

FOREIGN AND COMMONWEALTH OFFICE DIPLOMATIC REPORT

General/Economic (Q) Distribution

MALAYSIA 2 January, 1979

MALAYSIA: ANNUAL REVIEW FOR 1978

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

SUMMARY

Indo-China and Soviet-Chinese rivalries cast longer shadows over Malaysia, which was courted by Vietnam and China. The Vietnamese boat people aroused sympathy but created severe problems and complicated relations with Vietnam. Malaysia adhered warmly to ASEAN (paragraphs 1-5 and 12).

2. Datuk Hussein consolidated his reputation and political power, overcoming internal crises and putting a fair and honest stamp on his administration.

3. The Government tried to stimulate foreign investment. None the less, the investment climate improved considerably and Malaysia continued to prosper economically with stable currency, an inflation rate of 5 per cent and growth rate of 7.3 per cent. Japan and the US had larger shares of the Malaysian market than Britain, which was third in line (paragraphs 14-16).

4. Concorde acted as irritant and spur to Anglo-Malaysian relations but Malaysia agreed to supersonic overflights over the Straits of Malacca. Malaysia requested 200 British teachers of English. British consultants won the consultancy for the largest thermal power station in South-East Asia (paragraph 17).

6. Malaysia's multi-racial and democratic society worked well and internal security remained good. Malaysia's flourishing economy and prospects make it worth investing in and cultivating (paragraph 19).

Kuala Lumpur, 2 January 1979

Sir,

Malaysia remained stable, decently democratic and prosperous—a remarkable, yet unremarked on, country until the Vietnamese boat people hit the headlines.

External

2. Events in Indo-China combined with Soviet-Chinese rivalries cast longer shadows in this direction. Tengku Rithauddeen's quiet Malaysian dialogue with Vietnam, Cambodia and China was overtaken by the visits of Pham Van Dong, Premier of Vietnam, and Teng Hsiao-ping, Senior Vice-Premier of China, each seeking to win influence in ASEAN countries. The Malaysians played Pham Van Dong's change of heart from previous hostility, and Teng's first venture into Malaysia, cautiously and sought, despite ideological divergences, to identify points of fruitful contact. Cautious welcome for Vietnam's renunciation of future subversion was replaced by dismay at the Vietnamese-USSR Treaty of Friendship and at the greatly increased numbers of boat people arriving on the east coast, despite Malaysia's earlier representations to Pham Van Dong.

3. Red China's bunting in the streets of Kuala Lumpur—an emblem eagerly seized by security forces in the jungle—caused no popular Chinese demonstrations for Teng, and the Malaysians tore it down with relief. Teng perhaps learnt the strength of the Malaysian-Chinese devotion to their country of adoption and marked Datuk Hussein's strong determination to maintain Malaysia's free way of life and to stamp on subversion.

4. China's continuing support, on the other hand, for ASEAN and Malaysia's concept of a Zone of Peace, Freedom and Neutrality (ZOPFAN) **was highlighted [edited text]**. Malaysia's own support for ASEAN continued and a Malaysian Secretary-General was appointed. The EEC/ASEAN Ministerial dialogue was warmly welcomed as an example of growing political and economic ties with Europe but though exercising a moderating influence in the Group of 77, Malaysia was disappointed that no final agreement on the Common Fund was reached at the UNCTAD meeting in Geneva in November.

5. Bilateral relations with Thailand and Indonesia were particularly warm, with Singapore close but as usual equivocal, and with the Philippines awkward because of the influx of Muslim refugees from Mindanao and Philippine failure to confirm in constitutional terms their renunciation made at the Kuala Lumpur Summit Meeting of 1977, of their historical claim to Sabah.

Internal

6. Datuk Hussein consolidated both his reputation and his political power. Having led the National Front to a resounding victory of 131 parliamentary seats out of 154 in the Federal General Elections, he was elected convincingly as President of UMNO. The scales of Justice, the sign under which he campaigned, represent his earnest objective of fairness to all races in the Federation.

7. The Courts and public order faced a challenge in February /March when followers of the populist UMNO leader, Datuk Harun, prevented the immediate execution of his gaol sentence after the Privy Council-hearing one of the last criminal appeals from Malaysia in an advisory capacity to the Agong-refused to upset his conviction for corruption. Malaysia was fortunate to have men of the calibre of Tun Suffian, Lord President of the Federal Court, who delivered a firm judgment on issuing a warrant for Harun's arrest, and Datuk Hussein, who refused pressures from his own party to treat Harun as a special case meriting pardon. The situation was potentially explosive and created widespread fear of a repetition of the 1969 racial riots. The unflinching action of Government and judiciary, together with the restrained but firm action of the Police under an outstanding Inspector-General, rapidly recreated confidence and Hussein's reputation, especially with the Chinese community, was immediately enhanced.

8. State and Federal policies were brought more into line by Hussein's nomination of Menteris Besar, Chief Ministers, after the election, though strong disagreement arose between Selangor and the Federal authorities over tin-mining leases.

9. Hussein's determination to fight corruption, even in high places, led to the appointment of bright, young men of integrity to Ministerial office to outflank some of the more corrupt older politicians.

10. Chinese discontent about educational opportunities and economic policies were brought into focus by the proposal to open a Chinese-medium Merdeka University. The Malay Chinese Association (MCA) and Gerakan, member parties of the National Front, firmly rejected this proposal, arguing that it would bring a train of other political and social consequences for the nation and the Chinese themselves. However, the Government realising that some concession was required to assuage Chinese feelings, promised an improved ratio of university places for Chinese. In a recent reshuffle of Secretaries-General, two Chinese were appointed to the most senior official positions, the first such appointments since 1974. Despite these palliatives, the allegiance of some younger Chinese probably shifted to the Opposition Democratic Action Party (PAP), which may be the long-term gainer in terms of political popularity.

11. Attacks on Indian temples by young, educated Malays aroused fears of a growing fanaticism. The Government, recognising that such phenomena could upset Malaysia's whole delicate racial balance, sought to curb extreme Islamic trends by launching a National *Dakwah* (Missionary) Month in December and themselves preaching moderation and tolerance.

Refugees

12. Malaysian refusal in November to permit 2,500 Vietnamese refugees from the *Hai Hong* to land brought them initial opprobrium and subsequent sympathy and understanding. Their aim was to call world attention to a problem not of their own making which, because of their humanitarian policy in allowing boat people to land, imposed increasing burdens to which no end was in sight. Although some 22,000 Vietnamese were resettled elsewhere, Malaysia still had nearly 50,000 at the end of 1978, and the Government were worried.

The Conference in Geneva in December called by the United Nations High Commissioner for Refugees focused world attention on the dilemma faced by Malaysia and other countries between humanity towards each tragic boat-load and their own longer-term interest.

Conferences

13. Malaysia is a growing centre for international meetings and conferences. In 1978 conferences included such diverse bodies as the Commonwealth Senior Officials Meeting, the Islamic Development Bank, the Seed Crushers Congress, and a visitation by the Brandt Commission (Independent Commission on International Development Issues-ICIDI), to which Malaysian Ministers made a moderate, well-received contribution.

Economic

14. The Government tried hard to stimulate foreign and domestic investment and Dr. Mahathir, the Deputy Prime Minister, visited European countries, the US and Japan, for this purpose. Despite this, there was a general improvement in the investment climate with proposed foreign investment up by 69 per cent for the first 10 months of 1978, compared with the same period of 1977. Investment in the expansion and diversification of existing projects was up by 66 per cent.

15. Malaysia continued generally to prosper economically, though export earnings from her main commodities (rubber, timber, and palm oil) were less for the first eight months than for the same period in 1977-M\$5,215 million compared with M\$5,362 million. Export of manufactures on the other hand continued to expand-M\$810.6 million compared with M\$796.6 million for the first eight months. On the positive side, the Ringgit remained one of the world's most stable currencies; the inflation rate was only 5 per cent, the growth rate 7.3 per cent and the private investment rate 8.2 per cent. Oil production rose from 191,854 barrels per day (bpd) in June 1977 to 216,074 bpd in June 1978, and exports of crude oil for the first six months of 1978 were worth M\$557.7 million. A major joint enterprise between Shell, Mitsubishi and Petronas, the national oil company, was negotiated for the production of LNG (Liquefied Natural Gas)- a M\$2.4 billion venture based on Bintulu in Sarawak and marine gasfields with proven reserves, which will last well into the next century.

16. Japan had the largest share of the Malaysian market with an estimated M\$2,812 million (22.4 per cent) and the US second with an estimated M\$1,600 million (14.04 per cent). Britain, last head of the list in 1968, was third with about M\$1,000 million (8.14 per cent). Exports from the EEC accounted for 19.14 per cent of Malaysia's imports, with Britain the largest EEC supplier. The EEC took 17.92 per cent of Malaysia's exports while Japan took 21.56 per cent and the US 20.16 per cent. Malaysia's exports to her ASEAN partners accounted for 18.44 per cent, imports from ASEAN being 14.05 per cent.

Anglo-Malaysian relations

17. Concorde acted as both irritant and spur to improved relations but happily the Malaysian Government agreed in December to a six-month trial period for supersonic flight over the Straits of Malacca.

The Malaysians requested 200 British teachers to teach English in their schools, and provision of satisfactory candidates could contribute greatly to closer relations in future years. A contract for the consultancy of the largest thermal power station in South-East Asia was awarded to British consultants, Ewbanks, after a considerable battle. The visit of Mr. Edmund Dell was postponed as the proposed date clashed with the Malaysian General Election, but his successor, Mr. John Smith, will visit early in 1979. The Malaysians appreciate this first visit by a Cabinet Minister for some years. They were pleased by the visits from His Royal Highness The Duke of Kent and Lord Goronwy-Roberts earlier in the year and felt that Malaysian Ministers who visited London were well received there.

The future

19. Despite the Indo-Chinese shadows, Malaysia's prospects remained very good. This multi-racial and democratic society creaks from time to time but generally functions surprisingly well. The flourishing economy and prospects make Malaysia a country worth investing in and cultivating. Our interest remains to maintain the warmest bilateral relations with people who are in so many respects like-minded with ourselves, as well as to contribute whole-heartedly to the EEC/ ASEAN dialogue.

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

I am Sir

Yours faithfully