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**ADDRESS BY THE PRIME MINISTER TO  
THE MALAYSIAN INVESTMENT SEMINAR AT  
HILTON HOTEL, KUALA LUMPUR ON 27TH  
OCTOBER, 1975**

Mr. Chairman, Honourable Ministers, Your Excellencies, Distinguished Participants, Ladies and Gentlemen.

This is an important Seminar particularly from Malaysia's point of view and I was, therefore, glad to accept the invitation of the organisers to speak to you this morning.

Let me first extend a warm welcome to all of you, particularly all participants and members of the international press who have come a long way specially for this Seminar. Despite the strenuous programme of meetings and discussions ahead of you, I hope you will take time to savour something of the feel and flavour of the Malaysian way of life. I wish you therefore not only a useful and constructive meeting but also a pleasant and stimulating stay with us.

I have noted with appreciation that this Seminar is being organised in conjunction with the Association of Banks in Malaysia. This is a good example of the close co-operation between the private sector and government agencies which the Government for its part will continue to encourage and facilitate.

I am aware that, over the past few months, there have been some uneasy comments in the international media on Malaysia's investment climate in general and our attitude towards foreign investment in particular. These misgivings and doubts will be dealt with in detail at later sessions but for the present I wish only to say this: Malaysia's success story is generally acknowledged and a major element in that story, also generally acknowledged, is the government's pragmatism and fair-mindedness as well as our recognition of the important role of foreign private investment in our industrial development programme. No Government can be so foolish as to change a tested formula for success. My Government will therefore ensure through the laws that we promulgate

and the policies that we implement that economically and politically Malaysia continues to be a sound base for investment. We cannot afford not to be pragmatic. We shall always be fair. We are a prudent and rational people, as our records have shown, and our enlightened self-interest, not doctrinaire consideration, will continue to dictate our policies.

Ladies and Gentlemen,

Recent developments in the region of Southeast Asia have perhaps also given rise to some uneasiness. The familiar political landscape of the late sixties and early seventies is now no more, and new signposts for the future have not yet been chartered. It is natural that change should cause uncertainty. But a time of change is also a time of opportunity. We in Malaysia have lived all our lives in the midst of changes and challenges. We are fully ready to meet the profound changes which are taking place in Southeast Asia following from the cessation of the war in Indochina and to work in concert with all our neighbours for a new order of regional understanding, stability and co-operation.

In looking at the political landscape of Southeast Asia today, one of the most unfortunate and misleading signposts has been, and apparently still is, the so-called domino theory. It is premised on the assumption that the countries of Southeast Asia are alike—an assumption which is surely, manifestly, incorrect. Each country is different, each has its own identity, history and culture, each has its own peculiar problems relating to its internal cohesion, the nature of its government, and the prospect for economic development and social justice.

The security threat to Southeast Asian countries does not come from over external aggression—that is perhaps generally accepted now. It does not even come from aggression by seepage. It comes essentially from anti-national subversion within the country and the contest against such anti-national elements will be waged not in exclusively military terms but also, and perhaps more importantly, in political and socio-economic terms. Aside from the more obvious security aspects, a country will emerge victor or vanquished against anti-national subversion to the extent that it succeeds in bringing about tangible benefits to its people, who must be given a stake in a society of justice and opportunity.

I cannot, of course, speak of other countries, but let me refer specifically to our Malaysian experience. We have defeated communist insurgency because we represent the forces of nationalism and democracy and because we embody the hopes for development and justice. The insurgency movement was broken in 1960 just over two years after our independence. This does not mean that we are complacent. But it does not mean that we are confident—and, on the basis of our own historical experience, justifiably so. We are a government which has been elected to office in five successive national elections. The most recent elections were held only about a year ago and in a contest with four major political parties as well as a number of minor ones and numerous independent candidates, the government can claim to have won something like an 85% mandate from the people—a record, surely, any democratic government can be proud of, and which gives ground for confidence in the future.

Life, then, is not a game of dominoes. If the game analogy must be used, international affairs is surely more akin to a game of chess. But even this more sophisticated game analogy begs the question because it assumes a continuous struggle between adversaries. This has become a habit of thought but at a time of such fundamental changes in Southeast Asia, fundamental questions must surely be raised about the facile assumptions which are based on the perceptions of the past.

The game analogy which I believe is more appropriate—if indeed we must stick to such an analogy—is the jigsaw puzzle. We in the region are building a new picture of Southeast Asia. Malaysia, with its historical experience of almost three decades, does not take a glibly starry-eyed view of the future. We are above all realists but we also dare to dream new dreams.

Whether the future of Southeast Asia is a game of chess or the co-operative putting together of a new picture of Southeast Asia will, of course, depend on the attitudes and mutual perceptions of each of the Southeast Asian countries. But, there are already some positive signs in the air which we must grasp and turn to practical opportunities for mutual co-operation so as to strengthen the fabric of peace, harmony and stability in Southeast Asia.

Ladies and Gentlemen,

Let me turn now specifically to the internal security situation. Since its defeat in 1960 and its retreat to the Malaysian/Thai border, the Malayan Communist Party has to some extent succeeded in building its shattered membership—its chartered strength increased from about five hundred in 1960 to around two thousand today—but with this one very significant factor: these new members consist largely of local residents of Southern Thailand. The components of the new membership originating from Malaysia is about two hundred and fifty.

During the period of rebuilding, until 1968, the MCP's strategy was to overthrow the Government through the so-called Communist United Front. We successfully met this challenge and the MCP's failure led to dissension among its members and criticism of its leadership. The resultant intra-party struggle led to the establishment of splinter groups within the Party—namely the CPM under Chin Peng, the CPM (Marxist-Leninist) and the CPM (Revolutionary Faction). It is this split in the Party that has given rise to sporadic hit-and-run attacks on the security forces and a few Government installations, as the different factions vied with each other to demonstrate their revolutionary fervour.

In 1968, the MCP Central Committee issued a directive reviving armed struggle and groups of infiltrators totalling about 300 altogether were dispatched across the border to prepare for the resumption of the armed struggle. Through security forces pressure and the co-operation of the people, the efforts of most of these groups have not succeeded. The attempt to regain a foothold in Central Pahang, the headquarters district of the CPM in 1948/60 Emergency signally failed. Meanwhile, in Sarawak, once the scene of some intense terrorist activities, about 600 have returned to society and only a small number continue their futile struggle in the jungle.

From all this, it was quite evident to the terrorists that unless the pressures by the Security Forces in the rural areas were relieved, their hope of re-establishing operational bases and recruiting new members into the organisation would be frustrated. The underground supporters embarked on a tactic of attacking security forces camp and murdering police personnel (10 altogether)

in various parts of the country as a diversionary tactic and in order to force the Government to withdraw the security forces from the jungle areas.

The Government has enough forces to deal with this new development. However, to enable the pressure by the security forces on the terrorist in the rural areas to be sustained, the Government will be increasing the number of security forces and reorganising the Police Force to deal more effectively with both rural and urban terrorism.

The Government has also instituted a number of measures to involve the people through the Rukun Tetangga or Community Self-Reliance Scheme and RELA or Vigilante Corp in maintaining security. To enable the law courts to deal more effectively with terrorism, the Government also recently promulgated the Essential (Security Cases) Regulations which prescribe special procedures with specific safeguards, for the trial of cases against terrorism.

While I do not intend to minimise the threat emanating from the terrorists, I believe the situation must be considered in its proper perspective. The Malaysian Government has the experience of twenty-five years behind it in dealing with this particular problem. We have defeated the communist insurgency of 1948. We have foiled the United Front tactics. We have turned back their recent attempts to come down from their jungle hide-outs in the border areas. The vast majority of the terrorists in Sarawak has returned peaceably to society. Our record, if I may say so, is good, but we are not complacent. On the contrary, Malaysia like high quality steel has been tempered to a high degree of tensile strength and because we have been through the fire of militant communism, we have learned to steel our nation against future subversion by communism. We have adopted and we shall continue to adopt vigorous measures to deal with the changing tactics of the terrorists. We have embarked on extensive development programmes to win the peace and to win the hearts and minds of our people and prevent them from being attracted towards communism. The recent steps we have taken will continue to keep us on top of the situation.

Ladies and Gentlemen,

So much for the politic-security aspects. I shall now focus my remarks on some economic and development questions.

Fundamental to the Malaysian Government's approach is the conviction that the political and social stability of the country ultimately lies in sustained development of the economy. Towards this end, Malaysia's priorities have stressed policies which are conducive to development. And today, growth and living standards have reached higher than that obtained in most developing countries.

Nevertheless, it has been and is a feature of the economic development of all countries that imbalances are created within society in the initial periods of their development as those with the skills and knowledge are able to take better advantage of the opportunities available. In Malaysia, income and other disparities also have their racial dimensions and they can become a source of grave social tension and a major obstacle to the development of real national unity.

It is in this context that the New Economic Policy and the Second Malaysia Plan 1971-75 were framed in the aftermath of the racial disturbances in 1968. The objective was to ensure that while economic growth is promoted, it will be done in ways which ensure that the fruits of our development reach the disadvantaged groups particularly the poorest.

As explained in the Plan, the two pronged objectives of the New Economic Policy are the eradication of poverty, irrespective of race and the restructuring of Malaysian society to remove the identification of race with particular vocations. We are very conscious that these two objectives are necessarily inter-related in the sense that achievement of one will facilitate the achievement of the other.

A primary consideration in the formulation and implementation of Government policies is to strike the proper balance in addressing the issues and problems facing the country. In emphasising poverty redressal, the main focus is on the bottom 40 per cent of the households in the income distribution, which account for only

11.5 per cent of the total income in the country. The bulk of the poor are in the rural areas and though concentrated mainly among Malays engaged in traditional forms of agricultural production, there is also poverty among other Malaysians of Chinese and Indian origin both in the rural as well as urban areas. The problem of the poor is therefore a national one and requires the implementation of comprehensive policies in rural development and industrialisation to reduce underemployment, raise productivity and create new employment opportunities.

While poverty is largely associated with income, access to facilities and amenities which influence the quality of human life is also an important factor in determining the well-being of the society.

The basic thrust of the Third Malaysia Plan to be launched next year is to focus more sharply on the multi-dimensional approach to poverty so that while the content of programme will necessarily continue to emphasize the less developed areas, the measures taken will include all racial groups among the rubber smallholders, padi cultivators, fishermen, coconut smallholders, estate workers, agricultural labourers, residents of new villages and the urban poor. Also, housing for the low-income group which became an acute problem in the bigger towns will receive priority attention.

The New Economic Policy's second objective of restructuring Malaysian society is aimed at achieving racial balance in the economy so that the pattern of employment, management and ownership reflects the racial composition of the population. In order to realize this within the time span we have set ourselves, it is necessary to inject deliberate intervention of public policy.

The implementation of the New Economic Policy objectives is based on the fundamental principle that they are to be achieved within the context of an expanding economy, not by taking away the existing rights and privileges of the haves to give to the haves-not. This has been made clear in the Second Malaysia Plan and it will continue to be the basis upon which the New Economic Policy will be implemented in the Third Malaysia Plan 1976-80 as well as future plan periods.

The 1971-75 Plan periods may be regarded as the first phase in the implementation of the New Economic Policy. Under the circumstances, it is to be expected that there may be errors and deviations which may result in conflicts between the basic principle of the policy and its implementation. The Government on its part will continue to adhere to the basic principle of the New Economic Policy and, where there have been inconsistencies, the Government is always prepared to review its implementation in order to bring it in line with the basic objectives of the New Economic Policy.

For this purpose, the private-public sector consultative panels have been established by the National Developing Planning Committee (NDPC) to provide a venue for consultation with the private sector so that the objectives and aims of the New Economic Policy will be implemented in a manner beneficial to the country as a whole. Likewise, the Industrial Consultative Committee under the Chairmanship of the Minister of Trade and Industry provides another forum for dialogue and discussion.

A major misinterpretation of the New Economic Policy concerns Government's attitude towards the private enterprise system generally and the private sector in particular. Let me reiterate our position once more. The Malaysian economy has prospered because of the open nature of the economy and the initiative of its private sector. In the Outline Perspective Plan 1970-90, it is envisaged that major structural changes are essential in the economy if there is to be scope for eradicating poverty and achieving racial balance. The stimulus to these changes is rapid industrialisation with the manufacturing sector increasing its share of the economy from 16 percent to about 35 percent by 1990. These changes can only come about through efficiency in the economic system and private sector initiative, particularly in the expansion of manufacturing exports. In view of this, the Government therefore realises that it has a major responsibility to assist the private sector to play its proper role in the structural transformation of the economy. We are only too aware that all this implies the need for pragmatism in our economic policies and the maintenance of a healthy climate for investment and business in the country.

Ladies and Gentlemen,

Independent forecasts of favourable commodity prices together with the rising export volumes of agricultural commodities, petroleum and manufactured goods, give grounds for expectation that the export sector will play a continuing role in stimulating growth and generating the funds needed for financing high rates of development. In the light of these prospects and the record levels of growth in 1973 and the first half of 1974, the current slack in the economy is by no means an indication of any inherent weakness. The current difficulties that we are experiencing are externally induced and in comparison with other countries, they have not resulted in any major dislocations to the process of development. With an external debt servicing ratio of 2.6 per cent to GNP and 9.6 per cent to revenue, the country still has a high capacity to borrow to meet domestic needs for development funds.

Given the growing and dynamic economy we have been able to maintain a high level of economic growth within the framework of financial stability. Our currency is strong and stable with a foreign exchange reserve backing of more than 150 per cent. The foreign exchange reserves of the country now stands at about four billion ringgit, which is equivalent in value to six months of retained imports at current levels.

Overall, therefore, despite pressures of lower export revenue, the Government's capacity to maintain development activity in the country has not been affected. Naturally the present economic situation has imposed some strains on the Government's financial position. However, the financial situation is expected to improve with economic recovery which is now slowly taking place.

GDP in 1975 is expected to achieve positive growth of between 2-4 per cent in real terms compared to 12 per cent in 1973 and 7 per cent in 1974. Despite the performance in 1975, real GDP during 1971-75 is estimated to grow at an average of nearly 7 per cent per annum, which is higher than the 5.2 per cent achieved under the 1966-70 plan. Under the Third Malaysia Plan 1976-80, the target is for the economy to grow at 7-8 per cent per annum thus strengthening further the prospects for socio-economic advancement of the country.

Ladies and Gentlemen,

A subject of special interest relates to the petroleum industry. Malaysia, like all other oil producers, is concerned that this valuable and non-renewable resource is exploited and utilised in a manner to bring maximum benefit to its people. To this end, we have established Petronas as an independent body under the charge of Tengku Tan Sri Razaleigh in whose management I have complete confidence. Petronas is directly responsible to me as Prime Minister and the Minister responsible for the petroleum industry. We have also established a National Petroleum Advisory Council under the chairmanship of my Economic Adviser, Raja Tan Sri Mohar, whose advice I have always found extremely valuable.

I am aware that much fear and unfounded speculation have been bandied about regarding the direction and future of this industry and the role of the private sector in its development. Let me therefore emphasise that we are fully committed to the programme of private sector involvement in Malaysia's petroleum development.

I note too that there has been some concern regarding the Petroleum Legislation that has been enacted recently. In this connection, I am sure everyone will agree that Malaysia, as an independent sovereign country, must retain the right to protect her national interest and exploit her natural resources as she deems best. At the same time, we fully realise that there must be participation of foreign private investment in the petroleum industry and in endeavouring to reach working arrangements, it has always been and it will always continue to be our policy to ensure that the interest of the private sector will be safeguarded.

I wish therefore to reiterate and to reassure investors that this law will be implemented fairly and equitably and in a manner that will not affect adversely Malaysia's investment climate and our unblemished record of fair treatment to all investors.

Petroleum is, of course, a valuable and depleting resource and for this special industry, special legislation has had to be enacted. I wish to give an emphatic and categorical assurance, however, that the other sectors of the economy will continue to operate within the framework of normal and established practice.

Ladies and Gentlemen,

Malaysia is a small nation of eleven million people and thus we have a very limited domestic market. The future of Malaysia's industrial development lies in two major directions, both of which are pointed towards the export sector. These are firstly the increasing export of Malaysia's raw material resources in processed and manufactured form, and secondly, the establishment of export-oriented manufacturing industries which are labour-intensive and high technology oriented.

If Malaysia is to depend upon the export sector for its industrial future, the role of the foreign investor becomes of primary importance. Malaysia will continue to need the technological know-how, management skills and most important of all access to international markets which foreign investors can provide in full measure. Malaysia also expects the private sector within the country to gear itself to meet this challenge and to participate in full with the foreign investor in areas where such foreign technology, know-how and marketing skill are required.

Distinguished Participants, Ladies and Gentlemen,

I have spoken at some length because the issues you will be discussing at this Seminar are serious and important to you as well as to us. I have endeavoured to paint the broad canvas of the Malaysian environment—political security, economic and industrial—which other speakers will later elaborate. The Malaysian Government is committed to a system where the private sector's role is a prerequisite for continued and rapid industrial development. On the Government's part, I wish to reiterate here our commitment to assist the private sector in every way possible to fulfil this role so that it can be true partners in our progress and development. This is the corner-stone of our industrial policy to which my Government is fully committed and will adhere to in the future.

Thank you.



Y A. B. Tun Haji Abdul Razak bin Hussein sewaktu merasmikan Seminar Antarabangsa mengenai Peluang-peluang Pelaburan di Malaysia di Hotel Hilton, Kuala Lumpur pada 27hb Oktober, 1975