

# FOREIGN AND COMMONWEALTH OFFICE DIPLOMATIC REPORT

## *General Distribution*

MALAYSIA 10 January, 1978

MALAYSIA: ANNUAL REVIEW FOR 1977

*The British High Commissioner at Kuala Lumpur to the Secretary of State for Foreign and Commonwealth Affairs*

## SUMMARY

Malaysia remained stable politically and the economy fared well. The Prime Minister, Hussein Onn, consolidated his position despite problems within the National Front Coalition. The Pan-Malayan Islamic Party withdrew from the National Front as a result of a political crisis in Kelantan. A Cabinet reshuffle at the end of the year produced a stronger Government team. The internal security situation improved, but racial problems remained (paragraphs 1-6).

2. ASEAN remained the strongest factor in Malaysia's foreign policy. The 10th ASEAN Summit was held in Kuala Lumpur. Bilateral relations with other ASEAN States improved, and Malaysia was ASEAN's main intermediary with Indo-China. Links with other Islamic countries were developed. Relations with Australia were strained, with Japan ambivalent. Malaysia looked to the EEC as a counter to Japanese influence (paragraphs 7-10).

3. Malaysia was generally moderate in multilateral fora, but dissatisfied with the failure to establish a Common Fund (paragraph 11).

4. The economy performed well generally, but investment was disappointing (paragraph 12).

*Kuala Lumpur, 10 January, 1978.*

Sir

Malaysia remained stable under her Federal democratic system of government during 1977 and, benefiting from a rise in the prices of her main commodity exports, fared better economically than many other countries.

## **Internal**

2. Hussein Onn continued to consolidate his position as Prime Minister and within his own party, the United Malays National Organisation (UMNO). Internal political problems arose in the latter part of the year and for a while Hussein had to face the most difficult situation since assuming office as Prime Minister. The Chief Ministers of several States came under fire from within the ruling Coalition, and the National Front leadership was hard put to resolve discord within its own ranks. The situation was made more difficult by the expectation of elections in 1978, and the crumbling of National Front unity in the States was thought by some to endanger the whole structure of the National Front.

3. The most serious crisis arose in Kelantan, where the Pan-Malayan Islamic Party (PAS) tried to depose the Chief Minister-himself a PAS member-against the wishes of its National Front partners, notably UMNO. As a result of the ensuing disagreement between the two Malay parties in a predominantly Malay State, there was an outbreak of civil unrest (though not so serious as to occasion any deaths) which prompted Hussein to impose emergency Federal rule on the State in order to prevent the trouble from increasing and spreading to other States. But the PAS leadership, which had provoked the crisis in the first place, was firmly opposed to the imposition of emergency rule; and after some rancorous exchanges within the National Front, PAS withdrew from the Coalition.

4. Hussein Onn handled the situation with determination and thus enhanced his own authority. Hussein's virtues are incorruptibility and quiet and effective determination, but his deliberate method of working has slowed down the government machinery somewhat. He has therefore, attempted to delegate more to Dr. Mahathir, the Deputy Prime Minister, and a stronger team emerged from the Cabinet reshuffle announced on 31 December.

5. The internal security situation improved and the Malaysian security forces were active and successful against communist terrorists in the field: 31 communist terrorists were killed, 15 captured and 19 surrendered-more than double the 1976 figures. Joint operations with the Thais in southern Thailand disrupted communist bases there and underground communist groups in the towns were effectively neutralised.

6. The Government continued to walk a tightrope over the country's racial problems. The non-Moslems, however, trust Hussein Onn and welcomed his appointment of Musa Hitam as Minister of Education.

## **External**

7. ASEAN remained the strongest factor in Malaysia's foreign policy and the 10th Anniversary meeting of ASEAN Heads of Government in Kuala Lumpur was a considerable success. Bilateral relations with ASEAN partners improved particularly with Thailand and Indonesia. The abandonment of the Philippines' claim to Sabah, announced by President Marcos at the ASEAN Summit, improved Malaysian-Philippine relations.

8. Malaysia played the role of ASEAN's main intermediary with the States of Indo-China, and the Foreign Minister, Rithauddeen, visited all three countries during the year. Efforts to find means for peaceful co-existence continued in pursuit of ASEAN's aim of creating a zone of peace, freedom and neutrality in South-East Asia.

9. Relations with Arab and other Islamic countries were developed both by Hussein Onn's visits to Egypt, Libya, Iraq and Turkey and by other Ministerial visits to the Middle East. There were signs that Malaysia wished to move closer to the Islamic world, as well as to attract Arab investment and develop mutual trade links.

10. Malaysia held bilateral talks with the Prime Ministers of Australia, New Zealand and Japan after the ASEAN Summit. Australian-Malaysian relations were strained by protectionism and Mr. Fraser had a rough ride, though Mr. Muldoon fared better. Hussein Onn visited Japan in September but Malaysia's relations with Japan were ambivalent as they wanted Japanese yen credits but were increasingly apprehensive about growing Japanese dominance of the local market. Malaysia attached considerable importance to the dialogue between ASEAN and the EEC and looked for increased European investment as a counter to the Japanese. Consequently, Mr. Haferkamp's visit to Malaysia in December, as part of his tour of ASEAN countries, was well received.

11. Malaysia took an active part in the North-South dialogue, through bilateral discussions with Japan and the US, at the Commonwealth Heads of Government Meeting and in UNCTAD. Although moderate in her general attitude, Malaysia can be sharply critical of the developed world and the Ministers of Primary Industries expressed dissatisfaction at the lack of concrete results from the UNCTAD Common Fund Conference. In the Law of the Sea Conference Malaysia played a helpful role in the Group of 77.

## **Economic**

12. The Malaysian economy performed well, with a growth rate of 8 percent, a balance of payments surplus of 870 million ringgit, and foreign reserves of 6.8 billion ringgit. The inflation rate was only 4.1 per cent and unemployment and under-employment remained within manageable proportions. However, investment remained sluggish and the targets set by the Third Malaysia Plan were not nearly achieved. Although the Government's policies on investment seemed not unattractive, investors were in fact deterred by the Industrial Co-ordination Act and the attitude of middle-grade officials who often seemed to behave in a manner at variance with the declared policy of Ministers. The appointment of Dr. Mahathir to the Ministry of Trade and Industry indicated the Prime Minister's concern and created confidence that the situation might improve. Malaysia remained a net exporter of oil, producing 175,000 barrels per day.

## **Relations with Britain**

13. Hussein Onn held friendly talks with you, Sir, and the Prime Minister on his two visits to Britain. He expressed a desire to revive British interest in Malaysia and to encourage closer commercial relations and greater investment. The imbalance of visible trade between the UK and Malaysia in the first 11 months of 1977 was £81.8 million, largely owing to the increase in commodity prices. However, during the same period, British exports to Malaysia increased in value from £105.8 million in 1976 to £130.7 million in 1977.

14. An additional complication was the unsettling effect of the hijack of a MAS plane which crashed in Johore on 4 December, killing 100 people, including the Minister of Agriculture.

15. The Malaysians were helpful over Brunei and attempted to improve their own relations with the Sultanate. They played the resolution calling for the independence of Brunei at the UN in a low key, and Brunei participated for the first time in the South-East Asia Games in Kuala Lumpur.

16. Having only arrived here on 20 November, I am indebted to [name withheld] for the greater part of this review.

17. I am sending copies of this despatch to Her Majesty's Representatives in Bangkok, Jakarta, Singapore, Manila, Brunei, Peking, Tokyo, Canberra, Wellington, Hanoi and Vientiane, and to the Governor of Hong Kong.

I have, etc.,

Enclosure

Calendar of events in 1977

*January*

5-18 Prime Minister, Datuk Hussein Onn, visits Egypt and Libya.

*February*

6-10 Indian President, Shri Fakhruddin Ali Ahmad, visits Malaysia.

10-18 Datuk Hussein Onn visits Turkey and Iraq.

24 Malaysia, Indonesia and Singapore sign Traffic Separation Agreement for Malacca Straits.

*March*

4 Datuk Hussein Onn visits Thailand: New Malaysian/Thai Border Agreement signed.

24 Kampuchean Deputy Premier for Foreign Affairs, Mr. Ieng Sary, visits Malaysia.

27 US Ambassador-at-large visits Malaysia for Law of the Sea discussions.

*April*

5 Datuk Hussein Onn and President Suharto meet in Penang.

19 UK/Malaysia talks on civil aviation in London.

21-23 Australian Foreign Minister, Mr. Andrew Peacock, visits Malaysia.

*May*

2-27 Foreign Minister, Tenghn Rithanddun, visits Poland, Romania, Switzerland, France, Libya, Vietnam, and Laos.

*July*

1 Harmonisation of Sabah, Sarawak and Peninsular Malaysia custom tariffs takes effect.

9-23 Deputy Prime Minister, Datuk Seri Dr. Mahathir, visits US.

*August*

4-5 ASEAN Summit in Kuala Lumpur.

6 President Marcos announces Philippine intention to renounce claim to Sabah.

6-8 ASEAN leaders have discussion with Prime Ministers of Australia, Japan, and New Zealand.

9-10 Japanese Prime Minister, Mr. Fukuda, on official visit in Malaysia.

*September*

18-30 Datuk Hussein Onn visits Japan and US.

*October*

7 Datuk Hussein Onn meets the Prime Minister, Mr. Callaghan, in Brighton.

19-22 Iraqi Vice-President visits Malaysia.

28 Budget presented to Parliament.

*November*

1 UK/Malaysian Pensions (Transfer of Liability) Agreement signed.

7 Sir Eric Norris leaves at end of his tour of duty in Malaysia.

8 Emergency Federal rule imposed on Kelantan. Resignation of PAS Ministers from Government.

8-10 Prime Minister of Malta, Mr. Dom Mintoff, visits Malaysia.

8-14 Vietnamese economic delegation visits Malaysia.

25 Mr. D. F. Hawley presents his credentials as High Commissioner.

UK/Malaysian Confidential Memorandum of Understanding on Air Services signed.

*December*

4 MAS Boeing 737, hijacked on Penang-Kuala Lumpur flight, crashed in Johore. 100 die, including Minister of Agriculture.

3-6 EEC Commission Vice-President, Mr. W. Haferkamp, visits Malaysia.

6-9 Foreign Minister, Tenghn Rithanddun, visits Kampuchea and Burma.

8 UK/Malaysia Investment Protection Agreement signed *ad referendum* in Kuala Lumpur.

9 Malaysian Government refuse permission for Concorde to use Malaysian airspace.

15 PAS (pan-Malayan Islamic Party) leaves National Front.

31 Datuk Hussein Onn reshuffles his Cabinet.