

country has large reserves of gas which are being developed, and is a major exporter of tin, rubber, palm oil and tropical timber.

Weaker demand and softer prices in 1981 resulted in declines in revenue from Malaysia's leading exports with the exception of oil and palm oil, and contributed to a deterioration in Malaysia's payments position. For the first time ever, Malaysia had a trade deficit of \$735 million. The Government has responded with expansionary budgets to stimulate the economy, and this general policy is likely to continue. Malaysian development and economic goals are extremely optimistic, based on ten years of success. The Fourth Malaysian Plan for 1981-85 provides a continuing programme of industrialization, and the manufacturing sector is expected to soon displace agriculture as the most important economic sector. Many of these activities will be related to downstream processing of primary export commodities of tin, rubber, palm oil, timber, oil and natural gas and involve a shift from a primarily agricultural to a primarily industrial economy.

Although inflation rose by 8.4% in 1981 compared with 6.7% the previous year, the inflationary trend peaked in mid-1981 and had slowed to 6.5% by the first quarter of 1982.

The Government introduced a new economic policy in 1971 designed to eradicate poverty and equalize income among ethnic groups, and in particular to enhance the share of "Bumiputras" (Malays and other indigenous people) in the economy while still providing a fair opportunity for non-Bumiputras. By 1990 it is hoped that share capital in the corporate sector will be 70% Malaysian (including 30% Bumiputra) and 30% foreign.

Foreign Policy

Malaysia's relations with its ASEAN partners are an essential element of its foreign policy. Malaysia also initiated and has been active in promoting the concept of a Zone of Peace, Freedom and Neutrality (ZOPFAN) in the South-east Asian region and has succeeded in making it a cornerstone of ASEAN foreign policy. With Indonesia, it is the main proponent of the Kuantan Principle which attempts to draw Vietnam closer to the Southeast Asian grouping and away from over-dependence on the USSR.

Although Malaysia's Commonwealth connection and free market economy has led to the development of extensive ties with Western countries, especially in the 1960's and