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MALAYSIA: ANNUAL REVIEW FOR 1981

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

SUMMARY

1981 likely to prove a watershed in Malaysia's history. In Dr. Mahathir bin Mohamed Malaysia has its first non-British educated and self-made Prime Minister. He and his Deputy, Datuk Musa Hitam, who is very close, seem certain to bring about profound changes (paragraphs 1-3).

2. Hussein Onn's decision to resign as Prime Minister no surprise. Mahathir could expect to succeed and interest centred on the Deputy Presidency of the Party, won by Musa Hitam. UMNO is a remarkable Party but others in the ruling National Front are less cohesive. But the coalition is firmly in control and in good shape for General Elections expected next year (paragraphs 4-7).

3. Malaysia better placed than most to weather the present world recession. The Fourth Malaysia Plan is ambitious but if it is only partly successful Malaysia might have an even greater boom than in the late '70s. The next 18 months will be difficult because of poor commodity prices but Malaysia should overcome these temporary setbacks (paragraphs 8 and 9).

4. The activities of Communist terrorists continue at a low level with the security forces well on top. The extraordinarily rapid expansion of the Malaysian Armed Forces will provide great opportunities for foreign suppliers (paragraphs 10 and 11).

5. Malaysia's main preoccupation in foreign affairs remains the Vietnamese occupation of Cambodia and ASEAN efforts to find a political solution. Dr. Mahathir's assumption of power seems certain to bring major changes of emphasis in foreign affairs away from the industrialised West towards North-East Asia and the Islamic world. However Malaysia will remain staunchly anti- Communist (paragraphs 12 and 13).

7. Dr. Mahathir and Datuk Musa can expect to rule Malaysia for most of the rest of this century. Dr. Mahathir hopes to emulate Mr. Lee Kuan Yew's achievement in Singapore. He faces formidable obstacles but the High Commissioner believes the chances of success outweigh those of failure.

Kuala Lumpur, 31 December, 1981.

My Lord

1981 is likely to prove a watershed in Malaysia's history. The changes it foreshadows are probably greater than any since 1965, when Singapore was forced out of the two year old federation and the frustrated pro-Communist coup in Indonesia marked the beginning of the end of Confrontation. They result from Dr. Mahathir bin Mohamed's appointment in July as Prime Minister.

2. Dr. Mahathir, a 56 year old Malay intellectual of great brilliance, probity and strength of mind, gained prominence in the '60s as a backbench Member of the leading Malay Party, UMNO, mainly by his attacks on Britain's colonial record and his powerful advocacy of additional privileges and protection for the Malays until they can successfully compete with their Chinese compatriots. He held Malaysia's first Prime Minister, Tunku Abdul Rahman, responsible for the race riots of 1969 because he had not given enough such protection and was thrown out of UMNO for his pains. But he was in better tune with Malay opinion and when the Tunku lost office Dr. Mahathir was brought back into the Party and Government by Tun Razak. Since then his rise has been meteoric.

3. Malaysia thus has its first non-British educated Prime Minister and the first from relatively humble origins. What he and his Deputy, Datuk Musa Hitam, have done for themselves Dr. Mahathir is determined that all Malays shall learn to do.

Politics

4. The year began with Prime Minister Hussein Onn's journey to London for heart by-pass surgery. This was successful but he returned lacking the will or determination to continue as leader of UMNO and the country and his May announcement that he would step down was no surprise. By UMNO custom Dr. Mahathir could expect to succeed him as Party President, and thus Prime Minister. Interest at the June party assembly centred therefore on the contest for the Deputy Presidency between the Minister of Education, Datuk Musa Hitam and the Minister of Finance, Tengku Razaleigh. Both outstanding politicians in their mid-40s they contrast strongly both in style and in what they represent: the former a self-made man with opinions close to those of Dr. Mahathir, though less stridently and inflexibly expressed; the latter a Malay prince something in the style of Tunku Abdul Rahman, far more likely than his rival to advocate policies broadly similar to those of Malaysia's first three Prime Ministers and thus very much a second best for Dr. Mahathir.

5. Malays have a talent for politics and UMNO is a remarkable party, with a highly developed capacity to overcome the effects even of such bitter contests and to stand firmly united behind its leaders as long as they produce the goods. The other parties in the ruling National Front are less cohesive and the year saw a continuation of manoeuvres both within and between the two leading Chinese parties, MCA and Gerakan. Similarly the MIC, representing the million or so Malaysians of Indian descent, had some strenuous bouts of in-fighting. Nevertheless by the end of the year the National Front was firmly in control in Western Malaysia.

6. Nor are there any serious threats to it in the Borneo States. In Sabah Berjaya won a landslide victory in May although by the year-end there were clear signs that its flamboyant leader and the State's Chief Minister, Datuk Harris Salleh, was, like many others, having his wings clipped by the new national leadership. The political scene in Sarawak also remains largely unchanged with the Government coalition holding an overwhelming majority in the State Legislature. The National Front therefore seems in good shape for the elections which are expected next year, though in any case there is no question of it failing to retain power: electoral success or failure will be judged by whether or not the Opposition parties increase their representation in the National Parliament and State Assemblies.

7. The mid-year amendments to the Societies Act aroused fears for further curtailment of political rights not so far borne out by events; and one of the Prime Minister's early acts was to free 21 of those detained under the Internal Security Act (ISA).

The economy

8. With a good spread of commodities usually in strong world demand Malaysia is better placed than most to weather the present world recession and the Fourth Malaysia Plan is as ambitious as its three broadly successful predecessors. It aims at maintaining overall annual growth of around 8 per cent whilst reducing dependence on primary commodities by promoting heavy industry and processing locally raw materials. Private sector investment is to be stimulated and substantial Government resources put into the relief of poverty and the achievement of the 1990 target of 30 per cent ownership of the corporate sector by Malays. If only a major part of this plan succeeds Malaysia could be set for a boom greater even than that of the late 'seventies, always provided the world economy recovers reasonably soon.

9. The next 18 months to two years will, however, be difficult with tin and rubber prices low, the market for palm oil and tropical hardwoods patchy and a world glut of oil that prevents Malaysia from trimming the ship by additional oil exports. The Government are meeting this challenge by increased borrowing, both foreign and domestic, and pressing ahead with the Fourth Plan. But inflation is rising as, probably, is unemployment, despite the labour shortages which affect certain industries the plantation industry in particular. Unless the world recession is unexpectedly long or severe Malaysia should overcome these temporary setbacks but they will have their political effects, which increases the likelihood of an early General Election: April or August seem the best bets.

Defence and security

10. The activities of Communist terrorists on the Thai border continue at a low level with the security forces well on top though at a high cost in men and arms deployed. A mid-year problem of Muslim refugees from Thailand was solved fairly easily whilst the number of Vietnamese refugees continues to fall, ending the year around the manageable figure of 10,000.

11. Almost a quarter of the funds available under the Fourth Plan are earmarked for expansion of the armed forces and the police. As a percentage of total population this force is already amongst the largest in the region and by the middle of the decade Malaysia will probably have a greater proportion of its population under arms than any other ASEAN country. Meanwhile Malaysia has responded readily to the revival of the Five Power Defence Arrangement and seems likely to offer an effective deterrent to any likely external threat during the 1980s.

Foreign affairs

13. Dr. Mahathir's assumption of power seems certain to bring major changes of emphasis in foreign affairs. He has said that amongst international organisations Malaysia's priorities are ASEAN, the Islamic Conference, the Non-Aligned Movement and the Commonwealth in that order. There seems no reason to doubt however that Malaysia will remain staunchly anti-Communist, thus remaining a reliable friend of the West on questions of fundamental importance.

Prospects

18. Barring accidents Dr. Mahathir and his deputy, Datuk Musa, can expect between them to rule Malaysia for most of the rest of this century. It cannot be without significance that, whilst the Prime Minister has retained his predecessor's additional Defence portfolio, his deputy has taken over that of Home Affairs, which controls the police. I believe they have a clear vision of what they mean to accomplish. Dr. Mahathir hopes to do for Malaysia what Mr. Lee Kuan Yew has done for Singapore. If he succeeds these two countries should enter the 21st century as the first to become developed in South East and South Asia.

20. I believe however the chances of success much outweigh those of failure and that the remarkable progress of Malaysia's first quarter century of independence will be overshadowed by that in the 25 years ahead.

21. I am sending copies of this despatch to Her Majesty's Representatives at Singapore, Bangkok, Jakarta, Manila, Brunei, Peking, Tokyo, Canberra, Wellington, Hanoi, Washington, UKMIS New York, UKDEL Brussels, Ottawa and to the Governor of Hong Kong.

I am Sir Yours faithfully