BUSINESS ACTIVITIES IN NEW TOWNSHIPS IN RURAL AREAS OF PENINSULAR MALAYSIA: THE CASE OF NEW TOWNSHIPS IN THE KEJORA REGION OF JOHOR

Ibrahim Ngah

WORKING PAPER 93/1

SCHOOL OF GEOGRAPHY • UNIVERSITY OF LEEDS

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By
Ibrahim Ngah
School of Geography
University of Leeds

Abstract

In Malaysia, the development of a Malay business community has been promoted by the government since the launching of the New Economic Policy in 1971. This article seeks to explain the process of business development in new townships of Peninsular Malaysia, in particular the role of capital in the formation and growth of small businesses and assess the effectiveness of the state in seeking to creating a Malay business community. It is argued that the present structure of capital circulation in the new townships which tends to favour the large capitalist sector provides little prospects for the growth of small businesses and thus few prospects for Malay participation in business.

1. Introduction

This article is concerned with the development of business activities in new townships in the rural areas of Peninsular Malaysia. It addresses the process of uneven development in a multi-racial capitalist society. The main focus of this study is the process of small business development, in particular the role of capital in the formation and growth of small businesses. The questions of how the state has been involved in new township development and in the operation of businesses and why the Malays in the new towns have generally not been successful in businesses are also examined. By examining the processes of capital accumulation and social formation from a micro perspective, the underlying factors accounting for the development of business activities in a particular context can be identified. Since the development of new townships is part of the strategy of the Malaysian Government to promote Malay participation in business, under the New Economic Policy (NEP)[1], this study represents an aspect in the evaluation of the success of the NEP. This will provide a basis for the formulation of appropriate policies for business development in the future. From a broader perspective, this study will contribute to the current debate on the processes of development in the Third World, the role of small towns in national development and the issues of class and ethnicity in a capitalist society.

The first part of this paper (section 2) reviews literature about small enterprises in developing countries, which provides framework for examining the development of small businesses in new townships.

The second part (section 3) describes the background of the study area and research methodology.

The third part (section 4 to section 7) presents the findings of the study including business structure of the new towns, the scale of businesses, capital resources, the role of Chinese capital as it effects Malay businesses in the new towns and the effectiveness of the state in providing capital to Malay business people. The final part is conclusion and policy implication of the study.

2. Small Enterprise Development

Beginning in the 1970s, the issue of small enterprise development had been given considerable attention. This was reflected in the growing literature about small businesses in the Third World. Among the literature concerning the development of small enterprises, are those related to the concept of economic dualism in the Third World such as the formal and informal sector dichotomy, the study of petty commodity production, rural development and urbanisation.

The concept of the informal sector was first introduced by Keith Hart in 1971 to explain employment structure in urban sector. The concept was later widely used by the International Labour Office (see Bromley, 1978; Moser, 1978). The informal sector generally coincides with petty or small enterprises while the formal sector could be associated with large or corporate enterprises (Titus, 1991). Among the characteristics of the informal activities are ease of entry, reliance on indigenous resources, family-owned enterprises, small scale of operation, the used of labour-intensive and adapted technology, acquiring skills outside the formal school systems, unregulated and competitive markets. The characteristics of the formal sector are converse to the informal sector, such as difficulty of entry, reliance on foreign resources, corporate ownership, large scale of operation, use of capital-intensive and often imported technology, formally acquired skills, often expatriate and protected markets (ILO cited in Bromley, 1978:1033-1034).

The important role of the informal sector had been recognized as there was a large number of people who depend on this sector for their livelihood, especially those unable to obtain employment in the formal sector. The informal sector also provides cheap goods and services especially for lower income groups, which is important for the reproduction of cheap labour for the formal sector. On this account, the persistence of the informal sector was seen as complementary to the formal sector.

Although the informal sector framework could provide some basis to identify the characteristics of small enterprises in developing countries, it does not provide an adequate explanation for the relationships and interaction of small enterprises with other sectors of the economy. Moser (1978) suggested an alternative approach to the understanding of the local economy by examining the continuum of economic activities, focusing on structural linkages and relationships between different production and distribution systems. This involves the identification of different modes of production and their articulation in the urban economy.

> " This approach identifies the constraint on the expansion of small scale enterprises, the levels of capital accumulation possible and the dynamics of production at this level, and the transitional processes, whether to capitalist production, or proletarianization. It is more able to focus on the structural linkages between different levels of production and on the potential for modifying these linkages." (Moser, 1978:1061)

In the urban sector of the Third World, the modes of production consist of the capitalist sector, deeply integrated into an international economy. On the other hand, there exist a variety of pre-capitalist modes of production which are being transformed through their relation with the capitalist mode. These pre-capitalist enterprises, largely small-scale, called petty commodity production or non-capitalist forms of production generally coincide with the informal sector. Gerry (1979) and Middleton (1989), for example, used this kind of approach in examining small businesses in Dakar and Ecuador respectively.

There are two contradictory approaches to the relationship of the informal sector with the rest of the economy. The first approach considers the relationships of the informal with the formal sector as benign. The informal sector plays crucial role in the circulation process by providing goods, services and credit to consumers. The complementary role of the informal sector implies that as the economy grows, the size of the informal sector will expand. The second approach sees the informal sector as surbodinated to the formal sector. The input and market for the informal sector are dependent on the formal sector and outside the control of the former. The informal activities also lack access to resources and market which limit their capacity to accumulate and expand. The compromise approach was suggested by Tokman (1978), which incorporates the benign and surbodinate relationship approaches. His framework suggests the need to break down the informal sector according to type of products while examining the nature of their linkages to the rest of the economy.

Schmitz (1982), identified two categories of factors which constrain the growth of small producers. These are internal factors which include lack of entrepreneurial or management ability and lack of experience and training, and external factors which include lack of access to capital resources, exploitation by larger enterprises and being neglected by the state. He also suggests on the needs to focus study of small entreprises on branch-specific (specific groups or types)/while relating it to the wider contexts of the national and international economy.

The prospects for small enterprise or petty commodity production in capitalist economy had been explained by various economic theories. Leading economists such as Adam Smith, John Stuart Mill, Marshall and Karl Marx appeared to suggest a limited prospect for small enterprises. For example, Marshall, who emphasised the advantage of large-scale organisation over the small scale predicted the disappearance of small enterprises even in retailing (Phillips, 1979).

The displacement of small enterprises by a large one in the course of capitalist development was also explained by Karl Marx. According to Marx, a large capital accumulates more quickly than a small one. As competition increases the profit on the capital diminishes and the small businesses will be the first to suffer. The result will be the concentration of wealth and economic power among fewer capitalists.

Given the disadvantages of small enterprises over the large one, the question is what explains the persistence of small enterprises, particularly in the Third World? There are various reasons for the persistence of small enterprises. Firstly, the small enterprises are able to adapt to the methods which reduce overhead costs such as avoiding payment of rent by operating businesses at home or on the roadside and use of unpaid family labour (see McGee and Yeung, 1977). Secondly, the operation of business for long hours and mobility increase the chance of selling. Thirdly, the congregation of small businesses attracts customers from a wider area. Fourthly, the positive structural program of government to encourage small businesses through loans of capital and provision of subsidised business premises.

The study of small enterprises so far appears to give little attention to the question of capital and ethnicity in the development of small enterprises. The relationships between small enterprises in different type of urban centres and the role of state in a multi-racial capitalist society has not been widely address. This article which was based on case study of businesses in new towns in the Johor Tenggara Regional Development Authority (KEJORA) region of Peninsular Malaysia examines the following questions: Firstly, where does capital for small businesses in the new towns come from? Secondly, how does Chinese capital affect the growth of Malay businesses in the new towns? Thirdly, what is the role of the state in creating a Malay business community in the new towns?

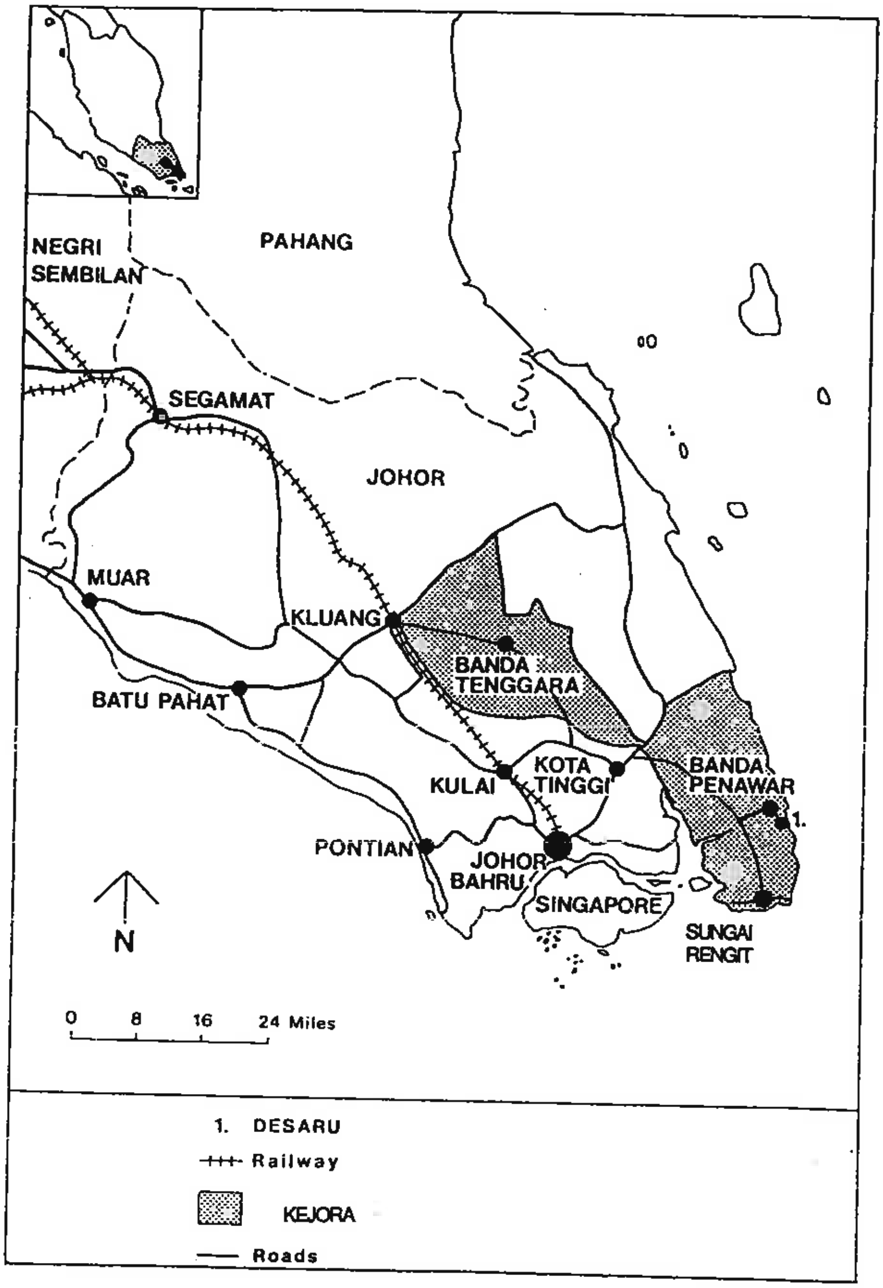
3. The Background of the Study Area

Johor is located in the southern part of Peninsular Malaysia bounded by South China Sea in the east, the Straits of Melaka in the west, the Straits of Johor in the south (which separates Johor from Singapore) and in the north it shares boundaries with the states of Melaka, Negeri Sembilan and Pahang (Figure 1). The total land areas of Johor is 19,000 square kilometres which is about 14 per cent of Peninsular Malaysia. The population of 1.6 millions in 1980 consisted of Malays (55.5 per cent), Chinese (37.8 per cent) and Indians (6.5 per cent), which reflects the composition of the Peninsular population.

The topography is relatively flat with swamps covering some parts of the west and eastern coast and along river banks. Johor has large areas of land suitable for agricultural development. Low land alluvial soil covers most parts of the coastal belt in the west and south-east of Johor and areas around the Endau river. Most parts of the KEJORA region have rich alluvial soil, suitable for cultivation.

Johor's proximity to Singapore provides several advantages in terms of economic development compared with many other states in the Peninsula. During the past ten-year period the amount of foreign investment in the region was encouraging. Over one thousand manufacturing projects, largely of foreign firms and involving an amount of M$3.4 billion investment, were approved in Johor during the 1981-1990 period. Main source of investment was from Japan (27 per cent), Singapore (22.7 per cent) and Taiwan (13.7 per cent). In addition, the state is well served by a transportation system. The causeway at the southern tip of

FIGURE 1
THE LOCATION OF KEJORA REGION AND THE RESEARCH TOWNS



KEJORA was established in 1972, under an Act of Parliament 75/1972 to address the issue of uneven development in the state. The main aim was to exploit the untapped resources in the eastern part of Johor in line with strategy of the NEP to eradicate poverty and restructure society in terms of wealth ownership and occupation. An area of about 300,000 hectares, or 16 per cent of the Johor State, was designated for development under KEJORA. The region is divided into two parts namely, Johor Tengah and Tanjung Pengerang, covering part of Keluang and Kota Tinggi districts. A large part of the area was under forest, with a few agriculture settlement schemes developed by Federal Land Development Authority (FELDA) in the late 1960s, and traditional villages scattered along the coast and rivers. The region is considered to be the least developed part of Johor State although the area along the Johor River was once the capital of the Malay Kingdom in the 17th and 18th century[4]. The relatively flat, fertile land and a long coast line with clean and beautiful beaches has potential for development. KEJORA was given the power and tasks not only to promote, control and co-ordinate development in the region but also to undertake a wide range of economic and social development.

Beginning in the early 1970s, development in the KEJORA region involved various agricultural activities particularly palm oil plantation, development of forest resources, tourism, new settlements and infrastructure. More than 96,000 hectares of land have been developed for agriculture and the major crop is palm oil which covers 78 per cent of the total agricultural land developed. Other activities are rubber plantations (13 per cent) and cattle farming (2 per cent)[5]. Industry and tourism are the other main economic activities.

KEJORA was given the task of developing five townships. Seven others were developed by FELDA. Two townships were planned as sub-regional centres, ie Bandar Tenggara and Bandar Penawar. Bandar Tenggara, which was planned to have a 26,000 population by 1990, had a population of 12,645 in 1990. Similarly Bandar Penawar planned for 32,000 population achieved 3,045 by 1990 (Table 1). Both Bandar Tenggara and Bandar Penawar have failed to attract industry which is planned as a catylist for their accelerated growth. In the planning of Bandar Tenggara and Bandar Penawar, industry was conceived to have a multiplier effect and stimulate the growth of other sectors such as services and trading in a fashion similar to the Myrdal's idea of cummulative causation (Myrdal, 1957). However, development of industrial activities in the new towns are too slow due to their disadvantages in terms of location and infrastructure compare with other large towns such as Johor Bahru, Kulai, Senai and Batu Pahat. In 1987, there were only three industries in operation in Bandar Tenggara and none in Bandar Penawar. But the recent development of industrial activities in Bandar Tenggara and a huge tourist resort project proposed adjacent to Bandar Penawar, will help these two towns to grow rapidly within the next decade.

The growth of FELDA settlements, which rely on agriculture, is limited and there are no more land for further expansion. Other settlements in the region are the 'traditional villages' scattered along the coast and rivers and a few small towns such as Sungai Rengit, Telok Sepat and Sedili. The populations of the new towns, FELDA settlements, Sedili and the traditional villages are mainly Malay but Sungai Rengit and Telok Sepat has predominantly Chinese population. The population of Sungai Rengit was 2,700 in 1991, consisted of Chinese (77 per cent) and Malay (21 per cent) and Indians (2 per cent).

There were several older towns established on the fringes of the KEJORA region, among them Bandar Kota Tinggi, Keluang and Kulai. The origin of these towns is connected to the rubber industry in the early twentieth century. They are centres of trading, servicing and administration activities for the local areas and their hinterlands. The population in these towns is mainly Chinese (65 per cent) and more than three forth of businesses were owned by them[6]. These towns had been the main competition for businesses with the new towns. Since the scale of businesses in these towns is larger than in the new towns and due to their relatively more accessible location, they are able to attract substantial demand from the new towns. Thus business activities in these towns had improved substantially after the development of KEJORA whereas the development of business in the new towns has been very limited.

This research is based on case study of businesses in two new towns and an older towns. Bandar Tenggara and Bandar Penawar are the two new towns selected and Sungai Rengit as the chosen older town. The examination of businesses in an older town is made for comparison, since the development of businesses in the new towns is within a controlled environment, in which the government introduced various measures such as providing capital and business outlets to encourage Malay participation in businesses.

TABLE 1
DISTRIBUTION OF POPULATION IN KEJORA REGION [a]

Settlement	1980	1987	1991
<u>New town developed by KEJORA</u>			
Bandar Tenggara [b]	8812	10334	12648
Bandar Penawar	1033	2429	3045
Bandar Mas [c]	7934	8404	9288
Bandar Petri Jaya	-	603	674
Bandar Sri Perani	-	554	378
<u>FELDA Settlement</u>			
Pusat Petempatan P2	3765	3870	9474
Pusat Petempatan P3	2622	3070	5057
Pusat Petempatan P5	3560	4989	4596
Pusat Petempatan P7	6680	8743	11180
Pusat Petempatan T3	2868	4738	6063
Pusat Petempatan T10	2322	3122	3367
Pusat Petempatan T7	-	1805	4265
<u>FELDA Settlement developed before 1972</u>			
Pasak	n.a	2345	2418
Air Tawar I	n.a	3958	4500
Air Tawar II	n.a	5555	6132
Air Tawar III	n.a	3595	3240
Air Tawar IV	n.a	4269	3646
Air Tawar V	n.a	4301	4524
Other towns and [d] traditional villages	n.a	60650	65600
Total Population	107645	137334	160095

Source: KEJORA, 1987:16, KEJORA, 1985:39, KEJORA, 1991
Unpublished document of FELDA and KEJORA

Note:

[a] The population in the table are estimated figures. There are inconsistencies in the population figures in various reports of KEJORA and figures given by FELDA. Some of the population figures stated in KEJORA report were reviewed by the author after close examination of various reports, documents and field work.

[b] Including population of FELDA Sungai Sebol and Penggeli Timur.

[c] Includes population of Felda Papan Timur and Sungai Mas.

[d] Figure for 1991 is estimated based on average of 2 per cent annual increase during 1987-1991.

Three main types of information were collected for this study. Firstly, the background of business people, their businesses and networks. Secondly, the background of residents from the towns and surrounding settlements as well as their shopping behaviour. Thirdly, the role of KEJORA and other institutions involved in new township development.

Various approaches were used to collect information. The methods include survey of business people and households, interviews with officials in government agencies, local leaders and social organisations. In addition, various secondary sources were consulted such as reports of various agencies related to the study, journals, newspapers and others. The number of business people interviewed is 38 (51 per cent) in Bandar Tenggara, 13 (65 per cent) in Bandar Penawar and 50 (36 per cent) in Sungai Rengit. A total of 510 households were also interview including those in the new towns, Sungai Rengit and the surrounding settlements.

4. Business Structure of the New Townships

The structure of business activities in the new towns, is shown in Figure 2. The first sector includes the state agencies which provided capital and services to other sectors in the new towns, largely from the Federal Government. The government, on the other hand, borrowed some monies from foreign capital. The capital chanelled through the state agencies is used for building infrastructure and facilities, which provide the basis for capitalist production. Some capital from the state agencies also chanelled to the large capitalist sector since the state is actively involved in the production processes in the new towns, such as plantation, industries and tourism activities, and has some control of the means of production in the new towns.

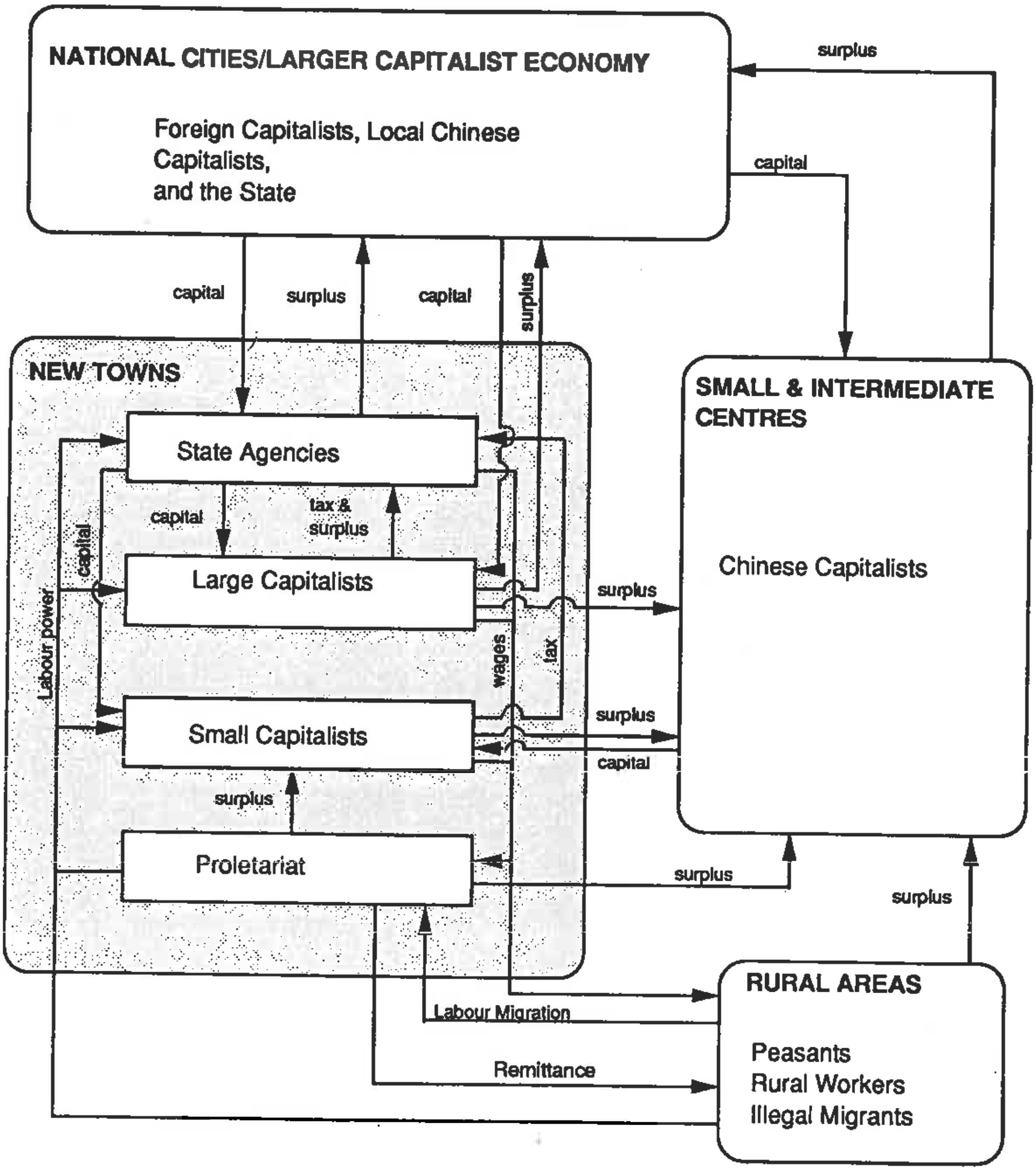
The second sector, the large capitalist sector, dominates the expropriation of surplus values in the frontier regions. This sector includes plantations, manufacturing industries and other big businesses, which employed a large number of workers[7]. The state and foreign capitalists are the main sources of capital in this sector, controlled by the Malay ruling class, Chinese capitalists and foreign capitalists whose bases are in metropolitan centres or capital cities. These centres are mainly in the west coast of Peninsular Malaysia, such as Kuala Lumpur and Johor Bahru, and Singapore. In the process of production, rural labour, including those who had migrated to the new towns and those who lived in adjacent rural settlements are employed. Since the productivity of labour in the rural sector, such as peasants and rural workers, is low and uncertain, the capitalists are able to hire them at low wages.

The third sector, the small capitalist enterprises in new towns, is primarily found in the services and retailing industry[8]. In this sector the owner of the means of production are also involved in the process of production, but employed a few workers including family labour. This is the sector in which the Malays are expected to participate in the operation and owning of businesses. Linkages between the small capitalist sector in new towns and large capitalist sector did not exist because the operation of large capitalist businesses does not require much material input from the small businesses in new towns and their products are mainly for export. But some capital input in the small capitalist enterprises is provided by the state, particularly in building business premises. This enables the state to control this sector and decide who is allowed to run businesses in the premises. In addition, the state has other mean to control this sector in the form of business permit.

Linkages exist between the small capitalist sector and Chinese capitalists in the older small and intermediate centres. The Chinese capitalists provide credit to small capitalist sector in new towns and also control their sources of raw material. These relatioships enable Chinese capitalists to extract surplus from the new towns.

The fourth sector in the production structure of new towns is the proletariat. It consists of predominantly Malay workers who sell their labour to large capitalists and the state agencies. Most workers come from the rural areas and the disposable incomes of these workers forms the basis for capital that links the small enterprises with the large capitalists enterprises in the new towns. But only a portion of this capital is transferred to the small capitalist sector in the new towns because not all goods consumed by the workers are purchased in the new towns. The transfer of surplus to other small and intermediate towns is substantial. Some of the income received by workers is also remitted to their relatives who live in the villages.

FIGURE 2: THE CONCEPT OF CAPITAL CIRCULATION IN NEW TOWNS



On the basis of the present business structure of the new towns, this thesis argues that there is little scope for the growth of small businesses in the new towns and thus, few prospects for Malay participation in business. This is due to the fact that the new towns in the rural areas are locationally disadvantageous and lack of necessary infrastructure to attract investment compared with the older towns. The concentration of businesses and capital in metropolitan centres such as Kelang Valley, Johor Bahru and Penang has been attracting resources away from the pheripheral regions and limit the growth of new towns and other rural settlements. At the same time small businesses in the new towns also faced competition with a more established businesses in older towns controlled by Chinese. Given the Malay lack of capital resources and relying on Chinese for material, it most unlikely they are able to compete with the Chinese in the race of capital accumulation.

5. The Limitation of Small Business Expansion in the New Towns

This section shows the limitation of small business expansion in new towns which relates to the factors external and internal to the enterprises. This includes lack of capital resources and experience, relying on goods from Chinese business people in older towns and competition from businesses in older towns. The limitation of business growth in the new towns on the other hand encouraged the expenditure leakage to older towns beyond the KEJORA region which further enhance the Chinese business dominance.

Table 2 summarizes the size of business space in the new towns and Sungai Rengit. It is apparent that growth of businesses in the new towns are limited. The total business space in Bandar Tenggara and Bandar Penawar is less than 12 per cent of the total business space in Sungai Rengit, although the population of the new towns is larger than that of Sungai Rengit. The average space for each business in Bandar Tenggara and Bandar Penawar is 419 and 309 square feet respectively compared with 1906 square feet for Sungai Rengit. Similarly, the ratio of business space to the population of the new towns is much smaller than Sungai Rengit.

The small size of business space in the new towns reflects the fact that the business people invested less capital in the businesses and there was a smaller demand there. The data on start-up capital in the new towns indicated than a majority (58.8 per cent) started business with capital less than $5000. Only 4 people (7.8 per cent) begin business with capital more than $20,000 as compared with 26.5 percent for Sungai Rengit.

The small capital investment in the new towns can be further seen from the nature of business space in the new towns. Many smaller businessmen conducted businesses in the space beside their houses or on the road side which reduced the amount of capital needed to start businesses. A fried banana seller who does business on a small table on the road side only needs $300 to start. Another businessmen who sells chickens from his house compound invested less than $2000 when he started.

TABLE 2
BUSINESS SPACE IN TNE NEW TOWNS AND SUNGAI RENGIT

Total Business Space (Square feet)	
Bandar Tenggara	31,006
Bandar Penawar	6,180
Sungai Rengit	264,934
Average Space per Business	
Bandar Tenggara	419
Bandar Penawar	309
Sungai Rengit	1906
Business space per 100 population	
Bandar Tenggara	552
Bandar Penawar	203
Sungai Rengit	9848
Population	
Bandar Tenggara	5481
Bandar Penawar	3045
Sungai Rengit	2700

Source: Fieldwork, July 1991

The small scale of capital investment of people in the new towns is not surprising since most are farmers, largely Malay, who came to the new towns for a better standard of living. They had little capital or land and did not have business experience. Because of this they had less access to capital resources and were unable to fulfil the requirement of the institution that provide capital.

This study found out that about three fourths the business people in the new towns do not have property that can be used as collateral secure their loan from financial institutions. Most financial institutions including government agencies required collateral, usually land. The land that can be used for collateral must have a tittle of ownership, transferable and should be worth more than the amount of loan. Even though many business people in the new towns and Sungai Rengit did own houses or shops in the towns and other land elsewhere, only a few of them have land that can be used for collateral because the land are bonded by purchasing agreement or not fully transferred to the owners. Among FELDA settlers for example, the land tittle is not issued until the settlers have settled their debt to the FELDA, which normally takes more than 20 years from the time of entry into the schemes. Even if the land tittles were issued, they are not transferable because the grants were given to groups each of which consist of 20 settlers, according to the plantation blocks.

Most financial institutions require two guarantors who have strong financial background as an alternative to collateral. However, it is difficult to find some one who has good financial background and also who is willing to take the risk of being guarantor.

Apart from the problem of collateral, the loan application procedures set up by the financial institutions, including the government agencies are tedious and the process of approval takes a long time. Most financial institutions also demand a project paper with regard to the feasibility of the businesses, as well as various other informations in the application forms. Given the low level of education among the business people it is very difficult for them to write the application. Although they can get advice from the financial institutions with regard to loan applications, they have to travel a long distance because the institutions are not available in the new towns. The cost for the loan application is high and time consuming.

The small scale of businesses in the new towns also relates to the limited demand for business. A sample survey on shopping behaviour carried out in the new towns and its surrounding settlements provided an interesting insight into this aspects. It was found that residents in the surrounding settlements particularly the Felda schemes rarely visited the new towns for their business. They only visited the new towns to pay electricity and water bills or to shop in the night market. There are several reasons for this. Firstly, in the FELDA settlements there are shops which sell lower order goods and the settlers obtained their supplies from the shops in their own respective settlements. More important, the settlers could obtain their supplies from the shops run by FELDA corporation on credit basis and the shops are available in all FELDA settlements in the study area. Secondly, the new towns face competition from existing towns which offer a wide range of goods. The residents of Bandar Tenggara, Bandar Penawar and its surrounding settlements obtained higher order goods such as clothing, electrical appliances and furniture from nearby towns such as Keluang, Kota Tinggi, Kulai and Sungai Rengit. Third, the higher order goods were also bought from the Chinese sale agents who visited homes in the new towns and FELDA settlements (Table 3). The sale agents whose businesses are in older-established towns provide credit facilities for the customers, deliver the goods and collect the instalments monthly. Their efficient and convenient services attract substantial number of customers in the settlements.

TABLE 3
THE PROPORTION OF DURABLE GOODS PURCHASED FROM SALE AGENTS, LOCAL SHOPS AND SHOPS IN OTHER TOWNS*

Settlements	Total value of goods purchased ($ '000)	% purchased from			
		Agents	Local+	other Towns	Total
Bandar Tenggara	197	25.8	22.2	52.0	100.0
Bandar Penawar	211	3.7	4.8	91.5	100.0
Sungai Rengit	145	0.0	95.7	4.3	100.0
FELDA settlements	260	24.7	27.1	48.2	100.0
Traditional villages	58	1.3	0.1	98.6	100.0

* The calculation was based on some durable items, such as furniture and electrical goods purchased during a five year period by all households in the sample survey.
+ including those who purchased from friends

Source: Fieldwork, July 1991.

The growth constraint of small businesses in new towns is also related their reliance on capital goods from business people in older towns, largely Chinese, who are also their competitors. The Chinese are able to determine prices and also control supply of goods because of their dominance. In the new towns most goods are more expensive than in older towns. For example, the price of 1 Kilo of onion in Bandar Penawar is M$2.80 compared with M$2.50 in Sungai Rengit. A similar brand of soap in Bandar Penawar is sold at $M0.95 compared with M$0.80 in Sungai Rengit. In this present study it was found that most manufactured goods, traded in the new towns, were procured from Chinese dealers in the older towns. Their dependence on Chinese dealers is further reinforced by the credit facilities provided by the Chinese dealers. The amount of credit given depends on trust. The dealers normally provide credit to traders who have the reputation of paying back on time. The Malays, who have just started businesses or have just established contact with Chinese dealers, were not given credit facility or, if given, the amount of credit is less compared with long established businessmen.

Table 4 shows the proportion of goods purchased by credit and cash. In Bandar Tenggara and Sungai Rengit, more than half the value of goods was purchased through credit. The credit facility was largely provided by the Chinese dealers. The value of goods purchased from each dealer generally less than $1000. This is expected since the businesses in new towns were small and the purchases were made at regular intervals of less than one month. Depending on the value of goods purchased, the payment period varies from one week to three months. Normally the payments were made on the day of delivery of the next stock.

TABLE 4
AMOUNT OF GOODS LAST PURCHASED BY BUSINESS PEOPLE ON CASH AND CREDIT BASIS ACCORDING TO DEALERS ETHNIC ORIGIN

Towns/ Dealers	Cash		Credit		Total	
	Amount($)	%	Amount($)	%	Amount($)	%
Bandar Tenggara						
Malay	2166	10.6	4702	15.0	6868	13.3
Chinese	13236	64.6	22206	71.1	35442	68.5
Indian	550	2.7	4340	13.9	4890	9.4
Pernas	4550	22.2	-	-	4550	8.8
Total	20502	100.0	31248	100.0	51750	100.0
Bandar Penawar						
Malay	7740	54.3	120	6.8	7860	49.1
Chinese	6510	45.7	1650	93.2	8060	50.9
Total	14250	100.0	1770	100.0	16020	100.0
Sungai Rengit						
Malay	15	0.0	80	0.0	95	0.0
Chinese	520501	100.0	1158019	100.0	1678520	100.0
Indian	-		200	0.0	200	0.0
Total	520516	100.0	1158299	100.0	1678815	100.0

Source: Fieldwork, July 1991

7. The Role of State in Business Developement

The role of state in seeking to ceating a Malay business community in the new towns was limited to the provision of a few business outlets to the Malays and entrepreneurs programmes. More capital from the state was chanelled to large capitalist sector than the small capitalist sector. KEJORA, for example, had invested M$39.5 million in large capitalist enterprises during the 1972-1988 period compared with M$2.2 million being spend for building business outlets for the small enterprises. This was due to the fact that the main objectives of KEJORA are to exploit resources in the frontier region rather than to create small businesses.

Up to 1991, KEJORA had developed 43 units of business outlets in Bandar Tenggara and 38 units in Bandar Penawar, including 26 units under construction, as part of programmes to encourage Malay participation in business. As indicated in Table 5, the shop-houses and shops in the new towns were sold at subsidised rate, while food stalls are rented out by KEJORA at relatively low rates. Even though shops were sold at a relatively low rate, many Malays still cannot afford to own the shops. This is not only because many of them have little capital, but the income from businesses was low, particularly during the early stages of new township development.

The problems faced by Malay business people in the new towns with regard to purchasing business premises was expressed in a memorandum forwarded by the United Malay National Organisation (UMNO) of Bandar Tenggara, a Malay ruling party, to the Ministry of Land and Regional Development and to KEJORA in 1984, requesting KEJORA to review the costs of business premises. The memorandum also conveyed the difficulty of business people in obtaining loans from banks for the purchase of business premises in Bandar Tenggara. According to the memorandum, with an interest rate of 9 per cent charged by the banks for 15-20 years loan term, a monthly amount of $850 mortgage has to be paid for a shop-house. Whereas, the income on average was around $200 per month. This memorandum was also submitted to Datuk Musa, an influential Johorean politician, who was at that time, the Deputy Prime Minister, and also a Chairman of the National Security Council. Details of how the decision was made are not known, but as a result of the memorandum, the original costs of the business premises was reduced by 50 per cent. Following this decision the Perumahan Tenggara Sendirian Berhad, a subsidiary company of the KEJORA, which developed the premises, ran at a loss.

TABLE 5
BUSINESS PREMISES IN BANDAR TENGGARA AND BANDAR PENAWAR CONSTRUCTED KEJORA

Types of shop	Number of Unit	Average cost/unit	Total Cost	Selling price/unit
Bandar Tenggara				
Shop-houses	19	$70,000	$1,330,000	$74,100
Shops	8	$37,000	$ 296,000	$22,000
Food stalls	16	$10,000	$ 160,000	Rented
Bandar Penawar				
Shop-houses	4	$71,000	$ 284,000	$75,000
Shops*	26	n.a	n.a	n.a
Food stalls**	8	$12,000	$ 96,000	Rented

* These are shops and stalls, still under construction, in the town centre.
** The stalls are temporary and the businesses will be moved to the shops in the towns centre when the construction is completed.
n.a not available
Source: Unpublished documents of KEJORA

KEJORA award contracts to Malay contractors, particularly in the construction of new towns, as part of policy to encourage Malay participation in business. Between 1985 and 1988, out of $40.9 million value of contracts works directly issued by KEJORA, 98 per cent were given to the Malay (KEJORA, 1988).

However, the contract works appear to benefit only a few contractors. On the basis of value of contracts awarded in 1990, 84 per cent of the total value of contracts were undertaken by 10 large contractors (Table 6).

TABLE 6
THE DISTRIBUTION OF CONTRACT WORKS ACCORDING TO THE SCALE OF THE PROJECTS, 1990

Scale of Projects	Number of contractor/ projects	Value ($'000)	Percentage
Less than $200,000	6	716.6	1.7
$200,000-$499,999	8	2,720.1	6.5
$500,000-$999,999	5	3,355.7	8.0
Over $1,000,000	10	35,167.3	83.8
Total	29	41,959.7	100.0

Source: KEJORA, 1991

Apart from development of business premises and allocation of contracts works, KEJORA also launched entrepreneurs programmes to assist the Malays to participate in businesses. This includes the *Siswazah Tani* (graduate farmers) programme and the Guided Industrial schemes. The Siswazah Tani is an agricultural programme to encourage university graduates, particularly from the KEJORA region, to participate in agriculture businesses and to become self-reliant. This relates to the increasing numbers of university graduates who were unemployed in the mid-1980s, when the country faced a severe recession and jobs in the government sector were curtailed following rationalisation of the public sector services. In early 1987, an area of 85 hectares was allocated temporarily in Bandar Tenggara to six groups of university graduates each consisting of between 4 and 7 people. However, by 1991 only two groups proceeded in the cultivation of fruits and vegetables on 40 hectares of land. The limitation of graduate participation in such schemes is not surprising as the recovery of the economy in the late 1980s pulled some of them to the urban areas to take up jobs in urban sectors.

The Guided Industrial scheme assists Malays to run industrial activities for which an amount of $280,000 was allocated by KEJORA. Under this scheme, KEJORA constructed five units of small factory spaces each in Bandar Tenggara and Bandar Penawar, to be rented to Malay entrepreneurs who wanted to expand their businesses in the new towns. But only four of those in Bandar Tenggara were occupied, rented for $185 per month. The inability of KEJORA to find entrepreneurs to set up businesses in the areas is due to the following reasons. Firstly, there is lack of information available to the Malays about business opportunities in the new towns. The Malay Chamber of Commerce of Johor, for example, appears to know very little about KEJORA and business opportunities there. An interview with an officer of the Johor Malay Chamber of Commerce, revealed the lack of information flow between the organisations, although part of it was attributed to the weaknesses of the Chamber itself[9]. Secondly, coordination between various agencies in the region tended to be weak. The role and function of various organisation tended to be narrowly applied to their own physical boundaries. FELDA, for example, also concerned with entrepreneur development among FELDA settlers, was largely confined to business opportunities within the FELDA settlements, although many FELDA schemes are located within the catchment of KEJORA new towns. From the list of businesses in FELDA schemes compiled by FELDA, there did not appear to be lack of potential entrepreneurs among the Malays of the region. Interviews of FELDA officers in a few FELDA schemes of the region revealed that many FELDA settlers of the region have been successful in running certain businesses and, if properly organised, some would be able to take opportunities to expand their businesses in the KEJORA new towns.

The role of various other government agencies to help Malay business people was also limited apart from inefficient.

a. The loan facility available from the Council of Trust for Indigenous People (MARA), a government agency responsible to provide capital to the Malay, was not accessible to the small businesses due to tedious loan procedures. On the basis of the number of loans issued MARA in Johor during the five year period (1986-1990), it is obvious that not many Malays benefitted from the schemes (see Table 9). There are various reason for this situation. Firstly, funds available for loans are limited, depending on loan repayments collected each year from earlier lenders. The amount of loan paid back to MARA in Johor, has been very low. Between 1986 and 1990, out of $8.19 repayment due, only $3.67 million or 45 per cent was collected. According to a MARA officer, this relates to the attitude of the Malay, who are not serious in paying back the loans. Although lenders are required to repay the loan at the MARA office, normally the repayment was only made when MARA staff went to collect them. However, MARA has also not done enough to ensure the repayment of loans by taking legal action. However lately, between 1989 and 1991, legal action was taken against 660 lenders who did not repay outstanding loans. The lack of action to collect the loan repayments was not only because MARA did not have enough staff, but also political consideration, since the Malay business people are largely affiliated to the ruling party. Besides many of them are unable to pay because their businesses are not successful.

Secondly, the loan terms, particularly with regard to collateral and guarantors makes it difficult for most Malays to get access to the loans. In addition, the procedures for loan application, such as producing a project paper, are also difficult especially for small businesses. In the research towns, none of the business people interviewed had obtained any loan from MARA. A few of them did make an attempt for a MARA loan, but they were not successful because they did not have collateral or guarantors to secure the loan.

TABLE 7
LOAN ISSUE BY MARA BRANCH IN JOHOR, 1986-1990

Type of Loan	Number	Amount ($)	Average Amount per loan ($)
Ordinary Schemes			
General	263	4,020,600	15,290
Transport	5	389,000	77,180
Chalet	10	162,000	16,200
Contract	522	11,526,100	22,180
Total	800	16,097,700	20,100

Source: MARA Office, Johor.

b. Pernas Edar, a subsiadiary company of Perbadanan National (PERNAS), a government enterprise, which suppose to help small business was not effective apart from inefficient. In the research towns in KEJORA, there are three Pernas chain shops in operation, two in Bandar Tenggara and the other in Bandar Penawar. The shops started under the close supervision of Pernas Edar who gave advice in management such as book-keeping, arranging of goods and supply. An interview with the shoopkeepers, revealed that the role of Pernas was only significant in the early stages. Pernas role as a supplier of goods was not effective because the service was not reliable as the goods were not supplied on time when needed. All business people who run Kedai Jimat in the research towns no longer buy goods from Pernas Edar and they are in fact independent from Pernas.

c. The organisational problems of Johor Petty Traders Association also prevented traders from getting access to the special loan scheme allocated to small businesses. The special loan scheme launched by the government in 1986 was supposed to be managed by the Petty Traders Association under supervision of the Credit Guarantee Corporation.

However in Johor, the Petty Traders Association had been dissolved due to organizational problems. The association faced a major crisis when it was declared illegal by the court in 1988. This occurred when some members of the association challenged in court, the validity of its 1986 Annual General Meeting, claiming that some branches were represented by illegal members. This event was closely associated with the political turmoil within the UMNO during that time, since many members of the Hawkers and Petty Traders Association were grass-root supporters of the UMNO, a Malay political organisation, controlled by the Malay elites and middle class, among them businessmen. Some leaders of UMNO, especially at the local level, were involved in business. Business organisations also become a platform for a leader to gain political power and at the same time members of the organisation benefit from political patronage. When UMNO faced political crises, which led to a major split in the party, and was finally declared illegal in 1987, other organisations whose members were largely associated with UMNO such as the Hawkers and Petty Traders Association of Johor also faced similar problems. The court declared the Johor Hawkers and Petty Traders Association as illegal, when some of its members from a rival group challeged the 1986 annual general meeting. The matter was brought to the court in 1988 following a similar action by some UMNO members who challenged the running of the UMNO general assembly of 1987, which led to the declaration of UMNO as an illegal party by the court (see Means, 1991; Wariya, 1988). As in the case of UMNO, the Johor Hawkers and Petty Traders Association could not have been challenged in court if there was no leadership crisis in the organisation.

8. Conclusion

Literature about small businesses, which are growing since 1970, provides some insight into understanding the characteristics of small businesses and the relationships and linkages of small businesses with other sector of the economy. The operations of small business tended to be surbodinated to the large capitalist sectors although some might operate independently fron the capitalist sector. Under the capitalist mode of production, the small businesses have limited prospect of growth as they are unable to compete with the large enterprises. However, some of them are able to survive because of flexible operations which reduce cost.

This article illustrates the complexity of the process of small business development in new townships, which is not only related to the internal structure of the new towns economy but also linked to the wider structure of the capital circulation external to the new towns. It also shows how an attempt of Malaysian government to promote Malay participation in business in the new towns, where businesses in older towns are dominated by the Malaysian Chinese, has not been successful.

Although the Chinese had limited opportunities in establishing businesses in the new towns, they had played a crucial role in providing capital to the small businesses, largely owned by the Malays. This is because the business networks are controlled by the Chinese who operated businesses in the older Johor towns. The Chinese are able to determine the price of goods, because of their dominance.

The Malays in the new towns, on the other hand had, to rely on goods from the Chinese dealers. They are unable to compete with Chinese businesses who have larger capital.

The role of government in providing capital to small businesses appeared to be marginal, apart from being ineffective. More funds were channelled to the large capitalist sector rather than to small businesses. Various weaknesses were also identified in the implementation of government programmes to assist Malay entrepreneurs. The provision of business premises, although at subsidised rate, was too expensive to be purchased by the Malays in the new towns. Similarly, credit facilities provided by government agencies were not effectively channelled to the traders because of the loan procedures, as in the case of MARA, and also due to organisation problems such as lack of co-ordination between different agencies or organisations, as well as internal problems within organisations such as the Johor Hawkers and Petty Traders Association.

This research implies that more government commitment is needed in the development of new townships especially in providing capital and incentives to small businesses. To encourage Malay participation in business activities, the government also need to provide more capital facility accessible to small businesses. Also, the role of Chinese capital need to be incorporated in new townships development such as encouraging joint-venture businesses between Chinese and Malays.

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[1] The New Economic Policy is a long term development plan formulated by Malaysian Government in 1971 in response to the problems of uneven development between ethnic groups and regions. The plan has two main objectives: to eradicate poverty irrespective of race and to restructure society so that the association of different ethnic groups with specific economic roles will be eliminated within a planning period of twenty years (1971-1990)

[2] Out of 445 new villages established in Malaya during 1948-1960, 99 were in Johor state (Voon and Khoo, 1986).

[3] The movement of people into Peninsular Malaysia from the Indonesian Archipelago occurred over a number of centuries. The largest number of Indonesian, largely the Javanese arrived between 1911 and 1940 (Ooi, cited in Aiken, 1982:9). The difficulty of life in Indonesia and the availability of land for the cultivation of rubber, coconut and wet padi are among the main reasons for migration. It was estimated that 34 per cent of the total population of Johor in 1911 was of Indonesian origin (Aiken, 1982:8). The Indonesians were ethnically and culturally akin to the Malays and intermarriage also occurred between them.

[4] When Malacca was conquered by the Portuguese in 1511, the Malay ruler and his followers were forced to move to the south and established posts in Muar, on the Johor River and later in the Island of Bentan, Riau. The new Kingdom was established in Johor and the first capital was along the Johor River. Because of war and the instability of the Johor Kingdom, settlements and trading activities could not develop and were several times destroyed and rebuilt. The development of settlements along the river ceased when the capital of Johor Kingdom was relocated to Riau in the early nineteenth Century.

[5] KEJORA (1987), Annual report 1987

[6] The ownership of businesses was based on the basis of businesses licences issued by the respective local authorities by 1991.

[7] The list of large capitalists businesses in Bandar Tenggara and Bandar Penawar is in the Appendix.

[8] See Appendix.

[9] The Johor Malay Chamber of Commerce and Industry was suspended for seven years (1982-1989) due to organisation problems related to leadership struggle. A new committee has been set up again in 1989 and then re-registered with its main body, the Malaysian Malay Chamber of Commerce and Industry. By 1990 it has 319 members compared with 1,000 in 1982.