

FOREIGN AND COMMONWEALTH OFFICE DIPLOMATIC REPORT
General Distribution

MALAYSIA 11 January, 1980

MALAYSIA: ANNUAL REVIEW FOR 1979

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

SUMMARY

Malaysia's citizens are fortunate amongst the world's peoples and Malaysia had a better year than most countries (paragraphs 1 and 25)

2. Events in Indo-China affected Malaysia directly, particularly the exodus of Vietnamese boat people. Malaysia worked hard through ASEAN and unilaterally to reduce tension and committed itself to sending military assistance if Thailand is attacked (paragraphs 2, 4 and 6).

3. Maintaining equidistance between Moscow and Peking and a non-aligned stance, Malaysia displayed a desire for closer relations with the West and old Commonwealth. Ties with Saudi Arabia were strengthened (paragraphs 5 and 7).

4. Internally things were quiet, though the Government were on guard against the same Islamic and revolutionary mix which became volatile in Iran, particularly because of potential communal problems. Emphasis was placed on the essential moderation of Islam. The Chinese felt a grievance over their educational prospects (paragraphs 8-11).

5. Security was good and successes against Communist terrorists were higher than in 1978 (paragraph 12).

6. Malaysia's actions against unions and in turning away boat people caused international comment but their point of view became better understood. Amnesty International produced a report about the Internal Security Act which the Malaysians have no intention of repealing (paragraphs 13-15).

7. Relations with Britain returned to traditional cordiality, helped by Ministerial visits in both directions. The Malaysians requested 200 British teachers of English but there was unhappiness over the proposed increase in university fees for overseas students. The Malaysians requested closer collaboration in the military field and the secondment of 20 Loan Service personnel. There was formal co-operation between BNOC and the Malaysian national oil company (paragraphs 16-19).

8. British investment in Malaysia remained over £2 billion, mainly in the estates sector, which was squeezed towards greater *Bumiputra* participation. Britain's record in new investment in the industrial sector trailed behind other countries and dropped to fourth place in the exports league, taking only 5 - 6 per cent of the market. If large new contracts are to be won a line of competitive credit is necessary (paragraphs 20, 21 and 23).

9. Malaysia's economy was strong, with a growth rate of 8 per cent and inflation at 5 per cent. Commodity prices gave Malaysia a handsome trade surplus and oil became the principal export earner. Japan had the largest share of the Malaysian market (paragraphs 22-24).

10. It is greatly in our interest to maintain even closer relations with an economically vital country holding a common perspective of decency and democracy (paragraph 25).

Kuala Lumpur, 11 January, 1980.

My Lord,

Malaysia more than held its own in a world of increasing political and economic trouble. Its citizens, whatever minor gripes they have, are indeed fortunate amongst the world's peoples.

External

2. Storm clouds from the North grew much blacker and Malaysia felt direct shocks from events in Indo-China: the exodus of boat people from Vietnam, many thousands of whom reached Malaysia's shores, the Vietnamese invasion of Kampuchea and installation of their puppet, the Chinese "lesson" to Vietnam and mounting tension and complication on the Thai/ Kampuchean border. The sympathies of most Malaysian Chinese were fundamentally with China.

3. The Vietnamese invasion of Kampuchea, justified on the attractive but specious ground of ridding Kampuchea of the atrocious Pol Pot regime, created so alarming a precedent that, with Malaysia playing a full part, the ASEAN countries, hitherto largely an economic grouping, became a political force with a surprising degree of unanimity.

4. Malaysia also worked unilaterally for a reduction of tension in the region, particularly for a political solution of the Kampuchean problem and lessening dangers on the spark-laden border with Thailand. Malaysia, for historical as well as geographical reasons, regards Thailand as a "Siamese twin" and is now publicly committed to lending military assistance to the Thais if they are invaded by Vietnam—a commitment unthinkable even a year ago.

6. The Malaysians fought strongly against creeping recognition of the puppet, worked against the take-over of the Non-Aligned Movement at the Havana Summit by the USSR surrogate, Cuba, and quietly deflected a Russian request for a Naval visit. The USSR invasion of ASEAN air space, including possibly Northern Malaysia, caused great concern.

7. Malaysia's ties and sympathies with Saudi Arabia remained strong and the Foreign Minister, Tengku Rithauddeen, bore a personal letter of congratulation to King Khalid in December on Saudi success in ridding the Great Mosque in Mecca of armed heretics. Otherwise Malaysian contacts with Middle Eastern countries were limited.

Internal

8. Internally the year was relatively quiet after the elections of 1978 though State elections in Sarawak in September aroused local excitement and demonstrated the Byzantine doctrine and practice of politics in this, the largest, State.

10. The Prime Minister, Deputy Prime Minister and other senior Ministers constantly stressed the essential moderation of Islam and its place in a modern developing world. The need to avoid dangerous heresies which could upset the balance in this finely tuned multi-racial society was strongly emphasised and measures were taken to promote moderate Islamic doctrine in schools, universities and religious training colleges. The Minister of Education, Datuk Musa Hitam, summed up Government concern in December by saying "where previously the Government had only to deal with Communist influences and racialist politics, it is now faced by a new threat -false Islamic teachings".

11. Chinese grievances essentially related to the present *Bumiputra* policy of giving indigenous Malays a share of national economic resources, employment and education—were focused on the proposed Chinese medium Merdeka University and educational prospects. Over this the main Chinese parties, MCA and Gerakan, lost ground to the Association of Chinese Chambers of Commerce who, forming the basis of the Merdeka University Committee, took up the cudgels. The opposition DAP, masking itself as a non-racial and democratic party, campaigned generally in by-elections and in Sarawak—to which it was admitted for the first time.

12. Security remained good, but insurgency continued and the Armed Forces and Police, which are being greatly expanded on account of future dangers, were in continuous action, particularly in the North. Successes in terms of kills, captures and surrenders of Communist terrorists showed an improvement over 1978. Despite fears, there is no evidence yet of Vietnamese or Soviet penetration of the Communist Party of Malaysia (CPM).

Human Rights

13. Malaysia acquired some notoriety over actions interpreted by Western journalists as contrary to human rights. Strong measures were taken against illegal actions by the MAS (Malaysian Airways System) Union and attempted interference by the International Transport Workers Federation (ITF), with its headquarters in London. The Government insisted that the rule of law should prevail. [Name withheld], a Malaysian of New Zealand extraction, and Asian Representative of ITF, was imprisoned for a while under the Internal Security Act as the Government feared serious repercussions if his [text edited] attempt to incite workers at Port Klang to strike in sympathy had been successful. Later, with deft flexibility, the Malaysian Minister for Home Affairs, Ghazali Shafie, met the President of ITF, in mid-May. Shortly afterwards, he [text edited] was released and international pressures withdrawn.

15. Malaysian action in turning away Vietnamese boat people in May shocked opinion abroad until the full magnitude of their problem was appreciated. But their action helped to arouse world attention and to bring about the Geneva Conference, suggested by Mrs. Thatcher in July. Subsequently the Vietnamese restricted uncontrolled exodus and the Malaysians quietly reverted to their earlier practice of admitting boat people in small numbers. By November 1979, 122,605 boat people had arrived in Malaysia, of whom 85,423 had left for countries of permanent settlement. The residue was 37,182.

Relations with Britain

16. Relations returned to their traditional cordiality and Malaysia showed a marked desire to increase links with us. Concorde was permitted to fly through-out the year. The Prime Minister, Minister of Finance and several other Ministers paid successful visits to London, and your visit to Kuala Lumpur in June was received with particular pleasure.

17. The British Council signed an Agreement with the University of Malaya for improving spoken English amongst students and the first 45 of 200 British teachers of English arrived. There was, however, unhappiness about the proposed increase in university fees for overseas students in the UK, of whom approximately 17,000 are Malaysians.

18. Malaysian desire for closer collaboration in the military field was given an impetus by the exchange of visits between the respective Chiefs of the General Staff. The Malaysians, who are nearly doubling their Armed Forces, want more training and sixth-form education for cadets in the UK as well as the secondment of 20 Loan Service personnel, particularly for the armoured, artillery, engineering and ordnance fields.

19. Formal co-operation between BNO and the Malaysian national oil company, Petronas, began and a number of engineers were seconded from BNO.

20. A Loan Agreement under the Aid Trade Contingency Fund was signed for the Malaysian share in the Indian Ocean Cable (IOCOM).

21. British investment in Malaysia remained over the £2 billion mark, a substantial part of which is in the estates sector.

Economy

22. The average growth rate was 8 per cent and the inflation rate approximately 5 per cent, though oil price subsidies disguised the true situation of an overall inflation rate of some 8 per cent. Commodity prices gave Malaysia a handsome trade surplus and, for the first time, oil became the principal export earner.

23. The investment climate remained good and the Deputy Prime Minister, Dr. Mahathir, visited European countries, including Britain, to stimulate further investment. The proposed foreign investment was up by 122 per cent for the first 10 months of 1979 compared with the same period in 1978, but Britain's share of this was less than 5 per cent. Malaysia's estimated export earnings were \$21,025 million compared with \$17,094 million; in 1978 and the export of manufactures rose from \$3,614 million to \$4,300 million.

24. Japan had the largest share of the Malaysian market (total imports in 1979 were an estimated \$16,505. million) with an estimated \$3,736 million (23 per cent) and the US was second with an estimated \$2,508 million (15.2 per cent). Britain dropped to fourth place with about \$920 million (5.6 per cent). Exports from the EEC accounted for 17.5 per cent of Malaysia's imports, with Britain the largest EEC supplier, whilst the EEC took 18 per cent of

Malaysia's exports, with Japan taking about 20 per cent and the US 18.5 per cent. Malaysia's exports to ASEAN partners accounted for about 20 per cent, imports from ASEAN being 14.9 per cent.

Conclusion

25. It was a more difficult year, despite Malaysia's strong, diverse economy and richness in basic commodities. However in both political and economic fields they kept their heads and this augurs well for the future: Malaysia's future health depends much on the political and economic health of the West and likewise it is greatly in our interest to maintain even closer relations with an economically vital country holding a broadly common perspective of decency and democracy.

26. 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