

## THE OUTLOOK FOR MALAYSIA

**Scope Note:** This Estimate deals with the prospects for stability in Malaysia over the next three years or so.

### KEY JUDGMENTS

A. Malaysia's leaders have had considerable success in managing the tensions between the Malays, who constitute almost half the population, and the Chinese, who make up more than a third. The government—dominated by members of a British-trained Malay elite—has kept Malay chauvinism in bounds by responding to demands for reaffirming and perpetuating Malay political supremacy, while actively attempting to end Malay economic inferiority to the Chinese.

B. Whether this approach can be maintained, without restricting the economic opportunities that have generally reconciled the Chinese to their second-class political status, will depend heavily on continued economic growth and rising living standards. The government's development strategy has been an important factor in such growth, but the economy remains heavily dependent on exports of primary products and a favorable climate for foreign investment. Nevertheless, Malaysia has shown remarkable resilience in adapting to adverse world conditions and its economic outlook for the next two to three years is promising.

C. Economic growth has brought much greater benefit to the small but growing Malay urban middle class than to the mass of Malay peasants. Lower class urban and rural Chinese also see a large gap

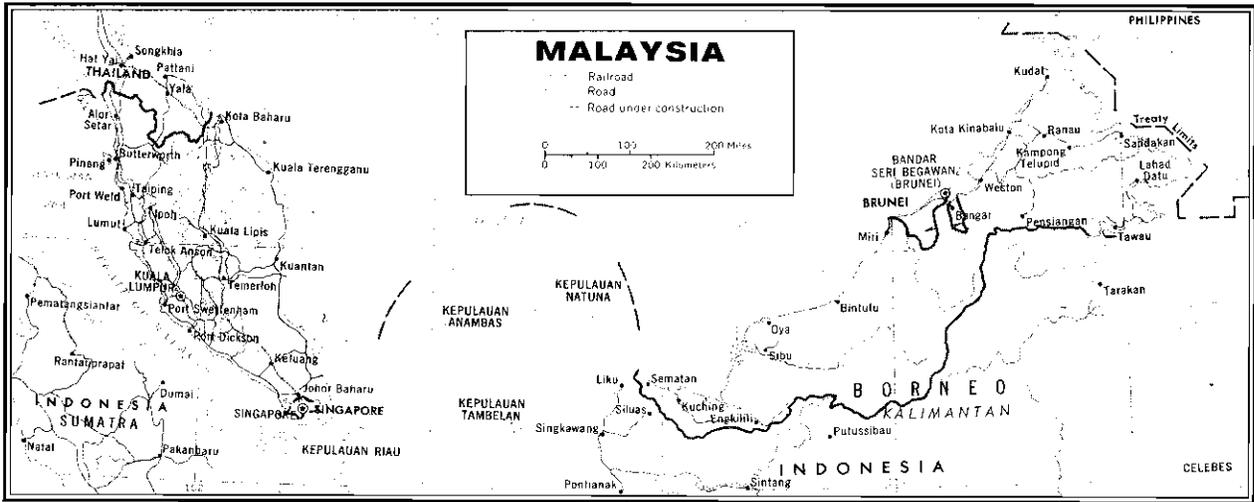
between themselves and the wealthy members of their community. At the same time, they are less capable than the wealthy of protecting themselves against the impact of discriminatory policies. Recognizing the interaction between economic and communal grievances, the government is pledged in its most recent development plan to elevating the living standards of the poor of all communities.

D. Although the communal balance in Malaysia will continue to be a source of tension for the indefinite future, we believe that such tension is unlikely to cause widespread disorder during the period of this Estimate. Even if their economic circumstances were to deteriorate markedly, we doubt that the Malaysian Chinese would resort to violence on any significant scale since, with the preponderance of military and police powers in Malay hands, they would inevitably be the losers. Moreover, we believe that the government will continue to seek the balance that will both contain Malay grievances and moderate the impact on the Chinese of pro-Malay policies. The country's leaders seem well aware of the catastrophic implications of a renewal of communal violence arising out of Malay frustrations. Moreover, political rhetoric notwithstanding, nearly all of them appear to recognize the continued interdependence of the Malay and Chinese communities. Malaysia's neighbors also, for a variety of reasons both regional and national, have a vested interest in the maintenance of Malaysian communal peace and none would see any national profit in disturbing it.

E. There is always the possibility of isolated racial incidents. And the chances that such incidents could lead to serious nationwide violence against the Chinese are greater in Malaysia than anywhere else in Southeast Asia. But, even should disorders develop on a much larger scale than we regard as likely, we believe that the security forces could restore order and that there would not be protracted civil war along Lebanese lines. Malaysia's economy and bureaucracy would be seriously damaged, however, and demoralization and general loss of confidence in the country's future could offer new opportunities to extremists, whether Malay or communist.

F. In the absence of such a major, and unlikely, breakdown, the communist insurgents—largely ethnic Chinese—would have little more success than they have had to date in their efforts to win the support of disaffected elements of both communities. Because of this, although the insurgency will continue to be a burden on resources, we do not believe that it can seriously challenge the government during the period of this Estimate.

G. Either a communal breakdown or a significant increase in insurgency would adversely affect US trade and investment, would probably result in a request from Kuala Lumpur for an increase in US security assistance, and would have an unfavorable impact on the peace and stability of the region.



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## DISCUSSION

1. The death of Malaysian Prime Minister Razak in January 1976 focused new attention on the question of whether the forces tending to pull Malaysia apart are stronger than those holding it together. Divisive pressures are largely communal in origin; communist insurgency and divisions between peninsular Malaysia and the east Malaysian states of Sabah and Sarawak have communal implications but, in themselves, are unlikely to pose a serious threat to the stability of Malaysia during the period of this Estimate.

2. The communal issue in Malaysia stems from the competing interests of the two principal ethnic groups—the indigenous Malays and the Chinese, whose sizable presence dates from the British colonial period. In dealing with the communal problem Malaysia's leaders have sought to retain a tolerable balance between conflicting interests. They have sought to satisfy the desires of the Malays to improve their economic position while strengthening their political predominance. But they have tried to do this without too deeply restricting the economic opportunities that have generally reconciled the Chinese to their second-class political status.

3. Since independence in 1957, pre-eminent political power has been held by the principal Malay party, the United Malays National Organization (UMNO). The members of the British-trained Malay elite who have dominated UMNO are likely

to continue in control over the period of this Estimate. However, this group is beginning to pass from the scene and new political leaders, closer to grass-roots Malay culture and opinion, will be coming to the fore. The degree to which these leaders will be willing and able to contain pressures from Malay extremists and carry out pragmatic policies will determine, over the longer run, whether Malaysia remains a corner of relative stability and prosperity in Southeast Asia.

4. Meanwhile, Malaysia's long-standing communist insurgency is causing greater apprehension in Kuala Lumpur and in neighboring countries, both because of the spectacular nature of recent terrorist incidents and because of concern that communist successes in Indochina will have reverberations in Malaysia. Although there is some link between the insurgency and the communal problem—the insurgents are largely ethnic Chinese—it does not have wide support among Malaysia's Chinese community.

### The Communal Problem

5. Malaysia's ethnic Chinese population (4.25 million) constitutes 36 percent of a population whose other principal components are Malays (44 percent) and Indians (10 percent). Most peninsular Malaysian Chinese live in the cities and in rural areas along the western coast; the major cities of Kuala Lumpur, Penang, Ipoh, and Malacca are

all heavily Chinese. A small Chinese upper class dominates the Malaysian financial and industrial scene, and a middle class of professionals and small businessmen is growing steadily. In Sarawak, and to a lesser extent in Sabah, where ethnic Malays make up only 12-18 percent of the population, Chinese control most commerce and industry and the production of major cash crops. The Chinese comprise the majority of the work force in mining and quarrying, manufacturing, construction, commerce, and personal services.

6. Historically, the Malays have tended to disdain wage labor and have not kept pace educationally with the Chinese, factors that have largely explained their marginal role in the economy and the numerical predominance of the Chinese in the bureaucracy. Malay society remains essentially divided into two classes: a large peasantry and a small elite. The latter has both provided senior leadership for the Malay community and maintained a firm grip on national political and military power. The "special position" of the Malay is set forth in the constitution, which establishes Islam as the state religion, provides for a Malay monarch elected from among the hereditary Malay rulers of nine of the 11 states of peninsular Malaysia, and incorporates the concept of special Malay prerogatives in various other ways, including citizenship provisions.

7. Government efforts to right the communal balance have brought considerable prosperity to a small group of urban Malays, members either of the traditional aristocracy or of the small, slowly growing middle class. This has resulted in an increasingly conspicuous gap between the living standards of urban and rural Malays. The latter live mostly at subsistence levels, working small rice and rubber holdings or on large plantations. Tradition-bound rural Malays have historically produced lower yields than Chinese farmers, who have been more strongly oriented toward commercial sales of their products; Chinese farm income is estimated to be 80 percent higher than Malay. Scarce data indicate that while Malay rural incomes have moved up somewhat, these gains have been offset by inflation. Even so, by Southeast Asian standards most Malay peasants are not ill-housed, ill-fed, or ill-dressed; government health and other services are extending into the countryside; and several

recent studies indicate that rural mortality rates have declined significantly.

8. The average Malay lives in cultural and, to a large extent, physical isolation from the Chinese community. Conservative Islamic influence is strong at the village level and minor disputes and misdemeanors relating to Malay customary law are dealt with by state-established Islamic religious courts. Poor Malays, drawn to urban areas by frequently disappointed hopes for a better life, live in communities as parochial as their native villages but without the occupation and discipline that traditional village life provides.

9. Malay chauvinism is the principal source of racial tension and puts constant pressure on the national leadership. Thus far, however, leadership responses have been predominantly moderate and cautious. At the higher levels of the political power structure consistent advocates of extreme positions are in a small minority. We believe they are more numerous at lower levels. Their principal constituency is the UMNO youth organization, in which Selangor's former chief minister Harun bin Idris has been the major influence. Even here, it appears that the radicals are often outmaneuvered by the moderates, partly because of their own divisions.

10. Ethnic tensions, although never absent, have rarely led to race riots. When they have, the initiative has come from the Malays, stimulated by their suspicions of the Chinese. Apparent Chinese threats to Malay political dominance have touched particularly sensitive nerves. Singapore's expulsion from Malaysia in 1965 was the direct result of Prime Minister Lee Kuan Yew's ambitions to leadership in peninsula politics on the basis of an equal role for all citizens regardless of race. The bloody anti-Chinese rioting of May 1969 stemmed from Malay apprehension over the significant—and much flaunted—gains Chinese opposition parties had made in the recent elections.

11. In the wake of the 1969 riots, Malaysia had 21 months of firm executive government. Parliamentary government was restored early in 1971, after the constitution had been amended to guarantee permanently the special position of the Malays. Thereafter it became more than ever the acknowledged central task of the government to help the Malays catch up with the Chinese in all the many

fields where they lagged behind. Although the need to avoid extreme policies that would dangerously increase the level of Chinese alienation remained an important consideration in the minds of policy makers, this necessity was more often reflected in how new laws were implemented than in what they said.

12. Assuming office in 1970, Prime Minister Razak made his way along the communal tightrope with great finesse and good fortune. In 1974 he put together the National Front—a multiracial confederation of nine political parties, including three predominantly Chinese groups and his own dominant UMNO. The Chinese and other non-Malay client parties agreed to contest only a mutually agreed-upon number of parliamentary seats. Non-Malay political participation was further hampered by the assignment of disproportionately heavy representation to rural Malay districts and by extensive government restrictions on political debate and activity. Falling particularly heavily on the Chinese were prohibitions on public discussion of communal issues.

13. The government has moved in many other ways to reemphasize the "special position" of the Malay. With the constitution and Malay customary law already restricting Chinese opportunities to acquire land legally, agricultural programs under the Second Malaysia Plan (1971-75) favored the Malay rural population in programs for settling new lands, facilitating loans, and providing additional employment. Language and education regulations are also being used to protect the Malays and improve their competitive position vis-a-vis the Chinese. Malay is to become the language of instruction in all schools by 1980. Government aid to Chinese schools has been terminated and the government does not recognize certificates or degrees granted by Chinese educational institutions in Malaysia, Taiwan, and Singapore. Proficiency in Malay is a prerequisite for entry into universities and colleges. Quotas for admission further discriminate against the Chinese. Malaysian businesses are required to include Malays in their management structures, and Malays receive preferential treatment from public service recruiters.

14. Those carefully nourished and emphasized reminders of Malay preeminence have helped the

government recoup the support it had lost to Malay opposition parties before the events of 1969, and UMNO now holds 120 of the 154 seats in the lower house. The transition of leadership to Prime Minister Hussein, a moderate of the Razak school, was accomplished in short order, without a divisive power struggle within UMNO. Hussein appears to be in firm control of the government and of UMNO and has a good grasp of the problems confronting Malaysia. However, he has a heart condition and, although he does not regard himself as a transitional leader, his health may limit his period in power. His deputy, Education Minister Mahathir bin Mohamed, selected in March after considerable deliberation, was an early advocate of the government's now well-established pro-Malay communal policies, and this has made his appointment another source of apprehension for the Chinese community. Even should Hussein's tenure be limited by his health or other factors, however, the prospects are that government leadership will remain in moderate hands over the period of this Estimate.

15. Moreover, we believe the Chinese will continue, however grudgingly, to accept secondary political status. Before 1969, many Malaysian Chinese, aware of the Malay nationalist sentiment growing around them, came to view the full exercise of their political rights as the means of protecting their hard-earned economic position. The view that the major Chinese component of the governing coalition—the Malaysian Chinese Association (MCA)—was insufficiently vigorous in advancing the interests of all but a wealthy minority led to an upsurge of support for Chinese opposition parties in the election of 1969. However, the anti-Chinese violence that followed and the government's response convinced most Malaysian Chinese that a continued quest for political parity could only end in disaster. They are far less philosophic, however, about threats to their economic position and to the closely related problem of limits placed on educational opportunities for their children.

#### The Economic Factor

16. The prospects for communal peace will rest heavily on economic factors—whether Malaysia will continue to prosper at a level that permits the government to improve the position of the

Malays without closing off opportunities for the Chinese. Malaysia, with abundant resources and a relatively small population, has made considerably more economic progress over the past 15 years than most less-developed countries. Steady real economic growth (averaging about 7 percent over the past 15 years) pushed Malaysia's gross national product to just over \$8 billion, or roughly \$675 per person by the end of 1975. The key elements of the government's growth strategy have been:

- the rapid expansion of exports within the framework of a relatively unencumbered market economy;
- adept, conservative, and pragmatic management of financial resources;
- a highly developed foreign trade sector;
- a healthy international payments position; and
- a favorable climate for foreign investment.

17. However, the fortunes of the Malaysian economy and of the rural population are highly dependent upon exports of primary products—natural rubber, palm oil, tin, and forestry products. Recession in the industrialized nations began to depress the economy toward the end of 1974. In 1975 sharp declines in export earnings led to a drop in real growth to about 1 percent for the year, as compared with more than 10 percent in 1973—the year of the world commodity boom. Nevertheless, despite the high degree of sensitivity of the economy to the vagaries of world markets, the government effectively countered the effects of the recession through 1975, bringing the inflation rate down from 18 percent in 1973 to 6 percent in 1975, holding unemployment at less than 10 percent, and avoiding sizable drops in real incomes. In late 1974 when natural rubber prices, and accordingly the income of the largely Malay smallholders, plummeted, political repercussions were soon felt. Following demonstrations to protest falling rural income, in which Malay students predominated, the government embarked on a crash program to buoy prices through output restrictions on the more efficient large estates, which could more easily absorb an income loss.

18. Economic growth and generally rising living standards have done much to cushion the impact

of efforts to right the balance between Malays and Chinese. Moreover, legislation establishing long-term racial quotas for both employment and equity ownership and providing for government capitalization of Malay investors was initially implemented gradually and flexibly. Early in 1975, however, it appeared that a shift was underway. At that time, a hastily enacted Industrial Coordination Act required all manufacturing firms to acquire licenses and to comply with employment quotas. The act had a sharply discouraging impact on new investment since the Chinese business community viewed it as portending much greater discrimination. This reaction impelled the government into discussions with representatives of the Chinese community concerning the required implementing regulations, which are likely to permit a continued gradual and moderate approach.

19. Foreign investment, long a major source of development capital, also declined markedly in 1975, primarily because of the world economic recession, but also because of uneasiness over the collapse of Indochina and to a lesser degree over communist terrorist activity. Further uncertainty was created by petroleum legislation establishing Malay management of all refining, distributing, and marketing operations. Interpreting this as a precursor of nationalization, the foreign business community reacted strongly; Exxon, for example, suspended all new exploration and investment. In late October 1975 the government moved to reassure foreign investors, who will view the outcome of current negotiations with Exxon as a good indicator of the state of the investment climate.

20. Pressures for more controls over foreign investment will continue to arise not only from Malay demands for a greater share of the benefits of economic growth, but also from aspirations, common to underdeveloped countries, for greater national control of resources and participation in corporate enterprise. Accordingly, the restoration of the unusually favorable climate for foreign investment is unlikely, however loose the implementation of restrictive laws. Nevertheless, in relative terms Malaysia still has attractive investment laws. Although the seeds of doubt have been sown and foreign investor confidence will not achieve earlier heights, a revival in the world economy is likely to restore the flow of foreign funds.

21. On balance, the Malaysian economy remains strong. It has shown remarkable resilience in adapting to adverse world conditions and the outlook for the next two to three years is promising. Government development plans, largely directed at rural areas, should be sufficient to prevent serious disaffection. As recovery in the industrial nations proceeds, demands for exports will pick up resulting in higher real incomes in the primary commodity sector of the economy. We do not believe that the government will shift drastically from its growth strategy based on private enterprise and export growth.

22. There will undoubtedly be greater government emphasis on increased Malay participation in the economy. The combination of successful Malay pressures for more vigorous government action and failure in the economy could have a serious impact on the economic well-being and prospects not only of the Chinese business community, but also of the sizable—and more volatile—Chinese urban working class. Chinese options are limited, however. The privileged few may look to capital transfers to protect their economic interests and to emigration to insure their children's future. But most Chinese recognize that they have no alternative to continued life and work in Malaysia.

### The Insurgency

23. Insurgency began in peninsular Malaysia in 1948 when the Communist Party of Malaya (CPM) undertook an armed revolution—the Emergency—against the British colonial government. A 12-year British-led counterinsurgency effort virtually destroyed the CPM; its remnants, numbering about 500 to 600, established jungle sanctuaries in Thailand where they concentrated on recruiting and rebuilding an infrastructure. In 1968 the CPM began to dispatch cadres to the northern Malaysian states to revive old contacts and establish new bases.

24. In 1974 and 1975 the insurgents penetrated deeper into Malaysia and the boldness and number of incidents increased—though still not approaching the levels of the Emergency. This increased activity reflects the implementation of a new strategy outlined in a 1973 directive calling for military confrontation to be coordinated with the activities

of united front organizations and a January 1975 CPM directive calling 1975 "a new year of combat." Both directives may have been intended to demonstrate that, despite the developments that led to Malaysia's establishment of diplomatic relations with the People's Republic of China in June 1974, the revolutionary movement in Malaysia retained its vitality. The fall of Saigon, while undoubtedly encouraging the communists, did not cause any change in the patterns or intensity of their operations. They continue to concentrate on attempts to build underground support and to recruit and train new cadre, while trying to keep the government off balance by periodic spectacular acts of violence.

25. The Malaysian communists have been seriously divided for some time, although the competing factions all style themselves pro-Peking. The principal communist organization in peninsular Malaysia is the traditional CPM party apparatus with its military arm—the Malayan National Liberation Army (MNLA)—and its principal front organization—the Malayan National Liberation Front (MNLF). A leadership struggle in 1970 produced two breakaway groups—the Communist Party of Malaya (Marxist-Leninist) (CPM-ML) and the Revolutionary Faction (CPM-RF)—each with its own armed force and front organization.

26. The combined strength of the armed communists, exclusive of clandestine support groups, is conservatively estimated at about 2,400 by Malaysian sources—1,700 in the original CPM, 300 members in the CPM-RF, and 400 in the CPM-ML. We have only fragmentary figures on the number of clandestine supporters, and thus little evidence on which to base an estimate.\* Malaysian officials claim that of the identified communist 69 percent are ethnic Chinese, 57 percent are Thai nationals (both Chinese and Malay), and less than 5 percent are Malays of Malaysian citizenship.

27. The Malaysian communists appear to be almost wholly self-sustaining, augmenting their miscellany of World War II weaponry by purchases of more modern arms. The Chinese communists

\*At the height of the Emergency in 1948-50, it was estimated that the number of armed clandestine supporters equalled the number of guerrillas (5-6,000) and that there were up to eight times as many active sympathizers as guerrillas.

provide propaganda support through an active clandestine radio station in southern China, the Voice of the Malayan Revolution, and more intermittently and selectively through their own media. Neither Moscow nor Hanoi has demonstrated any great desire to become materially involved in the Malaysian insurgency, nor has Peking been known to go beyond propaganda broadcasts. We believe that Hanoi is unlikely to undertake a major supply effort to Malaysian communists in the near term. Nevertheless, in the relatively near future, some of the US weapons captured in South Vietnam may well begin to appear in Malaysian communist hands—primarily supplied by arms traders.

28. The sanctuary the communists enjoy in Thailand is a major obstacle to the elimination of the insurgency. Officially, the two governments have been cooperating since 1959 and a Thai-Malaysian border committee is charged with coordinating border surveillance. A bilateral agreement signed in Bangkok in February 1976 by the Thai and Malaysian prime ministers confirmed this arrangement. Such agreements however, are seldom translated into action in the field. In reality, the Thai military are more concerned with the Thai communist party threat, with the Muslim separatist movement (especially in the south), and with general lawlessness than with CPM groups whose activities are targeted against Malaysia. Also, suspicion and mutual distrust prevail at the Thai-Malaysian operational level—the Thai suspect the Malaysians of assisting a Muslim separatist movement in Thailand and the Malaysians believe that Thai security forces avoid contact with CPM groups. The lucrative arrangements Thai military and civil officials enjoy with the criminal elements that move back and forth between the two countries pose an additional obstacle to effective control of the border.

29. The principal counterinsurgency role is played by the police, with the regular army in a secondary role. Influenced by British practice which calls for maximum utilization of police and civil volunteer forces for local security, the Royal Malaysian Police (RMP) with 60,000 men considerably outnumbers the army. Plans call for expanding the police force to 100,000 men by 1980 while maintaining the proportion of Chinese at 40 percent.

The RMP's principal paramilitary element, the Police Field Force (PFF), organized as light infantry (19 battalions) with a current strength of 14,800, is charged with maintaining internal security. The PFF has a broader recruiting base than the army and its ethnic composition corresponds more closely to Malaysian society (PFF is 50 percent Malay, 37 percent Chinese, and 11 percent Indian). The police—although their equipment requirements are generally given lower priority than those of the army—are generally more effective in counterinsurgency roles and consider themselves more attuned to the populace. Frictions and poor coordination between the army and the PFF reflect ethnic antagonisms and limit the effectiveness of counterinsurgency efforts. Security operations are also hampered by a sometimes cumbersome coordination and approval process between state and federal officials.

30. The 51,500-man Malaysian Army is a light infantry force. It is well paid and well quartered. With the possible exception of a basic infantry weapon (the HK-33 rifle is being replaced with the M-16), it is adequately equipped. Its performance against the insurgents on the Thai-Malaysian border has been barely adequate, largely because it is a "parade-ground" army, reluctant to go to the field and preferring to leave internal security matters to the police. Tactical operations have been hampered by insufficient skill and imagination on the part of small unit leaders and an unwillingness to follow up contacts with insurgents aggressively because of their widespread use of mines and booby-traps. The army's racial composition (17 of its 29 infantry battalions are exclusively Malay) also limits its effectiveness when conducting operations in areas with a non-Malay population.

31. Responsibility for intelligence on the insurgents rests largely with the Royal Malaysian Police Special Branch. It has a good reputation for operational efficiency and technical competence and its multiracial composition has been an asset in its work against a predominantly Chinese organization. Since 1969, however, personnel changes and promotions highly favorable to Malays as well as communist assassination efforts have caused morale problems among non-Malays, and many of the more competent Chinese have resigned. As a result, local intelligence nets have lost much of their

effectiveness. These problems have been recognized and efforts are being made to redress them, but it is unlikely that previous levels of competence will be completely restored.

32. The government has begun to take more aggressive counterinsurgency measures. Plans for expanding the police, reorganizing the Special Branch, and purchasing new weapons have been supplemented by a number of population control measures. These include: designation of 300 areas and facilities as special security areas; the *Rukun Tetangga* or Community Self-Reliance Program wherein residents will patrol their own areas, reporting suspicious individuals or activity; expanding the People's Volunteer Corps; and, most controversial, the new Essential Regulations (Security Cases) 1975, which curtail the individual rights guaranteed under common law for those accused of national security offenses. Initial implementation of these measures has already caused the Chinese community to feel it is being singled out for discriminatory treatment; the government is now making an effort to avoid abuses.

33. Security force performance has improved somewhat, although not universally. Numerous village sweeps conducted by the police have netted many suspects and given the government some confidence that the communists have been thrown off balance. Performance by police and army units in the jungle, however, has shown no improvement in tactics or aggressiveness. Moreover, plans for providing new equipment and additional men will not solve basic problems in leadership, training, and logistics as well as deficiencies in dealing with communal sensitivities.

34. The insurgency has become a major preoccupation of the Malaysian Government requiring diversion of economic development funds to re-equip security forces and more borrowing abroad in order to maintain the pace of development. However, it has had little impact on the daily lives of the vast majority of the Malaysian population. Except for isolated areas near the Thai border, the progress of the economy and the movement of persons and goods have continued unimpeded.

35. There are many grievances among Malaysians—Chinese and Malay, rural and urban—that

could feed an active dissident movement. The benefits of efforts to expand the economic role of the Malays have gone more to the upper than to the lower classes. There is, moreover, a sizable proportion of the Chinese community that shares the poverty of the Malay peasant and worker. It remains to be seen whether aspirations under the Third Malaysian Plan to bring more of the benefits of development to the lower classes, without regard to communal differences, will be fulfilled.

36. The communists have sought to capitalize on these grievances, addressing their appeal to the poor of all communities and putting forward a comprehensive land reform plan. They have attempted to avoid identification with the Chinese community and, to the government's concern, seem to be making more active efforts to proselytize among Malays. Nevertheless, the Malays in general regard the communists as Chinese and accordingly as unacceptable. Communist prospects in the Chinese community may be somewhat better. But while their grievances, frustrations, and fears of the future could cause some greater degree of acquiescence in communist activities and some financial support, the Chinese are not likely to flock to the communist cause in significant numbers.

37. We do not believe that the communist insurgency can seriously challenge the government during the period of this Estimate, although it will continue to be a burden on the government's resources. The communists will remain handicapped by their lack of secure bases within Malaysia and of reliable sources of supply, and most importantly by their inability to secure the allegiance or support of a significant portion of the population.

#### Separatism

38. Like the communist insurgency, divisive pressures in the east Malaysian states of Sabah and Sarawak pose problems for the central government, impeding its efforts to integrate them more closely with the peninsula.

39. In Sarawak a long-standing insurgency has been reduced to insignificance, and the political situation is reasonably stable. In Subah, however, the ambitions and autocratic behavior of former

chief minister Tun Mustapha have complicated the state's relations with the central government. Despite his ouster, forced by Kuala Lumpur in 1975, he has retained his political influence.

40. Federal authority over the east Malaysia states is limited by the agreement that incorporated Sabah and Sarawak into Malaysia. But Kuala Lumpur has also moved slowly in attempting to integrate the two states because of the substantial foreign exchange earnings their oil and timber sales contribute to the Malaysian economy. While disagreements over the distribution of these earnings, communal resentments, and other issues will probably continue to trouble relations between Kuala Lumpur and the east Malaysians, genuine moves toward secession are most unlikely during the period of this Estimate.

#### External Factors

41. A communal breakdown would slow if not completely halt progress in the Association of Southeast Asia Nations (ASEAN) and could have destabilizing domestic repercussions in some ASEAN countries. For this and other reasons, Malaysia's neighbors have a vested interest in the maintenance of Malaysian communal peace and none would see any national profit in disturbing it.

42. Lee Kuan Yew recognizes that the well-being of Singapore is inextricably bound up with the maintenance of communal peace in Malaysia. Serious communal strife would cause great alarm among Singapore's predominantly Chinese population, fear for the country's security, and concern that Indonesian intervention on the peninsula might be the next step. Singapore would be confronted with some painful decisions. The first of these would be whether to allow a massive influx of Malaysian Chinese refugees, which the island could not easily absorb, or whether to close the causeway to Malaysia as it did in 1969. If extreme racial violence spread to the south of the peninsula and was not ended quickly, Singapore might face the dilemma of whether to move troops across the causeway. Factors impelling it to adopt this course would include the desire to secure the water works in Johore from which most of the island's fresh water supply is

drawn, to establish a forward defense line against the possibility that hostilities would otherwise extend across its own borders, and to provide a protected space to house Chinese refugees outside its own overcrowded territory. But against these considerations it would have to weigh very carefully an almost certainly hostile Indonesian response and the probability of unfavorable repercussions in the Muslim world.

43. Indonesia considers Malaysia its forward defense line against Chinese-backed communist insurgency. Jakarta believes that Kuala Lumpur seriously underestimates the potential for communist insurgency in Malaysia. It would view with alarm any worsening of the communal situation that could play into the hands of the communists. Serious communal disturbances would also cause concern over possible repercussions in Sumatra, where the indigenous population as well as elements of the large Chinese community have family and other close ties with the peninsula. Such influence as Indonesia is able to exert would therefore be in the direction of restraint in the area of communal policy. While Indonesia has indicated it would be prepared to commit troops to Malaysia in order to help contain a communist insurgency or communal disturbances, the Malaysians do not appear to desire such assistance or to anticipate that they will require it.

44. As long as the PRC is committed to a state-to-state approach in Southeast Asia, prolonged anti-Chinese violence in Malaysia would cause it difficult problems. Peking would be reluctant to side with the Malaysian Chinese out of concern for its official equities in Kuala Lumpur. If anti-Chinese violence extended over a considerable period of time, however, the PRC would find it extremely difficult to maintain a neutral position. It would probably react under these circumstances by diplomatic and propaganda pressure on the Malaysian Government. But, except in the unlikely event Peking saw such aid as certain to tip the balance, we doubt that the PRC would be prepared for any dramatic increase in involvement with the Malaysian communists because of the adverse effect such action would have on its relations with Bangkok and other Southeast Asian capitals.

### Conclusions

45. Reason has little to do with the suspicions and emotions that lie at the heart of Malaysia's problem. In that sense, the ability to "prevent" a recurrence of communal violence is beyond the capability of any Malaysian Government, not matter how proficient or well intentioned. Nevertheless, all rational domestic considerations and external pressures seem to point toward a concerted effort to maintain racial harmony or, at worst, the maintenance of communal status quo. Even if their economic circumstances were to deteriorate markedly, we doubt that Malaysian Chinese would take the lead in a renewal of racial violence in which—with the preponderance of military and police powers in the hands of Malays—they would inevitably be the losers. Moreover, we believe that the government will continue to seek the balance that will both contain Malay grievances and moderate the impact on the Chinese of pro-Malay policies. The country's leaders seem well aware of the catastrophic implications of a renewal of communal violence arising out of Malay frustrations. Moreover, political rhetoric notwithstanding, nearly all of them appear to recognize the continued interdependence of the Malay and Chinese communities. Any Malay government must rely on the Chinese private sector to sustain the overall economic growth necessary to promote Malay interests. It is also widely recognized that the loyalties of qualified Chinese bureaucrats are still essential to the effective functioning of the government and, ironically, the implementation of its pro-Malay policies.

46. But the possibility of isolated racial incidents is ever present. And the chances that such an incident could lead to serious, nationwide violence against the Chinese are greater in Malaysia than anywhere else in Southeast Asia. At the time of the 1969 rioting, although communal tensions rose elsewhere, violence was largely confined to the Kuala Lumpur area. If new communal violence were to spread to a number of major urban areas, security forces would be hard pressed to end it as easily or as quickly as they did in 1969. Moreover, the communist insurgents, who would derive considerable satisfaction and encouragement from a new bloody

racial confrontation, would probably do their best to add fuel to the fire. Depending on the seriousness and duration of renewed violence, the resulting wave of Chinese alienation could provide the insurgency with a new reservoir of potential recruits. But as long as the insurgency remains concentrated largely in the Thai border area, the communists will not be able to exploit a new round of racial conflict to their own military advantage.

47. Even in a worst-case scenario, however, we do not believe that protracted civil war, along the lines of the recent fighting in Lebanon, would be a likely result. The two communal sides are not evenly matched. We believe that the security forces, perhaps after exacting a heavy toll in Chinese life, could eventually restore order. Serious damage would be done to Malaysia's economy and bureaucracy, however, and demoralization and general loss of confidence in the country's future could offer new opportunities to extremists, whether Malay or communist.

### Implications for the United States

48. Either a communal breakdown or an increase in communist insurgency would reduce the currently favorable climate for trade and investment, and might reduce the availability of our most important imports from Malaysia—rubber and tin.\* Any reduction of American investment in Malaysia, however, would be more of a blow to Malaysia than to the US since the American share of total foreign investment in Malaysia is very large, while the Malaysian share in total American foreign investment is extremely small. With the US already providing security assistance to Malaysia, albeit on a very small scale, it is likely that Kuala Lumpur would ask for more arms should the central government find itself confronted with widespread communal violence or with a significantly increased insurgent threat. There would also be reason for concern about the broader implications of these developments for regional peace and stability, the viability of ASEAN, and passage through the Malacca Strait.

\*One half of US tin imports and one third of its rubber imports come from Malaysia.