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7 August 1988

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From the Private Secretary

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Miss [unclear]  
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Dear Bob,

PRIME MINISTER'S MEETING WITH THE MALAYSIAN  
PRIME MINISTER

The Prime Minister had a meeting with the Malaysian Prime Minister in Kuala Lumpur on 6 August, between her visits to Australia and Thailand. Dr. Mahathir was accompanied by his Foreign Minister, the Secretary General to the Foreign Ministry and two other officials. Our High Commissioner was also present.

Dr. Mahathir's visit to London

The Prime Minister opened by saying how much she was looking forward to Dr. Mahathir's visit to London in September when she would like to give a lunch for him. She wondered whether he would prefer a small working lunch or a larger occasion. Dr. Mahathir indicated that he would prefer the former.

CHOGM

The Prime Minister said that she was also very much looking forward to CHOGM in Kuala Lumpur in the autumn of 1988. She understood that the Malaysian Government intended to invite The Queen to pay a State Visit to Malaysia at the same time. She believed that such an invitation would be welcomed. Dr. Mahathir indicated that he would indeed like to invite The Queen but had hesitated to do so until the dates for CHOGM had been settled. The preferred time for the latter now seemed to be either the third or fourth week of October. The Prime Minister said that she could probably manage either but would prefer the third week. In any event she would need to be back in London for Cabinet on the Thursday of the fourth week. She hoped that we could continue with the same duration and format as for CHOGM at Vancouver. Dr. Mahathir said that it might be necessary to find dates which spanned the third and fourth weeks of October.

The Prime Minister asked how Dr. Mahathir would like to use the short time available for their talk. For her part she would very much welcome his advice on Cambodia, she would like to discuss



*Let's emphasize  
them the  
Thais*

The Prime Minister said that it seemed likely that any solution would require the United Nations to play a role. Dr. Mahathir said there would certainly need to be some form of international supervision, and it was also important to persuade China to end its support for the Khmer Rouge. He thought this might be possible: the Chinese were becoming more willing to listen to the views of others. They knew that the Khmer Rouge were a bad lot. As for Sihanouk, the trouble was that you could never hold him to anything. He was not a consistent person and his main motivation was a strong desire to return to Cambodia. There was a distinct possibility that he might do a deal with the existing regime in Phnom Penh.

#### Defence Package

Because of the time spent on these other issues, the defence package was reached only in the last five minutes of the meeting. The Prime Minister said that we were anxious to reach agreement on the defence package which would mark a new stage in co-operation between Britain and Malaysia. At the same time we had tried hard to produce proposals for civil aid which would be satisfactory to Malaysia. This would, of course, be quite distinct from the defence package. We had offered seventy million pounds of ATP and one hundred and thirty million pounds of ECGD cover for civilian projects. If further important projects came forward after this had been used up, then we would of course consider providing assistance for them.

Dr. Mahathir said that Malaysia was seeking a higher proportion of aid. If the defence package went through, it would impose a very heavy and continuing financial burden on the Malaysian economy. For many years to come, defence expenditure would be vastly increased. There was already a backlog of development projects which had been held back by the economic difficulties of the last few years and he was anxious to finance these. The point about parallelism caused him no difficulty. But he would like to know the terms we had in mind for the one hundred and thirty million pounds of extra credit cover. These must be attractive. He hoped that we would be ready to negotiate them on a realistic basis. The Prime Minister commented that we hoped to be able to sign the defence package at the time of Dr. Mahathir's visit in September. Dr. Mahathir did not comment.

#### Air Services

The Prime Minister said that her understanding was that if MAS entered into further talks with British Airways, not just on the frequency of services but also on other matters such as co-operation 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 dimension to the discussions. The Prime Minister reminded him that British Airways was now in the private sector. We could not negotiate on their behalf.

I am copying this letter to Brian Hawtin (Ministry of Defence), Alex Allan (HM Treasury), Neil Thornton (Department of Trade and Industry), Roy Griffins (Department of Transport) and Trevor Woolley (Cabinet Office).

*Yours sincerely,*  
*C.D. Powell*

(C.D. POWELL)

R.N. Peirce, Esq.,  
Foreign and Commonwealth Office.



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TONK.T.

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 #130 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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*Knight*

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