

FOREIGN ANP COMMONWEALTH OFFICE DIPLOMATIC REPORT

General/Economic Distribution

MALAYSIA 12 January, 1981

MALAYSIA: ANNUAL REVIEW FOR 1980

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

SUMMARY

- Malaysia remained prosperous and peaceful. Datuk Hussein brought new blood into the Cabinet. Doubts about his own health intensified jockeying for future position between the Deputy Prime Minister and the Finance Minister (paragraphs 1, 2 and 5).
2. The internal security situation improved and some detainees were released. There were manifestations of Muslim fanaticism but Ministers stressed the essential moderation of the Islamic message (paragraphs 3 and 4).
3. Malaysia's Chairmanship of the ASEAN Standing Committee was memorable for signature of the European Community / ASEAN Co-operation Agreement in March and closer political relations between the two groupings. The "irreversible fact" created by Vietnam's invasion of Cambodia dominated Malaysian and ASEAN thoughts. Afghanistan aroused apprehension about the USSR and Malaysia moved closer to other Muslim countries. Israel's declaration on Jerusalem aroused strong feeling (paragraphs 6-8).
4. Relations with Brunei were improved and the Sultan was the only foreign Head of State invited to the Agong's Installation. Datuk Hussein paid a significant visit to Lee Kuan Yew in Singapore. Regional Commonwealth links were strengthened and Malaysia supported revitalisation of the Five Power Defence Agreement (paragraphs 9 and 10).
5. Her Royal Highness Princess Margaret, Lord Carrington and Mr. Blaker paid successful visits. The Sadler's Wells Royal Ballet provided the cultural highlight. The wholesale introduction of British teachers of English worked smoothly (paragraphs 11-13).
6. Commercial links with Britain were strengthened and there was greater British interest in investment (paragraph 14).
7. Malaysia achieved 8 per cent growth and oil overtook other commodities as the largest export earner. Inflation may have reached 10-12 per cent. Malaysian imports increased by 30 per cent but West Germany displaced Britain as the fourth largest supplier. British invisible earnings equalled direct exports. There is local impatience over achievements under the NEP but investment and trade prospects remain excellent (paragraphs 15-17).

Kuala Lumpur, 12 January 1981

My Lord,

Malaysia remained prosperous and largely peaceful in a world in deep trouble and recession. Nothing happened to darken short term prospects.

Internal

2. The National Front Coalition Government remained firmly in control although Datuk Hussein reshuffled his Cabinet in September, pruning out dead wood, promoting young Deputy Ministers of all races, and bringing in fresh blood at Deputy Minister and Parliamentary Secretary level. Datuk Harun, the Malay chauvinist UMNO leader and former Chief Minister of Selangor, who was jailed in 1978 for corruption, made an abortive attempt to secure release on a legal technicality. Still a force to be reckoned with, he also recaptured the political limelight by making a serious challenge for the Presidency of the UMNO Youth from his prison cell. The Opposition parties and the Trade Union Movement were both in considerable disarray.

3. An attack by religious fanatics, clad in white and ready-or even determined-to die, on the police station at Batu Pahat in Johore was a phenomenon more reminiscent of the Balinese mass suicide at Denpasar in 1904 than of Muslim behaviour. None the less it focused attention on the increasing signs of Muslim fanaticism, which concern the authorities because of parallels with events in Iran, the occupation of the Great Mosque in Jeddah and other such phenomena. In contrast Malaysian leaders throughout the year publicly stressed that Islam's message is essentially moderate and progressive.

4. The general internal security situation improved, prompting some relaxation of the Internal Security Act under which about 700 people were detained at the end of the year compared with over 900 a year earlier. The Government would like to reduce the number of detainees still further. The ISA is generally accepted as a "necessary evil".

5. The UMNO elections for high party office in June 1981 are likely to set the pattern for the future leadership and determine the succession.

External

6. Kuala Lumpur was the hub of ASEAN activities during Malaysia's Chairmanship of the Standing Committee from July 1979 to June 1980. Malaysians took considerable pride and pleasure in the signature of the European Community / ASEAN Co-operation Agreement signed in March and in the significant strengthening of political relations between the two groupings which was reflected in the March meeting between Foreign Ministers. The meeting of minds and unanimity of view then shown on Cambodia and Afghanistan gave heart to Malaysia as well as the other ASEAN countries.

7. Regionally Cambodia and the dangerous Thai border situation dominated Malaysian, as well as ASEAN, thoughts and they wrestled constantly with the problem of the "irreversible fact" created by Vietnam's invasion of Cambodia and installation of the Heng Samrin regime. This featured large at the ASEAN Foreign Ministers' Meeting in June, which was followed by discussions with the "dialogue countries" other than Europe-US, Canada, Australia, New Zealand and Japan. Malaysia remained loyal to the agreed ASEAN stand and actively participated in ASEAN's successful measures to prevent recognition of the Heng Samrin regime at the General Assembly of the UN.

8. Events in Afghanistan and elsewhere brought increasing Malaysian recognition of dangers posed by the Soviet Union and stimulated Malaysia's involvement with other Islamic countries. The declaration by Israel on Jerusalem as the permanent capital aroused strong feelings, creating a closer bond with the Arab and Islamic world where events were watched with anxiety.

9. Closer links with Commonwealth countries in the region were forged at the Commonwealth Heads of Government Regional Meeting in Delhi in September and political realism led Datuk Hussein to respond enthusiastically to Mr. Fraser's suggestion for revitalising the Five Power Defence Agreement. Malaysia made provision to double her armed forces and expand her defence effort generally.

10. Relations with Brunei were strengthened by the growing friendship on the polo field between the Agong and the Sultan of Brunei and the Sultan attended the Agong's, installation-the only invited external Head of State- sitting in and amongst the Malay Rulers at the ceremony. Datuk Hussein paid a fruitful visit to Lee Kuan Yew in Singapore in May, emphasising the mutual personal respect between the two leaders which is so important to Malaysian/Singapore relations.

Relations with Britain

11. The British Government's decision to increase university fees for over-seas students caused major problems for Malaysia which has more students in Britain than any other country. The general cordiality towards Britain none the less prevailed and Malaysians on the whole wish us a happy outcome from our present economic and industrial difficulties.

12. Her Royal Highness Princess Margaret paid a successful visit in May and your attendance at the EC / ASEAN Meeting in March was much appreciated. The British Design Exhibition in Kuala Lumpur and Penang aroused interest and favourable comment and Mr. Blaker's visits provided opportunities for a frank exchange of views. Culturally, the undoubted highlight was the visit of the Sadler's Wells Royal Ballet in September during which the Agong, the Prime Minister and Deputy Prime Minister attended a Gala Performance.

13. The experiment of bringing in British teachers to teach English worked out happily and a large new batch of 84 arrived, causing considerable interest and appreciation.

14. There are signs of increased British interest in investment and co-operation was developed with BNOC and initiated with British Petroleum in the petroleum sphere. The Governor of the Central Bank led a very successful

mission to the City of London in July which should result in increasing cooperation between London and Kuala Lumpur, where a Commodity Exchange was opened in October, as financial centres. Some Malaysians now talk in terms of "a tale of two cities".

Economy

15. Malaysia achieved a growth rate of 8 per cent despite world recession and reduced earnings from traditional exports. Lower world prices for rubber, palm oil, timber and tin were more than offset by increased oil revenue which has now become Malaysia's largest export earner. Though the Budget was mildly expansionary, growth may be restricted by a shortage of credit and rising inflation which exceeded 7 per cent on official reckoning but may have really reached 10-12 per cent.

16. Malaysian imports increased by 30 per cent but though UK exports rose by 16 per cent to about £220 million f.o.b., our market share dropped again and we were displaced by West Germany as Malaysia's fourth largest supplier. The Japanese increased their market share from 19 per cent to 22 per cent while the EC overtook the US as Malaysia's second largest trading partner with 19 per cent of the external trade. British invisible earnings remain substantial and are probably roughly equal to the value of our direct exports. Britain imported less from Malaysia and was this year in trade surplus. New British investment in manufacturing projects was disappointing and amounted only to 8 percent of fresh foreign capital.

18. Although the local rate of inflation increased, it remained very moderate in world terms and Malaysia's essential prosperity was clear for all to behold. Political, economic and commercial considerations all demand that our interest in Malaysia should be re-aroused.

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

I am Sir

Yours faithfully