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High Com.

10 DOWNING STREET

LONDON SW1A 2AA

*From the Private Secretary*

7 August 1988

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 1989. 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



the defence package and she would be interested in anything which Dr. Mahathir wished to tell her about developments in Malaysia. She hoped that on this they could talk as old friends. Dr. Mahathir indicated that he would also like to raise air services.

Situation in Malaysia

Dr. Mahathir gave the Prime Minister a lengthy account of developments in Malaysia. He particularly asked that this be kept confidential and it was agreed that nothing would be written down. The essence was that the dispute with the Lord President and the Judges was more between them and the King than with Dr. Mahathir himself, who was haplessly caught in the middle. In order to preserve the constitutional niceties he could not publicly explain the true position. The result was that he and Malaysia were getting a very bad press, which was in turn deterring foreign investment. The King was expected to reach a decision on the Lord President's future later in the day (he has, of course, subsequently decided to dismiss him).

Dr. Mahathir said that he was considering whether to restore provision for certain cases to be heard by the Privy Council. Malaysian judges were getting very lax. They were far behind with their cases and often failed to write their opinions or judgements. They needed the discipline of a higher review body.

The Prime Minister commented that the present difficult situation was clearly a great weight on Dr. Mahathir's mind. She would not of course mention anything of what Dr. Mahathir had told her to the press. If asked, she would say that the matter of the judges was being dealt with by the Head of State in accordance with the Constitution and that everyone including Dr. Mahathir was anxious that the matter should be fully and properly resolved. Dr. Mahathir indicated assent to this. The matter was not in fact raised in the Prime Minister's subsequent press conference.

Cambodia

The Prime Minister said that she would be seeing Prince Sihanouk while in Thailand, and Cambodia was bound to be one of the main issues for discussion with the Thai government. The Cambodian people had been subjected to appalling brutality. The aim now must be to achieve secure, stable and reasonable government in Cambodia. But it was hard to see who could provide this. Prince Sihanouk appeared to be the only person with any prospect of uniting the various factions, but the proposals which he had put forward were not at all realistic.

Dr. Mahathir said that the most urgent aspect was to prevent the Khmer Rouge from obtaining a dominant voice in a future government of Cambodia. From that point of view there was, perhaps, some logic in Prince Sihanouk's proposals: the Khmer Rouge had in practice been able to gather support and were the most successful of the factions, and Sihanouk's proposals would automatically constrain their influence. But he agreed that the proposals were scarcely realistic.



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.

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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,*  
*Chris Powell*

(C.D. POWELL)

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

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