



cc to PS/No 10

S. 195 - Mr Bowler

J. 274.

16 August 1985

April

VISIT OF THE PRIME MINISTER TO MALAYSIA: 5 - 8 APRIL 1985

SUMMARY

1. The first official visit by a British Prime Minister since Independence in 1957 was a notable success. (Paragraph 1)
2. It took place against the background of a difficult period in Anglo/Malaysian relations epitomised by the "Buy British Last" directive in force from 1981 to 1983. A gradual improvement in relations since then but Malaysian demands for a fifth frequency to London for their national airline (MAS) threatened the prospects for the visit. In the event, the two Prime Ministers reached early agreement on the air services issue. We shall need to ensure that the Malaysians live up to their commitment to review the discriminatory tax measure which favours MAS. (Paragraphs 2 - 4)
3. The Prime Minister drew Dr Mahathir's attention to commercial contracts of interest to British companies. Dr Mahathir gave the Prime Minister a guarantee that British business now competed on equal terms, without discrimination. He welcomed the extension, by one year, of the special fee support scheme for Malaysians studying in the UK. In response to Malaysian concerns about access for their products to the European Community, the Prime Minister assured Dr Mahathir that she stood firm against protectionism. Discussion of international issues focussed on China, Cambodia, Brunei and Antarctica. (Paragraphs 5 & 6)
4. The Prime Minister then embarked on a hectic programme of meetings and visits, which delighted many Malaysians. At the end, even Dr Mahathir was constrained to describe the visit as good and worthwhile. (Paragraphs 7 & 7)
5. As his injudicious remarks about the Commonwealth at the official banquet show, Dr Mahathir remains a difficult man with whom to do business. Nevertheless, we have to persevere. British business must now energetically follow up the improved opportunities resulting from the Prime Minister's visit. Ministerial visits will be important. An official visit by Dr Mahathir to the UK should help to sustain the improvement in relations. (Paragraphs 9 & 10)



With the compliments of

SOUTH EAST ASIAN
DEPARTMENT

CDP

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FOREIGN AND COMMONWEALTH OFFICE
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April
16 August 1985

The Rt Hon Sir Geoffrey Howe QC MP
LONDON

Sir

VISIT OF THE PRIME MINISTER TO MALAYSIA: 5 - 8 APRIL 1985

INTRODUCTION

1. The Prime Minister's visit from 5 to 8 April 1985 was the first official visit by a British Prime Minister to Malaysia since Independence in 1957. Mrs Thatcher undertook a varied programme (copy attached) meeting a wide cross-section of leading Malaysian politicians, academics, journalists, businessmen and, indeed, members of the general public. She carried it through with untiring good humour under the most intense media attention that I have ever witnessed in this country. It was a notable success.

BACKGROUND

2. Mrs Thatcher's visit followed a contentious and unrewarding period in Anglo/Malaysian relations. Shortly after becoming Prime Minister in 1981 Dr Mahathir gave vent to his sense of grievance about British attitudes to Malaysia by issuing a "Buy British Last" directive: no contracts in the public sector were to be awarded to British companies unless the British bid was clearly the most competitive, and then only with the Prime Minister's personal approval. This directive was rescinded after Dr Mahathir's visit to London in March 1983 when he dined with the Prime Minister at No.10. Thereafter relations improved gradually but were still fragile and subject to sudden depressions. Dr Mahathir is a "one-
/issue" man



issue" man, tending to judge the totality of a bilateral relationship on the single basis of his latest displeasure.

ANGLO/MALAYSIAN AIR SERVICES

3. The single issue which has overshadowed our bilateral relations for the last 12 months has been the long-running dispute about air services. At an early stage Dr Mahathir readily convinced himself of the reasonableness of the demands by the Malaysian Airline System (MAS) for a fifth frequency to London and remained impervious to rational argument. Not, I suspect, that he received much rational advice from his own advisers. The Malaysians played the game dirty throughout, using a captive press in Malaysia to portray the British approach as obstructive and ungenerous. The imposition in the October Budget of a discriminatory tax provision in favour of MAS, in clear breach of Malaysia's Air Services Agreements, was typical. When I called on Dr Mahathir shortly before the Prime Minister's arrival he showed no willingness whatever to compromise. As a result, the Prime Minister was obliged to devote to this issue an inordinate amount of time during her private meeting with Dr Mahathir at the beginning of the bilateral discussions. Only then did Dr Mahathir display any flexibility by accepting an agreed statement on the air services problem which admitted that complaints over the tax issue by the Board of Airline Representatives in Kuala Lumpur were still under consideration by the Malaysian authorities and that a formal reply was outstanding. In doing so, he to some extent disowned his own Finance Minister who in February had stated publicly that the matter had already been considered and that a decision to maintain government legislation on the tax question stood.

4. With this move by Dr Mahathir, the Prime Minister was able to agree that MAS would be granted a fifth frequency to London within one to two years. We shall certainly have to keep the Malaysians up to the mark over the tax issue. My hunch, which I believe the Prime Minister shares, is that the legislation will be withdrawn at the latest by the next Budget in October. But we and our friends will

/have

We can use
this point
with DT.



have to ensure that our airline representatives sustain the pressure on the Malaysians in order to bring this about as soon as possible. Meanwhile, the Managing Director of MAS is up to his usual trick of making disobliging statements to the press. I have remonstrated personally with the Minister of Transport.

BILATERAL DISCUSSIONS

5. With the agreement on the air services issue out of the way at the outset, the rest of the official talks were useful but low-key. The Prime Minister was able to draw to Dr Mahathir's attention a number of important items of business for which British companies are in contention. She received no assurances on specific contracts. But Dr Mahathir gave her a guarantee that Britain now competed on equal terms without discrimination. He mentioned with approval the work which British companies were doing on projects for rural water supply and aluminium smelting. The Prime Minister informed Dr Mahathir that she had agreed to continue the special provision for Malaysian students for a further year. Dr Mahathir expressed his gratitude. Dr Mahathir and his Minister for Trade and Industry, Tengku Razaleigh, chose not to play up as an issue (as the press had hinted they would) either the Malaysian claim to a deficit on the bilateral trade account or the substantial balance in our favour on the invisibles account. They did raise EC quotas on plywood and timber, as well as the proposal, now shelved, for a consumption tax on vegetable oils. On all of these points the Prime Minister was able to state categorically that as a matter of principle she stood firm against protectionism.

6. The discussion of international issues has already been reported in detail. There are four points worth noting here. Dr Mahathir said that the Malaysian government was currently reviewing its policy towards China. Although final conclusions had not been reached he thought it likely that the government would decide to relax its restrictions on Malaysians visiting China and that he himself hoped to visit Peking in November. On Cambodia, Dr Mahathir said he was concerned by what he considered to be a belligerent

/mood



mood in Thailand in response to Vietnamese incursions. He added that Malaysia was grateful for British support for ASEAN at the UN General Assembly and hoped that HMG would continue to stand behind the CGDK in spite of our strong aversion for Pol Pot. Emphasising that he was speaking in confidence, Dr Mahathir mentioned his worry over the situation in Brunei. The Sultan had done nothing to meet the growing aspirations of his people and was storing up trouble for the future. If trouble came, it was inconceivable that the Malaysian Armed Forces could intervene on behalf of the Sultan against Brunei Malays. Finally, on Antarctica, Dr Mahathir set out Malaysia's position admitting that he did not expect to change Mrs Thatcher's mind. The Prime Minister responded by saying that the Antarctica Treaty worked well.

VISITS

7. The official talks over, the Prime Minister embarked on a hectic round of meetings and visits which, I hope, gave her a snapshot of this country and its people. Her speech, and the question-and-answer session which followed, at the Institute of Public Administration was regarded by everyone to whom I have spoken as a tour de force. My Singapore colleague remarked slyly that it was no bad thing for Malaysians to see and hear, for a change, a politician of international stature. The Prime Minister's call on Tunku Abdul Rahman, her visits to a housing estate on the outskirts of Kuala Lumpur, to the British pavilion at an international exhibition, to the railway station to see and drive the British Railbus and her trip to Kedah, where she opened a new dam being built by Balfour Beatty in joint venture partnership and where she had lunch with the Sultan, were given massive media coverage.

PRESS COMMENT

8. Inevitably some of the press was carping and grudging. Some journalists here have built their reputation on a readiness to be unpleasant about Britain. The Prime Minister's performance caught them wrong footed. From my contacts since the Prime Minister's
/departure



departure I know that many Malaysians were delighted to see and to meet Mrs Thatcher and were pleased by the results of the visit. Even Dr Mahathir referred to it as "a good visit" which had been "very worthwhile".

9. The sourest note throughout the three days, however, came from Dr Mahathir himself. At his banquet on the first evening, to which he had invited all my Commonwealth colleagues, he delivered himself of a gratuitously scathing attack on the Commonwealth, a subject which had not been discussed at any point in the official talks earlier that day. It was, I fear, a performance typical of the man: ungracious, opinionated and jejeune. Many Malaysians present were embarrassed. All, however, must have been thoroughly impressed by the manner in which the Prime Minister in her reply dealt improptu and deftly with Dr Mahathir's remarks. It will be interesting to see if Dr Mahathir responds to the Prime Minister's suggestion to attend a CHOGM to see at first hand how the forum works. I rather doubt he will.

CONCLUSION AND FOLLOW-UP

10. The visit, therefore, was a success which frankly exceeded my expectations. The Prime Minister refused to allow herself to be deterred from her purpose of setting objectives for a new relationship. It is now up to British companies operating in this market to pursue business with energy and imagination. It is up to us to ensure that the relationship is thickened up through ministerial visits, particularly in fields of interest to us. But it would be wrong, I think, to imagine that the going will henceforth be easy. The details of the air services deal remain to be worked out.

Maximalist demands by Malaysia could provide scope for acrimony in the talks.

11. Our chief problem is Dr Mahathir and his immediate cronies.

Most of his Cabinet Ministers and senior officials are frightened of him and, I suspect, are not inclined to tell him things which he does not want to hear. Many - too many - decisions
/in all



in all fields go to Dr Mahathir himself. He is, however, the only Malaysian Prime Minister we have for the time being, and for the sake of our commercial and economic interests we must try to work with him. I much hope, therefore, that his acceptance of the Prime Minister's invitation to pay an official visit to Britain next year will sustain the improvement in our relations from which we can draw direct and quantifiable benefit.

12. I am copying this despatch to the Secretary of State for Trade and Industry, the Secretary of State for Transport, Her Majesty's representatives in ASEAN posts and to the Executive Director of the Bank of England.

I am, Sir,
Yours faithfully

DAVID GILLMORE



PROGRAMME FOR OFFICIAL VISIT OF THE PRIME MINISTER, THE RT HON
MARGARET THATCHER FRS MP, TO MALAYSIA, 5 - 8 APRIL 1985

FRIDAY 5 APRIL

1045 Arrival at Kuala Lumpur International Airport
1120 - 1145 Welcoming Ceremony, Parliament Square
1200 Arrival at Kuala Lumpur Hilton Hotel
1230 Private Lunch
1500 - 1730 Official talks with Malaysian Prime Minister,
YAB Datuk Seri Dr Mahathir bin Mohamed
2030 - 2230 Official dinner at Prime Minister's Residence,
Sri Perdana

SATURDAY 6 APRIL

0830 - 0915 Dialogue session at Economic and Planning Unit
(EPU), Prime Minister's Department
0920 To Carcosa, British High Commissioner's Residence
1015 - 1145 Address at National Institute of Public
Administration (INTAN)
1200 - 1230 Visit to British Council
1300 - 1430 Lunch at Carcosa with leading Malaysian
businessmen
1500 - 1545 Visit to Bandar Tun Razak Housing Estate, Ceras
1630 - 1715 Call on YTM Tunku Abdul Rahman Al Haj
1900 - 1930 Meeting with Committee of British/Malaysian
Industry and Trade Association (BMITA) at Carcosa
1930 - 2015 Reception to meet British High Commission and
British Council staff and members of British
community
2030 Private dinner at Carcosa

/SUNDAY 7 APRIL



SUNDAY 7 APRIL

0905 Depart Kuala Lumpur
1000 Arrive Alor Setar, Kedah
1035 Arrive Sungei Ahning and view Balfour Beatty
Maju dam project
1130 Return to Alor Setar
1230 Audience with Their Royal Highnesses, The
Sultan and Sultanah of Kedah
1245 - 1345 Lunch hosted by the Sultan and Sultanah of
Kedah
1415 Return to Kuala Lumpur
1500 Arrive Kuala Lumpur
1530 - 1615 Visit International Expo '85
1620 - 1650 Visit Railbus at Kuala Lumpur Railway Station
1800 Press conference at Hilton Hotel
2030 Dinner by Malaysia/British Society (MBS)

MONDAY 8 APRIL

0900 Malaysian Prime Minister's farewell at Hilton
Hotel
0945 Departure for Singapore

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