



**A NEW
ERA OF
CO-OPERATION
BEGINS IN
ANGLO-
MALAYSIAN
TIES**

SIRI UCAPAN PENTING

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Introduction

Due to the Government's prudent approach in husbanding the economy through the difficulties of recent years, share prices are up, commodity prices have picked up and sales volume increased; deficit trade balances have now become a surplus and manufactured goods are yielding greater export earnings.

Coupled with the Government's present package of investment incentives, conditions have never been better before for British businesses to establish or expand their operations in Malaysia.

With this positive improvement in Malaysian economy since the beginning of 1987, the Government has revitalised its appeal to foreign investors.

This was the overriding message carried to the British business community by the Prime Minister Dato' Seri Dr Mahathir Mohamad when he made an official visit to the United Kingdom on July 19, 1987.

Dr Mahathir and his British counterpart Margaret Thatcher discussed a range of topics - The Gulf War, world economic situation, drug abuse and illicit trafficking, Indo-China, and bilateral matters, especially those relating to trade.

Speaking at the end of his six-day tour to Britain, the Prime Minister expressed great satisfaction at the reception accorded to the Malaysian delegation by both the British Government and private sector.

He pointed out that his talks with senior British officials and businessmen had clarified the most useful areas of emphasis in bilateral relations.

Following are the addresses made by the Prime Minister to the British Government and business community leaders.



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**SPEECH BY THE PRIME MINISTER
DATO SERI DR. MAHATHIR BIN MOHAMAD
AT A DINNER HOSTED BY
MRS. MARGARET THATCHER
PRIME MINISTER OF THE UNITED KINGDOM
IN LONDON, ON MONDAY
20TH. JULY, 1987**

Let me begin by congratulating you again for your historic third consecutive victory in the general elections. Your victory speaks clearly of your very able leadership. I have myself overcome some squalls. I am happy to state that we can now continue "to do business as usual", so to speak.

I am a frequent visitor to London and yet find much pleasure in making this first official visit to this capital city with its various charms. Members of my delegation, no doubt, are taking in avidly all that London has to offer.

I have undertaken this visit with a positive mind, convinced that our bilateral relations could be raised to a level that would do justice to the many ties that had long characterised relations between our two countries. It is important that we move forward. In developing our relations let us add meaning to our efforts, substance to our initiatives and imagination to our approach. Let us tolerate criticism of each other, if necessary and yet remain strong on the commonality of interest that binds us.

For historical reasons, Britain has been the favoured country for most Malaysian -- for education and training, for technology, and for holidays to name some. Ability to use the English language has become "de rigeur" for most Malaysians. The average Malaysian knows more about Britain than the average Britons do of Malaysia.

But structural adjustments taking place within our two countries and influences by competing external factors are bringing considerable changes to all those which we have hitherto taken for granted.

It has always been in the finest tradition of Britain to recognise early the winds of change. With that recognition comes ability to adjust, anticipate and finally participate in the processes brought about by change. This is an invaluable talent, a national genius; to have it is to be able to survive and thrive.

Malaysia too has been honing its reflexes to change. We believe we have read the signals well. The falling price of our commodities, restrictive markets, volatile exchange rates, etc. - these are storm warnings that we must heed in order to effect the proper responses. Bilateral relations between Malaysia and Britain must adapt well in these circumstances. Sentiments and tried old ways are poor alternatives.

Malaysia would like to look at Britain anew, to come to terms with Britain's new priorities and to gain if possible from effervescent new ideas that may be afoot in your industries. Britain too should do likewise to Malaysia. Britain should be more sensitive to Malaysia's needs and aspirations.

The Malaysian Government does not want to look back. There is little to gain from that. In order to upgrade the quality of our relationship, Malaysia and Britain must provide the necessary underpinnings. In this respect, I clearly see a proactive role for the private sector of both countries, as much as both governments must also contribute.

The economic relations between Malaysia and Britain must be the focus of both governments as well as the private sector of both countries. Ideally, the relationship should be a model of a mutually beneficial relationship between the former colonial power and the independent country.

However, 30 years into independence there are still adjustments to be made. It is a matter of concern for Malaysia that we continue to experience a substantial deficit in terms of our invisible trade with the United Kingdom. The efforts made by Malaysia to bring about a more favourable balance to this respect have yet to bear fruit.

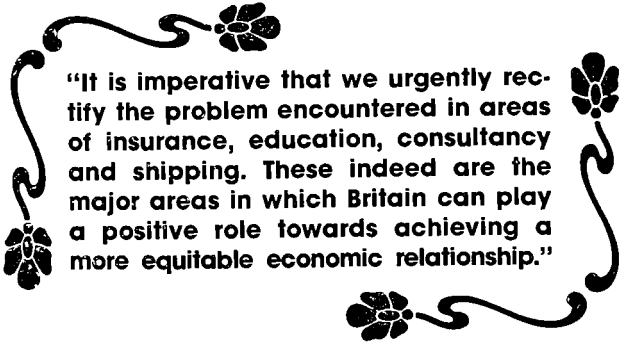
It is imperative that we urgently rectify the problem encountered in areas of insurance, education, consultancy and shipping. These indeed are the major areas in which Britain can play a positive role towards achieving a more equitable economic relationship.

It is in this context that we wish to see Britain diversifying its imports from Malaysia rather than confining to importing only Malaysia's primary commodities.

We also wish to see an increase in British investments in Malaysia especially now when we have greatly liberalised conditions for foreign investments.

Malaysia has accepted fully the priorities that Britain has established for itself. Britain's entry into the Common Market, its special concerns over East-West relations and its identification with the United States on some foreign policy issues are in our view the prerogatives of Britain.

We do not question although we are mindful of the stated positions on North-South issues, the New International Economic Order, challenge to multilateralism and a host of other problems of the developing countries.

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“It is imperative that we urgently rectify the problem encountered in areas of insurance, education, consultancy and shipping. These indeed are the major areas in which Britain can play a positive role towards achieving a more equitable economic relationship.”

There is much disillusionment with the North for us in the South on these issues. Developing countries like Malaysia cannot afford to wait indefinitely for deliverance.

This has impelled us towards the establishment of the South Commission to chart out practical and sustaining cooperations between countries of the South. Still it will be well for the world to remember that all countries are interdependent and the North cannot really do without the South.

It would seem that the technological break-throughs that have fired everyone's imagination are not only not going to help make qualitative changes in the developing world but may make the disparity between North and South even greater.

Not having the expertise, even the exploitation of our own resources like petroleum gas will mean added dependence on the developed countries, at a heavy price. And new technology has of course reduced the need for our commodities even as they increase the production of the same.

Malaysia, as I said earlier, is honing itself to respond effectively to these new challenges. We have been buffeted by numerous economic storms and pressures in the last few years. The resulting setbacks have shocked us out of our complacent view that growth is a function of time.

We now realise that wealth creation needs entrepreneurship, management skill and greater productivity. It is because of this that we need to learn from the successful countries of the East.

Some people decry Malaysia's Look East Policy, accusing Malaysians of forgetting old friends from the West. We have not forgotten.

One hundred thousand students studying in the West bear testimony to that. We have only about one thousand students in Japan, Korea and Taiwan.

But we need to learn what makes these countries succeed in competing with established industrialised countries if we are to enter the fray ourselves. It is the work ethics, management methods and business strategies that we are interested in.

Look East does not, I repeat, does not mean giving contracts or buying goods exclusively from the East. I hope our British friends, in both sectors, understand the objective of Malaysia.

Countries like Malaysia cannot afford to evolve at the same pace as the developed countries in their early days.

We have to programme ourselves for quantum leaps. We may land on quite a few toes. We hope we do not hurt too much. We hope our friends will understand why we do this.

Notwithstanding the differing degrees of influence that our two countries exercise in international affairs, I am happy to note that there are a number of issues where we both share common stands.

I refer specifically to Kampuchea, Afghanistan, the problem of drug abuse and illicit trafficking, the European Commission's proposed levy on vegetable oils and fats and the need to convene an International Conference on the Middle East.

Of the above international issues, the proposed levy on vegetable oils and fats is certainly an area of immediate concern to Malaysia. Our US\$2 billion worth of palm oil export would be badly affected by the levy.

We are accordingly very appreciative of the crucial role played by Britain in preventing the passage of the proposed levy at the recent EEC Summit.

We view very seriously drug abuse and illicit trafficking. Malaysia's strong role at the recently concluded conference in Vienna reflects our concern.

All of us need to follow up on the commitments given in Vienna. We must collectively rid of this menace. There has to be a co-ordinated effort linking the national programme to the regional and the international level.

I look forward to Britain to play a prominent role in the Commonwealth forum, possibly on the question of forfeiture, so that all of us can benefit.

Malaysia hold the view that the Commonwealth is still a useful forum although personally I feel that it has not risen to the occasion when it is most needed. I refer to the despicable policy of apartheid practised by the white regime in South Africa.

Malaysia applied sanctions unilaterally against South Africa since 1965 and we have lost billions of dollars as a result.

I cannot believe that any British Prime Minister would want to see apartheid perpetuated. Yet Britain is unwilling to apply sanctions in the belief that it will do the blacks more harm than good. I don't think so.

Indeed, I feel that more than any other member of the Commonwealth, Britain has a moral duty to join the majority to bring about the end of minority rule and apartheid in South Africa.

I am happy indeed that discussions on this and other issues have been conducted frankly between our two countries.

I think by now, both sides are used to the merits of plain speaking. Our discussions of bilateral issues in particular augur well for the future of Malaysia-British relations.

My delegation and I are very appreciative of the warm welcome and generous hospitality extended to us and I look forward to completing the programme of my visit which I hope will help pave the way towards better bilateral relations.

**SPEECH BY THE PRIME MINISTER
DATO SERI DR. MAHATHIR BIN MOHAMAD
AT THE ROYAL INSTITUTE OF INTERNATIONAL
AFFAIRS IN LONDON,
ON TUESDAY, 21ST. JULY, 1987**

**"THE GLOBAL ECONOMIC CRISIS: WILL 1988
BE ANOTHER 1928?"**

I am pleased to have been invited to speak at this Institute today. I am indeed honoured to be able to share my views with members of this prestigious Institute which has made a tremendous contribution towards a better understanding of international affairs.

Making speeches is the favourite occupation of politicians. In the course of years of doing this, one develops a fondness for certain quotes. For me the favourite quote is George Santayana's "Those who do not learn the lessons of history are condemned to repeat their mistakes over and over again".

I would like to repeat this quote in this speech because it deals mainly with the current economic situation and for those who have gone through the recession of the late twenties or at least read about it, they must have this "deja vu" impression when studying the present world economic situation and its political consequences.

A great book to read and to remind us about the Depression or the Great Slump of the late twenties and early thirties is H.V. Hodson's "Slump and Recovery, 1927 - 1937" published by your

Institute in 1938. Perhaps quoting a few paragraphs from this book would explain why I said that we have gone through it all before. I quote:-

"The fall in commodity prices proceeded with only intermittent relief. The pressure upon debtor countries to sell at cut prices had been grievously enhanced by the reduction in lending.

"The abrupt curtailment of international lending - however wasteful and unjustifiable some of the previous loans may have been - had dislocated world trade and depressed commodity prices

"The combination of different or harrassed lenders and weak or even bankrupt borrowers automatically prevented the revival of international lending on the scale of earlier years"

Let me continue to quote:

"In general, the prices of raw produce fell more rapidly than those of goods at the later stages of manufacture, a fact which temporarily assisted industrial countries but which could not do so for long, since their markets were being concurrently impoverished.

"The purchasing power of raw-material producing countries enormously diminished. Markets contracted, profits fell, production was curtailed, buying of stocks was restricted, and prices dropped still further

"The fluctuations in international lending, the embarrassments of debtors countries, the fall in prices, the depressed conditions in the creditor countries, all naturally had a profound effect upon the volume and distribution of world trade

"The slump, once started, continued a swift and snowball career.



One may be excused if on hearing these quotes one gets the impression that some present-day writer was writing about the present world economic situation.

Mr. Hodson wrote a great deal on the causes and the course of the Great Depression, not much on the political consequences. But he did write on the social changes and political upheavals, including the growth of extremism in Germany.

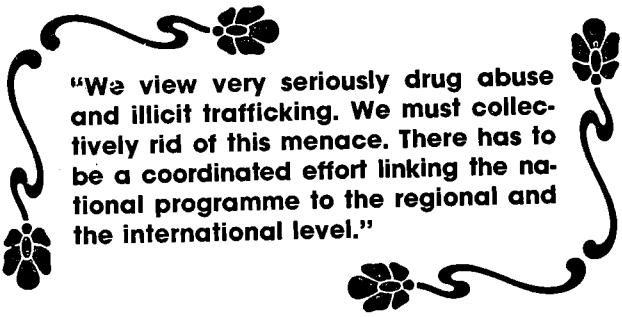
Writing as he did in 1938, Mr Hodson might be forgiven for not having a clue at all about the profound meaning of the ascendancy of Adolf Hitler and the Nazis in Germany. Mr. Hodson was no specialist on Asia and Latin America. He can therefore also be forgiven for having little inkling of the almost immediate effects outside Europe.

Let me make myself perfectly clear. I am not predicting that the world will enter another global Great Depression, although I feel that for most of the countries of the South, that second Great Depression descended quite some time ago.

Some people have seen close parallels between the New York Stock Market boom of 1929 and recent developments in Wall Street. Certainly the world has not seen in the last two years such a bull run or so many American banks going bankrupt since 1929.

I am told that there is this Kondratieff economic long wave cycle theory which seeks to explain the great depressions of the 1830's, the 1890's and the 1930's in terms of a cycle of 45 to 55 years; according to which we should have a great depression descending upon us any moment now.

But the economy of the world is not governed by the movements of the stars or the planets. It is created and managed by men. In this day and age we do not consult astrologers or astronomers before adopting economic policies. We study and we plan.

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"We view very seriously drug abuse and illicit trafficking. We must collectively rid of this menace. There has to be a coordinated effort linking the national programme to the regional and the international level."



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Surely no one would plan for a slump. What has happened is that we have forgotten the lessons of history and we repeat our mistakes. If the same people lead for longer periods, perhaps mistakes will not be repeated. But, of course, there will be other prices to pay.

In the years after the First World War, the victors forced vanquished Germany to pay huge war reparations. Obviously if Germany had to pay out so much, it must also earn so much or borrow the required sum.

Thus the beginnings of economic distortions were set in motion by the leaders themselves; leaders who had apparently not read history.

Germany, perhaps more than any other country was thoroughly disorganised industrially after the World War. Hodson pointed out that "the economic history of the whole of the first post war decade is a tale of attempts to meet or to defy the disorders that the war had wrought in the World's economic system."

The 1919 boom which was followed by a collapse in 1920 was symptomatic of the economic disorder and it must be indicative of the economic disorders that were to follow. But the leaders of the period continued with their punitive approach against Germany. The result was the 1929 slump and the rise of extremism as portrayed by Nazism.

Partly as a result of that experience there was less desire to punish the defeated countries after the second World War, except for dismantling the huge industrial conglomerates thought to have been responsible for sustaining the war machines, the Allies adopted a more liberal attitude towards Japan and Germany.

The result was a very quick recovery for these two dynamic

countries, which in time posed a threat to the economies of the U.S. and some European countries.

So far, so good. The lessons of the post World War One were well learnt and applied. But the U.S. and the Western Allies then began to feel threatened by the economic power of the two former enemies, and an easy solution was looked for.

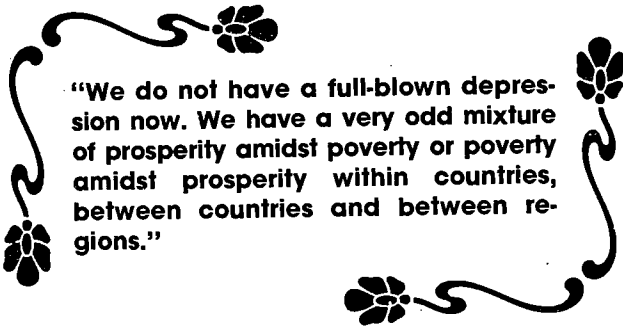
First interest rates were raised and the American dollar was effectively revalued upwards. Much money flowed to the U.S. but, at the same time, U.S. goods and services became uncompetitive. This in turn resulted in more foreign goods being imported while American industry declined and unemployment consequently increased.

Shortly after, there was a contraction in the purchasing power of the Americans which much affect adversely new investments and production. The economy deteriorates further. As the American economy deteriorates, raw material exporters began to lose their markets. Prices and earnings went down. To earn more the commodity producers produced more and prices went down further.

Elsewhere the oil producers were smarting over the minimal royalties they earned from the strategic commodity they produced. The conduct of the Arab-Israeli War gave them the excuse for raising oil prices.

Suddenly the world was flooded with petro-dollars. Such huge sums of money cannot but destabilise the world's financial system. Extravagant as the oil producers were, they still could not spend all their money. All kinds of restriction prevented them from buying into the major industries of Europe and America.

Inevitably the petro-dollars found their way into the vaults of European and American banks. The stage was even reached when Arab oil producers had to pay to keep their money in the bank.

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“We do not have a full-blown depression now. We have a very odd mixture of prosperity amidst poverty or poverty amidst prosperity within countries, between countries and between regions.”



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The petro-dollars must be lent out. Only nations can borrow huge sums. And so sovereign loans became the main business of western banks. Nor were the Arabs allowed to withdraw their deposits because it would disrupt the financial stability of the western countries.

On the other hand the fall in commodity prices undermined the capacity of the borrowing countries to repay their loans.

Simultaneously the United States discovered that a strong dollar and high interest rates was not helping its economy. The balance of trade was very much in favour of the old foes – Germany and Japan.

It was decided that it was better to devalue the U.S. dollar against the Yen and the Deutschmark in order to reduce Japan's and Germany's exports to America.

The idea did not work for the U.S. as predicted by many economists and international decision makers. Japanese and German goods kept pouring into the U.S.

Meanwhile commodity producers, including oil producers, who sell in dollars suffered as the dollars earn less in terms of purchasing capacity. The oil producers not only earned less but find their external reserves much diminished in value.

Of course, countries that borrow in Yen or Deutschmark suddenly found themselves even more indebted than before.

Since the U.S. is not getting much benefit from the de facto devaluation of the dollar, protectionism began to look more and more attractive. The target is Japan but the developing countries are dragged willy-nilly into the maelstrom. The U.S. now talks of balanced trade even with its smaller developing country trading partners.

Economic policies cannot be expected to yield only one desired result. Just as Germany cannot be made to pay reparations after the First World War without disrupting the world's economy, so today there can be no single remedy for the economic ills of a rich state which will not have undesirable effects on itself and on other states.

The more drastic the solution, the greater the side-effects on itself and on others. This being so, it is important that powerful economies do not devise economic policies in the absence of the weak.

Multilateralism has now become a bad word among developed countries. The disillusionment with the United Nations has led to the setting up of exclusive rich men's club.

The Group of Five is an alliance of the rich which must inevitably work against the interest of the poor. The five has now become the Group of Seven, again unrepresented by the poor countries.

Although in Venice the seven discussed the problems of the poor, it is doubtful that they fully appreciate these problems. It is even doubtful that they take into account that the increasing poverty of the poor will adversely affect their own economic performance.

It is worth while remembering that the Third World accounts for 40% of the exports of the world's biggest economy.

As a market the non-socialist third world is bigger to the U.S. than Western Europe, Eastern Europe, the Soviet Union, Australia, New Zealand and China put together.

Economic depression in the Third World is one reason why the U.S. will continue to have difficulties in reducing its trade deficit.

If we are going to find a solution that will work somewhat better than the currency manipulation which is the main result of the Group of Seven meetings so far, we must return to Multi-lateralism.

If having 150 different countries sitting together to formulate a solution is impractical, then there should at least be the presence of a few representatives of the poorer countries when the Group of Seven meet. No action should be taken until the representatives of the poor have been given a hearing.

For a long time the South or the developing countries begged for a New International Economic Order. The North saw in this another attempt to extract aid from them.

Accordingly they formed the Group of Seven and imposed a New International Economic Order of their own. It must be painfully obvious that it is not working. It fails to solve even the problems between the members of the Group.

Why else should the U.S. clamour for its very own protectionist policy if the currency manipulation and other measures adopted by the Group of Seven had worked?

Indeed, far from solving the problems, the exchange rate adjustments have worsened the situation. Developing countries unable to service debts now simply refuse to pay. There was much protest by the banks in the North but finally they are forced to provide for these bad debts. And weak banks are going bankrupt by the dozens.

The South admits that they cannot do without the North. But then they cannot hope to be heard if they speak with a hundred voices. And so the South have decided to set up a Commission.

The South Commission, as it is called, is presided over by Dr. Julius Nyerere and is given the task of mapping out the



areas and manner of cooperation between the countries of the South so as to reduce dependence on the North.

But it should be within the scope of the work of the Commission to formulate effective representation for the South in any North-South forum intended to correct the world's economic problems.

Admittedly the record of the attempts to cure the economic ills of the world is not very encouraging. Certainly what has been done lately has not had the desired effects.

As we can see strengthening the American dollar and raising interest rates has been no more effective than weakening the dollar and lowering interest rates.

Protectionism has not been successful. The EEC economic policies simply resulted in mountains of butter, sugar and meat due to artificially high prices and costly subsidies.

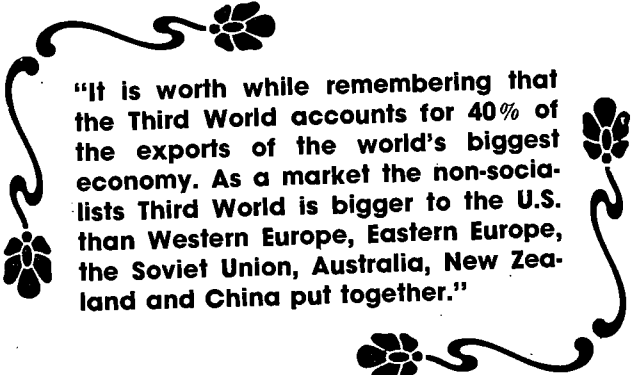
Yet we have had boom times in the world's economy. The 1960's and 1970's were definitely prosperous years for most of the world.

Even the poorest and least efficient economies suffered less because prosperous countries were prepared to give them aid.

We must also remember that we did come out of the massive slump after the First World War. We must have done something right to be able to prosper after a period of economic slump.

If we study carefully the situation before and during the prosperous years, there is bound to be something which happened to help the recovery and the subsequent boom.

Situations have changed, of course. The solution of yesterday cannot be the solutions of today. But there must be some

A decorative border made of black, stylized floral motifs and swirling lines. The border starts at the top with a flower, curves down the left side with another flower, then curves around the bottom with a third flower, and finally curves up the right side with a fourth flower.

"It is worth while remembering that the Third World accounts for 40% of the exports of the world's biggest economy. As a market the non-socialists Third World is bigger to the U.S. than Western Europe, Eastern Europe, the Soviet Union, Australia, New Zealand and China put together."



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lessons from the historical past. Human ingenuity is such that we cannot just be fatalistic and accept the theory of 50 year cycles.

But how many of the people who determine economic policies which affect the world really study the depression of the late twenties and the subsequent recovery?

Is war the answer? But we know that the economies of all belligerents suffered as a result of both the first and the second World Wars.

Somewhere in the prosperous years there is a solution waiting to be found. And it is more likely to be found if the North can sit with the South and listen to each other.

If the Group of Seven had heard Malaysia's views they would not have forced the value of the Yen up so much that suddenly our external debt is doubled.

I am not saying that the mere listening to the views of the developing countries would result in a foolproof plan for economic recovery.

Some countries of the South are possibly irresponsible and extreme. But the participation of a small representation from the South would help in highlighting the effect of any policy on the South, and the subsequent effect on the North if the South prospers or it is impoverished.

At the beginning of this talk I said something about not learning from history, implying that the situation now is like that during the slump of the late twenties. The fact is, of course, the present situation is not identical with the late twenties.

We do not have a full-blown depression now. We have a very odd mixture of prosperity amidst poverty or poverty amidst prosperity within countries, between countries, and between regions.

We see for example economic growth taking place while unemployment increases. We see countries with massive trade surpluses yet with high cost of living and high unemployment rate.

Some countries accumulate huge reserves trading with countries with huge deficits. Where normally prosperity in developed countries have beneficial effects on poor countries, now we see rich countries getting richer at the expense of poor commodity producing countries.

In the developed countries, stock market prices go through the ceiling even as record numbers of banks go through the floor. Companies make little profit but their shares go up in value quite independently. Billions of dollars boost the value of junk bonds while real business suffer because they are considered not creditworthy.

Obviously this is not a slump. It is a case of the world's economy going haywire. We are in a madhouse. The need is for sanity.

Confrontationism, isolationism or protectionism are about as helpful as a hole in the head. More than at any other time we need to sit down and talk to each other as sane people.

Democracy is wonderful. Leaders should be elected by the people, or at least the majority of the people. But this need to be popular has resulted in some Governments losing their political will.

European leaders, for example, have little time for economic principles or historical lessons. They are busy pandering to the views of the farmers who are illiterate in economics or history, but whose votes determine whether the politicians get seats or not.

And so, despite their better judgement they subsidise and protect farmers; thus giving rise to the butter, meat and sugar mountains.

Democracy is great and we must have it even if it kills us. I am reminded of the American who said, 'I don't agree with what you said, but I will die to defend your right to say it' or words to that effect.

It is very noble but if everyone dies, including the person you disagree with, what is the benefit to be derived? A dead man who is free to speak is not much use because he cannot exercise that freedom anyway.

We must have democracy. But we must define its limits. We cannot allow democracy to kill us. If democracy prevents leaders from doing the right thing for the good of mankind, then let us redefine it.

If we are to save this world from the economic chaos we are in, leaders must be able to free themselves from the pressure of the need to be popular and take the necessary action.

This is heresy, of course. But let us remember that the sacrosanct ideologies we believe in today are the heresies of yesterday.

Coming from the developing world, I cannot help but be biased in favour of the Third World. But the fact remains that we are interdependent, now more than ever before. Just as the economic performance of the rich North will affect the performance of the South, so will be prosperity or poverty in the South affect the North.

If I talk for and of the South, interdependence implies that I am also talking for and of the North.

As Hodson said, "In general the prices of raw produce fell

more rapidly than those of goods at the later stages of manufacture, a fact which temporarily assisted industrial countries but which could not do so for long, since their market abroad (in the raw material producing countries) were being concurrently impoverished”:

What Hodson means is that if there is a slump in the Third World, sooner or later there will be a slump in the developed countries.

There is a slump in most of the Third World countries now. The question is, will there be a slump in the developed countries next year or the year after -- in other words will there be a Global Recession in 1988 or after?

If we believe in the 50-year cycle, then there must be a recession soon. But if we don't, then it is imperative that we -- and here I mean not just the economists but also the world leaders -- must learn the lessons of past slumps and booms and devise ways of avoiding the impending recession.

The will to do this must be exhibited and we must get away from the pressure exerted by narrow sectarian interests even if it means ignoring some of the current interpretation of democratic rights.

The present recessionary economic situation is man-made and it must be unmade by man.



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**ADDRESS BY THE PRIME MINISTER
DATO SERI DR. MAHATHIR BIN MOHAMAD
AT THE INVESTMENT SEMINAR
ORGANISED BY
THE MALAYSIAN INDUSTRIAL DEVELOPMENT
AUTHORITY (MIDA)
AT THE HILTON HOTEL, LONDON
ON WEDNESDAY, 22ND. JULY, 1987**

It gives me great pleasure to address this investment seminar in London and I would like to take this opportunity of thanking both Peat Marwick and the British-Malaysia Industry and Trade Association in Malaysia for their assistance to MIDA in organising this gathering.

As many of you are well aware, setting up a seminar or convention in an overseas country takes a very considerable amount of forward planning, and when we started plans for this seminar, we were not certain when a General Election was to take place in Britain.

As we now know, Prime Minister Margaret Thatcher has been returned to power for a further term, making her achievement unique among Prime Ministers in Britain in the twentieth century. It also probably made this seminar possible.

We are pleased to note the mood of confidence in Britain today and credit should go to the nation's leadership and to the British people themselves.

The fact that one of Malaysia's more important trading and industrial partners is doing well is most certainly heartening news.



"Malaysia would like to look at the British anew, to come to terms with Britain's new priorities and to gain, if possible, from new ideas that may be afoot in your industries. Britain should do likewise with Malaysia. Britain should be more sensitive to Malaysia's needs and aspirations."

.... Dato' Seri Dr Mahathir Mohamad

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1. Mrs Margaret Thatcher receives Dr. Mahathir and Datin Seri Dr Siti Hasmah to a dinner at No. 10 Downing Street.
2. Mrs Thatcher extends a warm welcome to Dr Mahathir who later inspected a guard of honour at the Foreign and Commonwealth office in London.

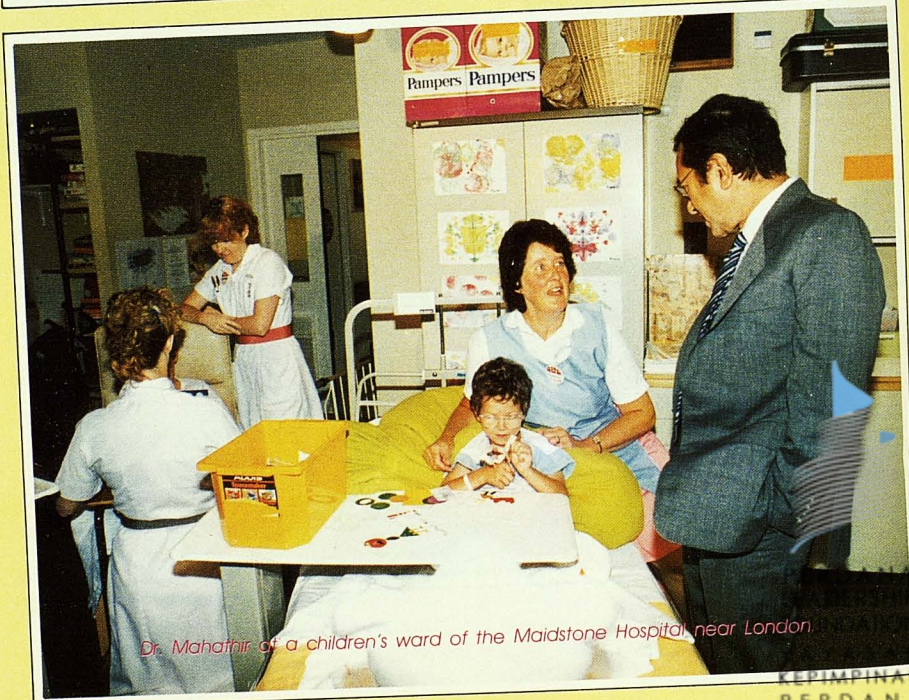
3. The Prime Minister speaking to the Confederation of British Industry.
4. Dr Mahathir addressing an investment seminar for the British industrialists.
5. Dr Mahathir visited the assembly plant and viewed "mock-ups" of various aircraft at the British Aerospace.



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The Minister of Foreign Affairs, Tan Sri Anwar Ibrahim, signs a new protocol to the double taxation agreement on behalf of Malaysia while the British Foreign Secretary, Sir Geoffrey Howe, represents his country.



Dr. Mahathir at a children's ward of the Maidstone Hospital near London.

for us, for in the symbiosis of a healthy relationship both parties must be strong so that our efforts at economic and industrial cooperation can be mutually reinforcing.

Malaysia has always welcomed foreign investors. We may impose conditions in order that we share in the benefits but we have never been anti-foreign.

We have never indulged in nationalisation. Even when we were saying "Buy British Last", we still laid out the welcome mat for British investors.

Realising the importance of political stability to economic growth, particularly where foreign investments are concerned, Malaysians have always opted for inter racial and inter party trade-offs when solving their political problems. They abhor street solutions.

Recently a member of a British Parliamentary delegation asked me how many parties are there in the National Front, the coalition which forms the Government. He was astounded when I said there are thirteen.

In the U.K., he said, it is difficult even for two parties to cooperate in an election. It is a measure of the tolerance of Malaysians that 13 parties can work together for years and years.

It must also be remembered that if the Malays are truly racialists, as they have been accused of, they could rule the country on their own. But despite having sufficient majority they chose to form the Government in coalition with the other races.

The result is that all races are represented in the Government and issues are removed from the streets and transferred to the Cabinet room. The net result is a reduction in the tension and turmoil so common in multiracial countries.

That the people endorse this approach, there can be no doubt. The National Front and its predecessor have won elections time and time again and formed the Government since independence 30 years ago. The consequence is a peaceful Malaysia which achieves economic growth with ease.

I have been told that the differences of views and opinions among the component parties of the National Front of late has been a source of concern to some people overseas.

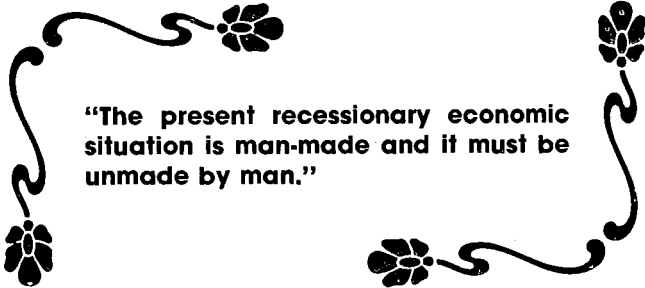
The fact that there are differences of views is a sign of a healthy and vibrant democracy. The political debates and discussions taking place in Malaysia today is the result of the liberal attitude of the Government and a sign of a mature democracy.

It should not be considered as a sign of political weakness. Indeed, the more significant thing worthy of note is the ability to resolve problems time and time again. Look back on the reports on Malaysia and you will smile at the number of times it was reported that Malaysia would go up in flames because of racial problems. But we are far from being burnt.

We are very much a vibrant and democratic country. You will perhaps appreciate our achievement more if you can imagine how difficult it would be for you if Britain is populated by 50% Indians and Chinese, both wanting to remain Indian and Chinese and rejecting the British way of life.

Very much inter-woven within the fabric of Malaysian politics and development is the question of the New Economic Policy (NEP).

I am sure you are familiar with the NEP which has been designed to eradicate poverty and to restructure society so as to reduce and eventually eliminate the identification of race with economic functions.

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“The present recessionary economic situation is man-made and it must be unmade by man.”

These objectives are to be achieved within the context of an expanding economy and without depriving any section of the population.

The NEP can be compared to the American programme of "affirmative action", whereby communities that are less economically developed are given an opportunity to catch up with the rest.

Malaysia is not the first country in the world to introduce a programme of positive support for the deprived section of the community. In fact, the idea of graduated taxation on income is based on the same social awareness and principle.

Economic disparity in a homogeneous society can and often do lead to social upheavals. Imagine how much more explosive the situation would be if, in a multiracial society, economic disparity is directly linked with racial differences.

We believe that the NEP has succeeded in reducing the kind of racial tensions that led to the 1969 race riots. You have only to look at several examples in other countries to appreciate what I say.

Because of the present recession, we have held in abeyance the implementation of certain provisions of the NEP. The result is that we will not achieve the NEP target by 1990.

We feel that the reasons for the NEP will be no less cogent after 1990 than before 1990. So long as glaring disparities are present something has to be done to correct them.

But we are more experienced now. We will structure the Malaysian society economically, socially and politically in order to reduce disparities without causing too much negative effects.

The different races in Malaysia understand this need. But of

course, there will be the vocal minority who will make a song and dance about everything that we do.

As for the foreign investors, I can assure them that any inconvenience will be minimal. In any case those who invest between now and 1990 will not be affected, whatever may be the decision on the future of the NEP.

Lately a lot of questions are being asked by foreigners about the so called Islamic fundamentalism in Malaysia. I believe that some people may have confused the term fundamentalism with extremism. The two are not the same.

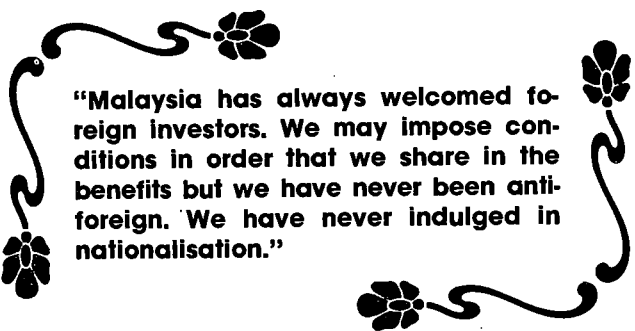
Islamic fundamentalism means adhering to the true teachings of Islam, and the true teachings of Islam advocate values which are universally acceptable. The spread of Islamic fundamentalism should, therefore, worry no one. Indeed, it should be welcomed.

But admittedly there are some Muslim extremists in Malaysia. They are intolerant of the ways of others, including other Muslims. From the point of view of the Islamic religion these people are wrong. And because they are wrong, the fundamentalist Muslims, like myself, have been able to counter them.

We are fortunate that Muslim extremists in Malaysia are not violent. But they are very politically inclined. However, they have not been able to make any headway. They are in fact losing ground.

Whereas before they formed the Governments of two states and had as many as 16 members in Parliament, today they control no state and won only one Parliamentary seat in last year's General Elections. The UMNO, the biggest Malay Muslim party, won 86 seats.

Malaysia is known for its religious tolerance. Freedom of religion

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“Malaysia has always welcomed foreign investors. We may impose conditions in order that we share in the benefits but we have never been anti-foreign. We have never indulged in nationalisation.”

gion is enshrined in the Malaysian constitution and Malaysians strongly uphold religious freedom and tolerance. The religious freedom and racial harmony in Malaysia has often been cited as an example of how a multi-religious and multi-racial country can be stable and harmonious.

I have touched on these points because it appears to surface time and time again whenever the media reports on Malaysia.

It may help to remember that Malaysian Muslims have lived in peace and harmony with Hindus, Buddhists, Taoists, Christians, pagans, animists, etc., for the past 200 years. Surely, they have to be tolerant to do this.

The Malaysian economy has been positively improving since the beginning of '87. Share prices are up and dealings brisk; commodity prices have picked up and sales volume increased, deficit trade balances have now become a surplus and manufactured goods are yielding greater export earnings. Growth in 1987 will be higher than projected and foreign loans will actually shrink.

What has Malaysia done to effect this turnaround? Firstly we did not panic. No currency devaluation. No reneging on debt repayment. Basic economic policies remained the same.

The people did not throw out the Government or adopt a new ideology or economic theory. We made adjustments and corrections instead. We adopted a more flexible stance.

Government spending was reduced and taxes lowered. Efficiency was improved and, where possible, Government privatised utilities and services. Foreign investors were given additional incentives and wooed with greater fervour, as are the tourists.

We accept that commodities will never regain their old price

levels. Modern technology will increase commodity production and reduce usage. So, we try to reduce the cost of production and we waited patiently.

Now the price of commodities are picking up again. But we are not taken in. We will diversify into manufacturing. It is an area that we are not bad at.

In a few years we have become the world's biggest producer of room air-conditioners and integrated circuits after the US and Japan. True, these are not Malaysian owned companies.

But why is it that foreign owned companies do so well in Malaysia? Surely there must be some Malaysian inputs. Otherwise they could be just as big and successful in other countries. You will find this out if you invest in manufacturing for export in Malaysia.

A policy that has caused a lot of misgivings among Europeans and Americans is Malaysia's Look East Policy. Lurid stories have been told about Japanese and Koreans having exclusive rights to contracts for projects and supplies in Malaysia.

There were quite a few stories of bribery and corruption. The truth is that the Look East Policy has nothing to do with contracts and tenders.

The best bidder wins and everywhere in the world the Japanese and the Koreans have been able to price their goods and services attractively. Even in England, unless you are fiercely British, you find difficulty not to buy Japanese goods.

The Look East Policy is concerned with learning Japanese, Korean and Taiwanese work ethics, management methods and organisation of business. These people are obviously successful in competing with the developed countries of the West. Surely there must be something they are doing right. We want to know what that something is. So, we look East.

But we have not stopped looking West. We have some 100,000 students studying in the West as compared to 500 in Japan and even less in Korea. For a long time these figures are not going to change much. So there is really little ground for worry.

Malaysians are a conservative lot. They do not respond to change readily. They speak more and better English than they ever will Japanese. The Look East Policy notwithstanding, you still have a considerable edge. You know better how to use that. And the British Government will back you. Look at Bewater. It landed one of the biggest contracts in Malaysia.

Things are looking up in Britain. The British disease is slowly being cured. British inventiveness and innovativeness are as strong as ever. Management is more professional. All these add up to a powerful economic force.

It would be a pity to confine yourself only to Britain.

In Southeast Asia, Malaysia is waiting for you. We have many things that will make you and your products even more competitive. Unlike others you have the advantage of knowing the language and familiarity with the systems and the laws.

Indeed, you have all the advantages in Malaysia which others envy. We have buried the Buy British Last policy long ago. So do come to Malaysia. You are in the best position to nail the lie that only the Japanese can succeed in Malaysia.



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**SPEECH BY THE PRIME MINISTER
DATO SERI DR. MAHATHIR BIN MOHAMAD
AT THE DINNER HOSTED BY
THE BRITISH-MALAYSIAN SOCIETY, IN LONDON
ON WEDNESDAY, 22ND. JULY, 1987**

It gives me great pleasure to meet members of the British-Malaysian Society tonight. Your Society's list of membership is most impressive. A Society such as this can certainly play a key role in further enhancing bilateral relations between our two countries.

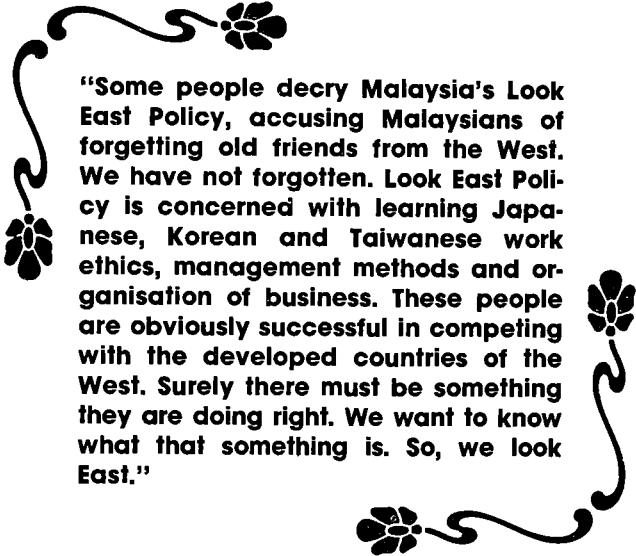
I am pleased to learn of the various activities undertaken by the Society towards this direction and would like to assure you that the contribution that you have made is indeed appreciated by the Malaysian Government.

In developing bilateral relations the role of the government and the private sector are complementary. The quality of the relationship, its breadth and depth, would depend considerably on the private sector of both sides if it is not to become too formal.

After all it is the private sector which provides the people to people contact so essential towards upgrading relations between the two countries.

The quality of the relationship between countries cannot be taken for granted. History, that great but frequently ignored teacher, tells us that yesterday's friends can be today's foes and today's foes can be tomorrow's friends.

If we value friendship then we should all work to develop and

A decorative border consisting of black, stylized floral motifs and swirling lines. One flower is at the top center, another at the middle left, and a third at the bottom center. The lines swirl around the text area.

“Some people decry Malaysia’s Look East Policy, accusing Malaysians of forgetting old friends from the West. We have not forgotten. Look East Policy is concerned with learning Japanese, Korean and Taiwanese work ethics, management methods and organisation of business. These people are obviously successful in competing with the developed countries of the West. Surely there must be something they are doing right. We want to know what that something is. So, we look East.”

sustain it. When the private sector has a good content of personal relationship, Governments can be easily influenced by it.

I remember when relationship between Malaysia and Britain was strained some years back, it is the non-Governmental people, in particular the members of your society, who paved the way towards an acceptable reconciliation.

It is imperative, therefore, that the British-Malaysian Society maintain its interest and love for Malaysia in order that Malaysia/Britain relationship should always be friendly.

You are what the Americans call, a lobby. Happily you don't require to be paid for your services. You do it out of genuine concern and friendship. And you are, of course, the more effective because of that. Malaysia is grateful and appreciative.

Let me say something about Malaysia. We are what we are partly because of the contribution by the British. I will not pretend that there was such a country as Malaysia before the British came.

We were separate small Malay Sultanates which had a tendency to break up into smaller states because the Sultans gave away chunks of land which then became Malay states. The British created Malaya and created the preconditions for Malaysia.

The Democratic form of Government, Constitutional Monarchy, the separation of the Legislative from the Executive and the Judicial branches was also British.

The Civil Service system was pioneered by British officers. The rubber industry and the expansion of tin mining also took place during the British colonial period.

We wish to be friends with the British. The British Government



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and certainly the British-Malaysian Society are a great help. But we do get irritated by what seems to be deliberate efforts to misunderstand Malaysia.

One influential opinion maker in Britain derided our production of commodities which it says nobody wants. But this same institution also condemns Malaysia's efforts to industrialise. If you don't produce commodities and you don't industrialise, then what do we do?

I say the failure to understand is deliberate because even someone who is not an old Malaysia-hand would notice the progress that Malaysia has made since independence. Economic growth attained an average of 6% per annum.

Clean elections, in which it is possible for opposition candidates to win, are held at regular intervals. Racial tolerance and harmony are well above average.

Development is rapid and well spread out. Per capita income rose from about \$300 ringgit in the year of independence to \$4,000 ringgit now.

Indeed the whole appearance of the country has changed that many find it difficult to classify Malaysia as a developing country - and consequently charge us higher interest rates.

But none of these positive aspects have received any attention from the British media. This is fine. But if there is but one negative aspect or happening, the world will be told about it in vastavision.

We know it is not the British Government. We know it is not the majority of the British people. But the kind of unfair treatment to Malaysia cannot but sour relationship. We cannot do anything, of course. Press freedom is the essence of democracy. We must have it even if it destroys us.

Malaysia has progressed despite the myriads of problems which it has to face. And Malaysia will continue to progress.

We are great believers in the market economy -- in free trade. Every country has to protect itself. We accept that too. But the rich and the powerful should not bully the poor and the weak.

We believe strongly in interdependence. No country can be so self-sufficient that it can isolate itself, neither the United States nor Russia.

We have to trade with each other. To trade we have to have money to buy the goods we need or the luxuries. The only way we can pay for these is for us to be able to sell our produce at fair prices. Impoverishing a country does not help anyone.

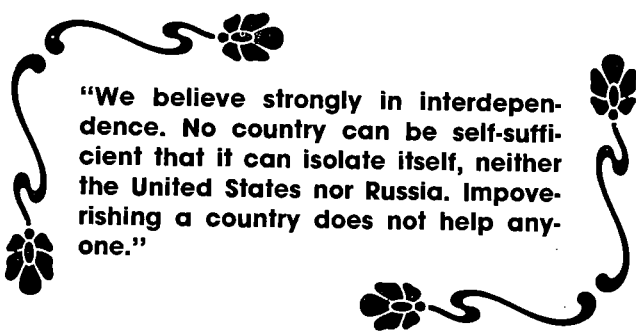
I used to think that increasing prosperity in the developed countries cannot but enrich the poor countries -- as the commodities that poor countries produce will find better markets.

But now I know better. It is possible for rich countries to get richer by forcing the prices of commodities down. That is what is happening now.

In addition rich countries meet and fiddle with currencies and exchange rates. The net result of commodity and currency manipulation is that some of our exports now fetch only one-fourth of their former prices. With that kind of earnings we are not likely to buy the products of the rich countries.

On the other hand the forced depreciation of our currency has resulted in almost doubling the local cost of our foreign debt.

As a society dedicated to the affairs of Britain and Malaysia, I am sure you would like to see the relationship between the

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"We believe strongly in interdependence. No country can be self-sufficient that it can isolate itself, neither the United States nor Russia. Improving a country does not help anyone."



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poor countries and the rich be productive and beneficial to both sides.

During the early period of Malaysia's Independence, British-Malaysia relations was good. But quite early on, a policy of equidistance with all countries was adopted by Malaysia. Gradually Britain and Malaysia drifted apart.

The old relationship will never return. But neither should we drift further apart. There is a tremendous reservoir of goodwill in both countries. It should be an easy matter to tap this reservoir.

There are bodies in Malaysia and in the United Kingdom who can do this. Certainly the British-Malaysian Society is one of them. Then there are the trade and industry organisations in both countries. Even the press can play a role, if it chooses to do so.

I look forward to a future where Malaysia and Britain would be close and mutually respecting friends. God-Willing, we will both gain by it.

Lastly, I would like to thank the British-Malaysian Society for kindly holding this dinner and inviting me to partake of the sumptuous meal as well as to speak on my particular perception of British-Malaysia relations.

I do hope I have been able to contribute towards a better appreciation of Malaysia's views. I pray that our relations will be improved in the process.



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**ADDRESS BY THE PRIME MINISTER
DATO SERI DR. MAHATHIR BIN MOHAMAD
AT THE LUNCHEON HOSTED BY THE
CONFEDERATION OF BRITISH INDUSTRY (CBI)
IN LONDON, ON THURSDAY
23RD. JULY, 1987**

I would like to thank the Confederation of British Industry for inviting me to this luncheon and to share some of my thoughts with you today. Among us here are distinguished representatives of some of the most successful companies in British industry. I am indeed very glad to have this opportunity to meet you.

Malaysia is not an industrialised country in the accepted sense of the word. But we do intend to industrialise, at least, partially. The primary products like tin, rubber, palm oil, and timber have seen their best days.

The future lies in the production of manufactured goods. And so we study avidly the development and progress of the industrialised countries, including Britain, with a view to getting some ideas on how to switch from agro-based industries to manufacturing.

Britain is still the most important example of the industrialisation of a nation. Indeed, it was the British who gave meaning to the word industry.

You have had your ups and downs, of course. But lately we noticed you are on your way up again. We are very happy regarding this turnaround because not only can we learn much from you but we may probably be benefitting from your success.

Britain was once the biggest investor in Malaysia. There is no reason why you cannot regain, at least, some of the past glory.

Malaysia's ties with Britain are historical. There were a few bad patches during the colonial period but by and large the memories are quite pleasant.

We do not deny that you did a much better job as colonial master than a lot of others.

It is to you to a large extent that we owe our present civil service system, the opening up of our country and the development of our industries such as rubber and tin which subsequently became the main source of our wealth.

We regret very much that the advantageous position that you had when we gained independence was not exploited by you. But partly this was our fault. We Malaysians look up to you so much that you must have felt taller than you really were. It took the shock of dealing with a reputedly abrasive personality to correct an out-dated patron/client relations.

Now I believe we understand each other better and there should be no looking back. We, Malaysia and Britain, should get along well as two nations with good and even fond memories of the past, and a bright interdependent future. Malaysia, of course, is not in the same league as Britain, but young nations do tend to take equality seriously.

As I said just now, Britain is still the best example of the industrialisation process of a country. There were many factors which led to the industrialisation success story of Britain. Entrepreneurship and innovativeness were certainly among them. But so were low wages and even child labour.

The early successes were no doubt due to some or all these

factors. Once success and strength was achieved, British industries were in a much better position to face the competitors and to deal with the labour problems following upon extensive unionisation of the work force.

I am not saying that Malaysia, which is just beginning to industrialise, should not face competition or should resort to child labour.

But people should understand if we have to subsidise our industries and our labour laws should be less liberal i.e. be more in keeping with labour laws in the early stages of Britain's industrialisation.

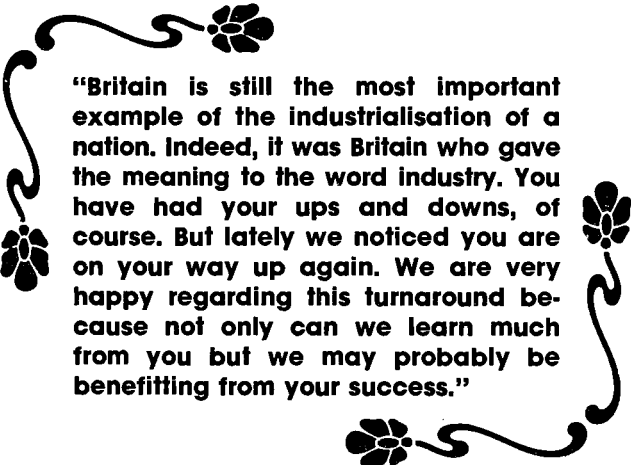
As it is, Malaysian labour laws were lifted directly from contemporary British labour laws and we are now expected to practice the very latest in liberal philosophies – which even the current British Government is discarding.

The end result may be failure to industrialise and to compete, which will mean that our people, including the workers, will never enjoy higher standards of living.

We want to learn from Britain but we must acknowledge that our present state of development is only comparable to that of Britain of 40 years ago. We cannot therefore indulge in the luxuries of present day Britain. And people should not expect us to.

If we appear in any way restrictive it is because others were even more restrictive when they were at our stage of development.

You may have heard about our Look East Policy. Some have made the worst possible interpretation by saying that Look East meant giving all contracts and buying all goods from eastern nations like Japan and Korea.

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“Britain is still the most important example of the industrialisation of a nation. Indeed, it was Britain who gave the meaning to the word industry. You have had your ups and downs, of course. But lately we noticed you are on your way up again. We are very happy regarding this turnaround because not only can we learn much from you but we may probably be benefitting from your success.”

We have explained ad nauseam that the policy means learning the work ethics, management methods, business practices and Government/business partnerships in Japan and the successful NICs of the East.

We have not ceased to look at the West. The fact that we continue to have some 100,000 Malaysian students in western countries as compared to 500 students in Japan is clear testimony of this.

But we really cannot afford the luxury of 35 hour weeks, old school-ties management, antagonistic Government/business relations, etc. if we want to industrialise successfully.

British business really have nothing to fear from our Look East Policy. It did not motivate our Buy British Last Policy. Buy British Last was the result of Britain's lack of appreciation of the millions of Pounds we have been pumping into the British economy through fees and living expenses of our students in this country.

Happily this problem was resolved and the Buy British Last Policy was dropped even before Mrs. Thatcher visited Malaysia in 1985. This does not mean that we are going to buy British first.

It does mean that British goods will compete on equal terms with everyone else's. There will be no discrimination. So, may I repeat, Buy British Last Policy is dead and has been buried for good.

The industrialisation programme of Malaysia cannot be carried out by Malaysians alone. We still lack the know-how and even the entrepreneurial skill.

We accept and welcome foreign participation. We certainly welcome British participation - you happen to speak the language we understand and we still speak that language reasonably well.

Your virtues and even your vices are known to us and we are not uncomfortable with them. Hence there will be no surprises.

We do hope that along with some of your selling missions should come investors as well, ready to participate in our industrialisation.

The collapse of commodity prices in 1986 dealt a heavy blow to our economy and our industrialisation programme. But it opened our eyes to the foolishness of being dependent on primary products alone.

We accept now that commodities will never regain their old price levels. And so the moderate recovery we are experiencing now is handled with greater wariness.

Nevertheless there is economic recovery with every indication that it is going to continue. The stock market is experiencing a minor boom as foreign funds flow in to take advantage of low prices.

The effective though involuntary devaluation of the Malaysian Ringgit had made Malaysian industries and products more competitive.

The Ringgit has also depreciated against the Pound Sterling -- making the country attractive for British investments. Consequently the manufacturing sector recorded a growth of 6.8% in 1986.

To stimulate investments further the Government has removed certain conditions attached to foreign ownership and jobs. Hundred per cent ownership will be easier and more expatriates can be employed. In addition ownership of property has been liberalised.

Details are available with the Malaysian Industrial Development Authority (MIDA) which has a British Investment Advisor stationed in its headquarters in Kuala Lumpur and an office here in London.

We have been told on several occasions that the Malaysian industrialisation policy is unwise and unrealistic. We have been asked why should we go into heavy industries and why we should manufacture motor cars.

The Malaysian car has been called a Malaysian nightmare and it is losing money, argues its critics.

But how many new motor car industries even in developed countries make money the first few years of their existence? In fact, quite a number of new car factories went under without selling hardly one car.

Companies making aeroplanes fold up even faster. What I am trying to say is that industries fail and industries succeed. It is a bit too early to say that the Malaysian industrial policy is wrong.

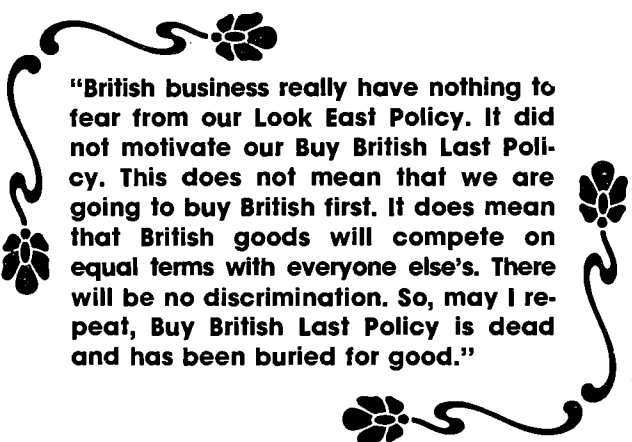
In any case it should really not concern others, particularly foreign industrialists. Let Malaysians muddle their way through but do take advantage of their policy.

Whatever may be our faults, we have honoured our debts and are not bankrupt. And with reserves equivalent to seven months of retained imports, we are not likely to be. I assure you that you will be safe in Malaysia.

Among policies which might interest you is the privatisation programme. Indeed, we were into privatisation earlier than Britain, but I must admit that implementation is rather slow.

The Malaysian Telecoms has been privatised. The Malaysian Railways will be privatised, for \$1 Malaysian Ringgit only.



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“British business really have nothing to fear from our Look East Policy. It did not motivate our Buy British Last Policy. This does not mean that we are going to buy British first. It does mean that British goods will compete on equal terms with everyone else’s. There will be no discrimination. So, may I repeat, Buy British Last Policy is dead and has been buried for good.”

So will be the various ports, highways, power and other public utilities. Foreigners are welcome to participate.

I am sure, at least, a few of the 50 million Britons can find some opportunity somewhere in the privatisation programme in Malaysia.

The British are well-known for their spirit of adventure. You are not afraid of far away places with strange sounding names. Malaysia is neither far away nor strange sounding.

But we are just not seeing enough Britons in Malaysia. Perhaps you find investing in Malaysia still unattractive. Perhaps you worry about the so-called Islamic extremists whom we trounced completely in the 1986 elections.

Perhaps you cannot believe that we have really discarded the Buy British Last Policy. But, you can still come to Malaysia as tourists. You will be welcomed and it will cost you a fraction of your holiday anywhere else.

What you will see and experience will, I am sure, convince you that at least some of what I say is true. At the very least you would have enjoyed Malaysia and its friendly, frequently English-speaking people.



**Edited by T.N. Menon, Publications Division,
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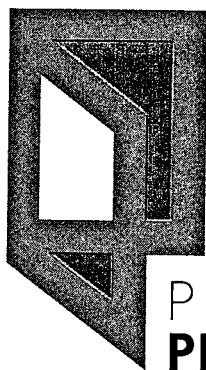




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