

Political events in Malaysia will come to the fore over the next few months. Prime Minister Hussein Onn, who currently heads the UMNO, has announced that he will not run for re-election as party leader on June 26 and will resign as Prime Minister shortly thereafter, due to ill health. Deputy Prime Minister Mahathir, who is Deputy President of the Party, appears certain to succeed him.

Domestic Economic Situation

The continuing recession in the major Western economies has begun to affect the performance of the Malaysian economy, although only marginally. Buoyant domestic demand and high rates of investment in the industrial and construction sectors, along with receipts from oil, gas, rubber, tin and palm oil have permitted Malaysia to maintain enviable rates of growth and surprisingly moderate inflation.

The GNP grew by 8% in 1980 to \$20.5 billion, down from 8.9% in 1979 but still 1.5% higher than initial government projections. A decline in rubber and timber production in 1980 was offset by increases in palm oil and rice, resulting in moderate growth in the agricultural sector (which accounts for 23% of GDP).

A slight decline in petroleum production (in response to government conservation policies) was more than offset by rising revenues. Tin production was somewhat lower in 1980 due to rising fuel prices. The expansion of the manufacturing sector and greater outlays for residential construction were most responsible for the overall growth of the economy.

Production in the manufacturing sector increased by 12.7% in 1980 (to US\$5.3 b) in response to strong growth in domestic demand as well as new investment incentives provided by the 1980 budget. Manufacturing now accounts for 21% of GDP.

Fifteen percent growth in exports and thirty-four percent increase in imports resulted in a weakened balance of trade (and only a modestly favourable balance of payments).

Foreign Policy

Malaysia's membership in the Commonwealth, and its relations with its ASEAN partners are essential elements in its foreign policy. It has actively participated in ASEAN's rapidly evolving consultative arrangements on co-ordination of economic and foreign policies.