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CONFIDENTIAL
FM BANGKOK
TO DESKBY 061430Z FCO
TELNO 552
OF 061230Z AUGUST 88
INFO DESKBY 070200Z KUALA LUMPUR

FOLLOWING FOR PRIVATE SECRETARY FROM CHARLES POWELL.

PRIME MINISTER'S MEETING WITH DR. MAHATHIR.

1. THE PRIME MINISTER HAD A GOOD TALK WITH DR MAHATHIR. MUCH OF THE HOUR WAS TAKEN UP WITH HIS EXPLANATION OF THE BACKGROUND TO RECENT EVENTS IN MALAYSIA. HE APPEARED RATHER BELEAGUERED AND GLAD TO HAVE THE OPPORTUNITY TO UNBURDEN HIMSELF. IT WAS AGREED TO SAY TO THE PRESS, IF ASKED, ONLY THAT THE MATTER

OF THE JUDGES WAS BEING DEALT WITH BY THE HEAD OF STATE IN ACCORDANCE WITH THE CONSTITUTION AND THAT EVERYONE INCLUDING THE (MALAYSIAN) PRIME MINISTER WAS ANXIOUS THAT THE MATTER SHOULD BE FULLY AND PROPERLY RESOLVED.

2. THE OTHER MAIN SUBJECT DISCUSSED WAS CAMBODIA. THE PRIME MINISTER SAID THAT THE AIM MUST BE TO SECURE STABLE AND REASONABLE GOVERNMENT IN CAMBODIA AND SOUGHT DR MAHATHIR'S ADVICE ON HOW THIS COULD BE ACHIEVED. SHE DOUBTED THE REALISM OF PRINCE SIHANOUK'S PROPOSALS. DR MAHATHIR AGREED ON THIS LAST POINT. THE MOST URGENT ASPECT WAS TO PREVENT THE KHMER ROUGE FROM OBTAINING A DOMINANT VOICE IN THE FUTURE GOVERNMENT OF CAMBODIA. EFFORTS SHOULD BE MADE TO DISSUADE THE CHINESE FROM CONTINUING THEIR SUPPORT FOR THE KHMER ROUGE. ANY SOLUTION WOULD REQUIRE SOME FORM OF INTERNATIONAL SUPERVISION.

3. THE PRIME MINISTER CONFIRMED THAT WE WERE LOOKING FORWARD TO CHOGM IN KUALA LUMPUR. THERE WAS SOME DISCUSSION OF WHETHER IT SHOULD BE THE THIRD OR FOURTH WEEK OF OCTOBER 1989.

THE PRIME MINISTER MADE CLEAR THAT SHE WOULD NEED TO BE BACK IN LONDON FOR CABINET ON THE THURSDAY OF THE FOURTH WEEK. SHE EXPRESSED A PREFERENCE FOR THE VANCOUVER FORMAT AND DURATION. SHE TOLD DR MAHATHIR SHE THOUGHT THAT THE QUEEN WOULD WELCOME AN INVITATION TO PAY A VISIT TO MALAYSIA IN CONJUNCTION WITH CHOGM.

4. DR MAHATHIR RAISED THE AIR SERVICES AGREEMENT. THE PRIME MINISTER SAID THAT THERE SHOULD BE FURTHER TALKS BETWEEN BRITISH AIRWAYS AND MAS. IF THESE WERE BROADENED TO INCLUDE OTHER ASPECTS SUCH AS COOPERATION ON TOURISM, THERE WAS A GOOD PROSPECT THEY COULD MAKE PROGRESS. THE FOREIGN MINISTER TOLD THE PRIME MINISTER AFTER THE MEETING THAT THE MALAYSIANS HAD HOPED FOR AGREEMENT TO GIVE A POLITICAL PUSH TO THE NEGOTIATIONS. THE PRIME MINISTER GAVE HIM NO ENCOURAGEMENT.

5. DR MAHATHIR DID NOT (REPEAT NOT) RAISE THE ISSUE OF VIETNAMESE BOAT PEOPLE.

6. ON THE DEFENCE PACKAGE, WE ARE CLEARLY NOT THERE YET. THE PRIME MINISTER SAID THAT WE HAD DONE OUR BEST TO PUT TOGETHER A SATISFACTORY PACKAGE OF AID AND CREDIT. ONCE IT WAS EXHAUSTED WE WOULD BE PREPARED TO CONSIDER AID FOR FURTHER PROJECTS. DR MAHATHIR WAS VISIBLY DISAPPOINTED THAT THE PRIME MINISTER DID NOT HAVE MORE TO OFFER. WHILE HE APPEARED TO ACCEPT THAT WE WERE UNLIKELY TO IMPROVE ON THE SPLIT BETWEEN £70 MILLION ATP AND £100 ECGD COVER, HE INSISTED THAT THE TERMS FOR THE ECGD COVER MUST BE ATTRACTIVE AND HOPED THAT THE UK WOULD BE READY TO NEGOTIATE ON A REALISTIC BASIS. HE DID NOT REACT EITHER WAY

WHEN THE PRIME MINISTER SAID THAT WE HOPED TO SIGN THE MOU IN SEPTEMBER.

7. THE PRIME MINISTER THINKS THAT WE MUST MAKE EVERY EFFORT TO CLINCH THIS IN THE NEXT TWO WEEKS OR SO. HOW WE DO SO MUST DEPEND IN PART ON THE SOUNDINGS WHICH THE HIGH COMMISSIONER WILL TAKE TO ESTABLISH MALAYSIAN REACTIONS TO TODAY'S DISCUSSION. BUT THE IMMEDIATE REQUIREMENT IS FOR A FORM OF WORDS FOR THE PRIME MINISTER TO USE IN HER THANK YOU LETTER TO DR MAHATHIR, TO CONVEY THE STRONG AND CLEAR IMPRESSION THAT THERE (NEXT WORD UNDERLINED) WILL BE FURTHER SUPPORT FORTHCOMING ONCE THE INITIAL OFFER IS USED UP. I SHOULD BE GRATEFUL IF YOU COULD TELEGRAPH ADVICE TO US IN BANGKOK ON 8 AUGUST.

8. THE PRIME MINISTER INVITED DR MAHATHIR TO LUNCH ON 27 SEPTEMBER. DR MAHATHIR INDICATED THAT HE WOULD PREFER A SMALL WORKING LUNCH TO A LARGER OCCASION.

9. FCO RESIDENT CLERK PLEASE ADVANCE TO PRIVATE OFFICES OF MOD, TREASURY, DTI, ODA.

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