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McNamara Papers

Contacts
Malaysia (1968-1972).

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MALAYSIA

MALAYSIA

1\. 10/7/68 — Ismail bin Mohamed Ali, Governor, Central Bank of Malaysia
Chong Hon Nyan, Deputy Secretary of the Treasury
Ambassador Tan Sri Ong Yoke Lin

7/18/69 (Aspen - Eisen. Ex.) — Charles Lowe, State Financial Officer, Johore Government, Johore

2\. 9/29/69 — Ali bin Haji Ahmad, Assistant Minister of Finance
Chong Hon Nyan, Deputy Secretary to the Treasury
Rais bin Saniman, Deputy Chief Economist, Bank Negara
Ambassador Tan Sri Ong Yoke Lin

3\. 9/25/70 (Copen.) — Tan Siew Sin, Minister with Special Functions
Dr. Ismail bin Mohamed Ali, Governor, Central Bank of Malaysia
Mohamed Sharif bin Abdul Samad, Permanent Secretary to the Treasury
Chong Hon Nyan, Deputy Secretary to the Treasury
H.F.G. Leembruggen, General Manager of MIDF

4\. 10/4/71 — Tun Tan Siew Sin, Minister of Finance

5\. 10/5/71 — Prime Minister Tun Abdul Razak
Ambassador Yoke Lin Ong
Tun Tan Siew Sin, Minister of Finance
Thong Yaw Hong, Head of the Economic Planning Unit

6\. 11/16-18/71 (K — Mr. McNamara's Impressions on Visit to Malaysia (Filed in RMcN Office).

7\. 11/16/71 (Kuala Lumpur) — Tan Sri Abdul Kadir bin Shamsuddin, Chief Secretary to the Government
Thong Yaw Hong, Director-General, Economic Planning Unit
Sulaiman Abdullah, Deputy Director-General, Economic Planning Unit
Malek Ali Merican, Deputy Secretary-General, Ministry of Finance
Mr. Panton, Economic Planning Unit

8\. " — Tangku Razaleigh, Chairman of PERNAS
Tan Sri Nik Ahmad Kamil, President, Federation of Malaysian Manufacturers

" — Prime Minister Tun Haji Abdul Razak bin Dato Hussein

" — Dinner hosted by the Prime Minister (ladies included)
Tun Tan Siew Sin, Minister of Finance
Tun V.T. Sambanthan, Minister of Works, Posts and Telecommunications
Mohammed Khir Johari, Minister of Commerce and Industry
Abdul Ghaffar bin Baba, Minister of National and Rural Development
Hussein Onn, Minister of Education
Tan Sri Muhammad Ghazalie Shafie, Minister of Information and Special Functions
Tuan Haji Abdul Taib bin Mahmud, Deputy Minister to Prime Minister's Department
Ali bin Haji Ahmad, Deputy Minister of Finance

	11/16/71 (Kuala Lumpur)	Dinner hosted by the Prime Minister -- cont'd Tan Sri Abdul Kadir bin Shamsuddin, Chief Secretary to the Government Raja Tan Sri Mohar bin Raja Badiozaman, Secretary-General to the Treasury Tan Sri Zaiton Ibrahim bin Ahmad, Secretary-General, Ministry of Foreign Affairs Tengku Razaleigh bin Tengku Hamzah, MP, Chairman of National Corp. Musa bin Hitam, Chairman, Federal Land Development Agency Jamil Jan, Deputy Secretary-General, Ministry of Commerce and Industry Ishak bin Tadin, Deputy Chairman, MANA Tengku Shahriman bin Tengku Sulaiman, Director-General of Implementation, Coordination & Evaluation Unit Thong Yaw Hong, Deputy Director-General, Economic Planning Unit Malek Ali Merican, Deputy Secretary-General to the Treasury Dr. Agoes Salim, Chairman, Agricultural Bank Sulaiman bin Abdullah, Deputy Director-General, Economic Planning Unit Mohd. Hanafiah bin Omar, Assistant Secretary, Treasury Yahaya bin Abdul Wahab, Deputy Director-General, ICEU
	11/17/71 (Jengka Triangle)	Ishak bin Tadin, Chief Executive Director, Majlis Amanah Ra'ayat (MARA) and Chairman, Sharikat Jengka Sandirian (SJSB), subsidiary of MARA F.W. Fearman, General Manager, SJSB Mohd. Rasli bin Mohd. Nawi, Managing Director, SJSB
	"	D.R.L. Massey-Collier, Executive Director, Jengka Triangle Federal Land Development Agency (FLDA) Musa bin Hitam, Chairman, FLDA Raja Muhammad Alias bin Raja Muhammad Ali, Director-General, FLDA Surjit Singh, Director of Budget and Planning, FLDA
	11/18/71 (Kuala Lumpur)	King Seri Paduka Baginda Yang Di-Pertuan Agong
9.	"	Tun Tan Siew Sin, Minister of Finance Ali bin Haji Ahmad, Assistant Minister of Finance Raja Mohar, Secretary-General Abdullah Ayub, Deputy Secretary-General Malek Ali Merican, Deputy Secretary-General
10.	"	Prime Minister Tun Abdul Razak Tun Tan Siew Sin, Minister of Finance Tun V.T. Sambanthan, Minister of Works, Posts and Telecommunications Tan Sri Haji Sardon bin Haji Jubir, Minister of Health Mohd. Khir Johari, Minister of Commerce and Industry Abdul Ghafar bin Baba, Minister of National and Rural Development Hussein bin Onn, Minister of Education Dato Abdul Samad bin Idris, Assistant Minister of Agriculture and Lands Ali bin Haji Ahmad, Assistant Minister of Finance Tan Sri Abdul Kadir bin Shamsuddin, Chief Secretary to the Government Thong Yaw Hong, Director-General, Economic Planning Unit, Prime Minister's Department Malek Ali Merican, Deputy Secretary-General, Ministry of Finance
11.	"	Tan Sri Ismail bin Mohamed Ali, Governor, Bank Negara Choi Siew Hong, Deputy Governor, Bank Negara

11/18/71 (Kuala Lumpur) John P. Kennedy, Assistant Representative, Ford Foundation

" Alexander Foster Campbell, UNDP Representative

11/16-18/71 Others possibly met at social functions

Tan Sri Ong Yoke Lin, Minister without Portfolio
Tan Sri Temenggong Juga anak Barieng, Minister of Sarawak Affairs
Tan Sri V. Manickavasagam, Minister of Labor
Tan Sri Haji Mohd. Ghazali bin Haji Jawi, Minister of Agriculture and Lands
Dato Abdul Ghani Gilong, Minister of Transport
Lee Siok Yew, Minister without Portfolio
Dato Hamzah bin Dato Abu Samah, Minister of Culture, Youth and Sports
Tan Sri Fatimah binte Haji Hashim, Minister of Social Services
Tan Sri Abdul Kadir bin Yusof, Attorney General
Dato Ong Kee Hui, Minister of Technology, Research and Local Government
Lee San Choon, Assistant Minister of Labor
Tengku Ahmad Rithauddeen bin Tengku Ismail, Assistant Minister of Defense
Mohamed bin Yaacob, Assistant Minister of Home Affairs

12. 9/20/72 Ambassador Ong (farewell call)

13. 9/28/72 Tun Tan Siew Sin, Minister of Finance
Tan Sri Ismail, Governor, Bank Negara
Malek Ali Merican, Deputy Director-General, The Treasury
Choi Siew Hong, Deputy Governor, Bank Negara
Ramon Navaratnam, Alternate Executive Director

5/25/73 Ong Yoke Lin, Malaysian Senate. Courtesy call - alone.

14. 9/27/73 (Nairobi) Tan Siew Sin, Minister of Finance
Ismail bin Mohamed Ali, Governor, Central Bank of Malaysia
Chong Hon Nyan, Secretary General to the Treasury
Malek Ali Merican, Deputy Secretary General to the Treasury
Wong Yoke Meng, Under Secretary (Finance), The Treasury

15. 10/3/74 Datuk Hussein Onn, Deputy Prime Minister, Minister for Finance, and Minister of Coordination of Public Corporations
Tan Sri Ismail bin Mohamed Ali, Governor of the Central Bank
H.E. Mohamed Khir Johari, Ambassador to the United States
Datuk Abdullah bin Ayub, Secretary-General, Treasury
Dato Wong Yoke Meng, Deputy Secretary-General, Treasury

16. 1/17/75 Tan Sri Chong Hon Nyan, Deputy Minister of Finance
M. Shanmughalingam, Deputy Secretary of the Treasury
(with Mr. Choi)

6/12-13/75 (Paris-Dev. Cte.) Chong Hon Nyan, Deputy Minister of Finance

10/7/76 (Manila) Tengku Razaleigh Hamzah, Minister of Finance (with ASEAN Group)
(Minutes filed Singapore)

17.	4/27/77	Razaleigh Hamzah, Minister of Finance Ismail bin Mohammed Ali, Governor of the Central Bank
18.	9/29/77 (Annual Meeting)	Datuk Hussein Onn, Prime Minister Tengku Rithauddeen, Minister of Foreign Affairs Datuk Zaharia, Secretary General, Ministry of Foreign Affairs Rosemin Zain, Ambassador to the U. S. Thong Yaw Hong, Director-General, Economic Planning Unit S. K. Cheah, Head of Chacery, Embassy of Malaysia
	1/27/78	Ambassador Zain Azraai
	5/1/78	Ambassador Zain Azraai
19.	6/9-13/78 Kuala Lumpur	His Majesty Yang Di Pertuan Agong, King of Malaysia Her Majesty Raja Permaisuri Agong, Queen of Malaysia Finance Minister Tengku Razaleigh Hamzah Dr. Nor Laily, Director General-Malaysia National Family Planning Bd Dato Shahabuddin, Chairman, Kedah-MUDA Project Mr. Almahdali, General Manager, Kedah-MUDA Dr. Cheong Chup Lim, Deputy Director General of Drainage and Irrigation Department, Federal Gov't. Dr. Mohd Nor bin Abdullah, Director General, Rubber Industry Smallholders Development Authority (RISDA) Menteri Besar, Kelantan The Prime Minister, Hussein bin Onn Other officials on field trips - names not recorded.
	7/24/78	Dinner hosted by the Ambassador of Malaysia, Zain Azraai
20.	5/2/79	Dr. Mohamed Nor bin Abdullah, Director-General for Rubber Industries Smallholders Development Authority (RISDA)
21.	9/29/79 (Annual Meeting)	Finance Minister Razaleigh Hamzah Thong Yaw Hong, Dir-Gen, Economic Planning Unit Ramli Mat Wajib, Secretary, Economic Division, Federal Treasury Datuk Sallehuddin bin Mohamed, Deputy Sec-Gen to the Treasury Ambassador Zain Azraai

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Mr. McNamara - to see please.
RMS 10/16

FORM NO. 57 | INTERNATIONAL DEVELOPMENT ASSOCIATION | INTERNATIONAL BANK FOR RECONSTRUCTION AND DEVELOPMENT | INTERNATIONAL FINANCE CORPORATION

OFFICE MEMORANDUM

TO: Files

DATE: October 8, 1968

FROM: Willem Brakel

SUBJECT: Malaysia: Annual Meeting: Call of Malaysian Delegation on Mr. McNamara

Mr. Ismail, Governor of the Central Bank and Mr. Chong Hon Nyan, Deputy Secretary of the Treasury paid a brief visit to Mr. McNamara on October 7. Mr. Ong, Ambassador of Malaysia to the United States was also present; for the Bank Mr. Cargill and I attended.

Mr. McNamara expressed the hope that it would be possible to keep our lending activities to Malaysia at the extraordinarily high level which had been achieved in the past. The delegation mentioned in that connection that several of the projects for which they hoped to get loans from the Bank in the years ahead were in sectors of particular interest, namely agriculture and education. A brief discussion on the timing of the next Jengka project and on possible similar projects in the more distant future followed. There was also some discussion on the need for Malaysia to intensify her efforts on family planning. Malaysia's current rate of population growth is still very high.

cc: Messrs. McNamara
Cargill

WBrakel/rf

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MA-gen negs

FORM NO. 57 | INTERNATIONAL DEVELOPMENT ASSOCIATION | INTERNATIONAL BANK FOR RECONSTRUCTION AND DEVELOPMENT | INTERNATIONAL FINANCE CORPORATION

OFFICE MEMORANDUM

TO: Files DATE: October 7, 1969

FROM: J.M. Jentgen J.

SUBJECT: MALAYSIA - Meeting of Delegation with Mr. McNamara

The Delegation consisting of Messrs. Ali bin Haji Ahmad, Assistant Minister of Finance; Chong Hon Nyan, Deputy Secretary to the Treasury; and Rais bin Saniman, Deputy Chief Economist, Bank Negara, met with Mr. McNamara on September 29. Also present were the Ambassador of Malaysia, Tan Sri Ong Yoke Lin, Mr. Tazi, Mr. Knapp, Mr. Goodman and myself.

In reply to Mr. McNamara's question about the political outlook, the Minister stated that the situation is now under control and explained that the unemployment problem, particularly of young school leavers, in the towns was the main reason for the political disturbances. The Government is, therefore, adjusting its economic policies which will stress immediate creation of new jobs, particularly in industry. To Mr. McNamara's further question about unrest in rural areas, the Minister gave no direct reply, but did comment on the high local cost component of rural development projects, e.g. land settlement and highway construction projects and inquired whether for these projects we could include the financing of part of the local cost. Mr. McNamara said that we are prepared to consider the financing of local expenditure provided we are satisfied that the country's financial position is sound and the level of domestic savings is adequate. However, since Bank lending to Malaysia is already large and is increasing, he cautioned whether we could do more in the case of Malaysia.

Commenting on present high interest rates, the Minister inquired whether the blending of Bank/IDA loans could be considered for Malaysia. Mr. McNamara said that this was not possible at present, but that he was very sensitive about the high cost of money. He had reluctantly raised the Bank's lending rate to 7% recently, because of the high cost of Bank borrowing. He commented that while in the early sixties the rate at which the Bank was able to borrow was some 3/4% higher than the rates commanded by high-grade corporations, these two rates were now about equal. He agreed with the Minister that the present cost of Bank funds was high compared with what it was 10 years ago, but that Malaysia could still afford it because of the substantially higher rates of return of Bank-financed projects in Malaysia.

Cleared & cc: Mr. Goodman
cc: Mr. McNamara
Mr. Tazi
Mr. Knapp
Mr. Hablutzel
Mr. Asanuma
Mr. Foster

President has seen

JMJentgen:epa

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9/25

OFFICE MEMORANDUM

TO: Files COPENHAGEN

FROM: Gordon M. Street DATE: September 25, 1970

SUBJECT: Malaysia - Delegation Meeting with Mr. McNamara, September 25, 1970

Present from Malaysia were Mr. Tan Siew Sin, Minister with Special Functions, Dr. ISMAIL bin Mohamed Ali, Governor, Central Bank of Malaysia, Mr. Mohamed SHARIF bin Abdul Samad, Permanent Secretary to the Treasury, Mr. CHONG Hon Nyan, Deputy Secretary to the Treasury and Mr. H.F.G. Leembruggen, General Manager of MIDF. Present from the Bank were Mr. McNamara, Mr. Knapp, Mr. Goodman and Mr. Street.

After the usual exchange of courtesies, Minister Tan Siew Sin reminded Mr. McNamara that there had been an exchange of views during the past year on the former's suggestion that the Bank make a bond issue in Malaysia. He said that the offer is still open and asked that it be kept under consideration. Mr. McNamara indicated that we were by no means sure that the proposal was desirable but that he appreciated the cooperative attitude of the Government and that we would keep the matter under consideration.

Turning to the problem of an international rubber stock pile, the Minister reported that back in 1967 he had seriously considered the purchase of the US rubber stock pile, but agreement could not be reached on the price. As the Government still believed in the neccessity of a stock pile, he asked whether the Bank would consider making a loan for this purpose. He felt that, given today's rubber prices and the rather favorable long-term outlook for natural rubber, this would be a sound investment although he did admit that the rubber stock pile would not be similar to the tin stock pile because it would not be accompanied by producers agreements. Mr. McNamara doubted that the Bank could consider such a proposal unless accompanied by a whole set of arrangements to control the buffer stocks, although he recognized the need for more stability of primary products, including rubber.

President has seen

Memo on Malaysia

The Minister then mentioned that as trade made up 40-50 per cent of his country's GNP, they were interested in encouraging Malaysian shipping. To do this, a national shipping corporation, privately owned but with the Government holding some 40 per cent of the shares, had been set up. The corporation now has 11 ships totalling about 200,000 tons. The objective is to raise the total tonnage to about 1 million tons and for this they would need about $160 million over a five-year period. His question was whether IFC could help to finance the purchase of ships by the shipping corporation. Mr. McNamara agreed that IFC might consider such a proposal and suggested that the shipping corporation send in a written request to IFC supported by the necessary documentation. He added that this appeared to be a situation where IFC might be able to bring in other parties.

The Minister reported that in preparing the second Five-Year Plan the Government's objective was to reduce unemployment and racial and sectoral imbalances while maintaining growth as much as possible. To do this, while maintaining the strength of the Malaysian dollar will require substantial additional external financial help. He asked what the contribution of the Bank could be. Mr. McNamara agreed that the Bank would consider making a real contribution during the second Plan period as he realized that Malaysia will need much more external financial assistance. In this connection he noted that funds should be available from other sources, particularly Japan, UK and ADB, and that this pointed to the need to consider reactivating the Consultative Group for Malaysia. It was noted that this matter would be discussed further after the Bank economic mission, scheduled for next month, had completed its review of the economy. The Minister went on to say that since the private sector constitutes such a large part of the total economy, the problem for his country was one of attracting investment in the private sector. He added that the problem was not one of money since savings are high in Malaysia, but of moving savings into investment. This, he argued, was very slow except in a few cases where well-known firms were involved in the project. He asked whether the Bank would help to increase the flow of savings into investment. Mr. McNamara agreed that he would think about the matter, but could not offer any immediate solution for this unique situation.

The Minister mentioned that as long as Malaysia purchased rice from other countries to supplement its own production the government rice subsidy posed no problem, but that Malaysia was expected to become self-sufficient in rice before long at which time the Government would be faced with a problem. The obvious solution, reducing or abolishing the subsidy, was not politically feasible. He therefore asked whether the Bank would help find a solution before Malaysia reached the point of self-sufficiency. It was agreed that the Agricultural Sector Mission scheduled for October/November would look into this question.

Finally the Minister extended an invitation to Mr. McNamara to visit Malaysia. Mr. McNamara thanked the Minister, saying that he would very much like to visit Malaysia as he had never been there but he could not make any definite plans at the present time.

c.c.: Messrs. McNamara
Knapp
Cope

OFFICE MEMORANDUM

DF Mr. McNamara
Mr. Cope

TO: Files

September 26, 1970

FROM: Gordon M. Street

SUBJECT: Bank Bond Issue in Malaysia

On Thursday, October 24, Ismail bin Mohamed Ali, Governor of the Central Bank of Malaysia, called on Messrs. Cope and Goodman to discuss the above subject informally. The meeting started by Governor Ismail dismissing as impractical the Bank suggestion that the Bank sell in Malaysia bonds of the government, received in connection with Bank loans to the government for the amount of local currency disbursed under the loans, on the grounds that such bonds would be government obligations, not Bank obligations, and could not be sold in Malaysia to a greater extent than other government bonds. He dismissed the sale of participation in Bank loans to Malaysia on the same grounds.

He explained that he wanted the Bank to borrow Malaysian dollars in Malaysia and relend these funds to the government for financing the local currency costs of Bank financed projects. This, he thought, would help to develop the capital market in Malaysia, a highly necessary objective because the government was finding it difficult mobilizing sufficient domestic resources to finance a number of projects. He referred to land resettlement and hotels. Mr. Cope confirmed that the Bank was eager to help Malaysia and he promised to consider the matter carefully. However, he expressed doubts as to how this would help as the Bank would be competing with the government in the capital market and in the long run it would appear that the development of a market capable of taking large amounts of government paper was required.

In the course of the discussion the Governor divulged that the government pays only 5-1/4% on its domestic issues. To pay more would he thought upset the interest rate structure, which the IMF had assured him was appropriate for Malaysia. Mr. Cope explained at length, and more than once, that the Bank is a lender of last resort and cannot lend if funds can be raised on reasonable terms elsewhere. Given the high rates of interest being paid by governments all over the world, it would therefore, be very difficult for the Bank to lend for local currency expenditures as one cannot prove that the government had made every effort to raise funds on reasonable terms, since the government could apparently raise substantially more if it were willing to pay a higher interest rate. He also pointed out that the Bank could only assist in the mobilization of internal resources in exceptional circumstances, which had not been demonstrated so far in the case of Malaysia.

Mr. Cope mentioned a possible alternative, a Bank guarantee of government borrowings. He warned, however, that it was a new field for the Bank and the staff thinking on the subject had not been cleared with the management or the Executive Directors. Moreover, he emphasized that the same reservations he had noted in connection with Bank borrowing in Malaysia (i.e., whether the government had used its best efforts to mobilize internal resources) would apply equally to the use of the Bank's guarantee.

President has seen

GMStreet/rf

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INTERNATIONAL DEVELOPMENT ASSOCIATION | INTERNATIONAL BANK FOR RECONSTRUCTION AND DEVELOPMENT | INTERNATIONAL FINANCE CORPORATION

OFFICE MEMORANDUM

TO: Files

DATE: October 5, 1971

FROM: Bengt G. Sandberg

SUBJECT: MALAYSIA - Mr. McNamara's Meeting with Tun Tan Siew Sin on October 4, 1971

Mr. McNamara met alone with Tun Tan Siew Sin, Minister of Finance of Malaysia, on October 4. The following is a record of the meeting based on Mr. McNamara's report to Mr. Goodman.

Tun Tan expressed the hope that the Bank would not reduce its lending to Malaysia because

(a) Malaysia was not utilizing existing lines of credit or
(b) it had unusually large foreign reserves or
(c) it was not borrowing more from the ADB.

With respect to the first point the Minister pointed out that most of the British Special Aid and about two-thirds of the Japanese credit had been or would shortly be utilized. In the Japanese case the Malaysian Government had suggested that the credit be used to finance the purchase of ships for the national shipping line but had been rebuffed. The Minister had asked for a report on this and other credits arising from the 1966 meeting of the Consultative Group and would pass it on to the Bank. He hoped that the Bank would not insist on Malaysia's using these credits at a penalty. In discussing this point, Messrs. McNamara and Goodman agreed that the Bank could hardly press Malaysia to back away from its policy of requiring full international competitive bidding.

Regarding the exchange reserves the Minister agreed that they were rather high. However, in view of the uncertainties surrounding the prices of Malaysia's main export commodities - rubber, tin and palm oil - he felt that they had to be high.

Borrowing from the ADB was difficult. The ADB had refused to finance a number of projects proposed by the Malaysian Government including the Johore Port. There were also difficulties about projects in Sabah. The Minister had the impression that ADB was reluctant to move into new fields such as education and agriculture.

Mr. McNamara noted the Minister's points and said that the Bank would study the situation and that he would be glad to talk about it during his visit to Kuala Lumpur in November.

Tun Tan also urged the Bank to consider what it might do to assist in establishing buffer stocks of primary commodities to stabilize the continually declining prices of such commodities. Mr. McNamara said that the Bank had been concerned about this problem for a long time and that it had also been studied by the Pearson Commission among others. He did, however, intend to direct the Bank staff to carry out further detailed studies in this field in preparation for the Fourth Replenishment of IDA.

cc: Messrs. McNamara(2), Knapp, Cope, Hoffman
Goodman, Fontein, Street

President has seen

BGSandberg:vmk

INTERNATIONAL DEVELOPMENT ASSOCIATION | INTERNATIONAL BANK FOR RECONSTRUCTION AND DEVELOPMENT | INTERNATIONAL FINANCE CORPORATION

OFFICE MEMORANDUM

TO: Mr. Robert S. McNamara

DATE: September 30, 1971

FROM: Raymond J. Goodman RJG

SUBJECT: MALAYSIA - Meeting with the Minister of Finance Tun Tan Siew Sin

Mr. Navaratnam has informed me that the Minister of Finance, Tun Tan, might want to discuss with you the situation of natural rubber, especially the adverse effects on Malaysia caused by the stockpile releases of the U.S. General Services Administration (GSA).

As you know, the Minister has brought up this subject in the past, most recently in Copenhagen at the 1970 Annual Meeting. On that occasion, you declined his request for a Bank loan for the purpose of establishing a rubber stockpile by buying the GSA stockpile.

Tun Tan told me yesterday that he had offered to buy the stockpile on the terms offered by the U.S. in 1967 (and which he turned down as being too onerous) but that the U.S. had declined. I do not know what proposal he will put to you, if any.

For your background I attach a memo on past Malaysian initiatives and recent developments in this matter.

Attachment

cc: Mr. J. Burke Knapp

BGSandberg/RJGoodman/am

INTERNATIONAL DEVELOPMENT ASSOCIATION | INTERNATIONAL BANK FOR RECONSTRUCTION AND DEVELOPMENT | INTERNATIONAL FINANCE CORPORATION

OFFICE MEMORANDUM

TO: Mr. Raymond J. Goodman

DATE: September 27, 1971

FROM: Bengt G. Sandberg

SUBJECT: MALAYSIA AND THE U.S. RUBBER STOCKPILE

In his memorandum of August 12, Mr. Navaratnam informed Mr. Knapp that Minister Tun Tan Siew Sin might want to consult with Mr. McNamara during the Annual Meeting on the rubber situation, especially the adverse effects on Malaysia caused by the stockpile releases of the U.S. General Services Administration (GSA).

Background

As of June 30, 1971 the U.S. Government natural rubber stockpile amounted to about 142,000 long tons most of which will eventually be disposed of by the U.S. Government. The annual releases have gradually declined from 159,000 long tons or about 4 percent of world natural rubber supplies in 1966 to 100,000 long tons in 1967, 74,000 long tons in 1968, 35,000 long tons in 1969 and 28,000 long tons in 1970. In their attempts to stabilize the prices at a more remunerative level the Malaysians have considered it essential to gain some control over these releases. They have discussed this matter on several occasions with the U.S. Government as well as with the Bank and the Fund.

When Tun Tan saw President Johnson in Washington in October, 1967, he expressed an interest in acquiring control over the U.S. stockpile. He was told that to do so Malaysia (possibly in conjunction with other rubber producing countries) would have to buy the stockpile. The U.S. offered to sell the whole stockpile for an estimated US$120 million, US$48 million to be paid immediately and the rest over 5 years in quarterly payments each amounting to the value of 17,500 long tons calculated on the basis of New York spot price on the first day of each quarter. The U.S. also offered Malaysia a five-year Export-Import Bank loan to finance the US$48 million downpayment. As collateral for this loan Malaysia would have had to buy Export-Import Bank participation certificates using funds not already invested in US securities. Malaysia found these terms too onerous and began looking for other sources of finance.

In December 1967 Tun Tan asked Mr. Woods for a Bank loan to finance the purchase of the US stockpile. In a letter dated January 29, 1968, Mr. Woods declined the request.

During his meeting with Mr. McNamara in Copenhagen in 1970 the Minister again asked the Bank to consider making a loan for the purpose of establishing a rubber stockpile by buying the GSA stockpile. Mr. McNamara doubted that the Bank could consider such a proposal unless accompanied by a whole set of arrangements to control the buffer stocks, although he recognized the need for more stability of primary products, including rubber.

Recent Development

Last year's release by GSA of 28,000 long tons of natural rubber was spread over a period of four months (May - August). The rubber price declined continuously during 1970 from a level of 25 US cents per pound in January to 18 US cents in October 1970 because of weak demand from major buyers. Major factors were the dock strike in the UK and the overall economic recession and protracted strikes against General Motors and major tire manufacturers in the US.

In February 1971, the Association of Natural Rubber Producing Countries (A.N.R.P.C.) 1/ set up a working committee "as a first step to finding a solution to releases from the US rubber stockpiles depressing the world market price of rubber". So far no other measures have apparently been suggested except for periodic meetings of the Executive Committee of the Association to discuss current developments. Also in February the US reportedly agreed to defer until June sales from its rubber stockpiles planned to be resumed in March 1971. The US apparently also agreed in general terms to consult rubber producing countries before future sales.

On July 7, 1971, GSA announced that beginning July 19 it would resume the sale of natural rubber from its stockpile at a monthly rate of about 6,000 long tons of rubber, with a maximum annual release of 72,000 long tons. The release would be only for consumption within the U.S. The stockpile, as mentioned above, was at that time 142,000 long tons.

Contrary to previous releases, this year's release program specifies not only the magnitude of sales but provides also for a price floor. The stocks are to be released by GSA at a selling price not below the average of the daily Rubber Trade Association price for RSS1 in the preceding month. Since rubber prices have been declining again, especially over the past three months (average price in New York: May 20.3 US cents/lb., June 18.7 US cents/lb.), there were some doubts whether this procedure is going to work. However, GSA managed to sell in July the total 6,000 long tons of rubber declared surplus for release at 17.75 US cents/lb. probably because domestic buying in the US has been stronger in the past months because of the possibility of a prolonged strike by US dockworkers in September.

Two weeks after the announcement of the resumption of U.S. stockpile releases, the A.N.R.P.C. asked that monthly releases be reduced to 3,000 long tons. The U.S. Government reportedly noted the A.N.R.P.C. request but GSA has sold again in August its full monthly quota of 6,000 long tons.

1/ Inaugurated in October 1970. Its founder members Ceylon, Indonesia, Malaysia, Singapore, Thailand and Vietnam together account for more than 85 percent of world production of natural rubber.

By the middle of August, Malaysian rubber prices had fallen to the lowest level since 1949, and combined Malaysia-Singapore unsold stocks, which had increased from 35,000 long tons at the end of 1969 to 206,000 long tons at the end of 1970, had continued to rise further. In this situation there was some speculation that Malaysia might intervene to support the market. Recent information indicates however that massive intervention by the Government to halt the slide in prices is unlikely, partly because of the difficulties involved in financing such an operation. Also some recovery of rubber prices in the U.S. may indicate the downward price trend has reached the bottom.

Malaysia also hopes to make substantial sales of natural rubber to the People's Republic of China following the recent resumption of close trade relations between the two countries. A Chinese trade mission that visited Malaysia in late August announced the immediate purchase of 40,000 long tons (mainly RSS1) on an undisclosed agreed price formula. The mission mentioned future annual requirements of 150,000 - 200,000 long tons. However, no firm commitment of more purchases was made at this point, although it was agreed that Malaysia would send a team to China to advise on the application of SMR 1/ to Chinese usage.

The Annual Conference of A.N.R.P.C. which convened in Jogjakarta in Indonesia during the first half of September reportedly gave special attention to the rubber stockpile problem. Other prominent topics included the establishment of a joint regional marketing system and the fast rising shipping freight rates which also threaten the competitiveness of natural versus synthetic rubber in the major industrialized countries. The countries attempted to work out a joint stance on the major issues for the meeting of the International Rubber Study Group in Ottawa (September 20-24). Mr. Irfan ul-Haque (Economics Department), who represented the Bank at the Ottawa meeting, told us, however, that nothing significant transpired from the meeting on any of the major issues and the question of the U.S. stockpile releases was not even discussed.

In addition to the uncertainties mentioned above, the present unsettled conditions in international financial relations make it very difficult to forecast rubber price developments. However, the attached table (Attachment 1) gives some idea about the magnitudes of the international rubber market as estimated for 1972 by the International Rubber Study Group. It seems clear that the planned annual GSA sales (72,000 mt), which amount to only 2.4 percent of the estimated total world supply of natural rubber in 1972 or about 5.5 percent of total Malaysian supply or 12 percent of the US consumption of natural rubber, are likely to play only a minor role in determining the price of natural rubber over the next year or so. Movements of U.S. natural rubber prices as well as trends in supply, consumption and stocks of natural rubber in the U.S. are shown in the graphs of Attachment 2.

1/ Standard Malaysian Rubber.

Attachment 1

World Rubber Market in 1972
(in metric tons)

I. Estimated Supply

Natural Rubber	3,060,000 mt	
thereof:		
Malaysia	1,360,000 mt	(44%)
Indonesia	810,000 mt	(26%)
Thailand	300,000 mt	(10%)
Ceylon	166,000 mt	(5%)
	2,636,000 mt	(85%)
Rest	424,000 mt	

(Supplied primarily by India, Nigeria, Liberia, Vietnam, Brazil Cameroon, and Ivory Coast).

Synthetic Rubber	5,265,000 mt	
thereof:		
U. S.	2,425,000 mt	(46%)
Japan	760,000 mt	(15%)
Total Supply	8,325,000 mt	

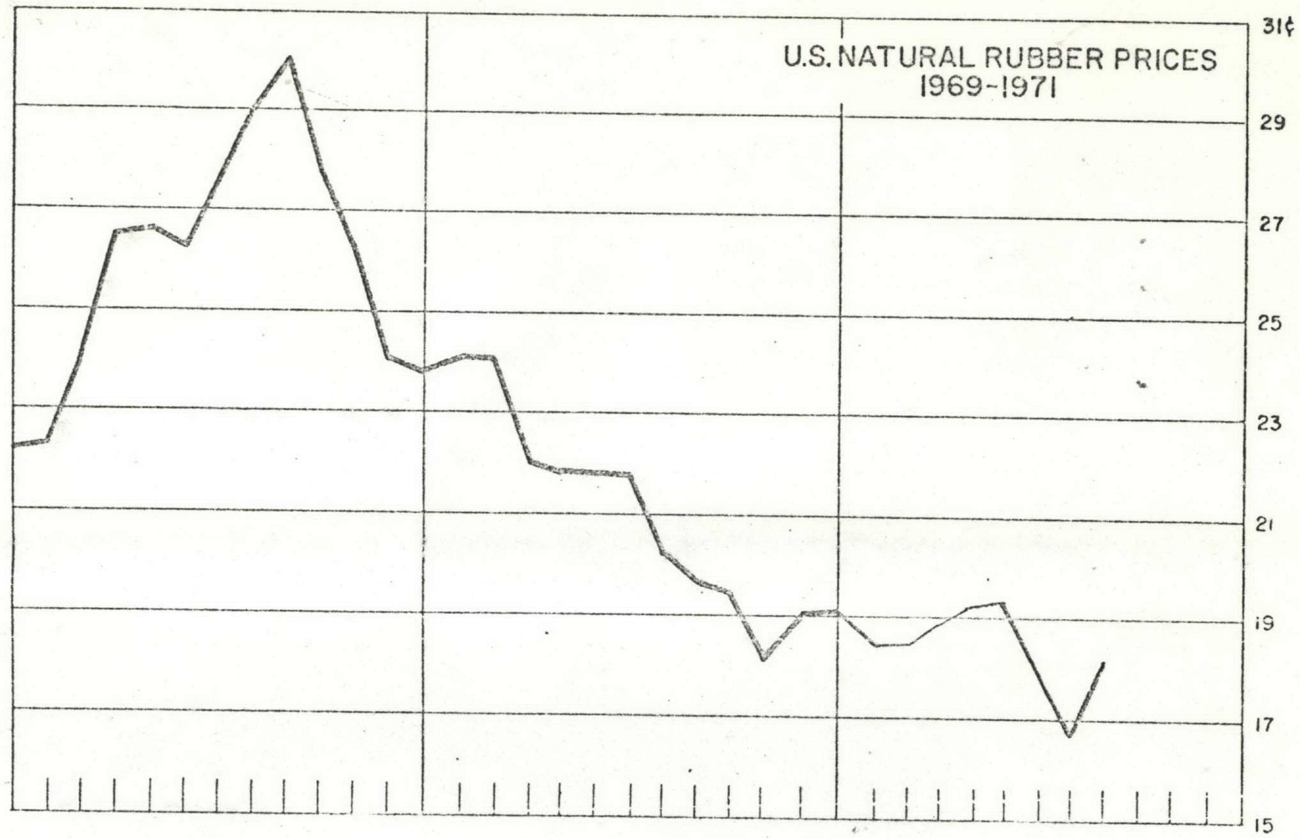
II. Estimated Consumption

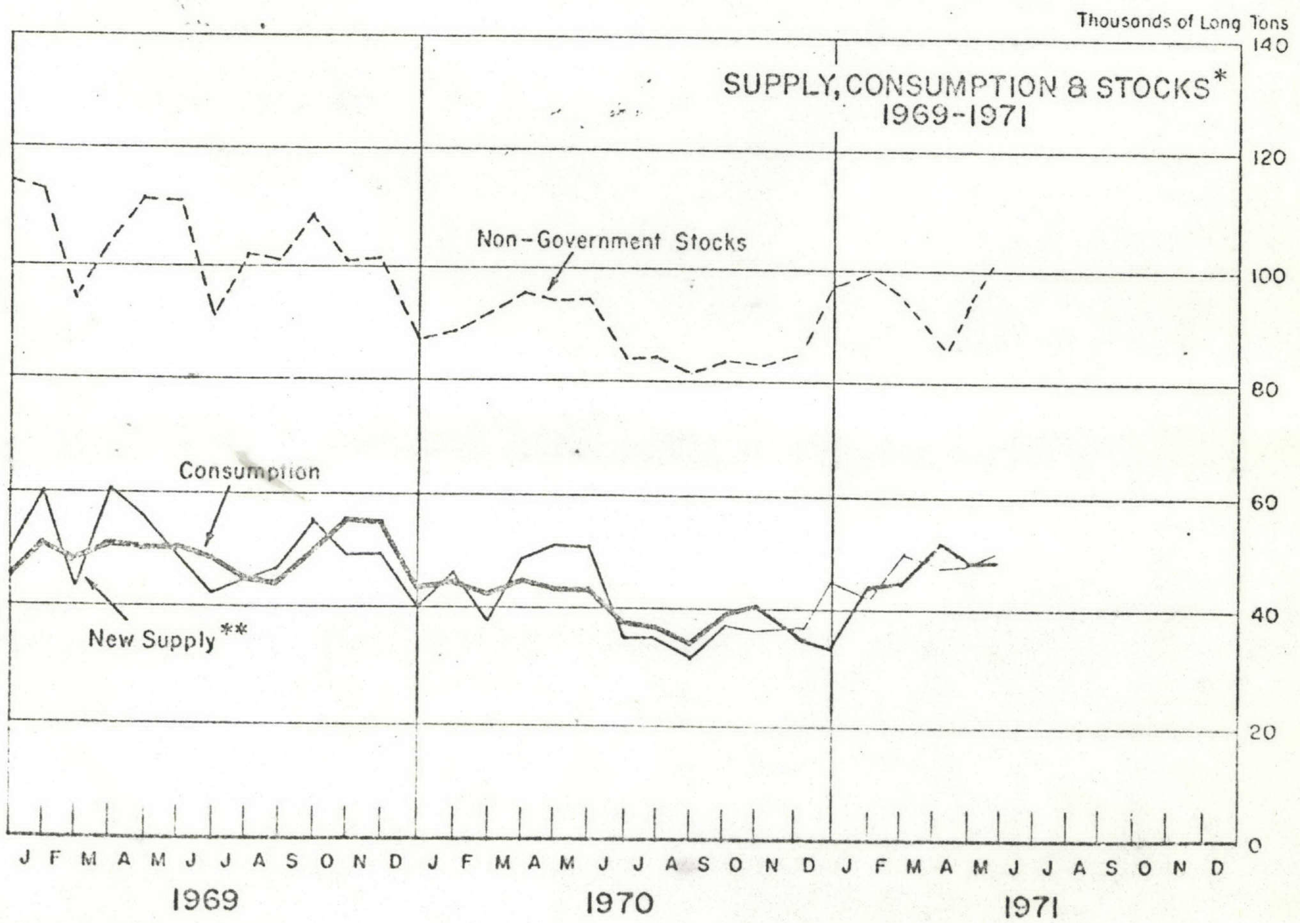
Natural Rubber	3,085,000 mt	
thereof:		
U. S.	600,000 mt	(19%)
Japan	295,000 mt	(10%)
Synthetic Rubber	5,105,000 mt	
thereof:		
U.S.	2,200,000 mt	(43%)
Japan	550,000 mt	(11%)
Total Consumption	8,190,000 mt	

Source: International Rubber Study Group.

Attachment 2

MONTHLY FACT CHART ON U.S. NATURAL RUBBER PRICE/SUPPLY STATUS





*Including Liquid Latex
**Calculated Non-Government Owned Supply

NATURAL RUBBER BUREAU

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October 14, 1971

MEMORANDUM FOR THE RECORD

SUBJECT: Visit to the Prime Minister of Malaysia.

On Tuesday evening, October 5, Mr. McNamara called on the Prime Minister of Malaysia, Tun Abdul Razak, at the Malaysian Ambassador's residence. The Finance Minister, Tun Tan Siew Sin, the Ambassador, Mr. Thong Yaw Hong, Head of the Economic Planning Unit, Mr. Navaratnam and I were also present.

In welcoming Mr. McNamara the Prime Minister confirmed the Government's invitation to visit Malaysia, which Mr. McNamara said he was looking forward to with great pleasure. The Prime Minister said that he wanted to mention particularly the Second Malaysia Plan, whose main objective would be to correct imbalances in the economy and inequalities among economic and social groups. It was clear that growth in the past had not been sufficient to create enough jobs, particularly for young people joining the labor market. He hoped that the Bank would continue to help Malaysia as it had in the past. There were, for example, a number of large land-development schemes which were important for the improvement of the rural sector. He knew that we wished Malaysia to make more use of the ADB and of foreign credits that had been extended to it. However, ADB had not proved easy to deal with and seemed to have had difficulties with respect to certain projects, e.g. in Sabah and in Johore, that Malaysia had put to it. ADB also did not seem to have much money available for Malaysia. (The Finance Minister later said that ADB had plenty of funds, but this inconsistency was not resolved during the discussion.)

As regards foreign credits, these were really commercial credits which Malaysia was prepared to use if a supplier from the country concerned was successful in the bidding for a particular item, but apart from that their use would involve penalties. The Prime Minister asked whether Mr. McNamara would expect Malaysia to depart from its long standing policy of full international competitive bidding.

Mr. McNamara said that the Bank would certainly continue to help Malaysia; there was no question of reducing the scale of our lending. Nor was there any question of suggesting that Malaysia back away from its policy of international competition. However, he could not understand why as much as 1/3 of the Japanese credit remained uncommitted after five years and suggested that the Malaysian government had not been aggressive enough in seeking ways of using this and other credits. Neither did he understand the nature of the difficulties with ADB. He asked why the proposal for an ADB loan to MIDF had been dropped. The Finance Minister said that ADB's

President has seen

terms had been the problem - in any case MIDF had no need for foreign exchange, and its local currency needs were taken care of by the Government. The Japanese procedures were cumbersome and time-consuming; Japan had been asked to finance ships, which were very important to Malaysia - they needed to spend as much as M$100 million over the next few years - but had refused.

The Prime Minister mentioned that he would be visiting Japan shortly and it was agreed that this would help to dispel misunderstandings between the two countries.

Winding up a rather confused and inconclusive discussion, Mr. McNamara said he still felt Malaysia should take more initiative in finding ways to use the foreign aid at its disposal but said he would be glad to look into this matter more thoroughly during his forthcoming visit to Malaysia.

RJG.

Raymond J. Goodman

cc: Mr. McNamara
Mr. Knapp
Mr. Cope

Mr. Fontein
Mr. Street
Mr. Sandberg

RJG/rf/am

Form No. 57

INTERNATIONAL DEVELOPMENT ASSOCIATION | INTERNATIONAL BANK FOR RECONSTRUCTION AND DEVELOPMENT | INTERNATIONAL FINANCE CORPORATION

OFFICE MEMORANDUM

TO: Mr. Robert S. McNamara

DATE: October 4,1971

FROM: Raymond J. Goodman RJG.

SUBJECT: MALAYSIA: Meeting with Tun Abdul Razak - The Prime Minister of Malaysia

I am attaching a brief biographical note on Tun Razak whom you will be meeting tomorrow at 6.15 p.m. at the Malaysian Ambassador's Residence. I do not think he will raise any issues beyond what the Minister of Finance Tun Tan Siew Sin may raise during his meeting with you this afternoon.

President has seen

A BRIEF BIOGRAPHICAL NOTE

TUN ABDUL RAZAK

Personal Information: Born on March 11,1922 in the State of Pahang, Malaya (West Malaysia). He is the son of the late Dato Hussein bin Mohammad Taib, a Territorial Chief of Pahang. He is married and has five sons.

Education: Educated at Malay College, Kuala Kangsar, Perak and Raffles College, Singapore. Law degree from England. Conferred honorary degree of Doctor of Laws by the University of Malaya.

Present Position: Prime Minister since 1970. He also holds the portfolios of Foreign Affairs and Defence. He is the Leader and President of United Malay National Organization (UMNO); Chairman of the ruling Alliance Party (coalition of three national political organizations representing the three major ethnic groups); is known as a technocrat, master tactician and effective administrator. He is the author of (1) Malaysia's New China Policy representing a shift toward non-alignment in foreign policy (2) the New Economic Policy embodied in Second Malaysia Plan based on the principles of rapid growth and more equitable distribution of income among the different ethnic groups in Malaysia (Malays, Chinese and Indians). He guided Malaysia's return to Parliamentary Democracy in February 1971.

Previous Activities and Functions:

During World War II, under the Japanese occupation he joined the Malay Resistance Force. From the beginning of his career he has been a Civil Servant and has been active in politics with the rural Malays as his main power base. He has held various posts such as: State Secretary in 1952 and Chief Minister of Pahang in 1955, Minister of Education in 1955 (the Razak Report on education in 1956 has guided Malaysia's education policy ever since), Deputy Prime Minister since the Independence of the Federation of Malaya in 1957. In addition he has held the portfolios of Rural Development, Home Affairs and Finance. After the May 13,1969 disturbances he was also appointed the Director of Operations under the Proclamation of Emergency.

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MEMORANDUM FOR THE RECORD

February 4, 1972

SUBJECT: MALAYSIA - Meeting with Chief Secretary, Tan Sri Abdul Kadir bin Shamsuddin, and Senior Government Officials, November 16, 1971, 3:30 - 5:00 p.m.

Mr. McNamara met with the Chief Secretary Tan Sri Abdul Kadir bin Shamsuddin and a large number of senior officials, directors and department heads on November 16, 1971. He was briefed on various aspects of the Second Malaysia Plan by:

Mr. Thong Yaw Hong	- Director-General Economic Planning Unit
Mr. Sulaiman Abdullah	- Deputy Director-General Economic Planning Unit
Mr. Malek Ali Merican	- Deputy Secretary-General Ministry of Finance
Mr. Panton	- Economic Planning Unit

Present from the Bank were:

Mr. Raymond J. Goodman

Mr. William Clark

Mr. Rudolf Hablutzel

Mr. Bengt G. Sandberg

Mr. Leif Christoffersen

1. Second Malaysia Plan (Mr. Thong Yaw Hong)

Mr. Thong outlined the problems facing Malaysia as a background to the Second Malaysia Plan; viz. rapid growth of the population and the labor force and economic imbalances in incomes, employment and ownership of wealth between ethnic groups, due partly to identification of economic function with race, and between rural and urban areas as well as between regions. The imbalances were a particularly dangerous threat to national unity.

The objective of the new economic policy announced by the Government was to promote national unity. This would be done by eradicating poverty regardless of race and restructuring society to remove the present imbalances within a framework of a higher rate of growth of the economy and of employment. The policies to be implemented included:

President has seen

1. rural modernization
2. increased stress on science and technology in education
3. development of urban areas and regional growth centers
4. regional master planning
5. development of indigenous entrepreneurship
6. selective participation by government in business and industry

The Second Malaysia Plan included a number of development targets. GNP would grow at a rate of 6.5% per year (3.7% per year on a per capita basis) while employment would increase by 3.2% per year. Total development expenditure was planned at a level of M$14,350 million of which M$7,250 million[1] in the public and M$7,100 million in the private sector. To finance this program primary reliance was on domestic resources; foreign loans and grants would only finance 15% of public sector development expenditures compared to the projected 40% and achieved 16.5% during the First Malaysia Plan.

The major problem encountered in the public sector in achieving these goals was the lack of implementation capacity. However, a number of steps were being taken to deal with this problem. The monitoring and decision making machinery had been streamlined through the establishment of the National Action Council which through its executive committee and executive organ, the Implementation, Coordination and Evaluation Unit in the Prime Minister's Department, was charged with the task of monitoring and following up on the implementation of projects in the Second Malaysia Plan. Vacant posts in the establishment, particularly in the Public Works Department, were being filled through the recruitment of expatriates and greater use was being made of consultants for preparation of projects and managing agents for project execution, particularly in land development. Administrative improvements were also being made, for example with respect to budgetary procedures and allocations.

As far as the private sector was concerned there was little control or power to control developments. All the government could do was to provide suitable incentives and the economic and social infrastructure.

In response to a question by Mr. McNamara regarding the imbalanced ownership of wealth, Mr. Thong said that a recent study of the ownership of corporations had shown that only 1.5% of the capital was owned by Malays, 23% by non-Malays and 62% by foreigners. This pattern of ownership was reflected in the employment structure with Malays concentrated in rural areas and employment outside industry and commerce.

Mr. Goodman asked about the pattern of ownership of other wealth. Mr. Thong said that the pattern was roughly the same. But within a period of 20 years 30% of the total commercial and industrial wealth would be owned

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1/ On commitment basis.

and managed by Malays and other indigenous people. To achieve this goal, the government had established a number of new institutions - Pernas, MARA, the State Development Corporations and the Urban Development Authority. They were all charged with the task of promoting Malay entrepreneurship in commerce and industry.

Mr. McNamara questioned whether the growth of Malay ownership could be achieved through Malay savings. It would seem that the setting up, with government participation, of the institutions mentioned implied that Chinese savings were also used for the purpose. He also wanted to know how it was expected that the increment in Chinese savings would be used. Mr. McNamara for his part would expect some of it to go into new or expansion of old businesses. On the basis of this observation he wanted to know how the percentages worked out.

Mr. Thong acknowledged that Malay savings would have to grow very fast, by some 20% per annum. The various institutions had been established to tap and channel these savings, which would also be supplemented by government contributions. The percentages had however not been worked out in detail.

2. <u>The foreign borrowing program (Mr. Malek Ali Merican)</u>

The Second Malaysia Plan included expected public sector development expenditures of M$6,000 million.[1/] This was regarded as a minimum figure if the plan was to have any impact at all on the present level of unemployment. In fact considerable efforts would be made to exceed this level of expenditures.

The target for net foreign borrowing was M$720 million which would mean an absolute increase of 56% over what was achieved during the First Malaysia Plan. It implied an average net amount of foreign borrowing of M$144 per year.

In 1971 Malaysia received net of amortization M$387 million of which M$119 was in the form of project loans and M$268 was market borrowing. In addition, it was expected that loan agreements amounting to M$300 million would be signed during the year.

The situation was, however, not quite as satisfactory as it would appear. Actual public sector development expenditures in 1970, and latest assessment of expenditures for 1971, indicated that the Second Malaysia Plan public sector development expenditures target would be substantially exceeded, probably by M$100 million in both 1971 and 1972. For this reason and also because of the low rubber prices and difficulties of raising taxes to cover rapidly rising current expenditures, it would be necessary to raise the borrowing target for the Second Malaysia Plan. Furthermore, a large portion of the amounts borrowed in 1971 had been market borrowing on relatively short term. The prospects for increasing project borrowing were uncertain and such borrowing was frustrating and subject to considerable slippage; 1971 project borrowing had only been roughly on target.

1/ On disbursement basis.

With respect to market borrowing about 65% of the gross SMP target was achieved. However, most loans were only on 5-year terms and really a result of efforts to restructure the foreign exchange reserves rather than borrowing for development. It would not be prudent to rely too heavily on this type of borrowing, which was not much different from export credits, because payment obligation would mount rapidly.

Performance with respect to project borrowing was not unsatisfactory in 1971; in fact it was almost on target. However, the absorption of bilateral credits (particularly the Japanese Yen credit) was slow and frustrating. Attention was increasingly focused on the absorption of the Japanese line of credit. The first line would expire on November 21; M$100 million had been committed for 23 projects. Commitments had been small during the first three years, about M$50 million; another M$50 million had been committed in 1971.

The constraints on absorption of the Japanese credit were many. The Japanese interpretation of the term project was very restrictive; in the beginning only government projects had qualified. The credit could only be used for Japanese goods and services and only if a large proportion of the goods and services for the project were to be supplied from Japan. Finally, the procedures were difficult; the average time between application and signature of individual loan agreements was six months with an addition of 2-3 months if the project was outside the agreed list of projects. There were also long delays in disbursement.

The new Japanese line of credit of M$300 million must have some appropriate and easier procedure. It was also necessary to come to an early agreement and the Malaysian Government had suggested negotiations in December rather than February 1972 as proposed by the Japanese. Mr. Malek hoped that a more liberal approach could be agreed on and wondered whether World Bank staff could help to achieve this during the negotiations.

In response to questions by Mr. McNamara Mr. Malek acknowledged that the uncommitted part of the first Japanese Credit would lapse. The interest rate on the new credit line was 4.5-5.75%.

Mr. McNamara noted that these credit terms gave the Japanese a price advantage of say 10% even in comparison with World Bank terms (7¼% at present). He wondered what the experience had been when both prices and credit terms had been factors in the evaluation of bids.

Mr. Malek said that there were cases when the Japanese were not the cheapest. In other cases the price difference was quite big but other factors also had to be taken into account. Finally, he noted that bids from other countries also often carry better than average commercial terms.

Mr. McNamara said that he was pleased that investment seemed to be moving ahead of target. If this were so more foreign borrowing would be necessary. However, the Bank was a lender of last resort. It was also in the national interest to utilize to the maximum extent possible other available lines of credit. He felt that there should be no difficulty in using the Japanese line of credit, at least the OECF portion of it, provided of course agreement could be reached about the projects.

Mr. Malek agreed in general terms but said that procedural changes were needed. These had not yet been discussed, only the lending terms had been agreed, and unless there were substantial changes in procedure there would be serious delays in absorbing the credit.

Mr. Goodman noted that the Japanese seemed to be more liberal because of the government's commitment to the 0.7% target for ODA. If the Malaysians should make a proposal and press it firmly they might find that they were pressing an open door.

Mr. Malek summed up by noting that Malaysia had relied heavily on the Bank during the First Malaysia Plan. They hoped to be able to continue to do so, while now also utilizing ADB as much as possible, because the Bank could assist in appraising prospects and projects and particularly in institution building apart from providing finance. He said that the Bank must continue to play a leading role in financing the Second Malaysia Plan and be the largest lender, for example for land settlement. Only the Bank could play this role, but it must provide considerable amounts of finance if it wanted to play it effectively.

3. Projects for foreign financing (Mr. Sulaiman Abdullah)

Mr. Sulaiman noted that 15% of public sector development expenditure were to be financed from abroad through grants and loans. Of these the grants were most uncertain, but, of course, also the most desirable source of financing.

In selecting projects for financing by different sources, a number of criteria were used. First, the project had to have high priority and be included in the plan. This imposed a very desirable discipline both the Ministries and EPU. Second, the size of the foreign exchange component determined the source of finance that would be used. Projects with low foreign exchange content such as land settlement and education were not suitable for financing from sources geared to export promotion. Third, the projects had to be ready for execution. More needed to be done to accelerate project preparation if borrowing targets were to be met. Fourth, the project had to be geared to the lending policies of the financing agency. It had to be so framed that it could easily pass through the bureaucratic jungle of the financing agency. Finally, the urgency of the project was often a determining factor. Foreign financing was often too slow for the most important projects. In such cases, for instance the Johore Port and Kota Kinabalu Airport projects, the projects would be financed from domestic sources.

In general, Mr. Sulaiman felt that the Bank was the most suitable source of foreign project financing. Malaysia's relationship with the Bank was of long standing, which meant that the Bank had accumulated over the years considerable knowledge and understanding of important sectors of the Malaysian economy. The widening of the scope of Bank lending to new areas, the very large increase in resources and recent changes in the Bank's view of its own role were additional reasons for preferring the Bank over other lenders. In addition, the Bank often included the institutional aspects in its loans, which was important in Malaysia.

The projects presently in the pipeline for Bank loans were as follows:

	(in million Malaysian dollars)
- Malayan Railway (1971)	120.0
- Education (1972)	72.8
- Urban Roads I (1972)	90.0
- Land Settlement III (1972)	100.0
- Agricultural Credit I (1972)	30.0
- Family Planning (1972)	12.0
- Water Supply II (1973)	60.0

Finally, Mr. Sulaiman hoped that in the future the Bank would be able to finance comprehensive regional or sectoral programs.

Mr. McNamara said that he felt that the project pipeline was inadequate taking into account slippage and wastage of projects. In the Bank we were overprograming by about one-third on a world-wide basis. Even though overprograming to this extent might not be necessary in Malaysia, he doubted that the Bank could lend as much as was needed or as much as it wanted to lend.

Mr. Sulaiman noted that help in project preparation was a major need. A typical example was the Agriculture Bank which needed help both to develop its lending program and to strengthen its organization.

Mr. McNamara asked whether the various agencies, for example PWD, were up to authorized staff levels or had serious vacancies. Mr. Sulaiman acknowledged that this was a problem; the PWD had reported 40% vacancies. However, staff recruited overseas would soon begin to arrive and this would bring some relief.

Mr. McNamara stressed that the Bank could not provide assistance in solving a problem caused by inability to fill 40% of authorized positions. This would not be a justified use of the Bank's scarce manpower. He said that we were concerned about our ability to meet the needs of Malaysia because it seemed to him that we could provide more money if there were more projects available. While we were prepared to help prepare projects we could not allow our people to be used in lieu of local staff. The Malaysian Government therefore needed to expand substantially its own project preparation work.

Mr. Sulaiman finally noted a number of subjects which future Bank missions might usefully study; viz. income distribution, employment, regional balance and entrepreneurship and the development of industrial exports.

4. Land Settlement (Mr. Panton)

Mr. Panton noted that West Malaysia was relatively well mapped and surveyed. Existing resources were relatively well known. This was, of course, a considerable advantage in developing large land settlement projects. There were great differences in potential and actual use of land as between different regions. The West Coast of West Malaysia was already largely developed while the rest of the country was still relatively undeveloped.

Attention had so far focused mainly on three regions, but other areas with great potential also existed. The three were the Jengka Triangle and its adjacent productive forest reserve, Johore-Tenggara, for which a regional master plan had been prepared and sent to the Bank, and Pahang-Tenggara which was being masterplanned. The latter was about 10 times the size of Jengka in agricultural potential.

The perspective planning that had so far been done indicated that all these areas would have to be developed over the next 30-40 years. The rate of development depended on the growth of the population and the development of other sectors of the economy. If necessary, it would be possible to double the present agricultural acreage.

In Johore FLDA was expected to develop 139,000 acres at a cost of some M$233 million. In addition there would be a forest industry complex, a dairy industry and a tourism project in addition to the usual infrastructure. The FLDA would settle some 7,000 families; the total population was expected to reach about 100,000. Since there was some settlement, including various population centers,on the periphery of the area, there were no plans for major new towns.

The Pahang project was bigger. The population here was expected to reach 750,000. There were going to be two major new towns that might have a population of 100-250,000 inhabitants each.

Bengt G. Sandberg

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MEMORANDUM FOR THE RECORD February 4, 1972

SUBJECT: MALAYSIA - Meeting with the Chairman of Pernas, Tengku Razaleigh, and President of Federation of Malaysian Manufacturers, Tan Sri Nik Ahmad Kamil on November 16, 1971 at 5:15 - 6:00 p.m.

Mr. McNamara met with Tengku Razaleigh, Chairman of Pernas and Tan Sri Nik Ahmad, President of Federation of Malaysian Manufacturers on November 16, 1971. Messrs. Goodman, Sandberg and Hablutzel were also present.

Tan Sri Nik Ahmad explained that Malaysia was facing a serious situation to which it had been awakened by the riots in 1969. The feeling of the Malay population was that they had had a raw deal. They controlled the Government but there were few Malays in the private industrial and commercial sector.

A basic aim of the Second Malaysia Plan was to restructure the economy. This would be done by bringing in more Malays into the modern sector of the economy and by spreading industry to the less developed regions. In regard to the latter a major problem was the lack of infrastructure in these areas, which would have to be overcome if industries were to be induced to make investments there. In addition it would, of course, be necessary to provide suitable subsidies for investors. Tan Sri Nik Ahmad regarded the spread of industries as a means to achieve the goals of the Second Malaysia Plan to eradicate poverty and redress racial imbalances.

Mr. McNamara referred to the Government's policy of increasing Malay ownership and wondered if the money and the managerial talent was available to achieve this goal.

Tengku Razaleigh acknowledged that the Malays did not have much money. Much of their capital was tied to land. Government assistance was therefore necessary, both to provide capital and organization. This was the reason for the establishment of Pernas itself, which was to set up and promote industries and to train Malays to become business executives. So far Pernas had taken over staff from other organizations, primarily the Government, but the situation was expected to improve as graduates returned from university training abroad.

At the present time Pernas had in mind some 26 projects. These had been identified primarily according to two criteria; they had not been taken up by others and they provided an opportunity for Malays to be employed and/or trained.

As an example of how Pernas works Tengku Razaleigh mentioned an off-shore mining venture off the West Coast of Perak. The feasibility study had been prepared by the Federal Industrial Development Authority (FIDA), the financial side had been evaluated by MIDF and international consultants would also be called in to give a second opinion. Financing would come from Pernas and from partners, local and foreign, including the Government; 45% of the local capital was expected to come from Chinese industrialists and 55% from

President has seen

the Government. The Government portion would be distributed to Malays over 5-10 years. It was expected that the Malays would over time accumulate sufficient savings to be able to purchase the shares possibly through private placement. One line of thinking was that part of the shares would be restricted and saleable only to Malays or Malay businesses.

In response to Mr. McNamara's question Tengku Razaleigh indicated that Pernas expected to invest at least M$111 million over 5 years in Malay shares. He was sure that more money would be made available if needed. He could not give any estimate of the amount that Pernas might be able to dispose of over the same period since there was no experience on which to base estimates.

Mr. McNamara asked whether Malays tended to avoid ownership of stock and whether the statistics of ownership reflected differences in wealth between ethnic groups.

Tengku Razaleigh replied that most Malays had their wealth invested in land. So far there had been little opportunity to use capital in any other way. He thought that some would dispose of their land to take advantage of new opportunities. They would sell to other Malays or to non-Malays. In the latter case there might however be difficulties because of restrictions, Malay reservation, on the ownership of land. In general he felt that the activities of the public sector would generate enough cash to allow savings to accumulate, which could be used to purchase the shares reserved for Malays.

In reply to Mr. McNamara's question about the effect of the policy on the rest of society, Tengku Razaleigh asserted that it was the only way to maintain peace. If the Malays were not able to fulfill at least 50% of their expectationsthere was likely to be chaos.

Tan Sri Nik Ahmad explained that, with respect to racial balance in employment, employers were expected to hire staff generally in accordance with the ratio of ethnic groups in society. If there were skills in which this was not possible an exception could be made. So far the Government had been reasonable in the application of the Malayanization policy and there had been few complaints. However each company had to present a program showing how it expected to reach the targets. This applied both to old and new companies.

Tengku Razaleigh also explained, in response to Mr. McNamara, that educational efforts were being made to upgrade the Malays; one was the MARA Institute of Technology with an intake of 3,000 per year. The output was quite good, but not sufficient. Also there was no training of executives. Vocational schools and technical colleges were also being started all over the country. However, industries needed to be spread out to "growth areas", that is centers where people worked. This was a difficult process because of the lack of infrastructure which Tan Sri Nik Ahmad had referred to earlier.

Mr. Goodman asked whether Pernas was thinking in terms of industrial estates or industrial parks to solve the problems encountered by individual industries because of the lack of infrastructural facilities.

Tengku Razaleigh replied that Pernas was indeed thinking along these lines. He mentioned as an example the Goodyear tyre plant, which was under discussion, in which Pernas would have a 40% interest. The Government wanted the plant in a "growth center", the Company wanted it to be in Batu Tiga. Pernas finally had to give in. In view of the experience he expected that it would be quite difficult to get foreign investors to locate their plants in the undeveloped areas of the country.

Bengt G. Sandberg

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February 2, 1972

MEMORANDUM FOR THE RECORD

SUBJECT: <u>MALAYSIA - Meeting with Minister of Finance, Tun Tan Siew Sin, November 18, 1971, 9:45 - 10:30 a.m.</u>

Mr. McNamara called on the Minister of Finance, Tun Tan Siew Sin, on November 18. The following were also present:

<u>From the Ministry</u>:

Ali bin Haji Ahmad	- Assistant Minister of Finance
Raja Mohar	- Secretary General
Abdullah Ayub	- Deputy Secretary-General
Malek Ali Merican	- Deputy Secretary-General
Ramon Navaratnam	- Alternate Executive Director

<u>From the Bank</u>:

Raymond J. Goodman

William Clark

Rudolf Hablutzel

Bengt G. Sandberg

Leif Christoffersen

The Minister said that while it was true that Malaysia had not been able to make full use of available credit lines this was in part due to the small foreign exchange content of available projects. Implementation capacity was also inadequate particularly in the Public Works Department, but this problem was being studied and steps were being taken to remedy the situation. These steps included revised hiring procedures including the possibility of offering engineers and other technicians a choice of Civil Service appointment or contract. This would help make the public sector competitive with the private sector.

In general the Malaysian Government was attempting to achieve greater economic growth combined with a more equal distribution of income. The planning was flexible to allow for possible future unforeseen difficulties. However, it

President has seen

was essential that the main objectives were achieved in the light of the riots of May 1969. The Minister expressed the hope that the lines along which the Government was working were largely the right ones and that more aid would be forthcoming to help achieve the objectives.

Mr. McNamara stressed that the main problem was not inadequate use of available foreign exchange reserves or credit lines but the rapid growth of the population and labor force. The labor force would grow rapidly for one or two decades even if a successful family planning program were implemented immediately. The right course was therefore to try to exceed the plan targets and to take the necessary steps to ensure that more ambitious future objectives could be achieved. If such steps were not taken the Bank would be quite concerned about the employment situation and the possibility of achieving a more even distribution of income.

There were signs that these preparations were not carried out with sufficient speed. The vacancy rate in the PWD, 40 percent had been reported, was very high indicating that the plan targets were too optimistic or measures to solve the problem were inadequate. On probing the problem of the SJSB project Mr. McNamara had found that one reason for cost overruns was that contractors were 60 percent below labor budgets for carpenters, electricians and cement men because of competing demand. Considering the level of unemployment this situation would seem to present an opportunity for on the job training of unemployed workers. Since Malaysia should be attractive for foreign investors, even in comparison with Singapore, and the level of education was relatively high, intensified on the job and in school training should provide a base for accelerated industrial development.

The Minister noted that the bulk of the unemployed was in the 15-25 years age group. They could often afford to be unemployed because they would be taken care of by their families. Because of this they were choosy and would not accept jobs that they considered not good enough. The Government no longer accepted this attitude and removed these people from the labor exchange registers. In addition a scheme had been started with good results aimed at training those who leave the armed forces after service. However, with an open economy and mobility of labor some of the trained manpower would be lost, for instance to Singapore.

Mr. McNamara agreed that the problem was different from that in other countries but felt that the rate at which employment opportunities were created should be stepped up. The unemployed would sooner or later become a burden to their families. Pressure would increase and the youth would be radicalized if they could not get jobs. He emphasized the time it would take to make and execute plans to take care of the employment problem. What was needed was a long-term plan addressed to the problem that would be faced ten or fifteen years from now.

Turning to current developments Mr. McNamara noted that development expenditures did not seem to grow in absolute terms and had actually declined as a proportion of GNP. Considering the problems faced he felt that greater efforts should be made to utilize the opportunities that existed and the financial and human resources available. He was particularly impressed with the magnificent financial foundation that had been created but now needed to be used. In this respect not enough effort was put into the preparation of projects. The long leadtime and the considerable wastage of projects did not seem to be recognized and more effort was therefore needed, particularly to prepare projects for execution in two or three years time.

Raja Mohar explained that the progress of public sector projects included in the Second Malaysia Plan (SMP) was reviewed in monthly meetings with the Prime Minister.

Mr. McNamara observed that the system did not seem to be adequate covering as it did only government disbursements - the SJSB was a good example. In fact he had been shocked not so much by the cost overruns and other difficulties of SJSB but by the fact that nobody seemed to realize that cost overruns had occurred or care that they had. The nation was losing important benefits because of a failure to follow adequately the progress of the project.

In response to a question from Mr. Goodman about the intention of the Government with regard to public savings, the Minister said that a problem would arise if public expenditures exceeded the SMP targets. The main problem was the change in the price of rubber which affected not only foreign exchange earnings but government revenues as well. The diversification achieved in the past few years was helpful but the effects of changes in the price of rubber were still great.

On the question of rice the Minister said that Malaysia should not try to achieve self-sufficiency. The objective should be about 90 percent of requirements. The effects on farm income even of a scheme like Muda were questionable. The guaranteed price implying a subsidy for the farmers, which the consumers have to pay, was another problem which would become serious as self-sufficiency was approached.

The Minister also noted, in response to Mr. McNamara's question, that Malaysia's protective tariffs were rather moderate (average 25 percent, median 50 percent). There were also quotas but these were mainly used on a temporary basis to avoid speculation when a protective tariff had been proposed. The Minister strongly felt that one of the reasons for the economic stability of Malaysia was its open market economy, which he had tried to maintain.

The Minister asked if the Bank could provide assistance in the forthcoming negotiations for the second Japanese loan, which had recently been announced, possibly by having Bank staff sit in during the negotiations. Mr. McNamara replied that we would be glad to help although actual participation in the negotiations might not be possible. Mr. Goodman advised the Malaysians to get in touch with Mr. Sawaki, who is in charge of foreign aid in the Ministry of Foreign Affairs and who was likely to be more sympathetic than other officials. Mr. McNamara also suggested that the Bank could approach the Japanese. In any case he fully supported the Malaysian policy of international competitive bidding but he also felt that the Japanese were likely to be flexible because of pressure to reach the 0.7 percent target for ODA.

In response to the Minister's inquiry as to whether Malaysia could depend on continued World Bank assistance, Mr. McNamara said that the Bank was quite prepared to increase its lending to 50 odd million dollars per year provided sound projects and programs were found and provided sound policies were followed. The Bank was also willing to provide assistance in project preparation. On the other hand the Bank was not willing or able to provide people to carry out jobs and tasks which should be carried out by the Malaysian Government.

Bengt G. Sandberg

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MEMORANDUM FOR THE RECORD February 3, 1972

SUBJECT: MALAYSIA - Meeting with Prime Minister, Tun Abdul Razak, and Members of the Cabinet, November 18, 1971, 10:45 - 11:45 a.m.

Mr. McNamara met with the Prime Minister, Tun Abdul Razak on November 18. The following were also present:

Tun Tan Siew Sin	Minister of Finance
Tun V.T. Sambanthan	Minister of Works, Posts and Telecommunications
Tan Sri Haji Sardon bin Haji Jubir	Minister of Health
Enche Mohd. Khir Johari	Minister of Commerce and Industry
Enche Abdul Ghafar bin Baba	Minister of National and Rural Development
Enche Hussein bin Onn	Minister of Education
Dato Abdul Samad bin Idris	Assistant Minister of Agriculture and Lands
Enche Ali bin Haji Ahmad	Assistant Minister of Finance
Tan Sri Abdul Kadir bin Shamsuddin	Chief Secretary
Enche Thong Yaw Hong	Director-General Economic Planning Unit Prime Minister's Department
Enche Malek Ali Merican	Deputy Secretary-General Ministry of Finance
Mr. Ramon Navaratnam	Alternate Executive Director, IBRD
Mr. Raymond Goodman	
Mr. William Clark	
Mr. Rudolf Hablutzel	
Mr. Bengt G. Sandberg	
Mr. Leif Christofferson	

President has seen

The Prime Minister said that an overriding problem in Malaysia was the maintenance of national unity. While this could most easily be done in the context of an expanding economy it had to be realized that the Second Malaysia Plan by necessity also had political and social objectives that had to be fulfilled. The present imbalances had to be resolved and everybody given his rightful place in society otherwise it would not be possible to preserve national unity.

The government was doing its best to implement the Plan. A National Action Council had been established which, together with a network of state and local councils, would monitor progress. Although the system was not yet in gear, good progress had been made. Development expenditures during the current fiscal year would probably exceed the target by some 20%. While it was true that Malaysia was short of skilled manpower the Prime Minister was confident that the Plan could be implemented at least in the public sector. He was less sanguine about the private sector. Apart from the obvious need to develop the rural areas, accelerated industrial development was also required; for this purpose efforts were being made to attract foreign investors.

Concluding his remarks the Prime Minister said that the Second Malaysia Plan represented an attempt to solve the serious social and political problems of Malaysia through economic development.

Mr. McNamara said that he was well aware of the difficult situation which made continued development both important and difficult. The problem was made more urgent by the racial division and the very rapid growth of the labor force. However, Malaysia did have immense resources which it could use to solve these problems.

After noting that his remarks were based on impressions gained during a very short stay in the country, Mr. McNamara said that he felt that since everybody was now aware of the problems facing the country the sights needed to be raised in dealing with them. Specifically the project pipeline was not really big enough for the rate of growth that was needed to meet the problem of the imbalance between the rural and urban areas and to deal effectively with unemployment and social imbalance. The opportunities were immense, even compared to Singapore, because of the larger market and the low wage rates in relation to productivity. These opportunities needed to be used. But there did not appear to be a strong enough sense of urgency to deal with these problems and using the opportunities available. The Bank for its part was prepared to increase its lending over what it was a few years ago in support of efforts to solve the problems facing Malaysia provided sound financial and economic policies were followed and sound and viable projects were proposed which the Bank could finance.

In response to a question from the Prime Minister as to whether the lack of a sense of urgency was in the preparation or in the implementation phase of the Plan exercise Mr. McNamara said that he felt that not enough was being done to gear up to meet the needs and use the opportunities. The

Bank could help but only if the nation did its part. The pipeline of projects should be well filled, but he doubted that the present supply of projects would support our lending program. Likewise there was not enough control over project implementation; something should have been done about the cost increases in the Jengka Forestry Project for instance. This case was particularly disturbing since a major cause of the increase seemed to be a shortage of contractor labor with skills that could be fairly easily acquired on the job for instance by training of unemployed unskilled workers. The failure to gear up also reflected a failure to plan adequately for future manpower needs. Since this was a long range problem it needed to be tackled at a very early stage.

Mr. Goodman noted that the Bank lending program dated October 13, 1971, contained four loans amounting to US$46 million in FY 1972. One project, Agricultural Credit, had already slipped because of inadequate preparation work. Because of this it now seemed likely that total Bank lending to Malaysia in 1972 would be at about the same level as in the past years.

Mr. McNamara added that few people realized the high rate of wastage and slippage that normally occurred in a lending or investment program. The Bank consciously overplanned by about one-third to take care of these factors. The same procedure ought to be followed in Malaysia to ensure that the pipeline had enough projects to provide for wastage and slippage. To do so would normally involve looking at the investment programs for at least three years. The need for this kind of advance planning was further illustrated by the apparent levelling off of public investment, which needed to grow in line with GNP, at a time when private investment and GNP were both growing rapidly.

Tun Tan Siew Sin said that Malaysia had considerable difficulties utilizing foreign lines of credit. This was partly due to the small size or small foreign exchange component of many projects. In the case of the Japanese Yen Credit there was also a problem with respect to the cumbersome procedure used in appraising projects. He asked whether the Bank could participate in the forthcoming negotiations with the Japanese in order to help resolve these problems.

Mr. McNamara said that while the Bank could not participate in the negotiations we would be happy to assist. He commented that the Japanese knew that they were the low bidders in many cases and wanted to provide aid in cases where they would not get the business anyway. At the same time they appeared to have a political problem; they were committed to an aid target and needed to provide aid on a large scale. In this situation there would seem to be reasonable prospects for bringing the objectives of the Malaysians and the Japanese together.

Bengt G. Sandberg

11

MEMORANDUM FOR THE RECORD February 7, 1972

SUBJECT: MALAYSIA - Meeting with Governor of Bank Negara, Tan Sri Ismail bin Mohamed Ali, November 18, 1971, 2:45 - 3:30 p.m.

Mr. McNamara met with the Governor of Bank Negara, Tan Sri Ismail bin Mohamed Ali, on November 18. The following were also present:

Mr. Choi Siew Hong, Deputy Governor

Mr. Ramon Navaratnam, Alternate Executive Director, IBRD

Mr. Raymond J. Goodman

Mr. Rudolf Habultzel

Mr. Bengt G. Sandberg

Mr. McNamara said that he had been impressed during his visit to Malaysia with the problems that had to be faced by the Government, but also with the opportunities available to solve these problems.

The Governor noted that the financial resources certainly were available. The problem seemed to him to be one of organization and management of these resources. This, of course, was essentially a Malaysian problem and responsibility.

Mr. McNamara observed that resources were available for expenditures at presently planned levels. However, the Prime Minister had said earlier that these levels could and should be exceeded. What would be the consequences if the Government succeeded in doing so?

Governor Ismail said that higher levels of spending could be financed with some effort. On the balance of payments side he noted that the reserves had been increased during the year because of borrowing abroad. The proceeds had been converted to yen. Another loan of £20 million was being negotiated. The terms were 5-10 years with interest at 1¼ percent above the interbank rate. There were no compensatory balance required. This type of loan was available at any time and was useful as a show of strength at a time when earnings from rubber were down. In general, the Governor agreed with Mr. McNamara's remark that longer terms, although more difficult to obtain, were very desirable for the development program.

In response to Mr. McNamara's question about the effects of the currency crisis, the Governor said that it had contributed to the slowdown in the inflow of foreign exchange. People were simply holding sterling. This was a situation that might continue for sometime if the crises continued. The low rubber price had, of course, had a similar effect. The loans that were mentioned earlier were useful for balance sheet purposes in this situation.

President has seen

Up to this point the Malaysian dollar had neither appreciated nor depreciated vis a vis pound sterling. Malaysia normally had a surplus in its trade with the U.S. and a deficit with the U.K. Trade had, however, not been affected either by the exchange crises or the U.S. surcharge. Indirectly, there was some effect on timber exports which went largely to Japan where it was processed for sale to the U.S. Only a small part of Malaysia's trade would be affected by the surcharge.

Returning to the subject of plan implementation Governor Ismail said that the current economic policy was alright; it was the organization to implement the policy that needed strengthening. A Minister of Economic Affairs was needed in the Cabinet to coordinate the work of the different ministries. In the transport sector the Deputy Prime Minister performed this function. A further aspect of this problem was, of course, the proliferation of agencies and departments created to take care of particular problems. There were really too many agencies and departments involved. While this problem was not insuparable in a small country, closer coordination was needed. The Governor believed that the Prime Minister was aware of the problem and would take action at the proper time.

The Governor explained, in response to Mr. McNamara's query, that the Malaysia-Singapore Airline was being split because of the different approach of the two countries to its further development. Singapore wanted to promote MSA's international network, which was the more profitable, while Malaysia wanted to develop its internal system first. The particular tone of contention was the proposed direct flights from Kuala Lumpur to East Malaysia, which the Singaporeans vetoed because they were not profitable. The new Malaysia Airline (MAL) would concentrate on the domestic network gradually expanding into the regional market. While MSA had made a profit the Governor did not expect MAL to make a profit for the first three to five years because of the many flights to smaller cities and towns that it had to schedule. The Governor agreed with Mr. McNamara that it was a pity to break up a well-run organization. It might have been possible to solve the problem through a government subsidy of necessary but unprofitable lines, but in the end the differences had been too great and there was nothing one could do except accept the inevitable.

Mr. McNamara asked why the rate of industrial growth was not higher in view of the fact that the conditions seemed to be favorable even compared to Singapore.

Governor Ismail said that one problem was the cumbersome procedures, for example to acquire land. The incentives offered were not bad, and investors wanted them, but it took time to go through the necessary stages. The Government's dispersal policies were also not very clear and there was uncertainty about how the spread of industries to the rest of the country would be accomplished. For example, the Government had wanted Goodyear to locate its new plant in Malacca whereas the company wanted to build in

Batu Tigu. Fortunately, the Government had agreed in the end. On the other hand, the experience of Italy and its Cassa per il Mezzagiorno had shown that industry could be induced to locate outside main industrial areas. However, to achieve such a goal it was necessary to have a clear policy.

Mr. McNamara ageed that industries could be disbanded outside main industrial centers but the costs involved, which could be very high, seemed to indicate that it should only be done when economically justified. With respect to the more general question he again noted the advantages that Malaysia enjoyed compared to Singapore in the form of its larger market and lower wage costs and expressed the hope that Malaysia would be able to take advantage of and use these advantages.

In response to a question by Mr. Hablutzel regarding the likely development of investment following the big increase in 1970, Governor Ismail said that a further increase had probably taken place in 1971. The development of export prices had a considerable psychological impact and the increase was therefore unlikely to be as large as in 1970 because of the recent fall in rubber prices. MIDF was, on the other hand, expecting another large increase in its lending. They had no shortage of applications and the projects they financed tended to become bigger and bigger. Overall the estimates indicated a small increase in investment in 1971, compared to a 50% increase in 1970.

Following a remark by the Governor that he thought Malaysia could attain Singapore's speed of industrial development, Mr. McNamara said that this would require much more stress on training and manpower development. He had been particularly impressed by what Singapore was doing in this respect.

The Governor agreed saying that he for his part did everything he could to impress on people, including the banks, how important training was and how relatively inexpensive it was. He also felt that the Government should do more to promote and develop polytechnic and trade schools. Bank Negara itself had an extensive training program and had no problem getting qualified applicants with 12-14 years of formal education.

In response to Mr. McNamara's question about the efficiency of the banking structure, the Governor commented that the lending function was improving with a gradual change from overdraft to term lending, which was more conducive to developing entrepreneurship. However, it was again a matter of getting, training and retaining the right kind of staff to develop the system.

The outlook for MIDF was favorable. It was expanding very fast, doubling its business every year after 1969. MIDF was about to sign a loan of US$15 million with the ADB, which would provide adequate funds for 2-3 years. After that period they would hope to be able to come to the Bank for another loan. MIDF also had adequate local funds and was generally doing very well.

Mr. Goodman asked if the Government had any plans to issue bonds to the public. Governor Ismail replied that the Treasury was resisting this because of the increase in the cost of borrowing that would be involved. At the present time there was a captive market for most issues. The rate of interest was rather low and there was resistance to an increase. This did not really restrict government investment. The holdings of government securities was low because it had never really tried to borrow.

The Governor noted that merchant banks were being established and he hoped that they would help mobilize resources for investment. As far as agricultural credit was concerned there was no shortage of funds. Bank Pertanian was being built up but it lacked staff and management.

In conclusion Governor Ismail again stressed that increased public investment could be financed without inflationary pressure. However, public investment could only be increased if the implementation capacity of the public sector was improved.

Bengt G. Sandberg

12.

INTERNATIONAL DEVELOPMENT ASSOCIATION | INTERNATIONAL BANK FOR RECONSTRUCTION AND DEVELOPMENT | INTERNATIONAL FINANCE CORPORATION

OFFICE MEMORANDUM

TO: For the Record

DATE: September 25, 1972

FROM: Raymond J. Goodman RJG

SUBJECT: Visit of Ambassador Ong of Malaysia

Tan Sri Ong, Ambassador of Malaysia to the United States since 1962, called on Mr. McNamara on Wednesday, September 20. I was present. He is returning to Malaysia and will resume his post of Minister Without Portfolio in the Malaysian Cabinet. He said the Prime Minister had indicated that he might become Speaker of the Senate, a very part time job, which would permit him to spend much of his time with his various business interests while being available for special assignments if required.

9/25

Mr. McNamara wished the Ambassador well in his new life and asked him to get in touch whenever he visited Washington.

cc: Mr. McNamara's Office

President has seen

Attachment I

BRIEF BIOGRAPHICAL NOTE

Tan Sri Ong Yoke Lin, PMN, M.P.

Personal Information: Born in 1917 in Kuala Lumpur.

Education: Victoria Institution, Kuala Lumpur.

Present Position: Ambassador Extraordinary and Plenipotentiary to the United States since July 24, 1962; concurrently Ambassador to Brazil since January 24, 1967; Minister without Portfolio in the Federal Government. Upon his return to Malaysia he is expected to continue his position as a Minister without Portfolio.

Previous Activities and Functions: Minister of Posts and Telecommunications and Transport, 1955-1956; Member of mission to London for final Independence talks; Minister of Labor and Social Welfare, November 1957-1959; Elected to First Parliament 1959; Minister of Health and Social Welfare until his appointment to the United States; Concurrently Permanent Representative of Malaysia to the United Nations from 1962 to 1964; Concurrently Malaysian High Commissioner to Canada from 1966 to 1967. He has led several Malaysian delegations to international conferences including ILO, WHO and Commonwealth Parliamentary Conferences. He has also been Chairman of St. John Ambulance Council of Federation of Malaya from 1959 to 1962 and Chairman of Malaysia Red Cross Society from 1959 to 1962.

FORM No. 57

INTERNATIONAL DEVELOPMENT ASSOCIATION | INTERNATIONAL BANK FOR RECONSTRUCTION AND DEVELOPMENT | INTERNATIONAL FINANCE CORPORATION

OFFICE MEMORANDUM

TO: Mr. Robert S. McNamara

DATE: September 18, 1972

FROM: Raymond J. Goodman RJG.

SUBJECT: MALAYSIA: Ambassador's Visit

Tan Sri Ong Yoke Lin, the Ambassador of Malaysia to the United States will call on you on Wednesday, September 20, at ~~11:55~~ 1100 a.m. It is expected to be largely a courtesy call as he is leaving Washington to return to Malaysia.

I am attaching a brief biographical sketch of Ambassador Ong along with a list of loans that have been approved during his term of appointment in Washington. As I am sure you know, he lost his wife recently.

9/18

President has seen

Attachment II

Seventeen out of nineteen loans to Malaysia were made during the time Tan Sri Ong was the Malaysian Ambassador here in Washington. These loans are as follows:

Loan No.	Year	Borrower	Purpose	Amount (US$ million)
348-MA	1963	Malaysian Industrial Development Finance	Industrial Finance	8.0
350-MA	1963	Central Electricity Board	Electric Power	51.9
434-MA	1965	Government of Malaysia	Irrigation	45.0
458-MA	1966	National Electricity Board	Electric Power	37.0
500-MA	1967	Government of Malaysia	Irrigation	10.0
533-MA	1968	Government of Malaysia	Land Settle-ment	14.0
560-MA	1968	Government of Malaysia	Telecommi-cations	4.4
561-MA	1968	Government of Malaysia	Water Supply	3.6
579-MA	1969	National Electricity Board	Electric Power	11.5
599-MA	1969	Government of Malaysia	Education	8.8
672-MA	1970	Government of Malaysia	Land Settlement	13.0
673-MA	1970	Government of Malaysia	Forestry	8.5
700-MA	1970	National Electricity Board	Electric Power	20.0
753-MA	1971	Government of Malaysia	Telecommunications	18.7
774-MA	1971	Sabah Ports Authority	Ports	16.1
810-MA	1972	Government of Malaysia	Education	15.5
851-MA	1972	Government of Malaysia	Urban Transport	16.0
			TOTAL	317.5

13.

October 18, 1972

MEMORANDUM FOR THE RECORD

SUBJECT: MALAYSIA - Meeting with Malaysian Delegation on September 28 at 2 p.m.

Mr. McNamara met with the Malaysian Delegation on September 28 at 2 p.m. Present were:

Tun Tan Siew Sin, Minister of Finance
Tan Sri Ismail, Governor, Bank Negara
Mr. Malek Ali Merican, Deputy Director-General, The Treasury
Mr. Choi Siew Hong, Deputy Governor, Bank Negara
Mr. Ramon Navaratnam, Alternate Executive Director

10/25

For the Bank:

Mr. Knapp
Mr. Gaud
Mr. Goodman
Mr. Sandberg

Mr. McNamara said that he understood that the Minister wanted to discuss the possible sale by IFC of its shares in MIDF to the Government.

Tun Tan noted that the Government's share of MIDF's equity was small. Since the Government had made large loans to MIDF it was felt that its share should be larger. A possible division of the equity ownership might be one-third Government, one-third private Malaysian and one-third private foreign. In addition to the sale by IFC of its shares Tun Tan thought that other foreign stockholders might be willing to sell.

Mr. McNamara and Mr. Gaud said that the IFC would be willing to sell its shares in MIDF if this was the Government's wish. However, IFC did not want to sell on a preferred basis since it had a responsibility towards other foreign investors who had been brought in by IFC. These investors should be consulted and the offer made to IFC should be extended to them. On this basis IFC would be happy to discuss the sale of its shares. It was agreed that Mr. Gaud and Governor Ismail would pursue the subject separately.

Tun Tan asked how the underdeveloped countries in general, and Malaysia in particular, could help the Bank Group carry out the policies and proposals contained in Mr. McNamara's opening speech, with which he wholeheartedly agreed. Mr. McNamara said that one way would be to assist in the forthcoming very difficult negotiations for the Fourth Replenishment of IDA. In addition Malaysia could help by taking action to fill its pipeline of projects. Bank lending to Malaysia last year had been substantially less than planned and less than what Malaysia needed. Slippage of projects affected the public investment program which in turn meant that the rates

President has seen

of growth of the economy and of employment were lower than necessary. We would be glad to help to the best of our ability in solving this problem. In fact this was the major reason for establishing the Resident Mission in Bangkok with responsibility also for Malaysia. However, the Bank could not substitute for Malaysia's own efforts. For example, the shortages of qualified staff, running as high as 40 percent in at least one department, was particularly worrisome and could only be solved by the Government.

Tun Tan said that he agreed with Mr. McNamara's strictures and noted that he found himself in the peculiar position, for a Minister of Finance, of having to tell departments that money was not a constraint on the implementation of sound projects and programs.

In response to Tun Tan's request for ideas on how to industrialize and attract foreign investments, Mr. McNamara noted that many examples of success in this field could be found in, for example, Korea, Taiwan and Singapore. In some cases it was a question of being able to market the products which were produced competitively. In at least one instance this had been done by direct contact with a major marketing organization in the U.S. In other cases it was a question of finding out what the market needed that could be produced competitively with available resources. Malaysia after all had a good resource in its relatively low-priced, well-educated labor force. As development took hold there might be a shortage of some types of skilled labor, foremen and middle management. Singapore had solved this problem by a massive training program abroad. Still at this stage the most important thing was to find the markets.

Bengt G. Sandberg

cc: Messrs. McNamara
Knapp
Ljungh

cc: Messrs. Cargill
Gaud
Goodman

Sir Denis Rickett