and Its Region: The Story of an Asian Entrepot*, eds. Yeoh Guan Seng et al. (Singapore: NUS Press, 2009), 41–42.

The signing of the Pangkor Engagement in 1874 permitted direct economic investment and increasing colonial rule in what became known as the Federated Malay States (FMS), particularly fuelled by the discovery of large tin deposits in Perak and Selangor during the first half of the nineteenth century which had led to the opening of mines drawing significant investment from both British and Baba merchants of the Straits Settlements (including the Baba from Penang)—by the 1870s, Baba domination had grown as their trading network increased, alongside other investments such as tin mining and smelting, with shipping lines funded by capital raised from revenue farming. They were also indirectly involved in both the collection and distribution of goods within Penang and the hinterlands of the Malay Peninsula.

Tin investments proved extremely profitable, given the growing demand for tin production required by the canning industry. This was followed by the prosperity boom in 1900, ushered in by the promotion of the commercial production of rubber which attracted European planters to the peninsula. With plantations mainly set up in Perak, Selangor, Negeri Sembilan and Johor, Penang benefited from the rubber boom in the first decade of the twentieth century as prices rose due to the development of the US automobile industry with its increasing demand for rubber tyres.¹⁴ Penang also served as both the entry and departure point for thousands of migrant plantation labourers from China and India. In fact, the early influx of migrant workers from China also led to a growth in Penang's rice trade with the Malay States. Thus, the British capitalised on Penang's formidable position by making it the main channel for the products of the tin fields and rubber plantations of Perak and Selangor.

It must be emphasised that the free port's significance during this era lay in the fact that it permitted the import of foreign goods into the Malayan market. This proved highly

¹⁴ Sultan Nazrin Shah, *Charting the Economy: Early 20th Century Malaya and Contemporary Malaysian Contrasts* (Oxford: Oxford University Press, 2017), 29–30.

beneficial to Britain's export trade, as well as to the locals who could obtain a range of imported goods at low prices and export primary commodities (largely tin and rubber). Indeed, the readily available imported goods meant that there was little incentive for the development of manufacturing in Penang beyond processing primary products—unsurprisingly, the most important industrial activity at this juncture was tin-smelting.¹⁵ Small-scale commercial industries remained mainly family businesses, usually limited to a single shophouse and operating on slim profit margins. As one of the important ports that catered to British Malayan exports, Penang's exports to the Malay Peninsula (legally and administratively, these were distinct territories) totalled 65,292 piculs in 1878, before rising to 100,589 piculs in 1881 and eventually reaching 381,882 piculs in 1886.¹⁶ These tin and rubber exports were managed at the docks of Prai on the mainland, where a direct connection with the FMS railway line was established.¹⁷

As Penang's trade grew, the existing port facilities became inadequate for berthing larger steamships. Yet financing the cost of these new facilities remained a point of contention. The local merchants saw the provision of adequate port facilities to help expand trade as the colonial government's responsibility, given that the boom in Penang's trade also meant increased government revenue. The colonial authorities, while accepting some responsibility for the port's development, wanted to ensure that any developmental undertakings would not burden the colony's (i.e., the Straits Settlements) finances. The tussle ended with the rejection of the merchants' original proposal for a 2,400-foot wharf and the

¹⁵ P.P. Courteney, *A Geography of Trade and Development in Malaya* (London: G. Bell & Sons Ltd, 1972), 108–9.

¹⁶ Loh and Seow, *Through Turbulent Terrain*, 107.

¹⁷ Prior to the railways, tin was first transported by river, a time-consuming and inefficient affair. Cost-benefit considerations of transporting tin and rubber led to the construction of a railway network which covered the entire peninsula, which proved crucial for the colonial government's support of its export industries. The first railway line in the FMS was established in 1885 between Port Weld and Taiping; the latter was a crucial collection point for tin from Larut. By 1910, most of the peninsula was connected by a railway network—from the southern edge of Johor Bahru to Province Wellesley.

establishment of a port trust. Instead, a separate wharf for oceangoing vessels, Swettenham Pier, was built in 1903 (see Illustration 2.1).¹⁸ Although these contentions demonstrate the government's reluctance to equip Penang with better port facilities, the political-economic importance of Penang port, especially vis-à-vis the northern region, resulted in an eventual compromise between the colonial authorities and private enterprise.

Illustration 2.1: Swettenham Pier under construction



Source: The Wade Collection

With an external berthage of 600 feet at a cost of \$600,000 Straits dollars, the new pier enabled larger liners to berth and subsequently extended in conjunction with the reclamation scheme at the southern end of Victoria Pier. In Province Wellesley, a subsidiary port was built at the mouth of the Prai River, with extensive wharves, a dry dock, foundries and workshops for repairing ships.¹⁹ With these increased facilities, Penang was able to handle an aggregate 2,868,457 tonnes of merchant shipping by 1906.²⁰ The port's progressive

¹⁸ Chuleeporn Pongsupath, "The Mercantile Community of Penang and the Changing Pattern of Trade, 1890-1940", PhD diss. (University of London, 1990), 294–300.

¹⁹ Arnold Wright and Henry Adolphus Cartwright, eds., *Twentieth Century Impressions of British Malaya: Its History, People, Commerce, Industries, and Resources* (Lloyd's Greater Britain Publishing Company, 1908), 191.

²⁰ Loh and Seow, *Through Turbulent Terrain*, 135.

development also turned the island's state capital, George Town, into a thriving commercial hub, which grew to house various commercial sectors and services by the turn of the century; with port-based professions—e.g., trading activities and merchant houses employing chandlers, brokers and stevedores—followed by banks, insurance companies and even brothels. By 1913, Penang's export trade totalled \$251 million Straits dollars.²¹ With its established contacts with East Asia, especially the treaty ports in China, Japan, Korea and Formosa (Taiwan), together with the US and Australia, Penang progressed steadily into the twentieth century, maintaining its dual role as an international and British Malayan port. As Malaya became an increasingly significant player in international trade, its prosperity depended heavily on exports of tin and rubber, thus rendering it vulnerable to global events which not only shaped the ebb and flow of Penang's free trade, but played a crucial role in determining the future of the island's free port.

Developmental Trajectories between the Two World Wars

Penang's first major international disruption began in 1914 with the outbreak of the First World War in Europe, which saw a complete halt in Malaya's trade following the disruption of international shipping and the cessation of routes to and from Europe. Although the island suffered an initial dip in trade, business picked up in the war's third year, growing by 22 per cent and notching \$188,550,704 Straits dollars in total trade.²² There was an increased demand for resources due to the production of rubber tyres despite a fall in rubber prices and a momentary spike in tin prices given the difficulty of transporting tin to Europe. Although the quantity of tin exports dropped, this was compensated by increased prices per unit value of tin exported.²³ Penang thus survived and entered the prosperous "roaring" 1920s, with its

²¹ Courteney, *A Geography of Trade*, 115–18.

²² Loh and Seow, *Through Turbulent Terrain*, 136–7.

²³ Sultan Nazrin Shah, *Charting the Economy*, 34.

trade gains tied to Malaya's high economic growth, particularly in light of the booming US automobile industry.²⁴ Exports totalled \$259,509,231 Straits dollars in 1925, with a \$98,261,021 balance of trade.²⁵ Indeed, by the war's end Malaya was already heavily dependent on the US market—while in 1913 the US consumed only 12 per cent of Malayan exports, this rose to 35 per cent by 1918. Except for the Depression years, its share of exports increased annually, peaking at 43 per cent in 1929.

Naturally the Depression, triggered by the Wall Street crash in September 1929, caused a collapse in Penang's external trade. Following massive layoffs and the repatriation of many "foreign" tin mining and rubber plantation workers, Penang's exports dropped significantly—from \$210,582,889 in 1929 to \$66,383,132 in 1932. A decent trade balance of \$26,735,396 in 1930 dropped to \$2,086,432 in 1932, barely three years into the Depression.²⁶ Its excruciating impact precipitated a change in the colonial government's political-economic policy which greatly threatened Penang's free port status: the proposed creation of a Malayan customs union in 1931. Generally, such an agreement is entered into by fiscally independent states for improved collection of customs revenue and better control of customs matters, as well as freedom of internal trade and a common external tariff. Essentially, this meant a mutual agreement between the different administrative regions of Malaya to jointly collect customs duties, whose ports played a crucial role in the collection of duties given that they were the first point of entry and departure.

Thus, should the Straits Settlements (and by extension the ports of Singapore and Penang) be included within the customs union, the abolition of their free port status was inevitable.

²⁴ *Ibid.*, 109–10.

²⁵ "Table 290: Penang's exports, imports and balance of trade of goods with Rest of World and Singapore at current prices, 1900–1939", Historical GDP Accounts, Economic History of Malaya, accessed November 9, 2020. <https://www.ehm.my/data/historical-gdp-accounts/data/details?eid=95362802-aa23-46ac-86c9-c74a122122be>.

²⁶ *Ibid.*

Motivated by the FMS's financial difficulties following the severe paralysis of the tin and rubber industries—which seriously reduced government export duties and saw the need for a preferential duty system under a common customs setup—this change envisaged government-initiated economic integration and a uniform revenue system to supplement inadequate funds. Meanwhile, pressure for a more streamlined and cost-effective structure of governance propelled the government to contemplate British Malaya's complete political reorganisation.²⁷ Replacing the current divisions between the Straits Settlements, the FMS and the Unfederated Malay States would be the proposed pan-Malayan Union, complementing the customs union.

Having long enjoyed freedom in managing the ports while accruing the benefits of free trade, this proposal was resisted by the Straits' mercantile community. Strongly represented on the Customs Duties Committee, the businessmen fought against the Straits Settlements' inclusion into the customs union, with a series of inquiries convened by the Straits governor, Cecil Clementi, its main proponent.²⁸ A stalemate was reached and both proposals were held in abeyance until 1941, when it became obvious that the divergent economic and political developments of the three administrations of Malaya meant that the colonial goal of creating a single administrative entity would remain distant.

If the political-economic changes associated with the abortive customs union failed to force the Straits merchants to reconsider their free port principles, direct pressure from the government did. Britain was confronted with more competition for the position of Malaya's leading importer, particularly by Japan, which emerged as a formidable importer from Southeast Asia—thus, the colonial government imposed quotas on the imports of foreign

²⁷ Chuleeporn, "The Mercantile Community", 328–30.

²⁸ *Ibid.*, 330–6.

cotton and rayon in 1934 to counter Japanese competition.²⁹ It is noteworthy that as early as the 1930s, European imports (mainly British) such as cotton goods, linen, hardware, ironware and cooking utensils declined, while imports from East Asian ports such as Japan, China and Hong Kong grew. By 1933, 68 per cent of cotton goods entering all Malayan ports were of Japanese origin. While this imposition curtailed the freedom of the ports, the government was determined to proceed despite protests from Straits merchants. This was aptly demonstrated by the passing of the Importation of Textiles (Quota) Ordinance in May 1934 and the mandatory establishment of re-export depots or bonded warehouses in all ports. As this policy's beneficiaries, there was little resistance from the Chambers of Commerce, especially the British merchant houses—meanwhile, the Penang Chamber of Commerce referred to Japanese trading as a “deadly menace which was threatening the British import trade of the colony with extinction” in a bitter speech from 1934.³⁰ Such merchant successes, however, would be reduced in the postwar years.

Postwar Imperilment of Penang's Free Port Status

The prospect of the swift creation of an administratively united Malaya after WW2 was heightened by the economic chaos after the three-and-a-half-year Japanese occupation. The widespread unemployment, destitution and social chaos wrought by Japanese hostilities gave the returning British the enormous task of economic reconstruction and sociopolitical rehabilitation. The Malayan Union was therefore conceived as a major step for the British colonial government to reassert its postwar political control. When the Union was formalised in 1946, the Straits Settlements were disbanded, with Penang, Malacca and the nine Malay States incorporated into a single entity, while Singapore was detached to become a separate Crown Colony. Being financially limited, the British Military Administration (BMA) found

²⁹ Courteney, *A Geography of Trade*, 128–9.

³⁰ *Ibid.*, 130–2.

itself in a tight position regarding Penang's free port status. This seismic constitutional rearrangement made it difficult for Penang to retain its status quo, especially when Province Wellesley now fell under the mainland customs area.

Apart from economic relief for the revival of the tin and rubber industries, financial contributions from Britain were not forthcoming for Malaya's rehabilitation. With postwar Britain suffering a substantial trade deficit, Malaya, one of her most profitable colonies, proved important for balancing her accounts. Hence, despite an increase in hard currency export earnings, Malaya was not given access to these resources for its own domestic consumption, instead forced to make an involuntary £63.6 million contribution to the gold-dollar "pool" in 1946–47. Restricted access to funding curbed Malaya's purchases of hard current imports, thus forcing the BMA to rely largely on domestic resources to rebuild the economy. Inevitably, the principal sources of government revenue had to be derived from indirect taxes on exports and imports, followed by income taxes.³¹ Penang's free port status was therefore seen as an impediment.

Consequently, Penang Island witnessed hefty encroachment upon its free trade, with the imposition of trade duties as early as January 1946, followed by regulations on rice exports owing to postwar food shortages and rationing.³² Later, the Prohibition of Export Order was enforced, thus prohibiting unlicensed exports of specified commodities and manufactured goods including foodstuff, live cattle, rubber, timber, tin and tin ore.³³ In effect, Penang's

³¹ John H. Drabble, *An Economic History of Malaysia, c.1800-1990: The Transition to Modern Economic Growth* (London: Macmillan Press Ltd, 2000), 155–7.

³² Rice exports were heavily regulated and rice purchases were rationed at controlled prices because in the immediate postwar years, the allocation and distribution of surplus food on a worldwide basis was regulated by the Combined Food Board (reconstituted in June 1946 as the International Emergency Food Council in Washington, DC). The Council's Rice Committee met in Washington, but a subcommittee was set up in Singapore in October 1946 to arrange shipping programmes for rice and to handle various regional problems. However, purchases of less than five piculs per year (666.5 pounds) could be made without any licence. See Paul H. Kratoska, "The Post-1945 Food Shortage in British Malaya", *Journal of Southeast Asian Studies* 19, no. 1 (1988), 32–33.

³³ *Foreign Commerce Weekly* 34, no.1 (1946, July 6).

free port was no longer “free” in practice—merchants were not only taxed but indirectly prevented from conveying large exports to the traditional lucrative markets of Sumatra and Siam. As in the prewar days, these encroachments sparked protests from the commercial circles, who insisted on defending Penang’s free port status. Petitions were forwarded to the BMA by the separate Chambers of Commerce for the lifting of these regulations.³⁴ In an attempt to appease the businessmen, the BMA temporarily agreed to review the status of Penang’s free port but insisted that existing trade regulations remained binding pending a final decision.³⁵

Although Britain’s House of Commons decided that Penang Island was to remain a free port in June 1946,³⁶ the reluctance of local colonial authorities to abide is indicated by the absence of a stipulated timeline for its reinstatement. Despite multiple petitions to the Penang Settlement Council by 1947,³⁷ the indefinite suspension of the free port’s restoration marked a clear sign of diffidence. Penang was bound for a long delay, partially attributable to the BMA’s bureaucratic nature and excessive control by the new federal capital of Kuala Lumpur, and patience was running out among the businessmen. Although Penang had a Settlement Council which exercised local legislative powers equivalent to those enjoyed by the Malay States, the real power resided with the British high commissioner, the Federal Executive Council and the Legislative Council. Protests resumed in Penang, where all quarters were urged to “continue to guard the free port status, on which certain government departments looked with disfavour”, whose “detailed forms and general requirements appear to endeavour to place as many difficulties in the way of the free flow of trade as they could

³⁴ “Merchants Protest”, *Sunday Tribune* (Singapore), Jan. 20, 1946, 4; “Penang May Revert To Fishing Village” *Malaya Tribune*, Feb. 23, 1946, 4/1.

³⁵ “Penang as Free Port?”, *Malaya Tribune*, Mar. 14, 1946, 4/1; “The Duties Of A Free Port”, *Malaya Tribune*, Apr. 6, 1946, 2/3.

³⁶ “News in Brief”, *Malaya Tribune*, Jun. 21, 1946, 3; “Union States To Pay Taxes For Penang Goods”, *Malaya Tribune*, May 24, 1946, 2.

³⁷ “Penang Free Port Status”, *The Straits Times*, Jun. 17, 1947, 47.

as though Penang were not a free port in fact".³⁸ With no forthcoming final decision by 1948, the protests culminated in a major political movement: attempted secession from the Federation of Malaya (the entity which replaced the Malayan Union).

Attempted Secession to Retain Penang's Free Port Status

It is evident that the political-economic changes and events which ensued in 1948 did not favour the already-disenchanted Penang merchants. In February, the inauguration of the Federation of Malaya after a period of considerable turmoil cast further doubts on the future of Penang's free port status, since the Colonial Office considered a new tax structure for the entire federation to consolidate its control. Having borne the brunt of coping with existing trade regulations while having to pay duties on copra, coconut oil and palm oil, the merchants were perturbed by Singapore's continued freedom from such levies and its freedom to re-export textiles and export certain quantities of coconut oil to the Dutch East Indies. This placed Singapore in a more competitive position at Penang's expense.³⁹ The merchants' plight was further aggravated by the declaration of the Malayan Emergency, with undeclared jungle warfare directed against the Communist Party of Malaya in June. A slump was imminent, rendering the barely tolerated trade restrictions more onerous.⁴⁰

In fact, this slump made the restoration of Penang's free port status a more pressing issue, and although hopes were riding high on the tabling of the Benham Report in the Federal Executive Council (which recommended reinstatement). Concerns over Penang's free port status was mitigated by the appointment of the Benham Committee under Dr F.C. Benham, economic adviser to the governor-general, in December 1947. The resulting report

³⁸ "Penang's 'Poor Bargain'", *The Straits Times*, Sept. 25, 1947, 7.

³⁹ Mohd. Noordin Sopiee, "The Penang Secession Movement", *Journal of Southeast Asian Studies* 4, no.1. (1973): 54–55.

⁴⁰ *Ibid.*, 57.

recommended that Penang be a free port and enjoy the same privileges as Singapore. Benham, who visited Penang on the invitation of High Commissioner Edward Gent, strongly suggested that most of the restrictions and formalities complained about by Penang's traders would be resolved if export duties were collected in Province Wellesley only, but not on the island. With import duties on only three commodities (i.e., alcohol, tobacco and petroleum) and no export duties, Penang could become a real free port.⁴¹ The only consolation was the relaxation of trade regulations under the Prohibition of Export Order.⁴²

This position greatly alarmed the merchants, particularly the Baba, who viewed the continued delay in decision-making with heightened suspicion. This wealthy and influential group of merchants was fearful that Penang's entrepôt economy would soon be subordinated to the primary product export economy of the Malayan mainland, and that the island's wealthy economy would eventually become the "milking cow" of the Federation's more "backward states", exacerbated by new citizenship laws which gave priority to Malay identity and statehood—all Malay subjects of the respective sultans had automatic citizenship. These inevitably raised the question of their own economic status and the perceived dangers of losing traditional ties with Singapore and Britain. The Baba, traditionally proud British subjects, feared being swallowed up by a Malay-dominated nation. While they once dithered between the choice of a united Malaya based on equal citizenship and the preservation of their Straits identity, they now found themselves confronted by their worst fear (i.e., an overtly Malay-dominated state).⁴³ The free port's restoration was thus a crucial indicator of Penang's standing within the Federation, and in this view, drastic actions were required to defend its advantages. Hence the clamour for secession, although initiated

⁴¹ "Penang should be a free port", *The Singapore Free Press*, Jun. 2, 1948, 5.

⁴² "Food Export Control", *The Singapore Free Press*, Jun. 29, 1948, 5.

⁴³ Clive J. Christie, *A Modern History of Southeast Asia: Decolonisation, Nationalism and Separatism* (London: I.B. Tauris Publishers, 1996), 41–42.

by mercantile groups, became a patriotic call to safeguard Penang from being drowned “in the clamour of the ten other members of the Federation for their own particular needs and claims”.⁴⁴

The impetus for secession was provided by the Penang Chamber of Commerce, under the leadership of its chairman, D.A. Mackay. In November 1948, the Baba-dominated Penang Chinese Chamber of Commerce agreed to form “a movement designated to get Penang out of the Federation in order that it might re-join Singapore as the Straits Settlements”.⁴⁵ Joined by a combination of other Baba-led organisations such as the Penang Straits Chinese British Association (SCBA) and the Settlement of Penang Association, the movement gained momentum by December and was joined by the European and Indian Chambers of Commerce. Even the Penang Muslim Chamber of Commerce once supported the movement—Secretary A.M. Abu Bakar was once part of the secession committee but removed himself under pressure from the Indian Muslim community, being their representative on the Settlement Council.⁴⁶ A secession motion was tabled in the Settlement Council on 10 February 1949, narrowly defeated by a combination of both official and unofficial votes at fifteen to ten.⁴⁷ Later, a petition was sent to the Colonial Office, and although Whitehall’s delayed negative reply only came through in September 1951, the movement scored a moral victory regardless. Barely a week before the motion was mooted and defeated, the authorities rushed the “Free Port Bill” before the Federal Council. Interestingly, it adopted the Benham Report’s previous recommendations and effectively abolished all existing duties on Penang’s port, except for those on liquor, tobacco and petrol,

⁴⁴ Mohamed Nordin Sopiee, *From Malayan Union to Singapore Separation: Political Unification in the Malaysia Region, 1945-65* (Kuala Lumpur: Penerbit Universiti Malaya, 1974), 59–60.

⁴⁵ Christie, *A Modern History*, 43–44.

⁴⁶ *Ibid.*, 44.

⁴⁷ “Minutes of Meeting – Penang Settlement Council 1949”, 7-20, Federal Secretariat 13700/1959, 1957/0575457.

where duties were collected on dutiable goods *only* when they passed between the island and the mainland.⁴⁸ Although Federal Legislative Council defeated a move by Penang members Mrs B.H. Oon, Mr Lim Khye Seng and Mr E.A. Mackay to extend the legislation for Penang to Province Wellesley,⁴⁹ Penang was “compensated” with additional loans of up to \$100 million for drainage and irrigation, public works, railways, telecommunication and housing projects under a separate bill.⁵⁰

Therefore, while the secession movement was rejected by Whitehall, it precipitated a change in British policy. After all, in the wake of the Malayan Union’s failure, the established political partnership with the Malays and the ongoing communist insurrection, the British were convinced of the need to maintain national unity and political stability in Malaya. They saw both the Emergency and Penang’s secession movement as signs of possible threats should support from the Chinese community be neglected.⁵¹ They were thus prepared to compromise and address the grievances of the majority of the secessionists, thereby fending off the movement.⁵² Not only was Penang bestowed its free port status and other concessions, but the island was also promised elections in the near future—one of the means of regaining support from the non-Malays, especially the Baba elite. This promise crystallised in the form of the George Town Municipal Elections of 1951, the first elections held in postwar Malaya and the precursor to the Federation’s first general election in 1955.

The jubilation over the free port’s retention coincided with the international trade recovery of the 1950s, which saw renewed trade growth in Penang following a boom in Malaya’s tin and rubber industries after a long stagnation. This effectively put to rest all

⁴⁸ “檳正式恢復自由港地位...” [Penang officially recovers Free Port Status...], *Nanyang Siang Pau*, Apr. 4, 1949, 7.

⁴⁹ “Penang is Made a Free Port”, *Malaya Tribune*, Feb. 18, 1949, 1.

⁵⁰ “Penang ‘free port’ bill”, *The Singapore Free Press*, Feb. 1, 1949, 1.

⁵¹ Christie, *A Modern History*, 48.

⁵² Mohamed Nordin Sopiee, *From Malayan Union*, 70–71.

previous trade-related resentments harboured by the merchants. At the height of the Emergency in 1950, rubber and tin exports amounted to \$226 million US dollars (USD) and bolstered by the Korean War in 1951, Malaya’s exports rose to USD\$406 million.⁵³ Although the Korean War effect was momentary, and Malayan exports stagnated for the remainder of the 1950s, prosperity resumed when rubber prices peaked again in 1959. Intertwined with the vicissitudes of Malaya’s economy, Penang’s export trade peaked significantly—from \$425.4 million Malayan dollars (MD) in 1949 to \$1,421.2 million in 1951, as depicted in Table 2.1. A decline followed in 1952, but the figures rose again in 1959 with high export values of rubber and tin (accounting for 92 per cent of Penang’s total exports). With little curtailment of the free port’s status even after Malaya’s independence in 1957,⁵⁴ Penang’s trade prospered until further changes in the socioeconomic and constitutional frameworks worked against its long-term interests.

Table 2.1: Penang’s total trade, 1949–63 (including via Singapore)

Year	Imports			Exports		
	Direct foreign	From and via Singapore	Total	Direct foreign	From and via Singapore	Total
1949	283.8	13.9	297.7	401.0	24.4	425.4
1950	421.1	17.4	438.5	936.5	53.7	990.2
1951	633.9	37.8	691.7	1354.7	66.5	1421.2
1952	542.8	28.2	571.0	824.2	46.0	870.2
1953	442.5	21.6	464.1	579.4	37.6	617.0
1954	405.8	16.5	442.3	594.7	60.9	655.6
1955	494.9	27.9	522.8	816.8	66.6	883.4
1956	538.3	59.3	597.6	885.7	58.5	944.2
1957	551.0	48.6	599.6	819.1	47.9	867.0

⁵³ Catherine R. Schenk, *Britain and the Sterling Area: From Devaluation to Convertibility in the 1950s* (London: Routledge, 1994), 25; Souchou Yao, *The Malayan Emergency: Essays on a Small, Distant War* (Denmark: Nordic Institute of Asian Studies, 2016), 16–17.

⁵⁴ The Penang Chinese Chamber of Commerce sought to protest any alterations to the free port’s status after independence, stating that Penang would regress into a fishing village should the free port be cancelled. See “檳華總商會主席蘇承球稱 自由港地位一失 檳城將成爲漁村...”, [Penang Chinese Chamber of Commerce Chairman, Saw Seng Kew said that once Penang loses its free port status it will become a fishing village...], *Sin Chew Jit Poh*, Sept. 12, 1956, 11. It later asserted that the free port status be retained after independence to preserve business activities and the currency value. See “檳城西商會主席對本報記者稱自由港地位應保留獨立後...” [In responding to reporters, Chairman of Penang Chamber of Commerce stated that the free port status should be retained after independence...], *Nanyang Siang Pau*, Apr. 13, 1957, 10.

1958	478.8	59.9	547.7	696.7	38.0	734.7
1959	463.0	68.4	531.4	951.6	33.6	985.2
1960	618.0	72.0	690.0	1262.4	42.6	1305.0
1961	638.9	66.8	705.7	1191.3	34.4	1225.7
1962	658.4	74.3	732.7	1173.6	35.7	1209.3
1963	671.7	78.7	750.4	1162.0	23.5	1185.5

Source: *Penang Master Plan 1964*, 32–33. All amounts are in MD\$ million.

Illustration 2.2: A 1950s advertisement for cheaper prices of goods in Penang’s free port



Source: Ganesh Kolandaveloo.

Irreversible Decline with the Revival of the Customs Union

The 1960s saw Penang facing turbulent socioeconomic and political changes. The future of its entrepôt economy turned bleak following the newly elected Alliance government’s decision to develop a new port in Selangor, Port Swettenham (later renamed Port Klang).⁵⁵

⁵⁵ This political coalition comprised three major political parties, each representing the main races—the United Malays National Organisation (UMNO), Malayan Chinese Association (MCA) and the Malayan Indian Congress (MIC). Having secured 51 out of 52 seats contested in the first general election of the Federal Legislative Council in 1955, the coalition was formally registered as a political party in October

Since Singapore remained a separate entity, political emphasis on the need for an adequate competing port in the southern region led to Port Swettenham's opening at the expense of others, including Penang. Its creation was viewed by Prime Minister Tunku Abdul Rahman as necessary, given the government's initiative to industrialise after recognising the setbacks of relying on a limited range of primary export commodities (e.g., rubber and tin) and with the constraining effects of colonial monetary policy becoming increasingly evident. When Port Swettenham commenced operations, Penang saw an immediate 15–20 per cent decline in trade.⁵⁶

Penang was soon after pushed into another difficult corner with the formation of Malaysia, a merger between the Federation of Malaya, Singapore, Sarawak and Sabah in 1963. It is noteworthy that the Tunku was not its chief architect; rather, it was the British, who saw this as an ideal way of decolonising its Bornean territories while maintaining economic interests and capital investments. This move was supported by Singapore's People's Action Party (PAP) and the Tunku was persuaded to accept this arrangement, paradoxically because of the increasing influence of Chinese chauvinists and Communist influence in Singapore—within the federation, their activities and influence could be curbed, rather than have Malaya face a situation akin to the US-Cuba division.⁵⁷ Nevertheless, since Indonesia was a leading participant in Penang's trade (accounting for a maximum of 50 per cent of the island's total trade in 1962), Indonesia's *Konfrontasi* (Confrontation) against Malaysia's formation (1963–65) proved detrimental.⁵⁸ A propaganda war turned hostile in the Borneo states and the Strait of Malacca, severing trading ties between Malaysia and Indonesia. Consequently, Penang's trade with Indonesia fell by nearly 40 per cent in 1963

1957. Its First and Second Five Year Plans emphasised the importance of manufacturing for long-run development.

⁵⁶ *Penang Master Plan 1964*, 28.

⁵⁷ R.K. Vasil, *The Malaysian General Elections of 1969* (Oxford: Oxford University Press, 1972), 6–7.

⁵⁸ *Penang Master Plan 1964*, 31.

and the share of its total entrepôt trade fell to 38 per cent (see Table 2.2). Worsening matters was that the Confrontation coincided with the rise of economic nationalism among Penang’s surrounding states, thus affecting established trading ties with Thailand and Burma.⁵⁹

With protectionist measures prescribed to restrict imports to encourage Malaysia’s own exports, economic nationalism resulted in a further decline of Penang’s trade, where commodities such as rubber, tin ore, copra, spices and manufactured goods (e.g., petroleum products, clothing and foodstuff) continued to form the bulk of trade with its established partners. Penang’s total trade with Indonesia, Thailand and Burma fell by about MD\$70 million (a drop of nearly 20 per cent) by 1963, after having risen by about MD\$30 million from 1961–62 (see Table 2.2). Evidently, this irreversible decline cast doubts on the viability of Penang’s sole reliance on its free port status—trade and commerce on the island was unlikely to grow fast enough to provide jobs for its expanding population.

Table 2.2: Penang’s trade with Indonesia, Thailand and Burma, 1958–63

Year	Category	Indonesia	Thailand	Burma	Total
1958	Imports	103.0	73.9	22.9	199.8
	Exports	6.4	28.3	3.1	37.8
	Total	109.4	102.2	26.0	237.6
1959	Imports	76.3	91.5	24.4	192.2
	Exports	8.6	25.7	3.9	38.2
	Total	84.9	117.2	28.3	230.4
1960	Imports	146.0	133.4	19.2	298.6
	Exports	18.7	20.6	4.7	44.0
	Total	164.7	154.0	23.9	342.6
1961	Imports	117.5	125.3	19.5	262.3
	Exports	36.3	20.3	3.1	59.7
	Total	153.8	145.6	22.6	322.0
1962	Imports	151.4	132.0	22.2	305.6
	Exports	21.3	20.8	3.7	45.8
	Total	172.7	152.8	25.9	351.4

⁵⁹ Koay Su Lyn and Wong Yee Tuan, “From Munro to Nathan: The Rise of a Modern Economy in Penang” in *From Free Port to Modern Economy: Economic Development and Social Change in Penang, 1969-1990*, eds. Chet Singh et al. (George Town & Singapore: Penang Institute-ISEAS Yusof Ishak, 2019), 38.

1963	Imports	103.8	128.8	24.1	256.7
	Exports	2.4	19.9	2.8	25.1
	Total	106.2	148.7	26.9	281.8

Source: *Penang Master Plan 1964*, 31. All amounts are in MD\$ million.

With nothing going in Penang's favour, the new national trajectory entailed standardised economic regulations and controls across all states. To that end, the Malaya and Singapore jointly requested a mission from the World Bank to make recommendations on the economic aspects of merger. Chaired by Jacques Rueff, this mission considered the feasibility of and problems inherent in economically coordinating the new Malaysian territories to enable a uniform system of control. Since the lack of such standardised economic mechanisms had posed a major challenge to the Alliance government since independence, additional mechanisms were crucial for the federal authorities to consolidate political-economic control. Published in July 1963, the *Report on the Economic Aspects of Malaysia by the Mission of the International Bank for Reconstruction and Development* (henceforth the Rueff Report) prescribed the establishment of a common market within Malaysia by broadening its economic base for domestically produced goods as a major stimulus for diversification and economic growth. Having predicted the continual decline of entrepôt trade for Singapore and Penang Island, the report recommended a switch to industrialisation and free zones spread throughout the common market. Importers and traders would have the necessary facilities to store goods destined for re-export at their disposal, and could handle unpacking, repacking and other handling operations without interference by the customs authorities. Falling outside customs territory, these offered all the advantages of free ports, with additional benefits such as storage facilities. Strongly resonating with the federal authorities' desire to industrialise the economy, these recommendations were swiftly adopted.

The establishment of the Tariff Advisory Board and the adoption of a tentative list of protective tariffs towards the end of the year confirmed the inclusion of Penang Island and

Singapore into the Malaysian customs area, with the list seeing more imported goods subjected to taxes at both ports.⁶⁰ Since Penang's free port status was legally guaranteed by the Customs Ordinance 1952, which forbade the imposition of duties on imports except for liquor, tobacco and petroleum products, the list's adoption marked an obvious erosion. By January 1965, the 1952 Ordinance was explicitly amended to impose duties on imported tyres and tubes. Gradually, more items were added and thus began the gradual erosion of Penang's free port status.⁶¹

Resisting the *Fait Accompli*

It must be emphasised that although the Rueff Report recommended that the common market be worked out in a manner that would preserve entrepôt trade until Singapore and Penang were ready to industrialise,⁶² its publication imposed immediate pressure on Penang's free port status in light of already-declining trade and Singapore's agreement to a gradual reduction of her own status in exchange for duty-free access for its manufactures to the rest of Malaysia. In fact, the establishment of such a common market scheme was *insisted upon* by Singapore as a condition of merger, since future outlets for its own industrialisation programme could only be thus secured. Unlike Penang, Singapore had already embarked on industrial programmes based on steel production and ancillary manufacturing, confining its port's free zone to part of the Teluk Ayer Basin and Pulau Blakang Mati (Sentosa).⁶³ If Singapore was committed to the common market at the expense of thousands of traders and significantly larger entrepôt trade, the federal authorities saw no reason to exempt Penang. Although not widely appreciated, its free port advantages (where customs duties were only

⁶⁰ "Appendix A: Tentative List of Protective Tariffs in Malaya", *Report on the Economic Aspects of Malaysia by the Mission of the International Bank for Reconstruction and Development*, 1963, 59–60.

⁶¹ "Penang's Free Port Status will go gradually", *The Straits Times*, Aug. 27, 1963, 5.

⁶² *Report on the Economic Aspects of Malaysia*, 41–42, 55–59, 64–66.

⁶³ *Penang Master Plan 1964*, 162.

imposed on goods passing from Penang into the rest of the country) had hindered the development of manufacturing industries to the extent that industrialisation became dependent on the existence of a sizeable domestic market in which goods could be sold without tariff barriers. Hence, this transition necessarily entailed sacrificing the free port—maintaining the crumbling port while curbing associated smuggling lost the federal government about \$10 million annually.⁶⁴ In short, Penang’s entry into the common market would not only facilitate the young nation’s economic expediency and trade control at the federal core, but mitigate losses and pave the way towards future industrialisation.

However, unlike Singapore, which already had a significant manufacturing industry by the 1960s, Penang Island had close to none. Its economic lifeline remained the entrepôt economy and tourism (which in turn depended heavily on the free port status). Industrial development centred on Province Wellesley, but the established small manufacturing industries were unable to support the bulk of Penang’s population—so long as the free port remained, the island’s inhabitants reaped the benefits of duty-free costs of living and the lucrative businesses brought about by tourism and entrepôt trade, where attempts to erode the free port status were viewed as hostile intentions. Since the island’s swift inclusion into the proposed new arrangements was done with little public consultation, the mercantile circles, whose commercial interests were at stake again, inevitably erupted into another uproar.

The earliest objection came from the Baba merchants, who were adamant about maintaining the status quo. This sentiment was expressed in a speech by a prominent merchant who was the president of Penang SCBA, Koh Sin Hock, who lamented that “Penang would suffer grievous losses in its entreport [*sic*], foreign and tourist trades” and

⁶⁴ “Move to review customs duties is defeated”, *The Straits Times*, Aug. 8, 1961, 4.

warned that “the people will be burdened with high costs of living, and there will be industrial unrest”.⁶⁵ Before long, Penang’s Alliance state government was called to hold a referendum to ascertain popular sentiment with regard to the free port status. Although this motion was dismissed since there was no relevant provision in the state constitution,⁶⁶ protests continued. In September 1963, the respective Chambers of Commerce petitioned the federal government to reconsider its decision after a unanimous vote in favour of retaining the free port, involving more than 350 representatives from 181 registered associations and political parties.⁶⁷ In this climate of active political participation, protests against the free port’s erosion were organised by opposition parties such as the Socialist Front (SF),⁶⁸ which called for an investigation into the island’s local economic conditions before withdrawing the free port status.⁶⁹ Echoing this call was the newly formed United Democratic Party (UDP, later revamped as Gerakan) led by Dr Lim Chong Eu, a prominent Baba and former president of the MCA,⁷⁰ who urged all quarters to oppose “any plans of the Government which will take away the established principle that the people of Penang will be consulted before anything is done to alter the free port status”,⁷¹ and rallied supporters from his Tanjung state constituency to oppose the free port’s cancellation.⁷² While the free port issue

⁶⁵ “Free port status essential: Warning”, *The Straits Times*, Aug. 4, 1963, 24.

⁶⁶ “Referendum move now in Penang”, *The Straits Times*, Aug. 9, 1963, 10; “Assembly rejects Penang free port referendum bid”, *The Straits Times*, Aug. 24, 1963, 6.

⁶⁷ “Towkays say ‘No’ to loss of free port status”, *The Straits Times*, Sept. 16, 1963, 11.

⁶⁸ Formed in 1957, the SF was a partnership between the Fabian-socialist Labour Party of Malaya and the ethnic Malay-based Party Rakyat Malaysia. With roots in Penang as early as 1952, the Labour Party controlled the George Town City Council in the local elections of December 1957. Led by a group of English-educated professionals and trade unionists such as the lawyers Lim Kean Siew and Lee Kok Liang, together with Tan Phock Kin, an accountant, the party started with only 16 members. Some of them made a name for themselves in Penang, such as Ooi Thiam Siew, C.Y. Choy, Patkunam and D.S. Ramanathan.

⁶⁹ “Front plan to keep port status”, *The Straits Times*, Sept. 1, 1963, 8.

⁷⁰ “檳城社陣民聯分別開大會一致表示強烈反對廢除檳自由港地位...” [Penang Socialist Front and United Democratic Party held separate meetings and unanimously expressed strong opposition towards the abolition of Penang’s free port status...], *Nanyang Siang Pau*, Sept. 2, 1963, 10.

⁷¹ “Penang’s free port status: Hundreds sign a petition”, *The Straits Times*, Sept. 2, 1963, 9.

⁷² “民聯檳丹絨區部 開羣衆大會抗議 取消自由港地位” [The Tanjung Branch of the United Democratic Party organised a mass rally to protest the cancellation of the free port status], *Sin Chew Jit Poh*, Sept. 10, 1963, 11.

was bound to be capitalised upon by political opposition parties, they appeared to share a genuine economic concern with the businessmen. This was aptly demonstrated in a joint memorandum to all federal ministers, where the respective signatories emphasised that they were not opposed to the free port's removal for the sake of protest—rather, they were “concerned that the removal would be tantamount to destroying the economic well-being of the island, and its people”.⁷³

Indeed, Penang was not ready and overwhelming public opinion in the wake of the 1964 general election led the federal authorities to temporarily cave into Penang's demands. Malaysia's first election was viewed by the Alliance as crucial for gauging overall national support, given the PAP's “Malaysian Malaysia” campaign and ascendant Malay extremism which strained intercommunal relations.⁷⁴ Penangites were to be persuaded to embrace the common market in due time. Not only were its respective Chambers of Commerce personally consulted by Trade and Commerce Minister Dr Lim Swee Aun, but with regard to Penang's inclusion into the common market, the island was similarly assured sufficient funding to kickstart its industrialisation programme during an Alliance meeting in Kuala Lumpur, with the Penang delegation led by a local businessman/Penang State MCA president, Saw Seng Kew.⁷⁵ Further persuasion stemmed from Finance Minister Tan Siew Sin, who asserted that Penang's transition to the common market would enable the island to enjoy the proverbial best of both worlds, to “continue and even develop her entreport [*sic*] trade and at the same time, to industrialise herself by reason of having gained free access to the Malayan common market”, where its only loss was its inability to obtain duty-free goods.⁷⁶ These persuasions

⁷³ “The case for keeping Penang a free port”, *The Straits Times*, Sept. 10, 1963, 10.

⁷⁴ Vasil, *The Malaysian General Elections*, 10–14.

⁷⁵ “蘇承球將率檳聯代表團謁見財長要求予檳城十二年加入共同市...” [Saw Seng Kew leads Penang Alliance delegation to meet the Finance Minister to request a 12 years transitional period for Penang to join the common market...], *Nanyang Siang Pau*, Aug. 27, 1963, 10; “Government cash for Penang industries”, *The Straits Times*, Aug. 30, 1963, 7.

⁷⁶ “Penang may win the best of both worlds”, *The Straits Times*, Aug. 22, 1963, 8.

demonstrate that the federal government had no long-term intention of keeping the free port status, but for the sake of buying time and maintaining further political support, Penang's free port status was allowed to persist even after Singapore's breakaway from Malaysia in August 1965.⁷⁷

However, when the Alliance party eventually resumed control, the move to erode Penang's free port status resumed in 1966. This time, Penang could not resist the *fait accompli*—the federal government passed the Customs (Amendment) Bill in 1966, which empowered the finance minister to impose duties on imports into Penang. Indeed, by May 1967, Penang's port saw a total of twenty-five items being taxed and although the minister maintained that this would not affect Penang's free port status in any way,⁷⁸ this bill gave him *carte blanche* in placing Penang within the customs union.⁷⁹ By then, it was obvious that Penang would not be made an economic exception, as indicated by a remark from Education Minister Khir Johari in October 1966:

You people in Penang have been pampered all your life. If we are paying \$15 for a shirt in Kuala Lumpur, I don't see why you should not also pay the same price ... It is only fair that we all should not think in terms of Penang alone, but of Malaysia as a whole.⁸⁰

Embarking on Industrialisation

The erosion of Penang Island's free port status marked a blow to the state's economy. With most of its labour force engaged in the trading sector, the scaling-down of commercial

⁷⁷ "Front and UDP welcome free port assurance", *The Straits Times*, Aug. 15, 1965, 4.

⁷⁸ "陳修信訪怡時聲稱廿五項貨物要抽稅旨在保護檳島工業■不會喪失自由港地位" [During a visit to Ipoh, Tan Siew Sin claims that the taxing of 25 types of goods is to protect Penang's industries will not lose free port status], *Nanyang Siang Pau*, May 26, 1967, 20.

⁷⁹ "Penang Free Port", *The Straits Times*, Oct. 28, 1966, 10.

⁸⁰ "Tengku tells Penang: My 'free port' pledge holds good", *The Straits Times*, Oct. 23, 1966, 8.

activities in George Town created mass unemployment. The island's healthy trade had by the 1960s cultivated large and diverse wholesale retail sectors in the heart of George Town. As the commercial and service sectors thrived, they supplied the bulk of employment for the island's populace. As shown in Table 2.3, commerce- and service-based employment accounted for the highest number of jobs on the island—as of 1957, these accounted for 18 per cent (30,504 persons) and 22.1 per cent (37,348 persons) respectively—specifically the following occupations: salespersons, shop assistants, hotel workers, hawkers, vendors as well as retail owners and managers (see Table 2.4).

Table 2.3: Penang's economically active population, 1957

Type of employment	Number employed (and percentage)		Percentage of total population (%)
Agriculture, fishing, forestry, etc.	29,678	17.6%	5.2
Agriculture products requiring substantial processing	18,989	11.3%	3.3
Mining & quarrying	860	0.5%	0.1
Manufacturing	18,962	11.2%	3.3
Commerce	30,504	18.0%	5.3
Building, construction	6,758	4.0%	1.2
Electricity, gas, water	1,342	0.8%	0.2
Transport, storage & communications	15,211	9.1%	2.7
Services	37,348	22.1%	6.6
Not classifiable	3,371	2.0%	0.6
Unemployed	5,783	3.4%	1.0
TOTAL	168,806	100.0%	29.5

Source: *Penang Master Plan 1964*, 54.

Table 2.4: Categories of commerce and service occupations in Penang, 1957

Occupation	Number employed		
	Penang	Selangor	Malaya
Proprietors, managers, retailers	6,529	9,233	58,549
Salesmen, assistants	10,217	14,354	67,365
Hawkers, vendors	8,133	8,540	45,481
Stall holders	1,172	1,442	8,424
Selling occupations	139	336	985
Wholesalers, importers	4,195	4,455	13,384
Travel agencies, brokers	988	581	1,659
Storage and warehousing	149	214	510
Tailors, dress makers	2,067	3,816	16,336
Precision instrument manufacturers	2,038	1,073	7,976
Jewellers etc.	1,862	-	6,614
Workers in hotels etc.	9,469	15,847	64,272
Cooks and chefs	1,558	3,019	12,368
Restaurant keepers etc.	1,665	2,549	13,865
Photographers etc.	278	503	2,156
TOTAL	52,317	67,036	328,953
TOTAL POPULATION	572,100	1,012,929	6,278,758
PERCENTAGE OF TOTAL POPULATION	9.2%	6.6%	5.2%

Source: *Penang Master Plan 1964*, 60.

Penang's unemployment predicament was more urgent compared to other states for two reasons. First, unlike those which could fall back on sizeable sectors (e.g., mining and plantations in Perak and Selangor), Penang had no alternative avenues. Second was the

overwhelming postwar population growth between 1947 and 1957 from 446,00 to 572,000 people, thus rendering an overall increase in population density from 1,116 to 1,438 persons per square mile (in fact, George Town's residents alone spiked from 189,000 to 235,000 people). This overall density was four times greater than that of Selangor, the second most urbanised state in Malaysia at that time,⁸¹ yet Penang still had the lowest employment rate nationwide.⁸² In this sense, the creation of new employment opportunities in Penang lagged far behind population growth, resulting in an oversupply of labour.

Indeed, the only sector capable of tackling Penang's rising unemployment and securing future employment opportunities was the industrial sector. However, apart from a handful of small manufacturing industries, there was little drive for industrialisation save for agriculture, which only provided minimal employment. While the industrialisation of Penang Island was highly encouraged by the federal authorities, there was a lack of a uniform national policy to evenly promote industrialisation across all states, which resulted in the centralisation of capital, development and industrialisation in certain states, such as Selangor. The island also had no suitable site for industrialisation, and even if one could be found, the cost of manufacturing would be a deterrent given the availability of other sites across the peninsula. Unless a physical link was constructed between the island and the mainland, it remained doubtful if Penang's industrialisation could be achieved⁸³—it was obvious that access to the Malaysian market would be futile, given that any new industry in Penang would be handicapped by slow communication with the peninsula and the high costs incurred by routinely crossing the channel by ferry. In this light, there was little prospect of Penang industrialising competitively, unlike the Klang Valley's Petaling Jaya, for instance. The call

⁸¹ *Report of the Committee of Unemployment to the Penang State Executive Council on the Problem of Unemployment in Penang*, November 1969, 2–4.

⁸² *Penang Master Plan 1964*, 124.

⁸³ "Industrial Penang? Prospects dim says —Mayor", *The Straits Times*, Dec. 18, 1963, 5.

for Penang's industrialisation would require a more ambitious programme, a burden which fell to Wong Pow Nee, Penang's first chief minister upon independence in 1957.

Conclusion

Since its founding as a colonial trading post, the free port of Penang had undergone various political-economic trajectories which since determined trade directions. Nevertheless, having been freely developed by mercantile circles for centuries with little encroachment, Penang's free port flourished both internationally and locally until the circumstances of the early twentieth century—the Great Depression saw a customs union being tabled, which threatened its free port status. This proposal did not take effect until the postwar Malayan Union's formation, and later under the Federation of Malaya. Having enjoyed lengthy economic freedom, the proposed changes to the status quo were strongly resisted by the mercantile community. While they scored a victory against the British government, the next wave of challenging political-economic changes (i.e., the formation of Malaysia) ultimately led to the erosion of Penang's free trade status. This necessitated a fresh economic direction and control, where Penang was eventually incorporated into the common market scheme despite protests by the mercantile circle. This *fait accompli* left Penang with little choice but to work out a new, industrial future. However, with few industrial initiatives on the island and the spectre of rising unemployment, Penang required an aggressive industrial drive, a task which fell to Wong Pow Nee. His industrialisation initiatives in Penang will be explored in the next chapter.

CHAPTER THREE

WONG POW NEE AND THE BIRTH OF PENANG'S INDUSTRIALISATION

Existing studies have long credited Penang's industrialisation to its second chief minister, Dr Lim Chong Eu—thus neglecting the pioneering contributions of Wong Pow Nee in the early 1960s, who had set up its first industrial estates in Province Wellesley based on the ISI model. Guided by 1964's Munro Report, Pow Nee sought to revive Penang's economy based on developing ISI on the mainland and tourism on the island. As this chapter reveals, Pow Nee focussed on infrastructural provisions aimed at attracting capital investment to the mainland and tourists to the island. While he could claim some success, the ISI's unanticipated shortcomings—especially a failure to curb unemployment and the absence of institutional reforms and human capital development—hindered the Munro Report's long-term effectiveness. These misgivings, coupled with other inherent factors such as Pow Nee's constrained jurisdictional authority, arm's-length federal relations and mellowness, placed him in a poor position to propel Penang's interests. His ultimate downfall was imminent upon the free port's abrupt cancellation in the face of the 1969 general election.

The National Move Towards Industrialisation

The national context of industrialisation must be understood before further studying Penang (i.e., a sub-national state). Malaysia's formation entailed new political-economic directions that saw Penang's ultimate inclusion into the common market. While it was inevitable that Penang had to reduce its reliance on a colonial entrepôt economy by industrialising, this shift was in fact aligned with national policy in the mid-1950s. Having advocated industrial development in its election manifesto as early as 1954, the Alliance-dominated federal government argued its necessity based on two reasons.

First, the Malayan economy was dependent on the unstable fortunes of the export economy, primarily tin and rubber. The danger of excessive reliance on a very small number of export commodities, given their history of price fluctuations, was evident. For a newly independent nation, this instability could hinder steady economy growth. Economic diversification was therefore crucial, thus giving rise to the emphasis on industrialisation in developing light manufacturing industries to supply the Malayan market with goods that would otherwise be imported.⁸⁴ Second was the need to generate employment opportunities for Malaya's rapidly booming postwar population, which was increasing at a rate of around 3 per cent per annum—among the highest in the world.⁸⁵ With nearly one-half the increasing population centred around and near urban areas, it was important to strengthen and broaden the economic base to ensure that living standards were not depressed. Thus, the federal government had the impetus to industrialise based on the concept of ISI, consistent with contemporaneous international economic trends of industrial development which sought to encourage foreign investors to set up production, assembly and packaging plants to supply previously imported finished goods. To this end, the active promotion of ISI-based industries was embarked upon through tariff protections, tax exemptions and other financial assistance, followed by the provision and improvement of infrastructure facilities.⁸⁶

The adoption of the First Five Year Plan (1956–60) for the Federation of Malaya and the succeeding Second Five Year Plan (1961–65) witnessed increased private investment in manufacturing, followed by considerable government-driven incentives for private investors and entrepreneurs through the Pioneer Industrial Policy. Implemented in 1958, this policy exempted “pioneer” enterprises from income tax on profits for two to five years, according

⁸⁴ *Draft Development Plan of the Federation of Malaya* (Kuala Lumpur: Government Printers, 1950), 152–3.

⁸⁵ Courteney, *A Geography of Trade*, 151–5.

⁸⁶ Jomo K.S. et.al., *Southeast Asia's Misunderstood Miracle: Industrial Policy and Economic Development in Thailand, Malaysia and Indonesia* (New York: Routledge, 1997), 95–96.

to the scale of investment. Another source of financial assistance was the government's continued support for Malayan Industrial Development Finance Ltd, formed in 1960 to provide credit on reasonable terms for sound industrial ventures. Since income tax on industrial profits was otherwise 45 per cent, this was a significant inducement.⁸⁷

The policy's effectiveness saw the establishment of industrial estates in major urban areas in the federation's west coast states, especially Selangor's Petaling Jaya, which emerged as the most successful area in the Klang Valley.⁸⁸ While the Second Plan provided for the establishment of additional industrial estates and a trust fund of MD\$7.5 million in loans which states could take for this purpose, up to MD\$2,930 million was specifically allocated for infrastructural development.⁸⁹ This funding was crucial since roads constituted the principal national transportation system and their traffic-bearing capacity had to be expanded in line with overall economic growth by providing access to population centres in the northeast and central-west coasts as well as connecting important urban centres. Existing trunk roads were developed and expanded under the Northern East-West Highway Project. Only completed in the 1980s, this highway successfully linked Kota Bharu and Butterworth via Gerik and therefore connected the east coast to the markets and industrial areas of Penang and, to a certain extent, Perak. Progressing alongside roads was the expansion of the railway network and ports, where the construction of deep-water berths occurred in Butterworth (on

⁸⁷ The Investment Initiative Act 1968 was passed to extend the maximum tax relief period for pioneering industries to eight years, subject to the production of priority products incorporating a specified amount of local material. This was especially significant from a geographical point of view if the industry was located within a designated development area. This Act also provided tax credit to non-pioneering manufacturers which met similar conditions and provided certain export incentives. See Courteney, *A Geography of Trade*, 164.

⁸⁸ Part of Malayan Industrial Development Finance Ltd's share capital was provided by the federal government, and the remainder by private investors. The amount of credit extended considerably expanded by the mid-1960s. Its commitments at the end of the third quarter of 1965 were in the range of MD\$44 million, with assistance given to the development of both light and heavy industries, especially enterprises contributing to import-substitution and export expansion. See *First Malaysia Plan, 1966-1970* (Kuala Lumpur: Government Printers, 1966), 126-7.

⁸⁹ Courteney, *A Geography of Trade*, 153-61.

Penang's mainland). Infrastructural provisions continued under the First Malaysia Plan, which emphasised not only the need for public investment over a five-year period and policies to assist the private sector in making its "assigned contribution to development", but reiterated the need for economic diversification and the importance of continued industrialisation.⁹⁰

The federal authorities' vigorous efforts produced rapid economic progress in terms of growth output and income. Over the course of the Second Five Year Plan, Malaysia's real gross domestic product (GDP) grew at an average annual rate of 6.4 per cent in spite of poor export performance and political instability owing to the Confrontation.⁹¹ This growth rate was enviable by international standards, since the average output of developing nations was estimated at 5 per cent or less—for an agriculturally centred economy, Malaysia's output growth was rapid among its fellow developing Asian countries, up from an average growth rate of only 4 per cent from 1955–60.⁹² Malaysia's accelerated growth was evidently linked to its earlier investments in economic infrastructure and productive capacity to advance industrialisation. Although Malaysia had little export-oriented stimuli for growth, rising domestic demand provided the impetus for output expansion, characterised by a shift in the composition of output, i.e., from export to domestic production. This was especially so between 1960–65, where export output grew by only 2.8 per cent annually whereas domestic use output rose by 9.2 per cent (see Illustration 3.1). Consequently, exports fell from 55 to 48 per cent of the total output over this period.⁹³

⁹⁰ *First Malaysia Plan*, 10, 17.

⁹¹ All regions in Malaysia contributed to the improved growth output. Production in Sabah and Sarawak had grown at over 7 per cent annually while the Peninsula's grew at 6.3 per cent. *Ibid.*, 17–20.

⁹² *Ibid.*

⁹³ *Ibid.*, 24–25.

Illustration 3.1: Growth of exports and production for domestic use in Malaysia, 1960–65

**MALAYSIA: GROWTH OF EXPORTS AND PRODUCTION
FOR DOMESTIC USE, 1960-65**

(\$ millions, 1960 prices)

	1960	1961	1962	1963	1964	1965 (preliminary)	Annual growth rate (%)
Gross domestic product (in market prices)	6,918	7,136	7,529	8,005	8,567	9,182	5.8
Exports of goods and non-factor services	3,824	3,919	3,999	4,184	4,256	4,381	2.8
Exports as % of GDP	55	55	53	52	50	48	
Gross domestic product for domestic use	3,094	3,217	3,530	3,821	4,311	4,801	9.2
Domestic use as % of GDP	45	45	47	48	50	52	

Source: *First Malaysia Plan*, 24.

In this manner, short-term overall growth was predicted to be heavily dependent on increased production for the local market. In this regard, ISI played an important role as a catalyst for manufacturing. After all, most ISI-based industries were set up as subsidiaries of foreign companies to finish production with imported materials for profitable sales within a protected domestic market. Thus, the stimulus for all regions of Malaysia to industrialise accordingly was consistent and coherent with the federal government's agenda of economic diversification.

Penang's Perilous Position within the New Federation

However, Penang's industrial enigma was more complex than the other states in the new federation's industrial plan. The lack of a uniform industrialisation programme across all states saw the centralisation of capital and industrial development only in certain areas. Independence saw Kuala Lumpur's rise as the national distribution and central core—demands for a national capital to reinforce nationhood and administration saw Malaya's economic policies, especially those relating to industrialisation, geared towards Kuala Lumpur. The stimulus for industrialisation, mainly the establishment and growth of its ISI industries, was attractive given the city's huge population, good distribution networks and

bureaucratic centre. Thus, the development of Petaling Jaya (five miles from the city centre) took precedence over other states, and the Klang Valley's population and industrial growth increased the cargo volume passing through Port Swettenham,⁹⁴ naturally reducing Penang to the periphery.

According to the Ninth Schedule of the 1957 Constitution, the federal government is responsible for public goods such as defence, internal security, external affairs and finance, as well as services such as education, health and transport. The states are given residual responsibilities, i.e., land, forestry, Islamic affairs and local government. Fiscal autonomy is almost non-existent, and they are reliant on federal grants and transfers. The federal government is also given precedence over state governments in the event of disputes. This division of power was correspondingly matched by access to resources. The Constitution assigned the bulk of revenue to the federal government, with fixed formulas for fund transfers to state governments. More crucially, the federal government could receive trade duties and levy taxes on income, companies and capital gains. In contrast, states were given smaller, less flexible sources of income and barred from levying new taxes or borrowing without federal permission.⁹⁵ These Constitutional constraints left Penang with little choice but to make do with federal budgets and priorities, especially with regard to economic development.

Operating under a free market economy, the federal government only created, facilitated and maintained a conducive financial and stable political atmosphere to attract private

⁹⁴ By 1960, the proportion of peninsular Malaya's imports and exports passing through Singapore had decreased from 41 and 43 per cent to 39 and 29 per cent respectively. In turn, Port Swettenham's role in the hinterland was improved by communications infrastructure, especially roads such as the Maran-Temerloh Road in 1958 and other eastward extensions that linked it to a significant portion of commercial activity in Pahang. See Courteney, *A Geography of Trade*, 260–1.

⁹⁵ Hutchinson, Francis E., "Can Sub-National States be 'Developmental'?: The Case of Penang and Karnataka", PhD diss. (Australian National University, 2006), 85–87. See also Constitution of the State of Penang, 22–24.

investment, while ensuring that the required infrastructure was in place, e.g., transport, communication facilities, power and water supplies. Otherwise, there was no direct intervention in investment, apart from granting “pioneer status” or providing tariff protections to private firms that fulfilled certain criteria. While this initiative worked successfully in the setting-up of industrial sites in Petaling Jaya (the Klang Valley), Larkin and Tampoi (Johor), Penang’s geographical disadvantages attracted very little investment to begin with. It is noteworthy that Penang’s leadership also differs significantly from other states. As a former Straits Settlement, Penang is headed by a governor while its executive administration is led by a chief minister versus, for example, Selangor and Johor, which were once part of the FMS and Unfederated Malay States respectively, governed by Sultans and administered by *menteri besar*. By virtue of a tacit agreement with federal Alliance leaders, Penang was to have a Chinese chief minister should a Malay become governor upon independence⁹⁶. Regardless, all state leaderships remain subject to federal jurisdictional authority, especially with regard to economic development. It was not until Penang embraced electronics as its industrial “motor” in the early 1970s, alongside the establishment of the Penang Development Corporation (PDC) which took charge of industrial policies, that Penang enjoyed more autonomy and attracted more sophisticated players than the Klang Valley and Johor could (see Chapter Four).⁹⁷ Prior to this, Penang had little industrial autonomy and was subject to the same broad federal constraints.

Although George Town was once the focus of numerous industries such as shipbuilding, tin-smelting, coffee-making, publishing and the like since the colonial period, these local

⁹⁶ “Penang’s guessing game”, *The Straits Times*, Aug. 6, 1957, 5. Following Pow Nee’s election, Tun Raja Uda, the former speaker of the Federal Legislative Council who also served as Malayan high commissioner to the United Kingdom, was promptly appointed Penang’s first governor.

⁹⁷ Hutchinson, “‘Developmental’ States and Economic Growth at the Sub-National Level: The Case of Penang (1970-2005)” in *From Free Port to Modern Economy*, eds. Chet Singh et al., 112–3. See also Constitution of the State of Penang, 22–24.

industries were mostly service-oriented and unlike the manufacturing industries of Mak Mandin and Prai (discussed below), they were usually small, family-run businesses in the heart of George Town, which not only lacked suitable industrial sites but access was cumbersome, given the use of ferries to cross the strait. This disadvantage not only rendered slower access to and communication with the mainland market but also high recurring routine travel costs. Penang's only industrial site, the Mak Mandin Industrial Estate (henceforth Mak Mandin), had not progressed beyond its initial stages of site development since its launch in the late 1950s.⁹⁸ It therefore had few expansion prospects and was projected to accommodate only about 7 per cent of Penang's additional employment requirements in the industrial sector. Moreover, the creation of further employment via the expansion of manufacturing had yet to take place, while unemployment numbers grew steadily.⁹⁹ Even the East-Coast Highway project expected to link Butterworth to Kota Bharu progressed slowly—by 1963, only a pilot track from Sungai Siput, Perak (about ninety miles south of Butterworth) to Kuala Berang (more than one hundred miles southeast of Kota Bharu) had been inaugurated.¹⁰⁰ All these conditions left Penang disadvantaged.

Laying the Strategy for Penang: The Munro Report of 1964

Acknowledging Penang's disadvantages, the federal authorities invested in the drafting of the first comprehensive state developmental plan—the Penang Master Plan of 1964 (the Munro Report)—which was eventually adopted by Wong Pow Nee. Drafted by the Columbo Plan advisor, A.M. Munro, and completed in December 1964, it was Penang's “operational

⁹⁸ While there were eight industrial sites established throughout Malaysia by 1968—Petaling Jaya and Batu Tiga (Selangor), Mak Mandin (Penang), Kamunting and Tasek (Perak), Senawang (Seremban) as well as Larkin and Tampoi (Johor), only about 36 per cent of the total sites (mostly in Selangor) provided were occupied due to a lack of sufficient demand for their facilities. See *Mid-Term Review of the First Malaysia Plan, 1966-1970* (Kuala Lumpur: Government Printers, 1969), 82; Courteney, *A Geography of Trade*, 259–61.

⁹⁹ *Penang Master Plan 1964*, 4–5.

¹⁰⁰ *Ibid.*

blueprint and action plan for the state's long-term development",¹⁰¹ "analysing the basic reasons for them [Penang] to forecast future trends and to offer solutions based on a planned programme for development in all its aspects".¹⁰² Recognising the adverse effects of gradual inclusion into the common market and rising unemployment, the report recommended developing Penang as a tourism-driven state, with a reputation as a regional producer and supplier of both capital and consumer goods in light of its excellent port and ancillary services.¹⁰³

The two-pronged approach first focussed on the mainland's industrialisation, supplying manufactured goods to both the peninsula and the region. Munro envisaged Penang's industrialisation as having a double function—secondary and complementary within the export-oriented sector and as an industrial nucleus within the region—thus dominating the ISI sectors. This entailed a proactive call for more industries in Mak Mandin.¹⁰⁴ Second, it focussed on tourism development through attractive programmes of urban renewal and incentives for the travel industry—aided by Penang Island's local reputation as a weekend getaway, with entertainment outlets, shopping facilities and low-priced goods. The two-pronged approach's success would in turn generate employment opportunities as the state gradually abandoned its reliance on the free port. Nevertheless, it would be similarly "reviewed from a comprehensive, national perspective"¹⁰⁵—in short, policies pertaining to Penang's industrial development should be aligned with the federal government's.

Returning to Pow Nee—unlike most of his political contemporaries from illustrious backgrounds with long-standing involvement in the Alliance's sociopolitical affairs, he came

¹⁰¹ "Speech by YAB Tan Sri Wong Pow Nee, Chief Minister of Penang on the Penang Master Plan", *Bright Future for Penang booklet* (George Town: Penang State Government, 1964), 1.

¹⁰² *Penang Master Plan 1964*, "Preface".

¹⁰³ *Ibid.*, "Preface".

¹⁰⁴ *Ibid.*, 144.

¹⁰⁵ *Ibid.*, 132.

from a more ordinary family. The son of a farmer-turned-timber merchant in Bukit Mertajam, he enjoyed a humble career as a schoolteacher in the same village prior to his election as a town councillor in 1953 and later as a settlement councillor on an MCA ticket in 1955. Pow Nee was appointed chief minister only after his contemporary, Dr Lim Chong Eu, declined the post, and was confirmed through an unofficial voting procedure within the Penang Alliance in July 1957.¹⁰⁶ Since federal support was paramount for Penang, Pow Nee pledged “intimate and continuous cooperation” with Munro’s strategies and formulated his economic policies accordingly to accelerate Penang’s economy.¹⁰⁷ It is noteworthy that while Pow Nee formulated the bulk of his policies according to these directions, the Report’s vagueness in defining and specifying the required solutions allowed room for his own ideas and devices to lead Penang’s economic development.¹⁰⁸

¹⁰⁶ Chong Eu declined his appointment, citing the recent death of his father, Dr Lim Chwee Leong—an excuse which Pow Nee thought of as “lame”, given Chong Eu’s ambitious personality and charisma. See Peter Wong Tet Phin and Koay Su Lyn, *Unsung Patriot: Memoirs of Wong Pow Nee* (Penang: Bumblogger Connexion Marketers, 2015), 84–85. See also “P.W. teacher named Chief Minister”, *Sunday Gazette* (Sunday Edition of the *Straits Echo*), Aug. 11, 1957; “Mourning- so he rejected post”, *The Straits Times*, Aug. 13, 1957.

¹⁰⁷ “Wong supports Govt’s economic progress plans”, *Singapore Standard*, May 15, 1958, 5. See also “Speech by Y.A.B Tan Sri Wong Pow Nee”, *Bright Future*, 6.

¹⁰⁸ The Report’s vagueness, much like the later Nathan Report, was affirmed by Dato’ Seri Chet Singh, a state financial officer seconded from the federal government to assist Penang’s industrial development under Pow Nee in 1967, who later served under Chong Eu. Interview with Dato’ Seri Chet Singh, 20 October 2020.

Illustration 3.2: Wong Pow Nee, Penang's first chief minister, 1957–69



Source: Peter Wong.

Pioneering Penang's Industrialisation: The establishment of the Mak Mandin Industrial Estate

Aligned with Munro's recommendations, Pow Nee sought to promote Mak Mandin. Having begun as a pilot project, the chief minister's choice of Mak Mandin as the heart of Penang's early industrialisation is worth elaboration. Located on the mainland and within the Principal Customs Area, the 320-acre estate was established through MD\$3 million in federal funding under the Second Five Year Plan based on cost-effectiveness. Neither the federal nor state governments could direct industries to particular areas, although the choice of location of industrial estates was a state matter. The federal government could, however, designate certain "development areas". Under the Second Malaysia Plan, funds were allocated for industrial estates in Penang, Perak, Selangor and Johor.¹⁰⁹

¹⁰⁹ *Second Five Year Plan, 1961-1965* (Kuala Lumpur: Government Printers, 1961), 19, 29.

While Mak Mandin's founding inevitably subjected Pow Nee to criticism of having unfairly favoured development in Province Wellesley (where he was born and bred) instead of the island,¹¹⁰ an industrial site on the island would have been a costly measure, in light of its general inaccessibility and the higher price of scarce land within George Town. Province Wellesley offered vast, readily accessible land at cheaper prices for factory-construction. Since ISI required accessibility to transportation and shipping, Mak Mandin was ideal given its proximity to the Prai River, the ferry terminal and railway facilities in Butterworth, from which goods were to be channelled domestically and regionally. Located close to the central, urban district of Bukit Mertajam, Mak Mandin also enjoyed a ready market and steady supply of labour. Since the convenience of industrialists was paramount, Mak Mandin saved every potential investor from doubling their transportation costs (i.e., from transporting raw materials from the mainland to the island and back again as finished products) given the availability of deep-water wharves in Prai.¹¹¹

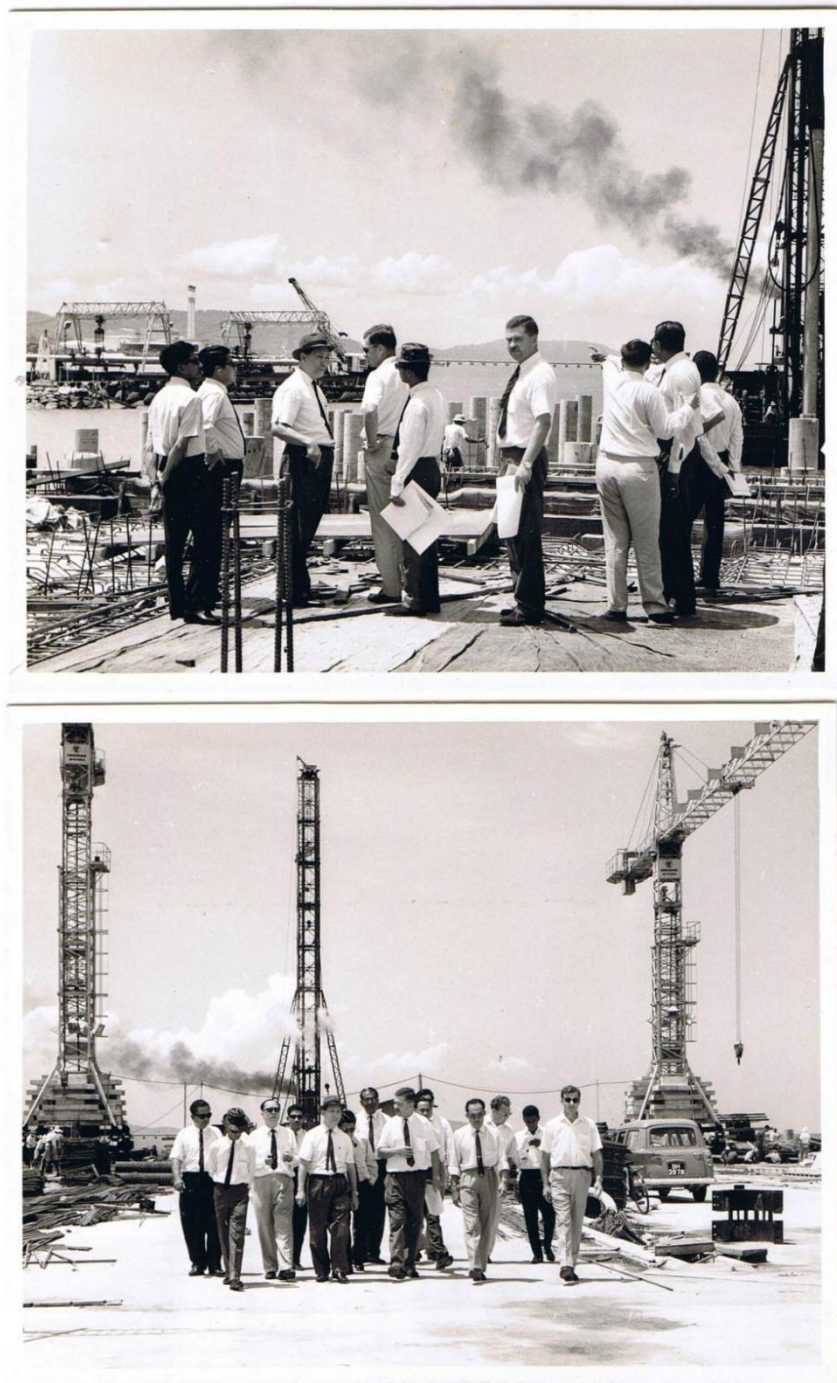
To realise Mak Mandin's full potential, Pow Nee spearheaded various infrastructure projects to attract investors, in line with federal efforts to promote industrial estates. Among the earliest was the construction of the New Prai Bridge to shorten the distance between Prai and Butterworth, followed by the construction of steel mills and deep-water wharves. A crucial unlimited electricity supply for Mak Mandin was secured through a cooperation with the City Council of George Town and the National Electricity Board—later, the Prai Power station was established to support growing demand. By 1965, the Mak Mandin project saw ten new substations commissioned, and progress was made in supplying electricity to giant industrial consumers—e.g., Malaysia Weaving Factory, Southern Iron & Steel Works,

¹¹⁰ Julie Tang Su Chin, "Pembangunan Pulau Pinang semasa pentadbiran Ketua Menteri Tan Sri Wong Pow Nee, 1957-1969" (The Development of Penang under the Administration of Chief Minister, Tan Sri Wong Pow Nee, 1957-1969), Bachelor's academic exercise (Universiti Sains Malaysia, 1993), 60–61.

¹¹¹ *Ibid.*, 69–70.

Pacific Garments and Din Wai Electrical.¹¹² Other supporting projects include the Kuala Muda and Kemubu irrigation schemes.¹¹³

Illustration 3.3: Construction of deep-water wharves in Mak Mandin



Source: Peter Wong.

¹¹² "Electricity", *Penang Today* 1969, 4–6.

¹¹³ "Economic Prospects of the 70s: A Bright Future", *Penang Today* 1969, 3–4.

These schemes proved successful and by 1967, 75 acres of Mak Mandin's first phase were occupied, with 34 lots taken up by factories ranging from textiles, clothes, wire manufacturing to sugar.¹¹⁴ It must be emphasised that since international electronic manufacturing was yet to be the norm, heavy industries (e.g., power stations, steel and metalwork, oil products and ancillary chemicals as well as processing, grading, canning and packaging) and light or secondary industries (e.g., food products, toiletries, cutlery, chinaware, glass, machine parts, equipment, soft drinks and household goods) proliferated. It was within the light and secondary manufacturing sector that Munro similarly encouraged major efforts to introduce labour intensive projects; this was yet to be a trend, but eventually resolved Penang's long-term unemployment issues.¹¹⁵ There was a relatively smaller focus on service and commercial manufacturing industries (i.e., mostly small, family-operated services, e.g., tailors, dressmakers, shoemakers, watchmakers, jewelers, bakers and confectioners).¹¹⁶

The classification of industries at Mak Mandin in Table 3.1 may not provide a holistic or detailed assessment of the contributions of each group in terms of labour employed or added economic value, but does illustrate the broad manufacturing areas successfully attracted to Penang. For starters, Penang fared quite well, especially given the improved post-Confrontation relations with Indonesia.

Table 3.1: Classification of factory lots at the Mak Mandin Industrial Estate, 1967

Section or Division Code	Malayan Industrial Classification	No. of Lots
30	Food and fodder manufacturing industries	10
33	Manufacture of textile, rope, twine and nets	5
34	Manufacture of footwear, other wearing apparel and made-up textile goods	1
37	Manufacture of paper products	2

¹¹⁴ Ibid.

¹¹⁵ *Penang Master Plan 1964*, 162.

¹¹⁶ Ibid., 159-162.

40	Manufacture of rubber products	1
41	Manufacture of chemicals and chemical products	5
44	Basic metal industries	1
45	Manufacture of metal products except machinery and transport products	4
46	General engineering including manufacture of machinery and transport equipment	1
48	Manufacture and repair of electrical machinery and appliances	1
8	Transport, storage and communication	3
TOTAL		34

Source: Courtney, *A Geography of Trade and Development in Malaya*, 166. This classification generally follows the Revised International Standard Industrial Classification of All Economic Activities, except that Malaysia has a separate system with separate divisions including both the agricultural and manufacturing operations connected with major agricultural crops—which by necessity or design are generally processed to some extent—but there is no consistency as to whether this processing is done by the agricultural establishment or a separate establishment under different ownership and elsewhere.

Accelerating Industrial Growth: The Opening of the Prai Industrial Estate

Mak Mandin’s growth prompted Pow Nee to launch the 2,252-acre Prai Industrial Estate in 1967, almost twice the size of Petaling Jaya and therefore the largest such estate in Malaysia.¹¹⁷ Like Mak Mandin, Prai enjoyed access to raw materials and Butterworth’s growing secondary industries followed by transportation facilities, and an adequate supply of tide-water from the Prai River’s estuary. Acquired at a cost of MD\$14 million with federal blessing,¹¹⁸ Prai was envisaged to complement existing industrial development, especially in heavy industries, with the implementation of large-scale projects such as oil installations, sugar refineries and steel production plants.¹¹⁹ Indeed, Prai rose to significance upon the establishment of a joint Malayan-Japanese iron and steel works—Malayawata Steel Ltd, Southeast Asia’s first integrated iron and steel plant, equipped with a high-tech blast furnace capable of producing approximately 200 tonnes of pig iron per day, with a rolling mill

¹¹⁷ Lim Chong-Yah, *A Survey of Malaysian Industrial Estates* (Kuala Lumpur: First National City Bank, 1969), 9.

¹¹⁸ “Transcript of an interview with Y.B Tan Datuk Wong Pow Nee”, interview by Sharifah Zauyah Syed Kabeer, National Archives of Malaysia, 1979, 68.

¹¹⁹ *Penang Master Plan 1964*, 159; “Economic Prospects of the 70s”, *Penang Today*, 3–4.

producing 5,000 to 7,000 tonnes of finished products per month—a national pride which placed Penang on the “world industrial map”.¹²⁰

Prai’s opening also demonstrates an acceleration in Pow Nee’s efforts towards the next stage of industrial development—not confined to the national framework, but including Munro’s broader vision of regional development. Since the development of the northeastern region (i.e., southern Thailand, Burma, Indonesia, the western Malay States) had been traditionally part of Penang’s economy given its port facilities and ancillary services, Pow Nee envisioned how developmental commitments in Prai would widen the hinterland for Penang’s industries and broaden the port’s scope as a “clearing house” not only for regional exports but as an inlet for imports (see Illustration 3.4).¹²¹ In this sense, Penang’s entrepôt trade could be salvaged through FTZs, bonded warehousing and storage godowns, located within a comprehensive port development project. Implemented north of the Prai River, it would effectively revive the entrepôt economy via industrialisation. His stand was reiterated by Siew Sin in 1968, who assured Penang federal assistance for the establishment of these tax-free zones within a year.¹²²

The potential success of Pow Nee’s proposed scheme was also boosted by the development of the East-West Highway. After all, he envisaged a permanent link between the island and mainland as part of the project’s natural extension to further Penang’s national and regional market. Contrary to most claims, the idea for a link (ultimately the Penang Bridge) stemmed from Pow Nee’s administration, and not Chong Eu’s (who merely oversaw its fruition in the 1980s). Detailed in the *Penang Today* booklets, the official government

¹²⁰ “Malaysia now on the world industrial map”, *The Straits Times*, Sept. 9, 1967, 13.

¹²¹ “Economic Prospects of the 70s”, *Penang Today*, 5–6.

¹²² “檳島設立自由貿易區後自由港地位將永久保持財長敦陳修信訪檳指出” [Finance Minister, Tan Siew Sin points out that with the setting up of FTZs, Penang’s free port status would therefore be permanently maintained], *Nanyang Siang Pau*, May 12, 1968, 6.

reports on Penang's progress published by Pow Nee's administration (see Illustration 3.5), this link was essential to his long-term regional development plan—pending its completion, he sought to improve existing ferry services through the introduction of specially designed vehicular ferries as an interim solution.¹²³

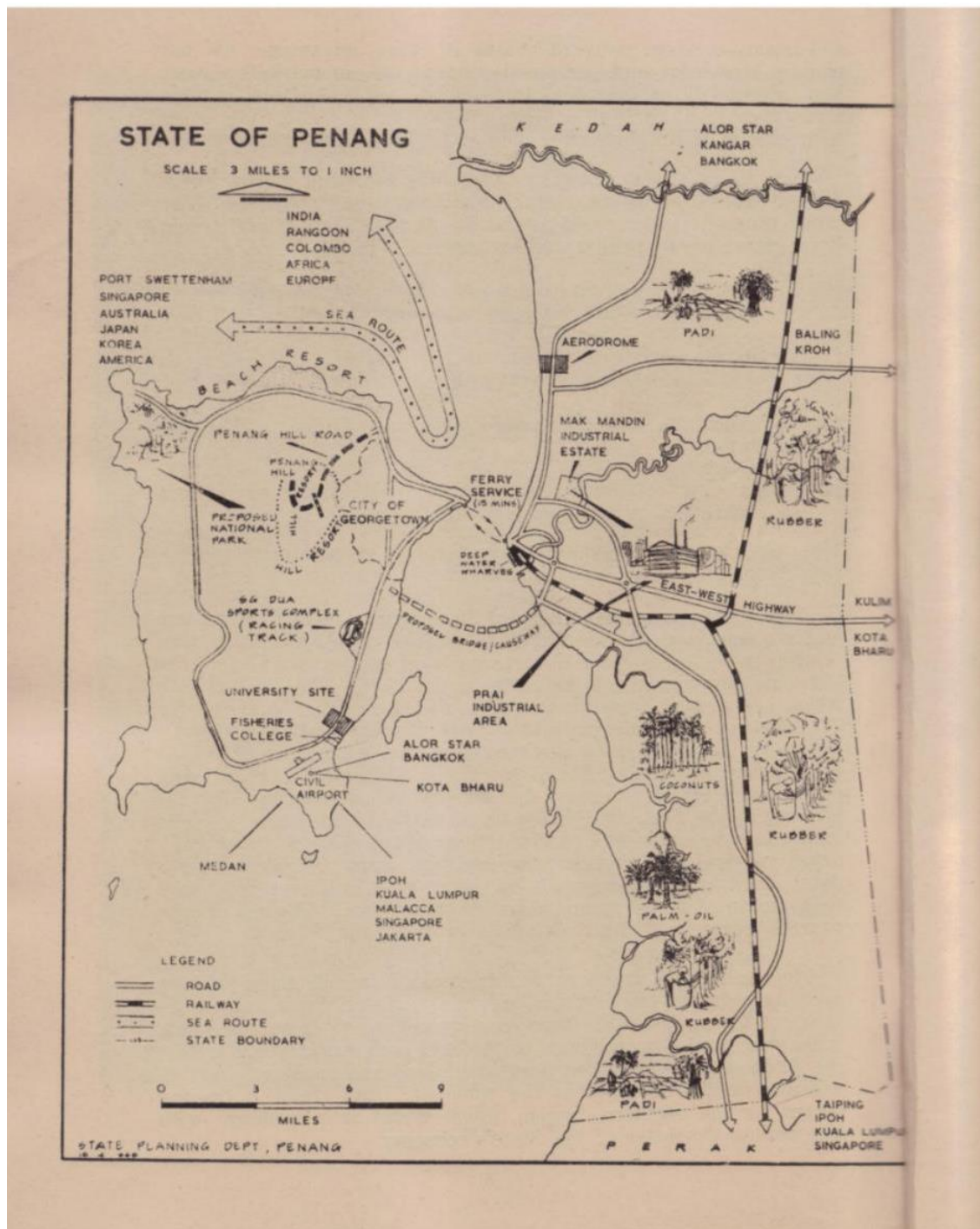
¹²³ “Economic Prospects of the 70s”, *Penang Today*, 8.

Illustration 3.4: Penang's hinterland and potential market, as envisioned by Pow Nee



Source: "Economic Prospects of the 70s: A Bright Future", *Penang Today* 1969, 5.

Illustration 3.5: Pow Nee's proposed linkage between Penang Island and the mainland, 1969



Source: Ibid., 9.

Developing Tourism on Penang Island

Having deliberately sited Penang's industrial core on the mainland, Pow Nee saw the island as a potential international tourist destination, given its established local and regional popularity. More crucially, Munro highlighted an extensively ambitious agenda, suggesting

that George Town’s central area was “ripe for programmed urban renewal, and rehabilitation”,¹²⁴ involving not only the construction of new commercial facilities but adopting a precinct-based concept with well-defined civic, cultural and office zones and slum-clearing, expected to be implemented in phases.¹²⁵ Pow Nee’s administration drew up plans for the city centre’s urban renewal accordingly, centered along the Prangin and Maxwell areas, an ambitious project for that era (see Illustration 3.6). Chong Eu eventually oversaw this scheme’s completion under the more ambitious Kompleks Tunku Abdul Razak (KOMTAR) project in the mid-1980s.

In terms of tourist traffic, the Munro Report found that the island attracted mainly local weekend visitors—8,000 a week in 1964 alone.¹²⁶ International tourism was restricted to “in transit” visitors arriving mainly by sea, who stayed an average of a few hours. To attract more international tourists to stay for longer periods, an increase in publicity followed by an improvement in tourist facilities was needed. In response, Pow Nee sought to improve existing promotional efforts and the accessibility of various tourist spots, which saw the birth of the “Penang Pesta” in 1966. Described by Pow Nee as a “highly creditable and worthy attempt to bring Penang to the notice of tourists”, this annual festival promoted Penang’s uniqueness through diverse cultural and social activities such as a Chingay procession, traditional dances and songs while showcasing locally made goods in a carnival-like environment¹²⁷—this was also long-credited as Chong Eu’s brainchild.¹²⁸ Infrastructure-wise, Pow Nee initiated the construction of access lanes to the scenic trail of Muka Head via the Pantai Acheh Park project, which sought to promote Penang’s natural heritage.

¹²⁴ *Penang Master Plan 1964*, 166.

¹²⁵ *Ibid*, 166.

¹²⁶ *Ibid.*, 130.

¹²⁷ *Pesta Pulau Pinang* (Festival of Penang) *booklet*, Dec. 3–17, 1966, 4.

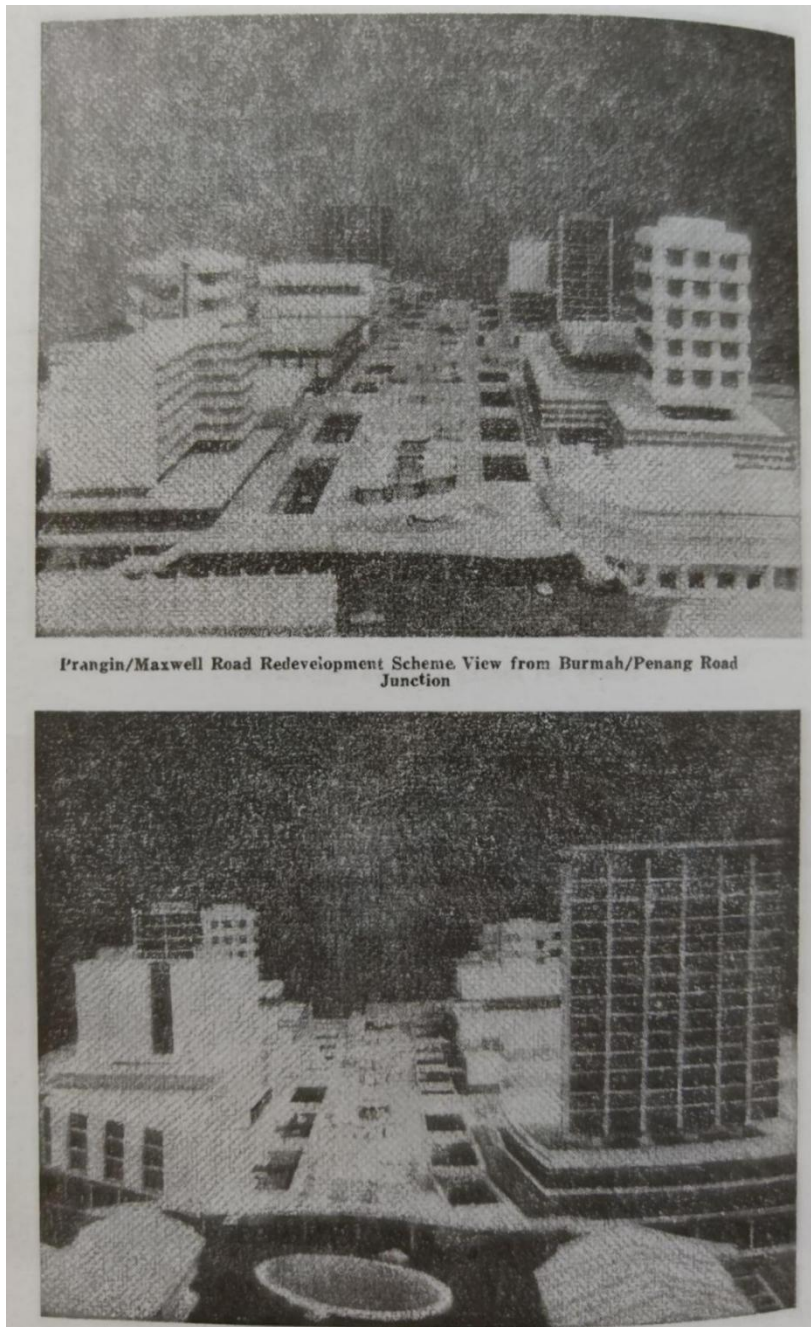
¹²⁸ These misattributed origins have even accrued in the state’s official think-tank’s publication. See Toh Mun Yi, “Pesta Pulau Pinang - An Unexpected and Popular Legacy”, *Penang Monthly*, Nov. 2018; “Pesta Pulau Pinang: Photo Essay”, *Penang Economic Monthly* 1, no. 11, January 2011.

Additional parks and beaches were opened followed by the construction of an approximately six-and-a-half-mile road up Penang Hill (see Illustration 3.7) from Mount Erksine Road, expected to give a big boost to tourism.¹²⁹ The Bayan Lepas airfield was similarly extended to accommodate heavier and faster aircraft, with incentives given for the private construction of hotels and other tourists facilities. Among the largest infrastructural projects embarked upon by Pow Nee in this regard was the construction of the largest multipurpose hall on the island, the Dewan Sri Pinang (see Illustration 3.8), specifically built at a cost of MD\$3 million to host 1972's prestigious Pacific Area Travel Association (PATA) Conference. This civic hall aimed to promote Penang globally as a tourist destination,¹³⁰ although once again, Chong Eu oversaw the hall's completion in 1970. Nevertheless, these ambitious proposals testify to Pow Nee's diligence and foresight in realising Penang's potential for manufacturing and tourism. Unfortunately, his dream of single-handedly raising Penang as a national and regional manufacturing centre shattered due to unexpected ISI-related setbacks and unexpected factors that hampered the Munro Plan's strategies.

¹²⁹ "Economic Prospects of the 70s", *Penang Today*, 7.

¹³⁰ "Roads, Bridges, and Buildings", *Penang Today 1969*, 1-8; "Penang to lose free port status: Dato Wong", *The Straits Times*, Jan. 9, 1965, 8.

Illustration 3.6: Pow Nee's ambitious urban renewal plans for George Town



Prangin/Maxwell Road Redevelopment Scheme. View from Burmah/Penang Road Junction

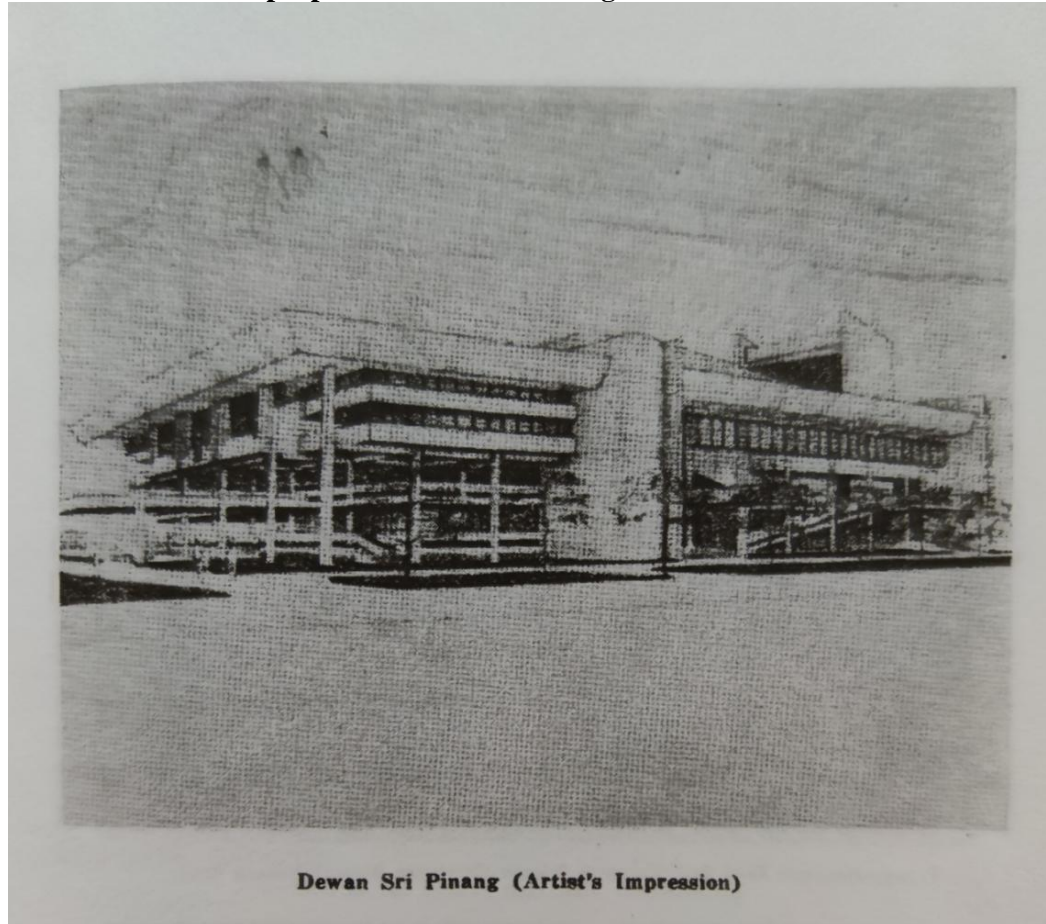
Source: "Economic Prospects of the 70s", *Penang Today* 1969, 9.

Illustration 3.7: Pow Nee observing Penang Hill's road construction



Source: Peter Wong.

Illustration 3.8: The proposed Dewan Sri Pinang



Source: "Economic Prospects of the 70s", *Penang Today* 1969, 12.

Abrupt Economic Changes and Unforeseeable Setbacks

While Pow Nee's execution of Munro's recommendations could claim some success in encouraging industrial development, the abrupt defects of ISI followed by unforeseeable setbacks (i.e., the absence of manpower development and institutional reforms) worked against its anticipated long-term success.

It was not until the late 1960s that ISI's flaws became apparent, lending credence to the shift in global manufacturing towards EOI instead. Although large capital-intensive industries were vastly promoted, foreign companies which participated in the ISI programme merely established minor subsidiaries to assemble, finish and package goods, which were still produced with imported materials and technologies from parent companies for profitable

sale within protected domestic markets.¹³¹ Thus, while wage rates in these industries increased, they generated little employment and producers soon found themselves competing within a saturated domestic market, where output growth was associated more with enhanced productivity instead of increased labour.¹³² In other words, the efficiency of the manufacturing industry was less likely to be achieved by large-scale employment compared to sophisticated production and management techniques. Thus, although ISI did spark initial manufacturing growth, it was not successful in reducing poverty and inequality or fostering local technological capabilities.¹³³ This was one of ISI’s most disappointing effects, realised not only in Malaysia but other developing Southeast Asian countries including Thailand, Philippines, Indonesia and Singapore. Singapore was the first Southeast Asian country to shift to EOI, following its separation from Malaysia in 1965 and the loss of its expected larger domestic market, a problem exacerbated by the British decommissioning of military bases in 1971. In contrast, ISI lasted longer in Malaysia, Philippines, Thailand and Indonesia—their urgency to promote manufactured exports was lower than Singapore, since they could still rely on commodity exports.¹³⁴

Contrary to most expectations, the absolute national unemployment figures of Peninsular Malaysia remained higher in 1965 than in 1960, as shown in Table 3.2 below.

Table 3.2: Peninsular Malaysia’s employment growth, 1960–65

Sector	1960 ('000)	1965 ('000)		Annual growth rate (%)
		Target	Actual	
Agriculture	1,277	1,417	1,388	1.7
Mining and manufacturing	196	235	234	3.6

¹³¹ Edmund Terence Gomez and Jomo K.S, *Malaysia’s Political Economy: Politics, Patronage and Profits* (Cambridge: Cambridge University Press, 1997), 17.

¹³² Courteney, *A Geography of Trade*, 163.

¹³³ Hutchinson, “Can Sub-National States be ‘Developmental’?”, 90–91.

¹³⁴ Thee Kian Wee, *Export-Oriented Industrialisation and Foreign Direct Investment in the ASEAN Countries*, United Nations University, accessed Nov. 18, 2021. https://archive.unu.edu/hq/academic/Pg_area4/Thee.html. See also Chao-Wei Lan, *Singapore’s Export Promotion Strategy and Economic Growth (1965-84)* (Working Paper No.116) (London: University College London, 2001), 4–5.

Construction, transport and utilities	150	219	210	7.0
Government services	200	236	257	5.1
Other trade and services	351	393	429	4.1
TOTAL EMPLOYMENT	2,174	2,500	2,518	3.0
TOTAL UNEMPLOYED	138	-	160	-
TOTAL LABOUR FORCE	2,312	-	2,678	-
UNEMPLOYMENT (%)	6.0%	-	6.0%	-

Source: *First Malaysia Plan*, 35. See also Courteney, *A Geography of Trade and Development in Malaya*, 157. More precise indicators are available, since the published plan only suggests that unemployment was higher in 1965.

Intertwined with the federal government's active promotion of ISI, this model's flaws did not help to significantly ease Penang's unemployment rates. According to the 1968 breakdown of its labour force engaged in manufacturing, only 24 firms employed 200 or more full-time workers, whereas 70 per cent of firms employed no more than ten workers, while 40 per cent employed no full-time labour at all.¹³⁵ Unemployment became more rampant, especially after the free port status began to erode in 1963. Table 3.3 provides the total number of registered unemployed Penangites, as of each year-end from 1958–68, and the number of hires over the same period. Penang's unemployment persisted over the ten-year period, with a major shrinkage in the job market in 1963, but the service and commercial sectors cushioned the impact of the free port's erosion. Although ISI did create more jobs to some extent when it first took off in 1965, the number of placements remained insufficient for accommodating this huge, instantaneous increase in unemployment. ISI's inherent shortcomings ironically worsened unemployment, boding poorly for Pow Nee's state leadership.

Table 3.3: Unemployment in Penang based on employment office data, 1958–68

Year	Number of registrants at year's end	Number of job placements during the year
1958	1,471	884
1959	3,792	881
1960	3,013	1,438
1961	7,902	1,296

¹³⁵ Tang, "Pembangunan Pulau Pinang", 75–76.

1962	9,500	1,361
1963	10,837	672
1964	13,472	672
1965	14,892	1,499
1966	17,434	1,479
1967	16,572	1,279
1968	16,170	1,634

Source: *Report of the Committee of Unemployment to the Penang State Executive Council on the Problem of Unemployment in Penang*, 5.

Although Pow Nee did not explicitly campaign on the promise of mass employment, the chief minister had assured Penangites that there would be more jobs given that more factories would be established.¹³⁶ These assurances entailed high hopes, hinting that Penang might soon be relieved of its economic woes with more ISI-oriented industries. Furthermore, resolving unemployment was a central issue in the Munro Report and formed the bulk of state policies.¹³⁷ With little anticipation of ISI’s drawbacks, Pow Nee had banked entirely on this strategy’s success without any other “backup” plans. When asked if the state had any other plans for tackling the serious increased unemployment in the State Assembly in March 1968, the chief minister simply avoided the question by citing the requirement of a notice.¹³⁸

Despite ISI’s failure in this regard, it must be credited for diversifying the national economy and reducing overall reliance on imported goods.¹³⁹ In Penang’s case, ISI successfully laid industrial foundations such as infrastructure and facilities for later industrial development, even if these followed distinct economic trends. In fact, many ISI industries established by Pow Nee continued to supply the domestic market until the 1980s, operating alongside Penang’s export-oriented, electronics boom.¹⁴⁰ To this end, Pow Nee’s

¹³⁶ “More jobs in Penang soon, says Dato Wong”, *The Straits Times*, Jul. 13, 1964, 5. See also “Another 12 factories to be built on pilot project at Butterworth”, *The Straits Times*, Sept. 18, 1966, 10; “\$100 mil projects planned for Penang”, *The Straits Times*, Jan. 27, 1969, 4.

¹³⁷ *Penang Master Plan 1964*, “Introduction”, 4–5.

¹³⁸ *Report of the Proceedings of the Second Legislative Assembly Penang, 3rd Sitting of the 4th Session*, Mar. 27, 1968, 229–35.

¹³⁹ Hutchinson, “Can Sub-National States be ‘Developmental’?”, 91–92.

¹⁴⁰ Interview with Tan Sri Dr Koh Tsu Koon on 3 November 2021. See also “Message to all members and branches from Acting National Chairman of Gerakan, Y.A.B. Dr Lim Chong Eu, 16 July 1971”, reprinted as

administration should be credited for initiating a popular economic strategy embraced by most Southeast Asian countries which propelled Penang's early industrialisation.

Regardless, the absence of manpower development and institutional reforms within the state's bureaucratic apparatus constituted further setbacks to the overall impediment of Munro's strategies. Without manpower development, Penang was caught unprepared for the abrupt shift from ISI to EOI following the former's exhaustion. By the late 1960s, many transnational corporations were beginning to relocate more labour-intensive production processes to reduce production costs, often other East and Southeast Asian countries.¹⁴¹ In Malaysia, the federally initiated Raja Mohar Committee sought to work out measures towards alternative strategies for accelerating industrial growth. A diversification into new industries was suggested, leading to the Investment Incentives Act 1968 which emphasised the aforementioned strategic industrial switch to EOI.¹⁴² Although Munro had briefly encouraged the need for Penang's industries to eventually take on labour-intensive production, this transition was expected to be gradual, not immediate.¹⁴³ Having focussed entirely on infrastructural provisions with little anticipation of ISI's drawbacks, the neglect of human capital, as observed by the few industrial training schemes—e.g., the absence of specialised institutions of technical education to groom high-skilled labour—Penang was bound to lag behind in this spontaneous shift, thus rendering many within the state's labour force (a great majority being youths aged 20–29) occupationally immobile even within existing industries. Furthermore, there were few vocational schemes or apprenticeship programmes to accommodate and train the annual influx of school-leavers entering the labour market for factory work. Existing pilot schemes—e.g., the parking attendant scheme

"Party Crisis" in Lim Choon Sooi, ed., *Towards the Future: Selected Speeches and Statements of Lim Chong Eu, 1970-1989* (Penang: Oon Chin Seang, 1990), 14.

¹⁴¹ Gomez and Jomo, *Malaysia's Political Economy*, 17.

¹⁴² Jomo et al., *Southeast Asia's Misunderstood Miracle*, 97.

¹⁴³ *Penang Master Plan 1964*, 162.

and the upcoming opening of a new bus route along Perak Road—were inadequate given the magnitude of the prevailing situation.¹⁴⁴

The absence of institutional reforms and social reorganisation within the state bureaucratic apparatus also contributed to Penang’s relatively slow industrial progress. The entrenched federal-state dynamics saw the automatic appointment and transfer of federally appointed officers to the Penang state government, from the State Secretariat (the formal advisory body to the chief minister) to other important departments (e.g., the Public Works Department). Only Kedah, Kelantan, Terengganu and Johor (as former Unfederated states) were exempted from this process.¹⁴⁵ Inevitably, there was little independence in prioritising state-level projects since federal demands often took precedence. Penang’s industrial progress was similarly hampered by numerous bureaucratic hoops and red tape, since all industrial inquiries had to be directed towards and approved by Kuala Lumpur before the state could take charge.¹⁴⁶ Coupled with the state administration’s lack of sufficient staff and expertise in coordinating the various components of industrial planning and attending to various industrial needs,¹⁴⁷ the lack of reforms in resolving these administrative hurdles resulted in slow industrial progress. Not only was Mak Mandin’s development reportedly “crawling at a snail’s pace” in the State Assembly in mid-1968,¹⁴⁸ but the highly anticipated Prai development only saw the completion of 50 acres by 1969.¹⁴⁹

It must be emphasised that Pow Nee did realise this setback, even if only as late as 1968, seen in the impetus for passing the Penang Development Corporation Act at its first reading

¹⁴⁴ *Report of the Committee of Unemployment*, 3, 10, 20–21.

¹⁴⁵ Interview with Dato’ Seri Chet Singh on 25 November 2021.

¹⁴⁶ *Ibid.*

¹⁴⁷ *Penang Master Plan 1970*, 24; *Report of the Committee of Unemployment*, 16.

¹⁴⁸ *Report of the Proceedings of the Second Legislative Assembly, Penang, First Sitting of the 5th Session*, Jun. 26, 1968, 66.

¹⁴⁹ Lim, *A Survey of Malaysian Industrial Estates*, 26–27.

in the State Assembly in October,¹⁵⁰ thus establishing the PDC as a state development corporation to forge closer cooperation in development work on a state-wide basis. Bearing the responsibility for preparing and implementing development plans, this envisaged state agency was crucial for Penang's industrial progress—especially in expanding Penang's limited resource base—expected to initiate and oversee all future state industrial, agricultural, commercial, residential and tourism-related projects, bypassing the state apparatus and existing limitations caused by the federal structure.¹⁵¹ Again, it was not until the PDC's establishment that Penang had a greater degree of autonomy and could be said to closely resemble Hutchinson's "developmental state".¹⁵² Unfortunately, its establishment was only realised in November 1969, again under Chong Eu, who profited from Pow Nee's initiatives.

Constrained by Kuala Lumpur and Rattled in Penang

While existing studies confine the impediment of the Munro Plan's long-term success to abrupt changes in economic forces, this reassessment suggests that existing setbacks, such as the absence of manpower development or reforms within the state apparatus, constituted setbacks to its strategies. However, it also reveals how Pow Nee was crippled by the existing federal-state structure which left little room to insist upon Penang's developmental progress within his limited jurisdictional authority, coupled by his relative distance from key federal ministers and mellowness.

Being at the forefront of the state's leadership in this challenging period, Pow Nee was left to develop Penang largely without active federal support apart from allocated funding

¹⁵⁰ *Report of the Proceedings of the Second Legislative Assembly, Penang, Second Sitting of the 5th Session*, Oct. 9, 1968, 168–70. A special Select Committee chaired by Pow Nee was similarly set up to review the PDC's establishment, first meeting in March 1969. See Interview with Dato' Seri Chet Singh on 25 November 2021.

¹⁵¹ “王保尼昨在檳州議會重申自由港存廢問題...” [Wong Pow Nee reiterated the problem of the preservation and abolition of the free port status in the Penang State Assembly yesterday], *Nanyang Siang Pau*, Oct. 10, 1968, 6.

¹⁵² Hutchinson, “‘Developmental’ States”, 115–27.

and the Munro Report's guiding strategies. With limited jurisdictional authority, there was nothing he could have done regarding the federal government's prioritisation of Petaling Jaya over Butterworth, as inferred from federal failure to hasten the pivotal East-West Highway extension for Penang's industrial progress. While Pow Nee assured the State Assembly that he would press for its construction, the concept was held in abeyance at the federal level¹⁵³—a federal decision which could not be overridden by the state. Even Lim Kean Siew, a Penang SF opposition member, defended the Munro Plan's recommendation by lambasting (to no avail) Penang's industrial neglect and the preference for Petaling Jaya, a "prestige industrial area when it was fourteen miles from Port Swettenham instead of Butterworth which was less than a mile from the Penang port", despite the fact that the "Munro Report had favoured Butterworth as an ideal place for industrial development".¹⁵⁴ It is noteworthy that no alternative visions of Penang's economic development were presented by the SF, owing to their weakening influence by 1964. During the Confrontation, it had suffered a serious political blow when many of its members participated in raiding groups to "liberate" Malaysia without the leadership's knowledge, following which the SF performed poorly in the 1964 general election—not only failing to capture Penang but losing four of its original state seats to the UDP and one to the Alliance shortly before its "factional suicide" and disintegration; thus leaving only Kean Siew and Dr Tan Chee Khoon its sole members of Parliament.¹⁵⁵

¹⁵³ *Report of the Proceedings of the Second Legislative Assembly, Penang, Second Sitting of the 5th Session*, Oct. 9, 1968, 142.

¹⁵⁴ "Front MP in clash with Ministers on Penang", *The Straits Times*, Dec. 22, 1965, 11.

¹⁵⁵ Tan Kim Hong, "Riding the Storms: Radicalisation of the Labour Party of Malaya, Penang Division, 1963-1969" in *Penang and its Region: The Story of an Asian Entrepot*, eds. Yeoh Seng Guan et al. (Singapore: NUS Press, 2009), 248-59; Vasil, *The Malaysian General Elections*, 25. This mainly refers to the conflict between the Chinese-educated (and more chauvinistic elements) and the Fabian-socialist English-educated factions within the Labour Party, and the conflict between the Labour Party and the radical elements of Parti Rakyat.

Similarly, Pow Nee lacked any jurisdictional authority over finances, and was unable to bargain with Siew Sin regarding the plight of the lower-income group when the federal government devalued the old Malayan dollar that was then fixed to the British pound, thus making it 15 per cent less valuable than the new dollar in November 1967. Public confusion and anger erupted, in light of Penang's crumbling economy, especially among the lower-income group which lived mostly in the rural outskirts and kept the bulk of their savings at home, mostly in the old currency. In response, a *hartal* (a peaceful mass protest) was initiated to voice dissent, where shops were called upon to temporarily cease business by putting up their shutters in protest. Unfortunately, organised crime was rife in George Town during this period—the *hartal* devolved into an unexpected racial conflict when gangs became involved, resulting in violent clashes between groups of Chinese and Malay youths. The island was momentarily overwhelmed by chaos and Pow Nee's administration was criticised for failing to thwart the resulting riot.

Penang had already endured two major recent riots prior to the *hartal*. Its first postwar riot occurred during the granting of the charter declaring the City Council of George Town in 1956, when a Chingay procession crossing the Malay-majority area of Dato Keramat resulted in a free-for-all-brawl when a falling flagpole struck a few Malay spectators. The so-called Bukit Mertajam market incident took place in 1964 when a Malay market guard was attacked after reprimanding several Chinese youths, which led to a rumour that the Chinese were out to attack the Malays and vice versa, resulting in several houses being burnt down and many injured.¹⁵⁶ Since these major occurrences threatened the state's social fabric and security, they naturally fanned more dissatisfaction with Pow Nee's helpless state leadership.

¹⁵⁶ "Transcript of an Interview", 37–38.

Even his monthly audience with the Tunku failed to hasten Penang's development. Being also a prince of Kedah, the Tunku was described as an approachable figure with a soft spot for Penang, which ought to have given Pow Nee an edge in approaching him directly.¹⁵⁷ After all, the Tunku was also one of the few federal leaders whom Pow Nee knew on a relatively more personal basis. Yet such direct access did not automatically indicate that he had sufficient "pulling force" to push for Penang's swift development, as observed in the slow inauguration of the University of Penang (subsequently renamed Universiti Sains Malaysia, USM). Since education matters fell within the federal purview, Pow Nee had mooted the idea for a Penang-based university before the federal authorities since 1961.¹⁵⁸ He turned to the Tunku for help and his petition was approved, with the Tunku providing support as the new university's patron.

While the Tunku's involvement was reflected by the visit of his deputy, Tun Abdul Razak, to the university's potential site in Bayan Lepas,¹⁵⁹ the project remained stalled until 1967 when the foundation stone was laid.¹⁶⁰ Since nothing transpired by the second half of 1968, Pow Nee's repeated assurances that academic sessions would commence in the latter half of 1967 were retroactively deemed "an empty boast" within the State Assembly.¹⁶¹ It was not until June 1969 (again, under Chong Eu's tenure) that USM commenced operations, receiving its first batch of sixty-two students.¹⁶² Having cited "circumstances beyond his control" for slow progress,¹⁶³ this delay demonstrates how even Pow Nee's warmer relationship with Tunku did little to alter Penang's laggard progress or win federal preference.

¹⁵⁷ *Ibid.*, 56.

¹⁵⁸ "Ramanathan urges a university college in Penang", *The Straits Times*, Oct. 12, 1961, 6.

¹⁵⁹ "Transcript of an Interview," 57–58.

¹⁶⁰ "Tengku to launch \$10 million drive for college", *The Straits Times*, Apr. 22, 1966, 7; "Ideal, says Razak of Penang university site", *The Straits Times*, Nov. 6, 1965, 11

¹⁶¹ *Report of the Proceedings of the Second Legislative Assembly, Penang, First Sitting of the 5th Session*, Jun. 26, 1968, 30.

¹⁶² "University of Penang to launch fund drive", *The Straits Times*, Jun. 3, 1969, 5.

¹⁶³ "Penang College not Abandoned", *The Straits Times*, Nov. 28, 1963, 12; "Penang Varsity definitely on!", *The Straits Times*, Sept. 6, 1968, 8.

Regardless, his neglect at the federal core was never a class-related issue despite his more modest background. On the contrary, Pow Nee was highly regarded by the Alliance's upper-class echelons, especially the pre-Gerakan Chong Eu (while still the Alliance "whip" and MCA president from 1958–59).¹⁶⁴ In fact, his humble persona impressed Chong Eu, who always regarded Pow Nee as a man of honesty and integrity in spite of their later political differences following Chong Eu's departure from the MCA in 1959.¹⁶⁵ Pow Nee was equally highly respected as a federal minister, having enjoyed numerous appointments to important commissions and committees, including representing the MCA on the Abdul Rahman-Talib Committee to review the education policy in 1961 and later being part of the prestigious Cobbold Commission of Inquiry into the Borneo Territories in early 1962 to ascertain their (mainly Sabah and Sarawak) inclination to join Malaysia.¹⁶⁶

Thus, Pow Nee's neglect can be attributed more to his personality and arm's-length relations with federal ministers, preventing Pow Nee from effectively mobilising his limited political forces in favour of Penang. He was, after all, a relatively unknown figure even at the time of his election to the Settlement Council in 1955—even the Tunku did not know him yet.¹⁶⁷ Although Pow Nee enjoyed cordial connections with the federal authorities and numerous key appointments after becoming chief minister, these ties were mere formalities. Indeed, when urged on numerous occasions to frankly discuss Penang's plight before the

¹⁶⁴ Class was yet to be a prevalent issue even within MCA's rank-and-file in the early postwar period, despite its "Towkay" image. Relations between the English- and Chinese-educated leaders were relatively harmonious given their united pursuit of independence, Chinese education, federal elections, citizenship and the management of the "New Villages". At the height of its popularity (1952 to the early 1960s), MCA functioned effectively as a Malaya-centred political party. See Heng Pek Khoo, *Chinese Politics in Malaysia: A History of the Malaysian Chinese Association* (East Asian Historical Monographs) (Singapore: Oxford University Press, 1988), 179, 187–8.

¹⁶⁵ Interview with Tan Sri Dr Koh Tsu Koon on 3 November 2021.

¹⁶⁶ Wong and Koay, *Unsung Patriot*, 157, 111–4. Adrian Wong Tet Look also recalled his father's involvement in various federal delegations, including an official delegation organised by the Tunku to the Philippines in June 1959, prior to his appointment to the Cobbold Commission.

¹⁶⁷ When Pow Nee's candidature was made known to the Tunku in 1955, the Tunku simply remarked, "Siapa dia ini - Wong Pow Nee?" (Who is this - Wong Pow Nee?). See "Transcript of an Interview", 56.

prime minister, he declined out of reluctance to perturb the Tunku over a “small matter”.¹⁶⁸ Indeed, the degree of his mellowness can be attributed to his reluctance to accept the role of chief minister in 1957—he had to be persuaded by both Chong Eu and an UMNO leader, Hashim Awang. More crucially, his hesitation also stemmed from his lack of experience and exposure, having “no training, and not much of an academic background to do the work”,¹⁶⁹ having only chanced upon politics as a means of serving the community. In fact, his roles of town councillor and later settlement councillor were more of means of serving his community better—with few political ambitions, and his participation in the MCA was during the period when it functioned more as a welfare organisation than a political party.¹⁷⁰ These misgivings suggest a lack of confidence in dealing with the complexity of state affairs to some extent, which he strove to keep up with by relying on the counsel and cooperation of his state advisors.¹⁷¹ Limited exposure and connections left Pow Nee with no other options but to obey federal directives, which entailed grave consequences for his administration given Penang’s changing political tide.

By the late 1960s, Pow Nee’s state administration was rattled by the emergence of the Chong Eu-led Gerakan (which attracted former Labour Party trade union leaders) in March 1968, which included former trade unionists like Dr Tan Chee Koon, Yeoh Teck Chye and V. David within its leadership. Its multiracial standing was boosted by the participation of the University of Singapore’s Professor Syed Hussein Alatas as its first chairman.¹⁷² As the UDP, the party had protested the continual erosion of Penang’s free port status since 1963 and campaigned fiercely against the Alliance in the 1964 general election. Chong Eu had,

¹⁶⁸ Interview with Dato’ Seri Chet Singh on 25 November 2021.

¹⁶⁹ “Transcript of an Interview”, 14–15.

¹⁷⁰ Interview with Adrian Wong Tet Look on 23 June 2021.

¹⁷¹ Tang, “Pembangunan Pulau Pinang”, 12.

¹⁷² “Gerakan’ parti baru Dr Tan: Dua Pendita jadi Penaja”, *Berita Harian*, Mar. 26, 1968, 5; “Parti Gerakan Rakyat Malaysia”, *Berita Harian*, Mar. 27, 1968, 4. See also Vasil, *The Malaysian General Elections*, 18–19; Cheah See Kian, *A Political Profile: Dr Lim Chong Eu* (Penang: Island Publications Sdn Bhd, 1988), 184–5.

after all, urged Penangites not to trust Siew Sin for threatening Penang on the free port issue.¹⁷³ While its potential victory was thwarted by discord among the opposition, the overall unfavourable climate of 1964¹⁷⁴ and the federal authorities caving into Penang's demands by relieving the free port status's erosion.

Things were significantly different in 1969. Not only had political hostility with Indonesia deescalated, but for the first time in Malaysian history, Gerakan achieved an electoral entente between the major opposition parties—mainly the People's Progressive Party (PPP) and the Democratic Action Party (DAP)—thus ensuring a sense of unity among the opposition, thereby avoiding splitting votes. This pact rendered Gerakan stronger both within Penang and the nationally—two of its most formidable leaders, Dr Tan Chee Khoo and Professor Alatas were based in the capital and the peninsula's south, while Chong Eu focussed on Penang. The extent of its ambitions can be seen by the fact that Gerakan boasted thirty branches throughout urban areas by October 1968, barely seven months after its formation, with plans to capture the east coast.¹⁷⁵ This intense political landscape, buttressed by the continued erosion and subsequent abolition of the free port status in 1969, defeated Pow Nee's administration.

The Termination of Penang's Free Port and Wong Pow Nee's Downfall

The erosion of the free port status continued after the passing of the Customs (Amendment) Bill in 1966, which empowered the Ministry of Finance to impose duties on imports into

¹⁷³ "New Deal Promise to Penang if UDP wins at polls", *The Straits Times*, Apr. 24, 1964, 15.

¹⁷⁴ The disunited opposition—mainly the UDP, SF, the PAP, the Peoples' Progressive Party and the Pan-Malaysian Islamic Party—put up a strong campaign but were defeated by competing against each other in the hostile Confrontation climate. The general inclination towards stability secured a definite victory for the Alliance (Vasil, *The Malaysian General Elections*, 73, Appendix 2). The opposition was also severely handicapped when the Malaysian Solidarity Convention, a confederation of opposition parties formed in May 1965 to oppose Article 153 of the Constitution while championing the concept of "Malaysian Malaysia" disintegrated upon the expulsion of Singapore.

¹⁷⁵ "Gerakan Bergiat", *Berita Harian*, Oct. 8, 1968, 5.

Penang. By June 1968, as many as 66 commodities (involving a few hundred items) were affected by the imposition of duties, which saw Pow Nee slammed in the State Assembly for being unable to defend Penang's interests. Gerakan's vocal representative, Teh Ewe Lim, lambasted him:

From all the past events, the Penang Alliance state government revealed one thing—that it is contented and very easily pushed about by the Finance Minister without even having the guts to tell the Central government that the further erosion would spell doom for Penang ... the very easy-going manner in which the Finance Minister could impose from time to time items on to the dutiable list of imports without even hearing an objection from the Penang state government shows that the state government is being pushed at the whims and fancies of the Central government.¹⁷⁶

Pow Nee could merely defend the federal government's justifications:

We are not denying that there has been some measure of erosion in respect of the free port status. The whole justification for such action was the need to afford protection to local industries ... within the common market scheme ... it is therefore the contention of the Alliance state government that the people of Penang be flexible as far as the free port status in concerned.¹⁷⁷

He then cited the Penang Printers and Paper Merchants' Association's appeal to the Ministry of Finance to extend the revised duties on finished paper products applicable to the Principal Customs Area to cover the entire island as well, on the grounds that unless this was

¹⁷⁶ *Report of the Proceedings of the Second Legislative Assembly, Penang, First Sitting of the 5th Session*, Jun. 26, 1968, 63.

¹⁷⁷ *Ibid.*, 112.

done, it was “impossible for the industry to survive and more than 1,300 workers will be jobless”.¹⁷⁸ While his stand was supported by some business quarters,¹⁷⁹ this does not suggest that Pow Nee explicitly sided with their interests. Rather, ISI was designed to protect and incubate newly formed domestic industries so that the goods produced could compete with imported goods, thereby making local economies and nations self-sufficient. Moreover, as explained in Chapter One, Penang’s free port privileges (and exclusion from the Principal Customs Area) hindered the development of manufacturing industries, to the extent that ISI became dependent on the existence of a sizeable domestic market without tariff barriers. Hence, if Penang was bound for long-term industrialisation, it had to forgo the free port.

Nevertheless, Penang was promised that its complete abolition would be withheld until it attained a relatively stable level of industrial maturity, pledged by the Tunku himself in 1965,¹⁸⁰ and what appeared to be a betrayal of this promise (owing to the continued imposition of duties) led to brewing dissatisfaction against the Alliance, and consequently Pow Nee’s administration. Although Tan Siew Sin was “very firm” about removing Penang’s free port status, the Tunku managed to have him “toned down”.¹⁸¹ In effect, Penang was granted a crucial “grace period” to industrialise, since the industrial and tourism efforts required protracted time to yield results.

Despite the ISI’s failure and existing setbacks, Pow Nee’s efforts bore some fruit by 1969 and the early 1970s. By 1971, Malayawata had doubled in size and capacity, with an enormous increase to 3,000 workers. Both the Mak Mandin and Prai industrial estates saw

¹⁷⁸ “Loss of Free Port: No other choice”, *The Straits Times*, May 24, 1967, 6.

¹⁷⁹ *Ibid.* It is noteworthy that both the presidents of the Chinese and Malay Chambers of Commerce, Saw Seng Kew (also a Penang state Alliance leader) and Mansur Sanusi, agreed in principle with the chief minister’s explanation.

¹⁸⁰ “Front and UDP welcome free port assurance”, *The Straits Times*, Aug. 15, 1965, 4.

¹⁸¹ “Transcript of an Interview”, 57.

the establishment of additional factories—e.g., Jelani Jute Bag, Agro Chemical, Indo-Malaysian Textile, Malayan Sugar Manufacturing Company and the United Malayan Flour Mills—which generated approximately 7,400 jobs by June 1969, a year when 32,000 foreign tourists arrived in Penang.¹⁸² Again, it was Chong Eu who profited politically. Nevertheless, the Tunku’s initial pledge was bound to change in light of the political conditions towards the 1969 general election.

Being extremely cautious about not losing potential Malay votes to the more radical, Malay-based opposition party, the Pan-Malaysian Islamic Party (PMIP, later popularly known as PAS), the Tunku’s Alliance federal government was strongly geared towards Malay interests. His popularity among large sections of the Malay community had been considerably undermined with the passing of the National Language Bill in March 1967, which was viewed negatively given the liberal use of Chinese and Tamil and the continued usage of English. The aforementioned currency devaluation also severely impacted Malays in Kelantan, Terengganu, Perlis, Kedah and northern Penang, who turned towards the PMIP.¹⁸³ In effect, the federal authorities now strove to maintain economic neutrality within the peninsula. Following Singapore’s expulsion, it became difficult to justify the continued free port status exception for the Chinese-majority Penang, especially given the existing disenchantment against UMNO (the Alliance’s main component party) and the increasing preference for the more extreme PMIP among Malay voters.¹⁸⁴ Although this new emphasis also stirred dissatisfaction against the Alliance among the non-Malays, Siew Sin, who played strictly “by the book” and was more inclined towards securing Malay votes, strongly opposed the free port’s prolonged maintenance since plans for setting up of FTZs were

¹⁸² “Message to all members and branches”, 14.

¹⁸³ Vasil, *The Malaysian General Elections*, 14–15, 24–25.

¹⁸⁴ *Ibid.*, 42–43.

already secured for Penang—much like other peninsular states.¹⁸⁵ Given mounting internal political pressure, the Tunku finally yielded to Siew Sin's request to abolish the free port status completely, barely a before the election.¹⁸⁶ Pow Nee could only regret its adverse effects, both for his administration and the Alliance's position in Penang.

The abrupt termination was to Gerakan's advantage—the state's per capita income dropped 12 per cent below the national wage at its nadir, and recession saw an increased unemployment rate to 16 per cent. Notwithstanding that, all existing efforts to revive tourism (intertwined with the free port advantage) witnessed serious blows. The president of the International Chamber of Commerce predicted that the state would become a fishing village. Plagued by numerous economic uncertainties and Penang's apparent failure to attain full industrialisation, Gerakan capitalised on Pow Nee's failures to defend the free port status and the delayed construction of the mainland link.¹⁸⁷ In the eyes of economically affected Penangites, these issues were undoubtedly personal, addressed through the charismatic appeal of the future chief minister.

Chong Eu's illustrious accomplishments, including being a medical doctor in China from 1944–47, earned him immense accolades among the Chinese community despite being a prominent English-speaking Baba. During Malaya's final years of colonial rule, Chong Eu ventured into politics and rose to national prominence. Prior to the MCA and Gerakan, he founded the Penang Radical Party with other aspiring politicians, winning six out of nine seats in the George Town Municipal Elections in 1951; in 1954, he was appointed a nominal unofficial member of the Settlement Council and later as a member of the Legislative Council of the Federation of Malaya. His reputation as a defender of the Chinese (and

¹⁸⁵ Interview with Tan Sri Dr Koh Tsu Koon on 16 March 2021.

¹⁸⁶ Tang, "Pembangunan Pulau Pinang", 92.

¹⁸⁷ Vasil, *The Malaysian General Elections*, 35.

therefore Chinese-majority Penang) was sealed by his brief active involvement within the MCA, especially through the provision for Chinese education within the Razak Education Report. His apolitical track record, both at the state and national level, rendered his trajectory a stark contrast to Pow Nee's. Moreover, the fact that Chong Eu was island-born also made him the more natural choice for chief minister—while Pow Nee was seen as prioritising the mainland, Chong Eu was seen as the island's defender, having actively pursued the free port's retention and boldly tabling a motion to retain its status in the State Assembly.¹⁸⁸ Even at the federal level, he appealed for more leeway on the matter, given Penang's grave economic condition.¹⁸⁹ Having articulated the plight of its majority—from the average Penangite to the business groups¹⁹⁰—Chong Eu not only emerged as Penang's champion, but his personal appeal also boosted Gerakan's popularity during the 1969 election.

Having urged the public to decide wisely in consideration of the free port's retention,¹⁹¹ Gerakan garnered immense attention when Chong Eu boldly announced, in one of his mammoth rallies, that they would build the bridge. His statement was swiftly rebuked by the Penang State MCA in an open letter which questioned Gerakan's (an opposition party) ability, resulting in "political blackmail". When the Penang State MCA asserted that the federal Alliance government did not have faith in Gerakan and would not give it the

¹⁸⁸ “檳州議會續辯州長演詞 林蒼佑提修正動議 決心保留檳自由港” [Penang State Assembly continues to debate the Governor's speech. Lim Chong Eu proposes to amend motion; determined to preserve Penang's free port status], *Sin Chew Jit Poh*, May 30, 1964, 10.

¹⁸⁹ “林蒼佑在檳立會上就自由港地位問題與王保尼展開舌戰” [Lim Chong Eu argued with Wong Pow Nee in the Penang State Assembly on issues regarding the free port status], *Sin Chew Jit Poh*, Oct. 10, 1968, 15; “林蒼佑國會發言 籲財長勿再侵蝕 檳城自由港地位” [Lim Chong Eu urged the finance minister not to erode Penang's free port status in Parliament], *Sin Chew Jit Poh*, Jan. 16, 1969, 9.

¹⁹⁰ “對檳城自由港地位問題 檳城各界紛紛批評” [All segments of Penang society are against the issues regarding Penang's free port status], *Sin Chew Jit Poh*, May 25, 1967, 10; “檳商團代表大會要求政府保留自由港地位...”, [Local business delegates in Penang request the government to preserve the free port status], *Nanyang Siang Pau*, Aug. 18, 1968, 6.

¹⁹¹ “林蒼佑促檳城人民對大選明智抉擇...” [Lim Chong Eu urges the people of Penang to choose wisely at the general election...], *Sin Chew Jit Poh*, Oct. 2, 1968, 12.

necessary funds, the Tunku was forced to intervene by making a definite statement that the federal government would build the bridge at the cost of MD\$70 million, barely days before voting.¹⁹² This instance foreshadowed potential federal-state tensions should Gerakan form the state government.

Under the prevailing economic discontent, Gerakan's efforts paid off. The Alliance suffered a huge reduction to its majority—securing only 162 out of 282 state seats and 66 out of 104 parliamentary seats. Not only was Pow Nee's state government expectedly toppled, but the Alliance only secured four out of Penang's twenty-four parliamentary seats.¹⁹³ Gerakan took sixteen, leaving the MCA without any.¹⁹⁴ Indeed, the loss of the Alliance's popular vote was greatest in Penang, having stemmed from the free port's abolition. The opposition's electoral alliance emerged victorious elsewhere in Selangor and Perak. Having inherited the economic mess occasioned by the free port issue and Penang's failure to cope with the shift to EOI, the onus was now on Chong Eu, the new chief minister, to revive Penang's economy, in the wake of the post-election May 13 riots.

Conclusion

Penang's early industrialisation commenced under Wong Pow Nee, and *not* Dr Lim Chong Eu, as commonly assumed. Inspired by the Munro Report of 1964, Pow Nee attempted to revive Penang's declining economy by focussing on the mainland's industrialisation, first in Mak Mandin and later Prai, while developing the island's tourism potential. Consistent with the federal pursuit of ISI, Pow Nee focussed on creating infrastructural support to attract capital investment—similar to the development of tourism on the island, with the

¹⁹² "It's 'political blackmail,' says the Gerakan chief", *The Straits Times*, Apr. 14, 1969, 6; "Penang to get that bridge, says Tengku", *The Straits Times*, May 6, 1969, 1.

¹⁹³ Vasil, *The Malaysian General Elections*, 36–37, 42.

¹⁹⁴ *Ibid.*, 36–37.

improvement and development of existing tourist facilities to attract both domestic and international tourists. While Pow Nee's strategy was perceived to be initially successful, it was impeded by ISI's unexpected failures and contributory setbacks, e.g., the absence of institutional reforms and manpower training. Combined with Pow Nee's constrained authority within the federal-state structure, arm's-length connections with the federal government and his mellowness, his downfall to the newly established Gerakan was imminent upon the abrupt withdrawal of the free port status before the 1969 election. This sounded the death knell for the Alliance government in Penang, and Gerakan assumed control with Chong Eu as its chief minister—who then completed most of Pow Nee's planned projects and triumphantly rescued Penang's crumbling economy. How did Chong Eu successfully industrialise Penang? How did his strategies differ from his predecessor's? These will be discussed in the next chapter.

CHAPTER FOUR

DR LIM CHONG EU AND THE REALISATION OF PENANG'S INDUSTRIAL VISION

Existing studies tend to solely credit Penang's economic transformation to Dr Lim Chong Eu. But as noted previously, many developmental schemes originated from Pow Nee, while Chong Eu ultimately brought these schemes into fruition by rallying favourable political forces through close ties with Prime Minister Tun Abdul Razak's (who succeeded the Tunku in 1969) federal government. These renewed and unparalleled dynamics, fostered by his personal friendship with Tun Razak, safeguarded Penang's long-term developmental interests. These did not occur overnight—blessed with vast political experience and administrative foresight, Chong Eu circumvented the federal-state constraints which defeated Pow Nee by engineering new governance structures and social reorganisation, e.g., human capital development, which prepared Penang to successfully “ride” the electronics wave through FTZs, as reoriented by the new Penang Master Plan of 1970, i.e., the Nathan Report. Improved administrative support, efficiency and coordination girded by Chong Eu's strong leadership abilities and charisma built on and completed Pow Nee's foundational schemes, successfully transforming Penang into one of Malaysia's most important and industrialised states.

Unparalleled Post-1969 Federal-State Ties

Ever since independence, Penang had been governed by the same ruling party as the federal authorities, thus entailing an inclination to abide by federal rulings. Gerakan's takeover dramatically altered the existing relationship since it had long opposed federal policies in Penang. Nevertheless, the racial clashes of 13 May 1969, which first broke out in Kuala

Lumpur three days after the general election, pushed politics into the background. Believed to have been sparked off by opposition victories—mainly by Gerakan, DAP and the PPP—which prompted fears among the Malay populace of being subjugated by the Chinese, including the loss of existing special benefits. While the rowdiness of these victory parades saw insults and taunts being hurled at the Malays, it was in Setapak where such taunts culminated in street fighting that sparked off violent clashes in and around Kampung Baru.¹⁹⁵ A state of emergency was declared and curfews were imposed nationwide on May 14.

Despite national disorder, Penang was relatively calm. Learning from the chaos of the 1967 *hartal*, the police force under Inspector Albert Mah was quickly mobilised by Pow Nee upon his election loss, after a tip-off about the impending riots. In fact, he alerted Chong Eu so that he would be swiftly sworn-in as chief minister prior to the riots; delays could have meant that Penang would have no functioning state leadership.¹⁹⁶ Regardless, Parliament and individual State Assemblies were suspended under Emergency rule, superseded by the National Operations Council (NOC). Fresh administrative dynamics were needed at both the federal and state levels under this new state of governance. New approaches toward effective governance in maintaining security and unity were crucial for restoring parliamentary democracy—hence Chong Eu sought close cooperative ties with Tun Razak’s new central government, the turning point for Penang’s long-term developmental interests. As federal support became more paramount than before to salvage its ailing post-May 13 economy, Chong Eu pledged “very close rapport” with the federal authorities in matters of “national unity and interest”.¹⁹⁷ He vowed that his Gerakan state government would work with Kuala

¹⁹⁵ Kelly Jones, “A Time of Great Tension: Memory and the Malaysian Chinese Construction of the May 13th Racial Riots”, *Berkeley Undergraduate Journal* 27, no. 2 (2014): 80–81.

¹⁹⁶ Interview with Adrian Wong Tet Look on 23 June 2021. Although Pow Nee and Chong Eu were political rivals, they remained friends at a personal level. See also “Better and better in Penang”, *The Straits Times*, May 17, 1969, 1.

¹⁹⁷ “Seruan Razak: Ikrar Dr. Lim”, *Berita Harian*, Jun. 28, 1969, 2; “Rapport with Alliance government to remain”, *Straits Echo*, Oct. 26, 1970, 4; “Gerakan pledge to Alliance”, *The Straits Times*, May 25, 1971, 6.

Lumpur “to resolve the problems that were endemic to the state and will oppose not for the sake of but through constructive criticism, persuasion and sound reasoning”.¹⁹⁸

It must be emphasised that these unparalleled federal-state dynamics enabled the resumption of Penang’s development by November 1969, which would not have been entirely possible without Chong Eu’s personal relationship with Tun Razak. His long-standing political involvement also meant that he already had established networks with key federal ministers—having once served the Alliance and MCA, Chong Eu was well-known to them and remained friends with some, despite later political differences.¹⁹⁹ Chong Eu befriended Tun Razak through his involvement in the Razak Committee, which drafted the new Education Ordinance between September 1955 and April 1956—following this, Chinese secondary schools began conforming to the national policy by first adopting a common curriculum, without any immediate changes to their medium of instruction.²⁰⁰ Despite their stark political differences, the Malay aristocrat from Pahang, regarded as an ultranationalist UMNO leader, and the ferocious ex-MCA leader, who stood for Chinese education and its inclusion within the national education system, aimed for consensus and attained a compromise.

While their upper-class positionalities eased matters, this unique political fortuity can be attributed mainly to their distinct life trajectories and exposures, which enabled the liberal pursuit of democratic ideological convictions. Tun Razak was once affiliated with the Labour Party and the Fabian Society during his law student days in London, whose active participation in the left-wing Malayan Democratic Union in 1940s Singapore allowed him

¹⁹⁸ “Message to all members and branches”, 5–7.

¹⁹⁹ “Dr Lim is appointed Chief Whip”, *Singapore Standard*, Aug. 31, 1955, 1.

²⁰⁰ Tan Liok Ee, *The Politics of Chinese Education in Malaya, 1945-1961* (New York: Oxford University Press, 1997), 165–6, 175–6.

to comfortably relate to non-aristocrats.²⁰¹ Chong Eu, despite being of the Anglophile Penang Baba elite, was exposed to war-torn China as a medical doctor with the Red Cross during WW2, which made him sympathetic towards the Chinese cause in Malaya.²⁰² In this sense, they were rendered more united in producing just and equitable outcomes through mutual respect and cooperation in resolving the national issues—they had often previously corresponded on such issues, e.g., potential chief ministerial and gubernatorial candidates for Penang and Malacca towards independence.²⁰³ In fact, despite being in the opposition, Chong Eu had often supported Tun Razak’s educational policy during his tenure as education minister.²⁰⁴ This relationship effectively unlocked Penang’s new future—after all, Chong Eu’s vision for Penang was inseparable from Tun Razak’s national agenda. They met frequently in Kuala Lumpur and Chong Eu often kept Tun Razak informed on Penang’s progress.²⁰⁵

Tun Razak’s involvement not only enabled Penang’s swift post-May 13 economic resumption but more importantly, secured both financial and infrastructural support for the Chinese-majority state, amidst the implementation of the New Economic Policy (NEP), which was actively geared towards promoting and developing the Malay economy.²⁰⁶ In fact, Tun Razak personally appointed Dato’ Yaakob Hitam, a federal development officer,

²⁰¹ Tun Razak eventually ushered in a generation of UMNO’s non-aristocratic, locally educated Malay-speaking leaders, the “Young Turks”—e.g., Mahathir Mohamad, Musa Hitam, Abdullah Ahmad Badawi, Shahrir Abdul Samad, Sanusi Junid—which replaced Tunku’s generation of Anglophile, English-speaking Malay leaders—e.g., Senu Abdul Rahman, Khir Johari, Sardon Jubir, Harun Idris and Tun Mustapha. See Jae-Hyon Lee, “UMNO Factionalism and the Politics of Malaysian National Identity”, PhD diss. (Murdoch University, 2005), 93–94.

²⁰² Khoo Boo Teik and Toh Kin Woon, “Lim Chong Eu and Penang: Glimpses of a Personal and Political Relationship” in *From Free Port to Modern Economy*, eds. Chet Singh et al., 27–29.

²⁰³ Interview with Lim Chien Cheng (youngest son of Tun Dr Lim Chong Eu) on 6 April 2021. Accordingly, Chong Eu’s friendship with Tun Razak could have also been forged through Chong Eu’s close friend and fellow Queen’s Scholar, Tun Ismail Muhammad Ali, who later became the second governor of Bank Negara Malaysia (the National Bank).

²⁰⁴ “Pelajaran: Dr. Lim sambut ucapan Tun Razak”, *Berita Harian*, Jun. 12, 1961, 1.

²⁰⁵ “Dr Lim: Hubungan dengan pusat mesera”, *Berita Harian*, Jul. 26, 1969, 5.

²⁰⁶ R.S. Milne and Diane K. Mauzy, *Politics and Government in Malaysia* (Vancouver: University of British Columbia Press, 1978), 322–9.

as Penang’s state secretary, signalling strong federal support for Penang’s economic development while removing state- and federal-level red tape²⁰⁷—a move which fast-tracked approvals for the establishment of Penang’s overdue FTZs. These FTZs were *never* a precondition for Chong Eu’s Gerakan to become a founding partner of Barisan Nasional (BN, National Front), which replaced and expanded upon the Alliance in 1974. In fact, FTZs were already promised during Pow Nee’s tenure—the Chong Eu-Tun Razak friendship simply enabled their swift establishment since they were integral for Penang’s industrialisation.²⁰⁸ Chong Eu generally forged closer ties with the federal government, a gesture which did not sit well with his Gerakan partners, Professor Alatas and Dr Tan Chee Khoo, who had long protested how “subservience to the Alliance” contradicted Gerakan’s founding principles. An internal conflict between two Central Committees—one headed by Chong Eu and the other by Alatas—culminated in Chong Eu winning a legal battle and recognition as Gerakan’s president. Both Alatas and Tan promptly resigned.²⁰⁹ After Gerakan’s crisis was resolved in 1972, a joint government with Tun Razak was established and Gerakan joined BN.²¹⁰

Regardless, the progressive federal-state relationship secured Penang’s long-term developmental interests beyond Tun Razak’s regime, continuing to Tun Hussein Onn’s (served 1976–81) and Dr Mahathir Mohamad’s (served 1981–2003) tenures: the federal

²⁰⁷ Interview with Dato’ Seri Chet Singh on 25 November 2021.

²⁰⁸ Interview with Tan Sri Dr Koh Tsu Koon on 16 March 2021.

²⁰⁹ “Al-atas declares war on Dr Lim”, *New Nation*, Jun. 15, 1971, 1; “I can handle party crisis: Dr Lim”, *New Nation*, Jul. 12, 1971, 1 and Cheah, *A Political Profile*, 186–94.

²¹⁰ “Kerajaan Champoran di-Pulau Pinang?”, *Berita Harian*, Jan. 23, 1972, 4; “Alliance, Gerakan to form coalition government in Penang”, *The Straits Times*, Feb. 14, 1972, 1; “Its on! That joint-government for Penang”, *The Straits Times*, Feb. 17, 1972, 1. Note that BN’s formation was the most significant political change since May 13, consisting of UMNO, MCA, MIC, Gerakan, the Sarawak United People’s Party and Perak-based PPP.

government continued to adhere to Tun Razak’s development-oriented legacy to safeguard overall national stability upon his sudden death in 1976.²¹¹

Illustration 4.1: Unparalleled Ties—Tun Razak and Chong Eu



Source: PDC.

Redirecting Penang’s Economy: The Nathan Report of 1970

The abovementioned detrimental effects of the free port’s total abolition in May 1969²¹² meant that job-creation and industrialisation were enormous and pressing tasks. It was against this backdrop that the Nathan Report was drawn up by a team of US economic consultants, Robert Nathan & Associates. It is noteworthy that this report was federally initiated, the government having witnessed the overall ineffectiveness of Munro’s

²¹¹ “Stability will continue under Hussein”, *The Straits Times*, Jan. 24, 1976, 17. Tun Hussein Onn deeply revered Tun Razak—also his brother-in-law—who persuaded him to rejoin UMNO and appointed him as his deputy in 1973. See “Hussein Onn Timbalan Razak”, *Berita Harian*, Aug. 14, 1973, 1; “Datuk Hussein: Pemimpin yang banyak berpengalaman”, *Berita Harian*, Jan. 19, 1976, 4; “Hussein leaves with a spotless record”, *New Nation*, May 16, 1981, 9.

²¹² Interview with Dato’ Seri Chet Singh on 20 October 2020 and on 25 November 2021.

recommendations. Although adopted by Pow Nee's state government prior to his election loss, Chong Eu who continued the implementation of the Nathan Report in 1970.²¹³ The background of this consultancy is worth highlighting. Founded in 1946, Robert Nathan & Associates, with a wide clientele from Europe, Africa, Asia and the Middle East, was most well-known for its groundbreaking master plan for South Korea's economic reconstruction in 1954.²¹⁴ Unlike most conventional economic consultancies, it also had expertise in finance, manufacturing, trade and services. Given Nathan's vast experience and expertise, his firm was appointed to formulate Penang's new policy direction.

Nathan reasoned that although Penang experienced sluggish employment and income growth like the rest of West Malaysia, its situation was more chronic due to its dependency on regional and international trade in an era when political and economic forces—e.g., economic nationalism, the Confrontation, Malaysia's emphasis on domestic production of substitutes for manufactured imports—restricted entrepôt trade, compounded by Penang's geographical remoteness from major consumer goods markets, its highly urbanised population and the lack of effective programmes to redirect economic resources towards sectors with comparative advantage.²¹⁵ Disagreeing with Munro, Nathan found serious limitations in infrastructural provisions alone, and saw domestic manufacturing as less than ideal—even if plants and infrastructure were established and produced at a “national average” rate of growth, the resulting increase in employment and income would leave more jobless in 1975 compared to 1970. Avoiding economic stagnation, chronic unemployment and selective out-migration of human capital required manufacturing industries mainly servicing foreign markets, while both regional and international tourists were to be attracted in large

²¹³ Ibid.

²¹⁴ Robert Nathan & Associates, , accessed April 1, 2021. <https://www.nathaninc.com/>.

²¹⁵ *Penang Master Plan 1970*, Volume I, 29.

numbers. Without concentrated, organised and adequately financed efforts to bring giant industrialists and tourists to Penang, the status quo would remain intact.²¹⁶

In short, Penang's economy was to be redirected to establish market linkages with broader and more rapidly expanding demands than those afforded by local, national or regional markets. This entailed "plugging in" its resources into growth industries with rapidly expanding world markets; a strategy successfully applied by other Asian states once beset by labour redundancy and limited natural resources—e.g., Taiwan, Japan, South Korea, Hong Kong and Singapore—to break the self-perpetuating cycle of low income, deficient demand, stagnant production and unemployment.²¹⁷ Nathan pinpointed export-manufacturing as a leading growth industry, followed by tourism, fishing (and fish processing), education and health services—they had in common a demand for output that was not restricted to income levels in Penang and its traditional hinterland. Through the selection of products, services and proper promotional efforts, Nathan foresaw that Penang could access broader and more rapidly growing markets.²¹⁸

Regarding manufacturing, Penang offered the greatest comparative advantage for producers employing labour-intensive technologies, using both imported and domestically produced raw materials, parts and components. A high increase in employment and manufacturing output *was not beyond* Penang's capabilities.²¹⁹ Moreover, export-manufacturing was compatible with national objectives (as per the NEP's economic diversification), which sought massive economic redistribution programmes for poverty

²¹⁶ Ibid., 116.

²¹⁷ Ibid., 36–37.

²¹⁸ Ibid., 53.

²¹⁹ Ibid., 36–37.

eradication and restructuring society. What Penang needed was a paradigm shift in terms of perspectives and attitudes.

Concurring with Munro, Nathan viewed tourism as the second-most important industry, which could be expanded more quickly than manufacturing: capital expenditure could potentially generate more employment in hotels, services, food, entertainment and transportation,²²⁰ especially when Southeast Asian tourism was growing at 18 to 20 per cent per annum. In fact, Nathan estimated an annual 10 per cent increase in Penang-bound tourists even if little to no promotion was done.²²¹ For long-term growth, a steady promotional budget was needed, followed by a crucial major reorganisation of the Penang Tourist Association, which lacked staffing and finance especially in the years leading up to the early 1972 PATA conference, which would “make or break” Penang.²²² More importantly, while Nathan saw federal involvement as necessary, he emphasised that actual success was more dependent on active promotion, cooperation and participation by Penangites themselves.²²³ Nathan’s reorientation formed the new state government’s direction, and much like Munro’s strategies, its broad nature gave Chong Eu sufficient room for modifications and deviations to realise his own strategies and devices for Penang.²²⁴

A natural-born leader with tremendous work capacity—including intellectual capacity and charisma—and the authority to shift policies and people towards his vision, Chong Eu’s invaluable traits were bolstered by early political and administrative exposure and family networks, crucial for mobilising political forces and public-administrative support for development efforts. It is useful to turn to his background briefly. Born in George Town on

²²⁰ *Report of the Committee of Unemployment*, 14.

²²¹ *Penang Master Plan 1970*, Volume I, 38.

²²² *Ibid.*, 88; *Penang Master Plan 1970*, Volume II, 164–70.

²²³ *Penang Master Plan 1970*, Volume I, 117.

²²⁴ Interview with Dato’ Seri Chet Singh on 20 October 2020.

28 May 1919, the eldest son of prominent medical doctor and head of the Penang SCBA, Dr Lim Chwee Leong, and Cheah Siew Hoon, the daughter of Cheah Kee Ee, a prominent Baba trader, Chong Eu was educated at Shih Chung School, Hutchings Primary School and later the prestigious Penang Free School—a reputable head-start. A Queen’s Scholar who studied medicine in Edinburgh, he joined his father’s medical practice upon returning to Malaya in 1950 after his stint in China, and volunteered as a medical officer with the Malayan Auxiliary Air Force. His natural curiosity cultivated an enduring passion for subjects beyond his specialisation, being extremely well-read and possessing the invaluable skills of probing, engaging with others as well as analysing ideas and solutions independently. These qualities enabled his proactive and effective supervision of state projects, and he kept himself updated on economic developments (especially manufacturing). Coupled with his vast knowledge in construction, urbanisation and redevelopment, he was empowered to cope with various project assessments which combined general and technical knowledge.²²⁵

Upon assuming office in September 1969, Chong Eu urged Penangites to “break down the initial barriers standing between us and the future” in an early press conference.²²⁶ These barriers were their mindset and lack of confidence—if not, Penang was doomed to be a fishing village incapable of moving beyond entrepôt trade. Chong Eu assured the public and private sectors that they were the state’s partners in building a new Penang:

If our thinking and planning have been correct, they will be taken up by the private sector and public and together with the government, will participate conjointly to push forward our economy. This effort has to be vigorous and dynamic because it would require an enormous effort and sustained

²²⁵ Interview with Tan Sri Dr Koh Tsu Koon on 16 March 2021.

²²⁶ Chet Singh, “For Life and Death are one ... as the River and Sea are one - An Eulogy for Tun Dr Lim Chong Eu”, *Penang Economic Monthly* 1, no. 11 (January 2011): 12.

determination in the initial phrases of our programme to break through the inertia that have gripped us in the past before we can successfully reach out for the economic benefits we know to be attainable.²²⁷

While Chong Eu's charismatic personality can be credited for lifting Penang out of its defeatist mood in 1969, he knew that fresh economic redirection alone was insufficient—an entirely new framework to kickstart operations was required. Aware of setbacks which Pow Nee had not anticipated, Chong Eu embarked on engineering a new administrative system geared towards state objectives.

Illustration 4.2: Dr Lim Chong Eu, Penang's second chief minister, 1969–90



Source: Tun Dr Lim Chong Eu Foundation.

²²⁷ Lim Chong Eu, "Speech by the Honourable Chief Minister at Luncheon by Malaysian International Chamber of Commerce" (E&O Hotel, Mar. 12, 1970), 4–5.

Engineering Governance, Social Reorganisation and Nurturing Human Capital

I. Establishing Penang Development Corporation

The invention of a new administrative system began with the PDC's establishment under the mechanisms of the State Council and the NOC. As mentioned earlier, the PDC's formation was originally envisaged by Pow Nee as an instrument to overcome bureaucratic limitations which prioritised federal projects over state initiatives²²⁸ and limitations within the federal structure, especially in expanding Penang's limited resource base.²²⁹ Through the PDC, Chong Eu created a hybrid system of governance enabling Penang to propel development with the least hindrances, by maneuvering new areas outside federal control. Inspired by Singapore's Economic Development Board, the federal government encouraged state economic development corporations (SEDCs) to oversee economic and social developments in the 1970s.²³⁰ As statutory authorities, SEDCs were accorded more leeway than most state institutions.²³¹ In this sense, the PDC functioned as a fresh and principal state agency, with the operational autonomy and expertise to plan and execute industrial development.

As the PDC's chair, Chong Eu made it his principal vehicle for economic development by maximally leveraging its autonomy—most evidently in land administration, where the PDC was bestowed with full authority to manage all state land, while being empowered to undertake independent physical planning and infrastructural development. By guaranteeing land availability, the PDC could service investors speedily and through unorthodox means—e.g., raising revenue through real estate development. This was the PDC's most innovative initiative, capitalising on the state government's control over land issues (one of its few areas

²²⁸ Ibid.

²²⁹ “王保尼昨在檳州議會重申自由港存廢問題...” [Wong Pow Nee reiterates the problem of the free port status' preservation and abolition...], *Nanyang Siang Pau*, Oct. 10, 1968, 6.

²³⁰ During their first years, SEDCs were only supervised by their respective state governments. After 1974, supervisory responsibilities were shared with the Federal Ministry of Public Enterprises. See Interview with Dato' Seri Chet Singh on 25 November 2021.

²³¹ Ibid. See also Hutchinson, “Can Sub-National States be ‘Developmental?’”, 138.

of responsibility) and creating a land bank through cheap purchases or acquisition acts, particularly for sites near key infrastructure. After conversion into industrial land, it was sold for a considerable profit, often marked-up yet slightly below market rates.²³²

It must also be emphasised that Chong Eu designed the PDC to function like a private sector entity, with a different mindset and work culture. It played a proactive role through a multidimensional approach, achieving agendas in a businesslike manner—every investment enquiry was a possible state business opportunity.²³³ This dynamic culture could not have been instituted in the usual governmental setting, which in turn strengthened existing promotional efforts in attracting foreign direct investment (FDI).²³⁴ Its enormous responsibilities demanded professional staff and expertise. While fresh graduates were recruited into middle-management positions, six state administration and Bank Negara officers were seconded to fill senior positions as departmental heads.²³⁵ It is noteworthy that they were experienced and competent in their respective areas of expertise. In fields where locals lacked expertise, external consultants were engaged and invited for discussions and

²³² The PDC was also active in residential development, selling property at market rates to further develop more industrial sites—yet it did not make any real profit until the mid-1980s despite generating considerable capital. With the exception of an initial federal grant, the PDC was essentially financially autonomous, also earning revenue from private sector loans. Interview with Dato’ Seri Chet Singh on 25 November 2021.

²³³ According to Dato’ Seri Chet Singh (also the PDC’s first general manager in 1969), in light of the competition from other states and regional countries, Penang had to be promoted as an attractive centre for investment. To this end, the PDC produced an *Investment Guide for Penang*, having picked up the required information needed from servicing early investors. Penang’s cutting edge was promoted based on these advantages:

- 1) A highly skilled and a well-educated workforce;
- 2) Reasonably priced industrial land;
- 3) Good communication and infrastructural facilities;
- 4) Controlled and planned approach to development;
- 5) Conducive and safe environment for living; and
- 6) Good recreational and sporting facilities.

²³⁴ Chet Singh, “Penang Development Corporation and Penang’s Catalytic Transformation” in *From Free Port to Modern Economy*, 63–69.

²³⁵ These were Chet Singh, Ahmad Khair (state economic officer) as secretary, Wong Pak Sun (Bank Negara) as an economist, Rusli bin Hj Hussein (state secretariat) also as an economist, Cheah Phee Hin (State Town and Country Planning Department) as a planner, Chee Sek Pan (State Agriculture Department) as head of the Agri-Business Division.

briefings with PDC staff over “Jam Sessions” chaired by Chong Eu.²³⁶ After all, he needed a team that could hit the ground running in a liberal environment with access to qualified human resources.

More importantly, Chong Eu ensured that the PDC nurtured a close and healthy relationship with the federal authorities despite its autonomy. Apart from key state and local government representatives, its board also consisted of representatives from state branches of key federal institutions—e.g., the Malaysian Industrial Development Authority (MIDA), Treasury and Malaysian Industrial Development Fund—thus enabling solid input from different state and federal institutions, while forming a close working relationship with the federal government through its active participation in Penang’s economic development. This was the key to smooth and fast industrial facilitation. Cooperation with MIDA, the authority-in-charge of investment approval and incentive formulation, enabled the PDC to quickly obtain federal investment approval while securing important incentives for the benefit of investors without red tape. Had Chong Eu worked under the usual parameters as Pow Nee had, he would have been stifled by the bureaucracy—thus, Gerakan-run Penang could closely resemble the “developmental” state ideal.²³⁷ Since administrative support for the PDC remained incomplete without new local governance, Chong Eu (who was also the “officer administrating the council” by virtue of his office) boldly restructured existing local authorities.

II. Restructuring Local Government

²³⁶ According to Dato’ Seri Chet Singh, PDC staff were always encouraged to participate openly and made to realise that there must be a willingness to ask and share without shame. This cultivated a sense of frankness and openness in meetings which, in turn, built up the working relationships between staff and managers as a single team.

²³⁷ Hutchinson, “‘Developmental’ States”, 115–27.

The existing local government structure comprised five local authorities—the George Town City Council and Rural District Council (RDC) on the island, followed by the North, South and Central District Councils on the mainland. The latter were not viewed as “viable units”, thus hindering the optimal utilisation of both financial and human resources. Still, local authorities had, after all, tremendous potential for job-creation.²³⁸ Eager to enhance their roles and administrative efficiency, Chong Eu suspended all RDCs in December 1970,²³⁹ and the passing of the Local Government (Temporary Provisions) Act 1973 prompted the integration of existing local councils.²⁴⁰ This was crucial since a new structure was paramount for ensuring efficient administration—e.g., minimising conflicting criteria in building and planning, health control and approval, standardising the level of professionalism and administration statewide. This Act replaced elected/appointed councils with management boards and empowered state governments to reconstitute local authorities into more viable units. In short, Chong Eu secured direct state rule over once-independent local authorities, thereby eliminating the potential for rebellion experienced by his predecessor—major policy differences between Pow Nee’s Alliance state government and the SF-dominated George Town City Council once saw the Council refusing to decorate the streets for Malaysia Day in 1963. Hostilities similarly heightened in the case of a Chinese squatter village in George Town, where state plans for its demolition were thwarted—the Council supplied the village with piped water instead.²⁴¹

²³⁸ “City Council moves to create more jobs - Work-cum-study opportunities for about 500 youths”, *Straits Echo*, Aug. 27, 1969. Prior to their integration in 1974, these local authorities had created 283 jobs from 1969 to mid-1972. See *Report of Third Legislative Assembly Penang, Second Session, First Meeting*, Jun. 6, 1972, 16.

²³⁹ “Hold referendum on Council takeover challenge by Kadir”, *Straits Echo*, Jan. 1, 1971.

²⁴⁰ The suspension of local government elections since 1966 necessitated the reorganisation of local authorities nationwide. This led to the passing of the 1973 Act, which allowed for necessary area changes for the reorganisation of local authorities. See M.W. Norris, *Local Government in Peninsular Malaysia* (Britain: Gower Pub. Co., 1980), 80 and also “Restructuring of Local Authorities next year - Dr Lim”, *Straits Echo*, Dec. 6, 1972.

²⁴¹ Paul Tennant, *Race, Party and Administrative Efficiency in Malaysian Politics: The Case of Penang* (Draft Report), February 1972, 10–12.

In December 1971, a state committee chaired by Teh Ewe Lim to examine the feasibility of integrating district councils into two bodies decided that Penang was to have two integrated municipalities. This plan was adopted and made statutory.²⁴² Chong Eu saw their integration as beneficial for the redistribution of state resources, staffing specialisation and by-law uniformity. With most local authorities in Penang suffering severe financial trouble since the late 1960s,²⁴³ integration preserved their status while enabling the state to capitalise on experienced staff and revenue sources.²⁴⁴ The integration of the two local authorities on Penang Island and the three on the mainland was announced in March 1974 but by July, Chong Eu established a single, integrated local authority for the entire state.²⁴⁵ This move was unprecedented nationwide, being the most rapid and comprehensive of all state reforms. As stipulated in the 1973 Act, two management boards consisting of thirty-four appointed members each were formed,²⁴⁶ effectively signalling a new state-local relationship era which in turn tightened Chong Eu's administrative control. This was important for facilitating Penang's industrial development—the envisaged epicentres of growth on the island and mainland fell under the administration of these erstwhile local authorities. Further eliminating partisan politics,²⁴⁷ Chong Eu implemented the Local

²⁴² Later known as the Local Government (Merger of City Council of George Town and Rural District Council, Penang Island) Order, 1974.

²⁴³ By the mid-70s, Penang's local authorities' costs escalated due to the international oil crisis, which saw the handover of electricity services to the National Electricity Board after a monthly loss of \$350,000. The RDCs had to be assisted by the Public Works Department. See Interview with Datuk Khoo Heng Choon, former George Town City Council Secretary (1964–80) on 15 July 2015. Meanwhile, the George Town City Council's deficit of \$1.3 million in 1969 increased to \$2.7 million in 1973. See "All set for the integration of local councils", *Straits Echo*, Mar. 15, 1974, 5.

²⁴⁴ According to the George Town City Council's Annual Report of 1970, the city engineer joined the Council in 1960, his deputy since 1947 and both the city architect and building surveyor since 1959. Despite economic decline, Penang's local authorities were richer than most of their counterparts. At integration, the financial assets of the RDCs were \$6.8 million (North), \$1.4 million (Central) and \$0.4 million (South) respectively. See Norris, *Local Government*, 94–96.

²⁴⁵ *Ibid.*, 84–86.

²⁴⁶ These were representations from BN's component parties, followed by professionals of standing, women members and independent intellectuals (e.g., Professor K.J. Ratnam). Both boards were chaired by experienced civil servants—e.g., Toh Ah Bah, a state officer on the island and Noh bin Haji Abdullah, former state financial advisor on the mainland. Interview with Datuk Khoo Heng Choon on 15 July 2015.

²⁴⁷ Political differences between state and federal appointees resulted in a problematic council. Although Gerakan was already in BN, recognition by fellow component parties took time to materialise. Conflicts worsened during Penang's urban centre project, when dissenting BN appointees voted *against* giving up

Government Act 1976 by the year's end, entailing state-nominated councils and increased state regulatory powers. The state government was effectively the ultimate creator and supervisor of local authorities.²⁴⁸ Together with the PDC, this exemplified yet another administrative innovation which hastened developmental progress.

III. Developing the Labour Force

To address the absence of a well-trained labour force to cope with industrialisation, the City In-Service Centre—Malaysia's first skills development centre based on a tripartite partnership between industry, academia and state governments—was established on Macalister Road in February 1970.²⁴⁹ Functioning as a training school that would supply a “reservoir of trained and skilled labour that would move into the new industries”, it provided school-leavers with essential vocational skills, language and commerce courses, including management and supervisory courses to groom instructors and industrial safety officers.²⁵⁰ Unemployment remained a youth phenomenon,²⁵¹ so the centre sought to groom youths into an employable industrial workforce, a shift which rendered manpower development more crucial. Chong Eu often appealed directly to youths “to reorient their attitude” by “fitting into blue-collar jobs in line with technological development in the country”.²⁵²

council land. See Phang Siew Nooi, “Administration of Urban Development in Penang: The Case of the Penang Urban Centre”, MA diss. (Universiti Malaya, 1978), 143–5.

²⁴⁸ Although the 1976 Act permitted a maximum appointment of twenty-four councillors, the state appointed the minimum of eight, having reasoned that Penang was small and did not require too many councillors. Half were Gerakan members, with only two from the former board—by virtue of their posts as district officers from the south-west and north-east districts—one independent and one sole UMNO member, who declined in protest over the unfair representation which excluded other BN members (*ibid.*, 147). This Act empowered the state to control boundaries and incorporate new areas, including awarding municipal status. Its power extended to councillor appointments (including the president or mayor), budget approval and loans, with vast discretion in dismissing departmental heads/deputies, confirming by-laws and delaying revaluation. See Norris, *Local Government*, 100.

²⁴⁹ Its role was subsequently taken over by the Penang Skills Development Centre (PSDC) in 1987.

²⁵⁰ “Message to all members and branches”, 15–16.

²⁵¹ Second Malaysia Plan, 1971-1975 (Kuala Lumpur: Government Printers), 99.

²⁵² “Dr Lim - Attitude of youths to jobs must be re-oriented”, *Straits Echo*, Mar. 10, 1973, 10.

With a syllabus based on that of the City and Guilds of London, the centre also collaborated with USM and provided courses to qualify trainees for graduate certifications.²⁵³ The George Town Council also supplied experienced trainers with hands-on lessons in its job-cum-training schemes spanning radio/television servicing, mechanical engineering, craft practice, auto mechanic work, electronic servicing, welding, electrical installation, draughtsmanship and bookkeeping.²⁵⁴ The state government's commitment to developing manpower also involved engaging foreign trainers to expose trainees to new technology and skills—e.g., in 1970, three experienced German instructors conducted training in welding, sheet metal work, electrical servicing and ship joinery.²⁵⁵ No other state-endorsed training facility enjoyed these privileges, so the centre proved popular. From 1970–74, 1,462 trainees were recruited while 1,055 graduated, peaking in 1972 (415 alone) owing to the EOI industrialisation boom.²⁵⁶ Later, a separate training centre was formed in Prai.²⁵⁷

Indeed, Chong Eu's foresight and audacity in implementing these innovative reforms can be credited to his political record, which gave him a foretaste of governance—he served in diverse capacities since entering politics in 1954. From federal roles as settlement councillor, federal legislative councillor, chief Alliance whip and MCA president, before leading the Parliamentary and State Assembly opposition, he gained solid administrative experience with ample opportunities to familiarise himself with the merits and flaws of administrative machinery at various levels. Indeed, Chong Eu knew that he could neither govern nor improve the state without the support of its dedicated personnel, thus requiring a meticulous selection of advisors—capable, experienced and loyal statesmen such as Teh

²⁵³ *George Town City Council Annual Report 1970* (Penang: George Town Printers), 1–3.

²⁵⁴ *Ibid.*

²⁵⁵ *Ibid.*

²⁵⁶ Tew Peng Kooi, “Kepimpinan Tun Dr Lim Chong Eu di Pulau Pinang sehingga 1974” (The Leadership of Tun Dr Lim Chong Eu in Penang until 1974), MA diss. (Universiti Malaya, 2001), 231–3.

²⁵⁷ *Ibid.*

Ewe Lim, Ooh Chooi Cheng and Khoo Kay Por were appointed to his executive arm .²⁵⁸ They were promptly recruited upon Chong Eu's appointment, helping to contain the spillover effects of May 13 together with the state secretary and police chief.²⁵⁹ This reflects the degree of Chong Eu's trust in them, whose presence was vital for defending the state's agenda and ensuring a united front within the State Assembly for Penang's smooth developmental progress.²⁶⁰ A steady pool of trained labour and a new system of administrative support were strategic innovations which effectively prepared Penang for the electronics manufacturing wave, as studied below.

Penang Rides the Electronics Wave and Attracts MNCs

The FTZs embraced by Malaysia in the early 1970s were not a new phenomenon—they were already popular FDI-attracting options among developing countries,²⁶¹ which allowed them to increase exports and foreign exchange earnings, generate employment opportunities and accelerate regional development. Their popularity was boosted by the successes of early FTZs at Shannon, Ireland (1959), and Kaohsiung, Taiwan (1960).²⁶² By facilitating the full-

²⁵⁸ Teh Ewe Lim was a small-time businessman and secretary of the Judo Club whom Chong Eu personally recruited into the UDP in 1963, defeating Lim Kean Siew in the 1964 municipal election for the Kampung Manggis constituency. He later served as Chong Eu's deputy. See Cheah, *A Political Profile*, 158–62; “Chong Eu picks his No.2”, *The Straits Times*, Dec. 13, 1974, 19). An old friend of Chong Eu since the Penang Radical Party, Ooh Chooi Cheng served as the UDP's vice-president in 1962 before defeating Pow Nee on the Gerakan ticket in 1969. He pledged to defend the chief minister in writing during Gerakan's internal party crisis. See “Melayu menjadi ketua UDP Pulau Pinang”, *Berita Harian*, Aug. 31, 1962, 5; “Gerakan crisis: Pledge of support for Dr Lim”, *The Straits Times*, Jun. 10, 1971, 5). Khoo Kay Por, a former banker of the Chartered Bank, was elected assemblyman in 1964. A trusted aide of Chong Eu, he served as his key executive councillor. See “People in Business”, *The Straits Times*, Aug. 28, 1972, 16; Cheah, *A Political Profile*, 168–9.

²⁵⁹ Lim Chong Eu, “Building on Penang's Strength: Going Forward.” (Penang Lecture, Socioeconomic and Environmental Institute 2005), 8.

²⁶⁰ 1971 saw numerous resignations from Chong Eu's camp in the face of a “no confidence” motion mooted by DAP's Yeap Ghim Guan, following Gerakan's infighting. Consequently, Chong Eu's government had to stand against the opposition which controlled half the State Assembly in 1971—the Alliance (four seats), DAP (three), Partai Sosialis (one) and former Gerakan assemblymen (four). See “Alliance Government may make or break Penang”, *New Nation*, Sept. 8, 1971, 6; “‘No faith’ in Gerakan - move by DAP”, *The Straits Times*, Sept. 12, 1971, 4. This experience made him more conscious and cautious in selecting trusted members into his state executive arm, who could render long-term support and loyalty.

²⁶¹ The need for FDI as the main source of economic growth was affirmed in the *Second Malaysia Plan*, 149–50.

²⁶² Helen E.S. Nesadurai, “The Free Trade Zone in Penang, Malaysia: Performance And Prospects”, *Southeast Asian Journal of Social Science* 19, no. 1/2 (1991), 103–4.

swing to EOI in the late 1960s, Penang was already promised FTZs under Pow Nee's tenure, given the availability of port facilities, road and rail communications into the hinterland and an international airport, among others, yet the real push did not occur until the passing of the Free Trade Zone Act in 1971. This Act established export-processing zones to encourage investments from EOI firms through various incentives—e.g., tax exemptions and licensed manufacturing warehouses. FTZs are essentially gazetted zones outside Principal Customs Areas for duty-free imports and exports of commodities and manufactured goods. While Penang was deemed ideal for attracting transnational capital, this local push was strengthened by a coincidental need for firms in developed countries to transfer labour-intensive operations to developing countries with lower wages. Coupled with a well-equipped labour force, Malaysia's first FTZ opened in Sungai Kluang, on the island's southeastern district of Bayan Lepas, in January 1972. Tun Razak was said to have personally fast-tracked its gazettelement by stopping by in 1971 and waving his walking stick, declaring it an FTZ on-site.²⁶³

Launched over several phases, three FTZs were established in Bayan Lepas, Prai and the southern side of Pulau Jerejak (a small island just off the main island).²⁶⁴ Each served specific purposes: Bayan Lepas, located near the airport, catered to light industries heavily dependent on air-freight services; Prai, already well-equipped with Pow Nee's deep-water berths, served heavy industries requiring sea transportation; and Jerejak was designed to process raw materials and cater to industries requiring deep-water facilities—e.g., shipbuilding and repairs.²⁶⁵ Established alongside non-FTZ industrial estates, which continued domestic-oriented ISI manufacturing under existing schemes, Chong Eu envisaged these FTZs as gateways for “plugging into” international markets via electronics

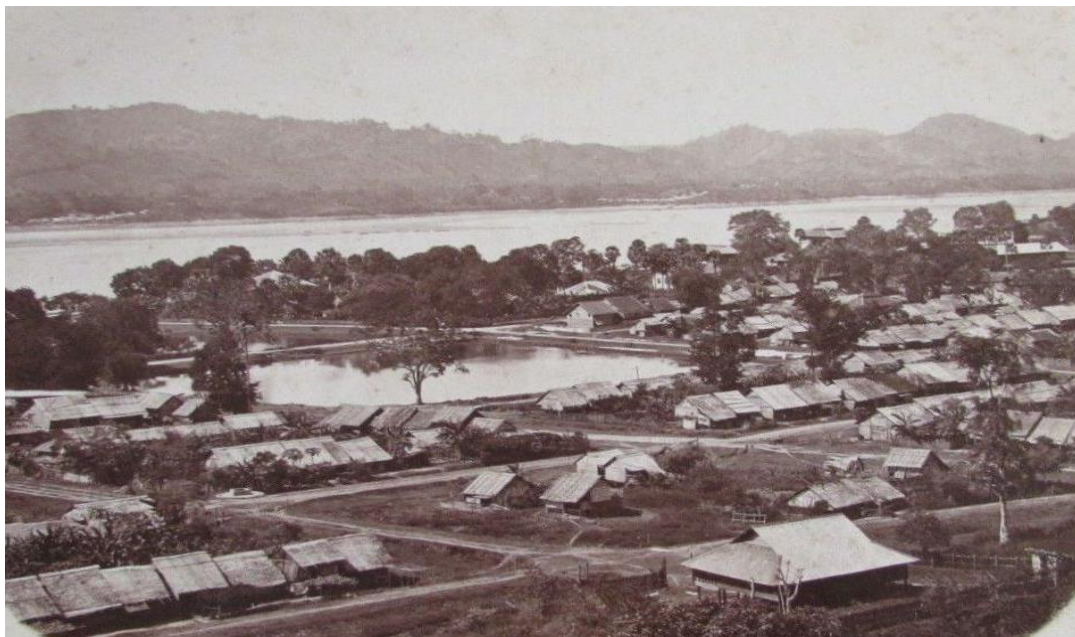
²⁶³ Interview with Tan Sri Dr Koh Tsu Koon on 16 March 2021.

²⁶⁴ See Appendix 2 for the conditions to obtain a place at Penang's FTZs.

²⁶⁵ “Three free trade zones to be set-up in Penang”, *Straits Echo*, Aug. 25, 1970, 6.

manufacturing. In sync with global manufacturing trends, these were favoured given their simpler forms of assembly and manufacture, which required a large number of labourers at cheap rates until they acquired sufficient skills to manufacture more sophisticated instruments. In this aspect, Penang's high unemployment rate was an advantage—it could compete internationally since it needed to provide employment anyway, and lower pay was still better than unemployment.²⁶⁶ Regardless, Penang's move into electronics manufacturing made it a pioneer of Malaysia's aspirations of becoming a high-technology nation—Pahang and Kelantan even sought Penang's assistance to set up electronics plants in Kuantan and Kota Bharu respectively.²⁶⁷

Illustration 4.3: Bayan Lepas and Pulau Jerejak (offshore), early twentieth century



Source: Ganesh Kolandaveloo.

To promote Penang as a centre for electronics manufacturing internationally, Chong Eu played an active leading role as chief minister/PDC chairman. To canvass investment, he

²⁶⁶ “Message to all members and branches”, 9–10.

²⁶⁷ “Bayan Lepas can be the centre of electronics”, *Straits Echo*, Sept. 12, 1970, 7.

initiated and personally led trade missions to developed and technologically advanced countries with high labour costs—e.g., the US (mainly California), Europe, Canada, Australia, South Korea and Japan—to meet potential investors. The carefully assembled “package” included a highly skilled and well-educated workforce, reasonably priced industrial land, prime and centrally located office space, good communication and infrastructure, effective and friendly government organisations as well as a controlled approach to development. The viability of existing plants also provided an extra incentive.

His charismatic persona, intellect and interpersonal skills impressed many investors who outsourced their businesses to Penang, where he would personally host them with authority and confidence.²⁶⁸ Charisma should not be discounted here—it took great persuasion and assurance to convince foreign investors who were largely unaware of his small state’s existence, let alone its workforce’s capabilities.²⁶⁹ The PDC also established Penang’s first electronics company, Penang Electronics, which assembled small radios and tape recorders to convince potential investors to migrate their operations to Penang.²⁷⁰ Two pioneering MNCs include Clarion and International Telephone & Telegraph (ITT). To add momentum, Chong Eu hosted overseas trade delegations to inspect investment prospects.

Chong Eu’s charisma inspired a state team which strove to attain greater heights and levels of performance in securing investment otherwise thought impossible.²⁷¹ To maintain morale, Chong Eu instilled a sense of partnership within both the PDC and the state’s civil service, reminding them that “not everyone should go into politics. The old man needs good people in the civil service to help him carry out his projects for Penang”.²⁷² This effectively

²⁶⁸ Khoo and Toh, “Lim Chong Eu”, 13–14.

²⁶⁹ Interview with Tan Sri Dr Koh Tsu Koon on 25 November 2021.

²⁷⁰ *Laporan Tahunan Perbadanan Pembangunan Pulau Pinang 1970* (Annual Report of Penang Development Corporation 1970), 5.

²⁷¹ Interview with Tan Sri Dr Koh Tsu Koon on 16 March 2021.

²⁷² Khoo and Toh, “Lim Chong Eu”, 13–15.

nurtured a mission—that “this [work] was for Penang”. He led by example at the forefront of trade missions and delegations, striving alongside his team through late hours and physically stressful travelling. He cultivated a sense of ownership by often engaging officers in projects and plans, tapping their ideas and testing his own. This relationship also went beyond work—he personally knew their families and visited them during festive seasons. Many young officers who knew him from these field trips and travels even saw him as a “father figure”.²⁷³ His “no-nonsense” ethic induced a sense of respect and authority, so much so that meetings commanded full attention, with “no whispers and few had the urge to go to toilets or smoke along the corridors”.²⁷⁴ With little room for postponing decisions, Chong Eu ensured that his staff was well-prepared, known for randomly asking officers to name roads and landmarks or explain unique features of the area under discussion.²⁷⁵ In short, a personal touch, charisma and authority accounted for loyalty, dedication, camaraderie and team spirit within the PDC and among state administrators who stood by Chong Eu, often performing projects ahead of schedule.²⁷⁶

By mid-1972, Penang already hosted six electronic giants (see Table 4.1), based in Bayan Lepas instead of Prai owing to their need for air freight services. These establishments were later joined by Intel Corporation, Hewlett-Packard, Hitachi, Motorola, Normende and Toray Group, thus giving Penang a head-start on its goals—the total number of jobs created by the end of 1972 stood at 11,766, compared to 3,096 in 1969.²⁷⁷ This rose to 18,700 jobs

²⁷³ Interview with Dato’ Seri Chet Singh on 20 October 2020. See also an article by his former private secretary/director of Penang FTZs and PDC general manager, Datuk Noor Ahmad Mokhtar Haniff, “Lim Chong Eu Revisited”, *Penang Economic Monthly* 1, no. 11 (January 2011): 30–31. Note that this article features recollections by several individuals, and another testimonial will be reflected below.

²⁷⁴ Interview with Datuk Dr Goh Ban Lee (former Penang Island Municipal Councilor, served 1989–95) on 10 December 2015.

²⁷⁵ *Ibid.*

²⁷⁶ Datuk Feisol Muhammad Feisol Hassan, “Lim Chong Eu Revisited”. The author was once a state financial officer and later president of the Seberang Perai Municipal Council.

²⁷⁷ *Report of the Third Legislative Assembly Penang, Second Session, First Meeting*, 6 June 1972, 14.

in 1978.²⁷⁸ Bayan Lepas was the most popular FTZ, with 19 of the 21 allocated acres of available sites taken up (Table 4.2). By 1980, Penang had become a booming electronics centre with a core of 25 electronics assembly facilities employing almost 25,000 workers. While overwhelmingly labour-intensive, electronics firms began to upgrade operations in the late 1970s, transferring more skilled and technology-intensive operations (e.g., testing) to existing assembly facilities. The manufacturing sector alone contained over 200 firms with 56,000 workers—about half were Malay, thus fulfilling one of the NEP’s central aims.²⁷⁹

Table 4.1: Factories in Penang’s FTZs, January–June 1972

Location	No.	Operator
Prai FTZ	1	Pentex Sdn Bhd
Pulau Jerejak	1	Island Maritime Enterprises
	2	IHC (Malaysia) Sdn Bhd
Bayan Lepas (foreign electronics companies)	1	NS Electronics Sdn Bhd
	2	ITT Malaysia Sdn Bhd
	3	Litronix Sdn Bhd
	4	Microsystems International Sdn Bhd
	5	Robert Bosch GmbH
	6	Intron Industries Malaysia Sdn Bhd

Source: *Report of Third Legislative Assembly Penang, Second Session, First Meeting*, 111.

Table 4.2: Industrial Sites in Penang, May 1972

Estate	No. of Acres Available	No. of Acres Approved by the State Government	No. of Acres Approved by the PDC	No. of Acres Taken Up (Total)
Prai Industrial Estate	2252	128.5	41	169.5
Mak Mandin	320	139.5	0.5	140
Bayan Lepas FTZ	21	2	17	19
Pulau Jerajak FTZ	413	-	92	92
Prai FTZ	42	-	4	4

Source: *Ibid.*, 101.

²⁷⁸ *Penang Development Corporation Annual Report 1980*, 19.

²⁷⁹ *Ibid.*

Illustration 4.4: Chong Eu leading a PDC trade mission to Germany



Source: Tun Dr Lim Chong Eu Foundation.

Illustration 4.5: Chong Eu hosting Intel representatives, 1972



Source: Ganesh Kolandaveloo. The chief executive officer of Intel Malaysia, Lou Ross, is present.

Rural Urbanisation and Connections with Local Industries

The industrial stimulus went beyond generating FDI or jobs alone. As a long-term endeavour, Chong Eu saw industrialisation as means of steering rural urbanisation in Bayan Lepas and Prai towards industrial development, resonating with the NEP's attempted redress of imbalance and poverty. The village of Bayan Lepas itself required a significant amount of earth-dumping to establish the FTZs and house factory sites, and land reclamation in the late 1970s to early 1980s for urbanisation.²⁸⁰

Thus, urban townships in Bayan Lepas (Bayan Baru) and Prai (Seberang Jaya) were launched in 1975 when industrialisation progressed steadily.²⁸¹ Planned by the PDC, these townships comprised residential units, houses and modern social facilities (e.g., commercial complexes) and recreational amenities. More significantly, they were first offered to the booming workforce at the industrial zones, indirectly facilitating industrial progress by allowing labourers to cut travel time and costs while securing public interest in housing and accommodation. By 1989, 33,000 residents lived in Bayan Baru and 24,500 were in Seberang Jaya.²⁸² Bayan Lepas not only housed the PDC's headquarters but also the luxurious Hotel Equatorial on Bukit Jambul hill, boosting Penang's image as a first-rate industrial zone and premier tourist spot, demonstrating Chong Eu's visionary embrace of a new economic paradigm that Pow Nee could not have envisaged, given different global climates and trends. Timing favoured Chong Eu's administration's economic policies.

Chong Eu also connected with local business circles to realise his industrial goals for Penang—their support and cooperation was crucial in this matter. Monthly lunch meetings

²⁸⁰ Interview with Dato' Seri Chet Singh on 20 October 2020.

²⁸¹ "Bayan Lepas will be new urban centre", *Straits Echo*, Aug. 24, 1972, 3; "The Pioneers", *The Star*, Apr. 3, 1973, 4.

²⁸² "Penang: Looking Back, Looking Ahead, 20 years of Progress", *PDC's 20th Anniversary Booklet*, 1990, 24–26.

with different business groups across the state allowed for personal dialogue, and he also often reminded them to make full use of FTZ facilities for their businesses' benefit.²⁸³ Already well-known among the mercantile circles through family networks, Chong Eu was naturally acquainted with the island's elite.²⁸⁴ For example, the prominent businessman and philanthropist, Datuk Lowe Hooi Seah, a well-respected figure among the mercantile circles in community-related matters, was a family friend who had already encountered Chong Eu as a teenager. Later, Chong Eu often consulted Datuk Lowe, who mediated between the businessmen and the state government, thus smoothly bridging the gap between them.²⁸⁵ In fact, Chong Eu's close affiliation with the Chinese mercantile circles is evinced from previous appointments as the ex-officio director of the Penang Chinese Chamber of Commerce (1955–59), followed by his founding and chairing of Penang's Junior Chamber of Commerce (the "Jaycees") (1955–56).²⁸⁶ Family connections aside, Chong Eu's already established reputation as a Penang Chinese leader, coupled with his defence of the free port's status, bolstered support for his administration among Penang's Chinese businessmen. In fact, Chong Eu's agitation for Chinese education, including his audacious bargain with the Tunku for an allocation of one-third of all parliamentary constituencies to the MCA (while still its president) impressed many within this community, including the businessmen.²⁸⁷

The PDC worked with some local manufacturers when Penang's industrial development kicked off. With some 300 firms in the metalwork and fabricated metal product sectors,

²⁸³ Interview with Tan Sri Dr Koh Tsu Koon on 16 March 2021. See also "Ideas to promote tourism in Penang", *The Straits Times*, Sept. 28, 1970, 7; "檳首長林蒼佑吁本地商家利用兩自由貿易區所提供設備及潛能" [Penang Chief Minister, Lim Chong Eu urges local businessmen to utilise the equipment and platforms provided by the FTZs], *Nanyang Siang Pau*, Feb. 19, 1978, 6.

²⁸⁴ Chong Eu's networks even extended beyond Penang through his paternal uncle, Lim Han Hoe, also an Edinburgh-trained doctor who later became the senior Chinese unofficial member of the Legislative Council of the Straits Settlements (served 1934–42) and senior unofficial member of the Executive Council of Singapore (served 1948–51).

²⁸⁵ Cheah, *A Political Profile*, 3–4.

²⁸⁶ Interview with Tan Sri Dr Koh Tsu Koon on 16 March 2021. See also Cheah, *A Political Profile*, 74–75.

²⁸⁷ Interview with Dato' Cheah See Kian (author of *A Political Profile*) on 24 March 2021.

many acted as suppliers to existing MNCs. Since many local industries in Penang, which were overwhelmingly Chinese, remained skeptical of the NEP (since it was largely designed to safeguard Malay economic interests) and avoided dealing with government bodies, Chong Eu's rapport and his political reputation for safeguarding Chinese interests enabled the PDC's effective intermediary role. He also actively encouraged MNC managers to source required components locally, and by the mid-1970s, the PDC began brokering meetings between MNC directors and local manufacturers—thus local firms such as Eng Hardware and LKT became subcontractors of MNCs such as Intel and AMD.²⁸⁸

Pinning Penang to the Global Tourist Map

Chong Eu not only completed Pow Nee's proposed Dewan Sri Pinang (see Illustration 4.6) and hosted 700 representatives from 30 countries, but also set about preparing the state as a first-class tourist destination. Since the accessibility of most tourist spots had been improved by Pow Nee, Chong Eu built upon existing efforts using different and more aggressive publicity techniques to increase tourist arrivals. Chong Eu's administration established connections with overseas travel agencies to bring in tourists on a weekly basis, followed by printing and distributing promotional kits, taxi leaflets and brochures for domestic and foreign airports featuring Penang's tourist attractions. Incentives and tours were also provided to travel writers, journalists and film agencies to encourage write-ups and film shoots.²⁸⁹ Transport-wise, Chong Eu not only completed Pow Nee's existing road up Penang Hill, but with federal assistance, he expanded the Bayan Lepas airport again, ushering in the "Jumbo Jet" era with more foreign tourist arrivals. Evidently, his cordial relationship with federal authorities enabled its swift extension by the end of 1969 and again

²⁸⁸ Hutchinson, "Can Sub-National States be 'Developmental'?", 146–7.

²⁸⁹ Tew, "Kepimpinan Tun Dr Lim Chong Eu", 175–7.

in 1973.²⁹⁰ Chong Eu also sought a permanent site in Sungai Nibong for Pow Nee's annual Penang Pesta to provide a more conducive environment for local traders, and one such site was found in 1974—the festival's economic importance saw it indirectly generating an estimated 1,500 jobs by the end of 1971.²⁹¹

Chong Eu also revamped the Penang Tourist Association into a training centre for tour guides and drivers. USM's cooperation was secured to conduct foreign language courses for guides in 1973.²⁹² Chong Eu's charisma led to diplomatic friendships with foreign leaders that crystallised into mutual arrangements to advance each other's interests—e.g., the twinning of George Town with Adelaide, South Australia, as sister cities in 1973 based on common historical roots (Adelaide was founded by Sir Francis Light's son, William) through a friendship with South Australian Premier Don Dunstan. While this joint venture cemented closer ties to boost tourism, it welcomed participation from Kedah and Perlis, the other states of northern Malaysia.²⁹³ This legacy persists with cultural opportunities, student exchanges and mutual advancement in business and sports.²⁹⁴

²⁹⁰ Ibid., 171–2. Chong Eu's cordial ties with the federal authorities under Tun Hussein Onn enabled the construction of a new terminal for Bayan Lepas in 1979, at the cost of RM78 million. See also “斥资七千八百万元扩建落成 峇六拜国际机场开幕航空服务入新纪元” [Penang's aviation industry ushers in new era with the completion of RM78 million, Bayan Lepas international airport], *Nanyang Siang Pau*, Jun. 4, 1979, 5.

²⁹¹ “Governor opens - Penang Pesta”, *Straits Echo*, Dec. 19, 1971, 4.

²⁹² “Greater inflow of tourists expected - Dr Lim”, *Straits Echo*, Mar. 10, 1973, 11.

²⁹³ “林蒼佑稱在南澳舉行北馬週已獲得極佳成果一項重要聯營企業不久設立” [Lim Chong Eu said the organisation of Northern Malaysia week in Southern Australia has achieved excellent results and an important joint venture will soon be established], *Nanyang Siang Pau*, Mar. 28, 1977, 5.

²⁹⁴ “CM optimistic about twinning of Adelaide and George Town”, *Straits Echo*, Nov. 1, 1973, 5. See also the Official Website of the City of Adelaide, South Australia, accessed April 22, 2021. <https://www.cityofadelaide.com.au/about-adelaide/general-information/sister-cities/george-town-malaysia/>.

Illustration 4.6: The completed Dewan Sri Pinang



Source: Author's collection.

Illustration 4.7: Chong Eu meets Tun Razak and Premier Don Dunstan



Source: The late Ong See Fook

Actualising Pow Nee's Mega Schemes

Apart from Dewan Sri Pinang, Chong Eu also reviewed Pow Nee's urban renewal scheme and modified it for a different purpose. Similar to Munro's recommendations, Nathan called

for the city centre's urban renewal, highlighting the need for "concept plans for the metropolitan areas of George Town, Butterworth and Bukit Mertajam" which would aesthetically improve the cityscape and advance tourism. Chong Eu also saw the need for George Town to have a definite urban centre—even in the 1970s, there was the traditional commercial hub of Burmah Road-Penang Road and the administrative core centred around Bishop, Beach and Light Streets—coherent with his multi-sectional approach to industrialisation and rural urbanisation (e.g., Bayan Baru and Seberang Jaya) to improve living standards while giving multiethnic Malaysians a share in urban development and living.²⁹⁵ Differing from Pow Nee's precinct-based scheme, Chong Eu envisioned an "epicenter" of modern, urban accommodation with office spaces, civic amenities, commercial shops, housing and social and tourist facilities (e.g., hotels, restaurants and sports complexes). This ambitious, integrated development was launched in 1974—the largest in the country. KOMTAR combined civic, administrative and commercial functions, encompassing Penang Road, Maxwell/Prangin Road, Magazine Road and McNair Street, enabling easier traffic and population dispersal by centralising transport and government services.²⁹⁶ Its uniqueness included a multipurpose concourse shaped as a geodesic dome, in tribute to Buckminster Fuller, the project's special consultant.

Nevertheless, KOMTAR entailed political backlash since Chong Eu's brother, Chong Keat, was a partner of Architect Team 3—the firm selected by the PDC as part of the Central Area Planning Unit to construct the urban centre *without* an open tender. Faced with the call to "explain or resign" by the state opposition in 1974,²⁹⁷ Chong Eu defended his decision.

²⁹⁵ "Towards a Bigger, Modern City", *The Star*, Sept. 26, 1973, 3; "Lim: Urban Centre a victory for progressive planning...", *The Straits Times*, Jan. 2, 1974, 7.

²⁹⁶ Lim Chong Eu. "Address of YAB Ketua Menteri on the occasion of the Pile Driving Ceremony to launch the Penang Urban Centre Project." (Jan. 1, 1974).

²⁹⁷ *Report of the Third State Legislative Assembly of Penang, 3rd Session, Second Meeting*, 14 November 1973, 227.

The firm—then known as Malayan Architects—had been selected by the City Council (the original initiators under Pow Nee) in 1963, and its re-selection was naturally based on its experience.

My brother is only one of the three principal partners and how much of the estimated fees would go to him, I do not know. But I assure the House that it is not my habit to favour anyone in my family or anyone associated with me or simply because I like him.

Regardless, its completion in 1985, the same year Malaysia emerged as an “Asian Tiger”, even included the tallest building in Southeast Asia (232 metres, Illustration 4.6), surpassing Pow Nee’s envisioned urban renewal scheme, while his proposed land-link was materialised in the Penang Bridge’s completion (the world’s third-longest at 13.5 kilometres, Illustration 4.7). The bridge marked an important milestone in Malaysia’s overall economic development, connecting the FTZs and urban townships at both ends, thereby boosting Penang’s industrial and urbanisation progress. The increase in vehicular usage and ownership contributed to the need for its construction—Penang envisaged an average of 12,800 vehicles transiting between the island and mainland by the late 1980s, coupled with 12.2 per cent annual growth in vehicular usage, rendering existing ferry services impractical. In fact, the bridge’s initial completion witnessed an estimated 30,000 monthly uses, buttressed by the Butterworth jetty’s tragic collapse in 1988 from overcrowding, which temporarily paralysed ferry traffic.²⁹⁸

While the hosting of tenders and feasibility studies were completed in the early 1980s, Chong Eu’s continued federal ties enabled the approval of RM850 million for the bridge’s

²⁹⁸ “渡轮码头坍塌后 檳威大桥更形重要” [The Penang Bridge has become more important following the collapse of the ferry terminal], *Lianhe Zaobao*, Aug. 4, 1988, 26.

construction under the Fourth Malaysia Plan (1981–85) despite 1982’s global economic slowdown, the year construction commenced.²⁹⁹ The bridge was swiftly completed in a three-and-a-half-year period by South Korea’s Hyundai Engineering & Construction.³⁰⁰ Having learned hydrography and land reclamation, Chong Eu was said to have played a supervisory role and was able to follow engineering assessments, including the impact on the port, given that he knew Penang’s “history, geography, economy and politics intimately”.³⁰¹ Although these projects were only completed under Tun Razak’s respective successors, Tun Hussein Onn and Dr Mahathir, approval and funding was secured during Tun Razak’s tenure—again, Chong Eu’s warm federal relations were a significant factor—regardless, they would not have been attained without Pow Nee’s initial proposals. Nonetheless, they testify to Chong Eu’s administration’s boldness, energy and perseverance in the final push towards their unprecedented achievements in Penang’s overall development—symbolising a “can do” spirit in trying times.

²⁹⁹ “林苍佑说檳威大桥计划不致受当前不景气影响” [Lim Chong Eu said the Penang Bridge project will not be effected by the economic downturn], *Nanyang Siang Pau*, May 23, 1982, 9.

³⁰⁰ With the bridge’s design and construction determined by the federal authorities, Chong Eu could only play an active supervisory role. He constantly welcomed Tun Hussein Onn’s inspections and worked closely with the federal government on the bridge’s completion. See the following reports: “Linkage will be a Bridge, Assembly is told”, *The Star*, Jun. 7, 1972, 4; “Central government to build linkage”, *Straits Echo*, Jun. 29, 1971, 3; “檳威大桥建筑工程今年十一月杪动工...” [The construction of Penang Bridge will commence this November], *Nanyang Siang Pau*, Oct. 26, 1976, 6.

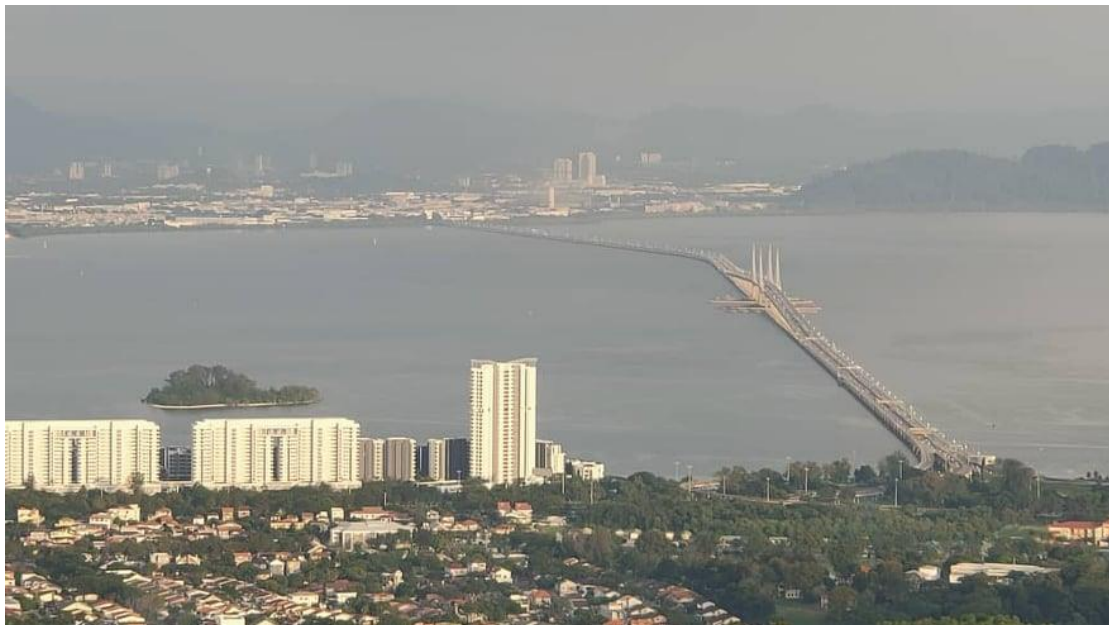
³⁰¹ Khoo and Toh, “Lim Chong Eu”, 9–12, 21–22.

Illustration 4.8: The completed KOMTAR complex



Source: Author's collection.

Illustration 4.9: The completed Penang Bridge



Source: Author's collection.

The Nathan Report's Triumph

The inflow of FDI turned Penang's declining economy around almost immediately, no longer a declining colonial port but an international manufacturing hub. When the first FDI wave settled by 1975, 99 factories occupying 653 acres of FTZs with a paid-up capital of MD\$282.4 million had been established.³⁰² Penang witnessed a 24 per cent increase in employment from 1972–83 (particularly between 1972–75, following the establishment of more FTZ firms) (Table 4.3). Labour-intensive electronics manufacturing not only accelerated economic growth but worked to reduce high unemployment.

Table 4.3: Total employees and firms in Penang's FTZs, 1972–83

Year	Number Employed	Number of Firms
1972	4,113	12
1973	14,028	21
1974	17,406	31
1975	21,009	35
1976	25,979	33
1977	28,112	35
1978	30,552	35
1979	35,748	38
1980	38,846	41
1981	38,638	49
1982	40,156	54
1983	42,503	53

Source: Nesadurai, *The Free Trade Zone In Penang, Malaysia*, 116.

The state's manufacturing sector became its leading GDP contributor—increasing from 11.9 per cent in 1969 to 21.7 per cent in 1975 (Table 4.4), surpassing the national figure of 20.4 per cent.³⁰³ Save for agriculture, the contributions of other sectors, which catered

³⁰² "Speech by the National President, Dr Lim Chong Eu at the Extraordinary General Assembly at Ipoh on 27 September, 1975", reprinted as "National Politics and Economics" in Lim ed., *Towards the Future*, 42–43.

³⁰³ *The World Bank Monitor Report*, accessed May 7, 2021.

<https://data.worldbank.org/indicator/NV.IND.MANF.ZS?locations=MY>.

directly or otherwise to manufacturing—e.g., transportation, communication and utilities—also increased, highlighting the Nathan Plan’s reorientations success in industrialising the state, putting it on equal footing as its southern counterpart, the Klang Valley. It is noteworthy that the US market became an increasingly important consumer for Malaysian-made electrical and electronic products, appliances and supplies. By 1977, 20.6 per cent of manufacturing exports went to the US, compared to 17.5 per cent in 1975. In turn, this accounted for Penang’s annual average GDP growth of 11.2 per cent, in fact hitting 29.2 per cent from 1976–80 (led by its manufacturing sector).³⁰⁴ Hence, from a swampy village surrounded by paddy fields, Bayan Lepas became the birthplace of Malaysia’s electronics industry, with a 62 per cent occupancy rate by 1983 compared to the overall state occupancy rate of 40 per cent.³⁰⁵

Table 4.4: Penang’s economic breakdown, 1969 v. 1975

Economic Sector	1969				1975			
	Employment Distribution		GDP		Employment Distribution		GDP	
	(‘000)	%	(‘000)	%	(‘000)	%	(‘000)	%
Agriculture, forestry and fisheries	65.5	31.2	110.0	16.2	65.5	22.6	140.0	11.8
Mining & quarrying	0.5	0.2	1.0	0.1	0.6	0.2	1.4	0.1
Manufacturing	21.0	10.0	81.0	11.9	51.4	17.7	258.0	21.7
Construction	8.0	3.8	45.0	6.6	14.1	4.9	95.0	8.0
Electricity, water & sanitary services	2.0	1.0	16.0	2.4	3.2	1.1	32.0	2.7
Transportation, storage and communication	13.0	6.2	36.0	5.3	19.7	6.8	65.0	5.5
Trade, government and services	100.0	47.6	391.0	57.5	135.5	46.7	596.6	50.2
ALL SECTORS	210.0	100.0	680.0	100.0	290.0	100.0	1,188.0	100.0

Source: *Statistical Handbook 1975* (George Town: PDC), 2.

³⁰⁴ Goh Ban Lee, “Urban Land Ownership by Capital in Penang”, PhD diss. (University of California, Los Angeles, 1981): 75.

³⁰⁵ Nesadurai, *The Free Trade Zone*, 106. See also *Pulau Pinang: Kenangan dan Harapan (Penang: Remembrance and Hope)* (George Town: PDC, 1973), 18–19.

Illustration 4.10: Bayan Lepas, 1980



Source: PDC.

Illustration 4.11: The production floor of Penang Electronics



Source: PDC.

Tourism also experienced momentous growth. Chong Eu's aggressive efforts in preparation for PATA saw an increased inflow of tourist arrivals from 1970–71. From 32,381 arrivals in 1969, Penang saw 49,278 arrivals in 1971 (Table 4.5). PATA's success ushered in a tourist boom, with 92,367 arrivals in 1973. Penang experienced a consistent increase in tourist arrivals throughout the 1970s, reaching 160,027 by 1978. In 1973, it recorded its highest hotel occupancy rate: 66.7 per cent in 1973 compared to 41.2 per cent in 1970.³⁰⁶ The extension of Bayan Lepas airport also enabled increased arrivals by air instead of depending on “in-transit” cruise arrivals—75,284 versus 17,093 tourists respectively in 1973—which led to mushrooming first-class hotels along the coastal sites of Tanjung Tokong and Batu Ferringhi. As Nathan anticipated, Asian tourists formed the bulk of arrivals, owing to the growing wave of tourism within Southeast Asia.³⁰⁷ Penang's tourism model was emulated by other states such as Sarawak.³⁰⁸

Table 4.5: Number of tourist arrivals in Penang, 1969–78

Years	Number of Tourists
1969	32,381
1970	39,454
1971	49,278
1972	62,801
1973	92,367
1974	100,773
1975	105,578
1976	109,491
1977	150,025
1978	160,027

Source: *Report of the Fifth Legislative Assembly Penang, First Session, 3rd Meeting*, 2 May 1979, 18.

³⁰⁶ *Annual Report of Penang Development Corporation 1974*, 23.

³⁰⁷ Refer to Appendix 3 for Visitor Arrivals to Penang by Country of Origin. See also *Statistical Handbook 1977* (George Town: PDC), 2.

³⁰⁸ “砂将向檳城学习发展新兴旅游业...” [Sarawak will learn from Penang to develop its emerging tourism industry...], *Nanyang Siang Pau*, Jun. 27, 1977, 5.

These spontaneous achievements triggered a new economic trajectory—from declining entrepôt to a revitalised tourist destination and the “Silicon Valley of the East”.³⁰⁹ Given Nathan’s redirections towards the international market and Pow Nee’s foundations, Penang may have succeeded regardless of its leadership. Nevertheless, it is likely that this momentous transformation must have at least partly required Chong Eu’s determination, foresight and reforms. Innovations within the state apparatus, manpower development, the mobilisation of political forces under his formidable and charismatic leadership as well as (more crucially) forging unparalleled ties with Tun Razak’s federal government facilitated these transformations. Indeed, Chong Eu’s political experiences alerted him to Gerakan’s limitations in developing Penang without federal support. His previous involvement with the Alliance and Malaysia Solidarity Convention provided practical lessons on the limitations of communal parties and the benefits of coalition politics. These encounters enabled Chong Eu to defend the ideological merits and practicalities of a coalition government. What better opportunity than to form a coalition with an old friend, who could help shoulder the burden of reviving Penang’s economy? To that end, Chong Eu cast his own political attainments aside—his prioritisation of Penang was demonstrated by his resignation as Gerakan’s president in 1980 to focus more on Penang’s industrial progress while at its height.³¹⁰ By placing ideals above politics, coupled with his different life trajectory and personality compared to Pow Nee, this made all the difference in shaping Penang’s successful transformation.

Conclusion

³⁰⁹ “Historical charm in the Silicon Valley of the East”, *The Straits Times*, Mar. 12, 1994, 8.

³¹⁰ “Presidential Address by Dr Lim Chong Eu at the National Delegates Conference held at Dewan Bandaran, Port Dickson, Negeri Sembilan on 16 and 17 August 1980” reprinted as “National Economy” in Lim ed., *Towards the Future*., 95–97. This was affirmed by Penang’s third chief minister, Tan Sri Dr Koh Tsu Koon, Chong Eu’s protege and one-time political secretary. See also “Can Gerakan survive Dr Lim’s departure?”, *The Straits Times*, Aug. 4, 1980, 6.

Given his vast administrative experience, Dr Lim Chong Eu studiously avoided Pow Nee's pitfalls and shortcomings, bravely confronting areas which his predecessor failed to anticipate. By engineering new governance structures and social reorganisation to enable fresh administrative systems of support to propel economic development (i.e., the PDC's empowerment), integrating local authorities and training human capital, Chong Eu succeeded in preparing Penang to effectively handle the Nathan Report's recommended reorientation towards attracting international manufacturing and FDI via electronics manufacturing. Chong Eu also successfully built upon Pow Nee's infrastructural schemes in restarting Penang's economic development. While he completed Dewan Sri Pinang and embarked upon more aggressive and creative methods to promote Penang on the global tourist map, these endeavors also resulted in the completion of Pow Nee's envisaged urban renewal in the form of KOMTAR and the Penang Bridge. Building a proactive and formidable state leadership, buttressed by unparalleled federal-state relations under Tun Razak's and his successors, Chong Eu succeeded in resolving Penang's economic woes. Yet this came at the hefty price of coalition politics, which saw Gerakan eventually switching from being an opposition party to a founding partner of BN. Nevertheless, Chong Eu's defence of his ideals, inspired by his distinct life trajectory, marks the distinguishing factor for Penang's successful economic transformation.

CHAPTER FIVE

CONCLUSION

Since Penang's establishment as a British trading post in 1786, its economic direction has always been determined by numerous, ever-changing political-economic trajectories. From its incorporation into the Straits Settlements to the postwar Malayan Union and Federation of Malaya, Penang faced various encroachments on its free port status, which underpinned its flourishing entrepôt economy. However, it was not until the political-economic changes from the formation of Malaysia in 1963 when its irreversible inclusion into the Malaysian common market happened—this latest erosion of its free port status meant the end of the old entrepôt model. Faced with the urgent need to industrialise, Penang required an aggressive industrial plan to resolve rising unemployment and boost remote industrial prospects.

Wong Pow Nee, Penang's first chief minister, confronted this challenge by initiating and propelling Penang's early industrialisation on its mainland province, in accordance with the state's first developmental master plan, the Munro Report of 1964. Consistent with the new federal policies of economic diversification through ISI, Pow Nee's much-neglected yet pioneering contributions remain significant, since he established much-needed infrastructural developments to attract capital. These are reflected in his numerous infrastructural projects—e.g., electricity substations, additional deep-water wharves, steel mills and bridges—directed at supporting Penang's early industrialisation needs. It also included his ambitious blueprint for the Penang Bridge to connect the island and mainland to hasten industrial progress. Pow Nee's infrastructural vision also extended to tourism potential, where he improved and provided access to various tourist spots, including the construction of Dewan Sri Pinang to host PATA in 1972, the organisation of the annual

Penang Pesta and the urban renewal scheme of George Town. Some of these mammoth projects required protracted time and, more importantly, catalytic political-economic forces—most were ultimately completed under his successor, Dr Lim Chong Eu, with little credit attributed to Pow Nee. Despite initial success, Pow Nee's efforts were stifled by ISI's unexpected shortcomings, in turn exacerbated by existing administrative setbacks—e.g., the absence of administrative reforms which resulted in the state's slow progress and the neglect of human capital which caught Penang unprepared for the shift towards EOI. These misgivings, coupled with inherent factors—particularly Pow Nee's limited jurisdictional authority under the existing federal-state structure, his arm's-length relationship with the federal government and mellowness—placed him in a weak position to propel and defend Penang's interests, especially upon the free port status's complete abolition in 1969. His ultimate downfall in that year's general election saw the industrial vision baton being passed on to Chong Eu. Nevertheless, as this thesis argues, Pow Nee first pioneered Penang's industrialisation, and his early contributions and blueprints paved the way for Chong Eu.

I argue that Chong Eu's successful realisation of Penang's industrial vision and the reversal of its economic misfortunes were not happenstance. Given his vast political and administrative experience, Chong Eu tactfully avoided the pitfalls and shortcomings of his predecessor under federal-state constraints, and boldly implemented institutional reforms, social reorganisation and manpower development accordingly. Indeed, the engineering of new governance structures within the state's administrative apparatus (i.e., the PDC's establishment and empowerment) allowed his state administration to resemble the “developmental state” ideal—thus thwarting federal constraints, implementing an integrated and centralised system of local authority and more importantly, training human capital to effectively prepare Penang for economic reorientation. More importantly, Chong Eu rallied

favourable political forces by forging close ties with Tun Abdul Razak’s federal government. These renewed and unparalleled dynamics, fostered by his personal friendship with the prime minister, safeguarded Penang’s long-term developmental interests.

In line with the strategies of the new Penang master plan, the Nathan Report of 1970, which emphasised international manufacturing through EOI and attracting FDI, Chong Eu’s reforms effectively prepared Penang to successfully ride the electronics manufacturing wave through FTZs. Chong Eu continued to build upon Pow Nee’s initiatives to develop tourism through more aggressive and creative methods. He also continued Pow Nee’s Penang Pesta and completed many envisaged infrastructural schemes, including the Dewan Sri Pinang, while revamping the urban renewal scheme through KOMTAR and the long-delayed Penang Bridge. By bringing Pow Nee’s schemes into fruition while capitalising on Penang’s economic reorientation, Chong Eu successfully industrialised Penang and reversed its economic woes within a relatively short span of time. A comparison of Penang’s economy where Pow Nee left off in 1969 and Chong Eu’s eleventh year in office is seen in Table 5.1, where Penang witnessed increases in employment and GDP by 18.4 and 29.1 per cent respectively.

Table 5.1: Comparative details of Penang’s economy, 1969 v. 1980

Parameters	1969 (Wong Pow Nee)	1980 (Dr Lim Chong Eu)
Industrial Orientation (Master Plan)	ISI (Munro Report 1965)	EOI (Nathan Report 1970)
Direction/Type	National/regional markets Infrastructure-oriented Local goods manufactured Not labour-intensive	International markets FDI-oriented Electronics manufactured Labour-intensive
Employment (%)	10	28.4
GDP Contribution (%)	11.9	41.0

Source: Compiled from *Statistical Handbook 1975*, 2; Rajah Rasiah, “Foreign Firms in Penang’s Industrial Transformation”, *Jurnal Ekonomi Malaysia* 23 (1991): 100 and Mohammad Ikmal Said, “Industrialisation and Poverty in Penang” in *From Free Port to Modern Economy*, eds. Chet Singh et al., 174.

Indeed, the reversal of Penang’s misfortunes quickly became the “success story” of Chong Eu’s administration. In fact, the state’s official motto, “Penang Leads”, became synonymous with his economic achievements and earned him the reputation of being the “Father of Modern Penang”, persisting beyond his death in 2010. However, as this thesis argues, Chong Eu did not industrialise Penang single-handedly. Although his determined reforms and charismatic leadership enabled Penang’s eventual transformation, Pow Nee’s pioneering groundwork was crucial, especially at the Mak Mandin and Prai industrial estates, while existing infrastructural blueprints ultimately paved the way for the Penang Bridge and KOMTAR. In short, Penang would not have become a national manufacturing and industrialisation leader without Pow Nee’s initial efforts. But Chong Eu’s strong state leadership, his forging of unparalleled federal-state relations and the establishment of the PDC as the state’s main vehicle to propel industrial promotion remained paramount in securing Penang’s rapid industrial development.

To put it simply, both men played significant roles during their respective tenures, gradually working out and enabling Penang’s later success and transformation in an era of political-economic uncertainties. In fact, their collective contributions have had lasting impacts on Penang’s connected *and* progressive industrial history’s chapters—one could not have succeeded without the other. After all, while the shortcomings of Pow Nee’s administration were compensated by Chong Eu’s formidable administration, the latter was equally guided by the former’s visions, plans and legacies. Therefore, the trajectory of Penang’s economic transformation would likely have been significantly different without this fortuitous combination. Indeed, by looking at the contributions of both their administrations as an interlinked process that ultimately secured Penang’s industrial

breakthrough, their respective legacies have led and shaped the state's globally reputable standing and highly industrialised economy.

Illustration 5.1: Penang's first two chief ministers share a light moment



Source: Peter Wong.

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APPENDICES

Appendix 1: Tentative List of Protective Tariffs in Malaya

Tariff Item	Description	Rates (in M\$)	
		Full	Pref.
012	bacon, ham, salted pork lb	\$.30	\$.30
025	eggs 100	1.00	1.00
048 300	noodles cwt	6.00	6.00
048 421	biscuits cwt	8.96	8.96
051	fresh fruits ton	224.00	224.00
	various nuts	20-25%	20-10%
052	dehydrated fruits ton	\$224.00	\$224.00
053 301	jams ton	560.00	560.00
053 501	pineapple juice	100%	100%
053 905	tinned pineapple	100%	85%
061 100	sugar for industrial refining* ton	\$112.00	\$ 67.20
	sugar—other ton	156.80	112.00
071	coffee ton	112.00	112.00
074 101-4	tea lb	.12	.12
111	aerated waters gal.	.40	.40
112 301	beer† gal.	5.20	5.20
112 411	samsoo† gal.	34.00	34.00
121	cigarettes‡ lb	10.10	10.00
233 200	synthetic rubber	25%	25%
241 200	charcoal ton	\$5.00	\$5.00
243	sawn wood	10-15%	10-15%
292 302	rattans and cane	10%	10%
421 400	groundnut oil ton	\$89.60	\$22.40
431 201	hydrogenated groundnut oil cwt	4.48	1.12
512 210	methyl alcohol gal.	2.00	2.00
512 242	ethyl alcohol, denatured gal.	2.00	2.00
513 330	sulphuric acid ton	80.00	80.00
ex 533	paints	20%	20%
541 911	cotton wool	10%	10%
553 021-2	dental paste and powder	20%	20%
554 101	hard soap cwt	\$10.08	\$10.08
554 102-9	other soap	20%	20%
554 201-9	detergents	20%	20%
621	rubber manufactures	25%	25%
629	tyres	70%	50%
ex 632	boxes and crates (except plywood not assembled)	20%	20%
	casks not assembled	20%	20%
642 992	sanitary towels	10%	10%

* In so far as the difference between the rates on refined and raw sugar protects the refining industry.
† In so far as it differs from the excise duty.
‡ In so far as the difference between the duty on cigarettes and the duty on unmanufactured tobacco protects the local industry.

Tariff Item	Description	Rates (in MS)	
		Full	Pref.
ex 651	cotton fabrics	25%	25%
		(with various specific minima)	
653 701	knitted cotton goods sq yd	25% or 10 cts	15% or 6 cts
661 200	cement (including clinker) ton	\$12.00	\$6.00
661 831	building materials (asbestos cement)	10%	10%
662 421	roofing tiles ton	\$10.00	\$10.00
662 441	ceramic tiles unglazed } ton	10.00	8.00
451	ceramic tiles glazed }		
663 621-3	articles in cement ton	10.00	\$8-10.00
		20%	20%
674 801	galvanised iron sheets	10%	10%
684 221	aluminium strips and sheets	10%	10%
686 221	wrought sheets of zinc	10%	10%
693 200	barbed iron or steel wire ton	\$100.00	\$100.00
693 311	iron or steel netting ton	130.00	130.00
693 312	iron or steel gauze ton	70.00	70.00
693 313	iron and steel grills ton	70.00	70.00
694 111	wire nails and staples ton	70.00	70.00
729 111-2	flashlight batteries	25%	15%
733 110	cycles* no.	\$14.00	\$11.00
ex 851	footwear with rubber material doz. pr.	12.00	7.20
893	articles in plastic material	25%	25%

* In so far as the difference between the duty on cycles and that on parts represents a protection for the assembly industry.

Source: *Report on the Economic Aspects of Malaysia by the Mission of the International Bank for Reconstruction and Development* (The Rueff Report 1963), July 1963, 59-60.

Appendix 2: The Conditions for Obtaining a Place at Penang's FTZs

Conditions for obtaining a place at FTZ

Generally, the basis for approving applications depends on the following:

- (1) The extent the industries are export-orientated.
- (2) The labour intensiveness/employment potential of the applicant company.
- (3) The special facilities required for the industries. This is as detailed below—

<i>Requirements</i>	<i>Location/ Place</i>	<i>Types of Industries</i>
(a) Airport Facilities	Bayan Lepas	(i) Precision machinery and instruments. (ii) Plastic products (iii) Chemical products (iv) Toys (v) Synthetic Fabrics (vi) Handicraft products (vii) Cosmetics
(b) Deep Water Facilities	Pulau Jerejak	(i) Shipbuilding and Repairs (ii) Timber and timber products
(c) Port and Wharf Facilities	(i) Prai Wharves FTZ (ii) Prai Industrial Estate FTZ	(i) Textiles (ii) Machinery and Manufacturing (iii) Metal Products (iv) Rubber Products (v) Leather Products (vi) Furniture manufacturing (vii) Synthetic fabrics (viii) Plastic Products (ix) Paper Products.

Source: *Report of the Third Legislative Assembly Penang, Second Session, 1st Meeting, 6 June 1972, 109.*

Appendix 3: Visitor Arrivals in Penang by Country of Origin, 1972-74

Country of Origin	1972	1973	1974 (Jan. - Sept.)
Asean	23,595	30,329	24,572
Europe	6,519	10,303	9,790
India	6,125	6,488	3,747
Japan	2,606	4,119	4,117
UK, Australia, New Zealand Ireland & Canada	8,938	20,641	18,935
USA	8,640	9,921	7,021
Others	6,378	10,566	8,693
TOTAL	62,801	92,367	76,875

Source: PDC, *Statistical Handbook 1975*, 14.