

CCPC

Prime Minister

CDP
24/7.

PRIME MINISTER

VISIT TO SOUTH EAST ASIA: 19 JUNE - 9 JULY 1985

I led a trade promotion visit to four ASEAN countries - Thailand, Singapore, Indonesia and Malaysia - between 19 June and 9 July. I have reported in detail to Norman Tebbit. You may care to know the results since the main purpose of the visit was to follow-up your visit to the region in April. I was also able to visit Thailand.

2 During the visit to Indonesia I was received by the President of Indonesia, who expressed high appreciation of your visit, and asked me to pass on to you his highest regards, and General Prem, Prime Minister of Thailand, who also asked me to pass on his high regards to you. The President of Indonesia particularly wanted you to know that the Parliamentary legislation relating to the aims of his Government, which was being debated in Indonesia while you were there, had now been passed. I also met many other Ministers in the four countries and visited a number of companies, the majority of them British-owned or managed. I was accompanied by a group of businessmen, whose companies had project interests in the region. These included British Aerospace, Hawker Siddeley, Kleinwort Benson, British Rail Engineering Ltd, NEI and Leyland Bus.

3 These countries are clearly determined to industrialise rapidly. It is clearly essential for British industry to be encouraged to seize the opportunities which this provides. I believe we can only do so effectively by getting the financing terms right, so that we are not overtaken by competitors such as Japan, France and Germany, who are prepared to offer flexible financing terms in order to secure project business. This is particularly true in the Indonesian market. I was able to say in Indonesia that, in principle, we were prepared to offer soft loans. The details are now being worked out.



4 All four countries gave me the impression that they are willing to buy British goods, provided they are competitive. I had no complaints at all about British quality, or reliability. More generally, there seemed to be considerable reserves of goodwill towards Britain for historical and other reasons. I believe that our relations with Malaysia, in particular, are getting back to a more even keel now that the air services dispute appears to be moving towards an amicable solution. These indications are all encouraging, but our competitors are already fully alert to the opportunities which the region offers, and I believe we must ensure we are not left behind. The economic outcome for the ASEAN Region is in general good, and a contrast to Latin America, Africa and even the Middle East. There are vast resources, both human and physical yet to be tapped in the region. So British exporters must take an active role.

5 In the annex I give details of the various meetings I had. It was encouraging that in at least Thailand, a number of contracts have been brought to a satisfactory conclusion shortly after the visit. We are following up all the contacts made.

6 I am copying this minute to Geoffrey Howe and Peter Rees.

PAUL CHANNON



THAILAND: 20-25 JUNE 1985

I had a number of useful discussions with various Ministers on particular projects. These projects which were under consideration at the time of my visit - the sale of two Shorts 360s, the Westinghouse Signalling Contract for Thai Railways and the sale of Railbuses - have since been approved by the Thai Cabinet. I believe that useful progress was also made on the Bangkok Bus Project, although this has not yet come to a head. During the visit I met the Ministers of Foreign Affairs, Finance, Commerce and Communications, as well as the Deputy Minister of the Interior, the Minister in the Office of the Prime Minister and the Secretary General of the National Economic and Social Development Board. General Prem, the Prime Minister, received me for a courtesy call. I also visited the Boots Company (Thailand) Ltd factory.

2. Nearly all of the major projects in Thailand need to be processed through the Government machine, including its various evaluation committees. For this reason I believe that continued Ministerial contact is essential in order to steer project business through critical stages. Our competitors certainly make use of such contracts.

SINGAPORE: 25-27 JUNE 1985

3. I spent two days in Singapore, during which I met Dr Richard Hu, Acting Minister for Trade and Industry, Mr Chandra Das, Chairman of the Trade Development Board, and Mr Philip Yeo, chairman of the National Computer Board. I also visited Beechams Pharmaceuticals (Pte) Ltd, The Pulau Seraya Power Station site, which includes major items of British equipment, and the Jurong Town Corporation.

4. In contrast to Thailand, my impression was that contact at Government level did very little to advance project or other interests in Singapore. It is a very competitive market where the Government is at pains to avoid accusations of partiality and where businessmen are best advised to pursue business direct with the firms involved. It would, nevertheless, have seemed strange for me to avoid visiting Singapore, following the Prime Minister's visit, and I took the opportunity to raise the issue of copyright piracy with the Acting Minister for Trade and with Chandra Das. They both assured me that they supported protection of intellectual property and would be legislating on piracy.

INDONESIA: 27 JUNE - 3 JULY 1985

5. Whilst in Indonesia, I met the President, the Ministers of Finance, Communications, Tourism, Posts and Telecommunications, Mines & Energy, Co-operatives, and other Ministers and officials. As well as attending meetings in Jakarta, I visited Northern Sumatra and saw the Blue Circle Cement bagging plant, the P T Arun Liquefied Natural Gas plant and the London & Sumatra plantation, in addition to courtesy calls on local officials. Northern Sumatra is developing rapidly and should not be neglected by UK firms.

6. I discussed with Indonesian Ministers Presidential Instruction No 8. My impression was that whilst they wished to give an impression of rigid adherence to the Instruction, they are willing to be flexible on individual projects where it suits them. I said that HMG had agreed the principle of soft loans and officials would be discussing the details of a suitable mechanism.

MALAYSIA: 3-8 JULY 1985

7. I met a range of Ministers and officials in Malaysia, including the Acting Minister of Trade and Industry, the Minister of Energy, the Minister of Transport, the Deputy Minister of Defence and the Heads of the Malaysian Railways Administration, the Heavy Industries Corporation of Malaysia and the National Electricity Board. I also visited Sabah in East Malaysia, where I met the Governor and the Chief Minister, as well as the management of the Gas and Electricity Boards. In addition, I visited an ICI paint factory and a plantation owned by Harrisons near Kuala Lumpur.

8. The air services dispute was raised by the Malaysian side in a couple of my meetings, but not in an overtly hostile way. I believe we are now moving towards an amicable solution on it.



BUSINESSMEN ACCOMPANYING MINISTER FOR TRADE ON VISIT TO
SOUTH EAST ASIA

Mr P L Lockton, Managing Director, NEI International Ltd

Mr D P Bleakley, Director, Tarmac Overseas Ltd

Mr R T Fox, Vice Chairman, Kleinwort Benson Ltd

Mr I B McKinnon, Managing Director, Leyland Bus

Mr R M Arblaster, Resident Director, South East Asia, Leyland Bus

Mr M Goldsmith, Director, Civil Projects (Aircraft), BAe

Mr S E Iddles, Executive Director, Sales and Product Support, BAe
Woodford

Mr G Checketts, Managing Director, Hawker Siddeley International

Mr N R Jones, Executive Director, Hawker Siddeley International

Mr I Todd, Joint Managing Director, Davy British Rail International

Mr M Taylor, Sales Director for Far East, British Rail Engineering
Limited

CONFIDENTIAL

PRIME MINISTER'S VISIT TO THE FAR EAST - 4-14 APRIL 1985

GENERAL

Measured in terms of impact upon bilateral relations, the visit could only be described as extremely successful: in such a compressed programme, with so much time given over to ceremonial, just a few more days would have permitted the Prime Minister to gain an even better impression of the sophistication and bubbling economic energy of the Asean area, particularly a country so large as Indonesia. For example, a working lunch with Indonesian Economic Ministers - among the best teams of Government managers in the world - did not really allow them scope to go through their paces. Even so, for a programme to a very tight schedule - the local organisation and Private Office's ability to move camp with the alacrity of Berber tribesmen were at times spectacular - a markedly improved atmosphere was created for British companies to pursue business.

COMMERCIAL AND INDUSTRIAL ASPECTS

Malaysia

By far the most significant step was the resolution of the Air Services dispute, which had over the past two years either explicitly or covertly acted as a serious disincentive to British companies even attempting to pursue opportunities. Dr Mahathir gave an explicit assurance that there would be no discrimination, so that companies can now have much greater confidence, albeit against competition which has been able to advance its position during the "buy-British-last" phase.

On particular opportunities, Dr Mahathir himself highlighted the proposals for Vickers to establish a joint venture for submarine yards in East Malaysia, the rural water scheme, the aluminium smelter and the scope for BAE to co-operate with AIM - the recently formed Malaysian aerospace servicing and manufacturing group. Both his remarks, and a choice of projects, could be read to underline the importance of joint ventures as the idiom for successful penetration of the market. In addition, the Prime Minister referred to our interest in railways - she herself had a short trip at the controls of a railbus - fibre optics, the C3 defence centre, and the ICI Pruteen process.

The Prime Minister was also given a presentation by the Economic Planning Unit, which was crisply put over, though there were clearly tensions unexpressed in their plans to encourage inward investment and privatisation whilst maintaining an explicit policy of discrimination for particular sections of the community. The presentation,

FERB

See. BT I don't intend to show it to the PM, since there is little in it which she doesn't know.

CDP 22/4

!!

CONFIDENTIAL

albeit it short, was impressive in terms of the professionalism of their approach, and this came out in their handling of impromptu questions. Also in the programme was a visit to a dam site in Kedah, being built by a local joint venture with Balfour Beatty, and as an illustration of the "before" situation of what will eventually be a 200 foot dam, the visit was interesting. Other commercially-oriented activities were a visit to the UK stands at the International Trade Exhibition, at which ICI had given prominence to their Pruteen process. Mr Thatcher also visited local companies already working in Malaysia - Castrol and Harrisons.

The Prime Minister had a half-hour session with representatives of the local British commercial community. Maybe because they were predominantly composed of representatives of long-established British companies and did not embrace companies attempting to enter the market, they put up a rather weak performance: their preoccupation was with the British Government providing more funds for training Malaysian students, and were not convincing in demonstrating the real commercial pay-off for the substantial Malaysian student population funded in the past, nor why industry itself should not be more active.

Outside the official arrangements, Mr Benjamin had talks with several Departments:

(a) Ministry of Transport: the Minister - a Harris-tweed anglophile Chinaman - must be something of a survivor for the Mahathir administration. The discussion coincided with a session between the Minister and a BREL delegation, who had gone over their interests in the rail sector: cross-braced bogies, Railbus, and modernisation (Annex A). The main additional points to emerge were:

(i) The Malaysian Government were in the process of reviewing priorities for the Fifth Plan, and this could require some time before tender or contract action would be taken - probably the most imminent prospects were cross-braced bogies and Railbus;

(ii) The influence of Japanese OECF funding: the Minister was particularly sore that in the previous tender for main line locos, the railway authority's choice of Alsthom had been overturned by the Ministry of Finance on grounds of overall attractiveness of the finance (OECF loans have a discounted concessionality of 40-50%), and he expressed some satisfaction that they had managed at least to secure the engines for their original choice of a French loco. A repeat of this situation overhung the chances for the rail modernisation.

(iii) The Minister remarked that the UK, and indeed other Western countries, should beware of the rising Japanese

CONFIDENTIAL

presence in Malaysia: he offered an entertaining conversion factor - in his view, one Japanese restaurant serviced 200 Japanese and their dependents, and the number in KL had risen in recent years from 7 to over 30.

A point that emerged from discussion with Malaysian officials was that it had been 20 years since anyone from Malaysian railways had attended a British Rail training course - this is hardly the way to farm a market where the system should be basically oriented toward British practices. The High Commission will consider whether some moves can be made to rectify this within the current training allocations.

(b) Ministry of Finance: The aim was to probe the method of financial evaluation on such cases as the current Brush bid for main line locos, and the Malaysian side was led by a Deputy Secretary with a team of finance/contract assessment staff. They were bright and professional, but evasive on crucial questions (Annex B). Particularly interesting points that arose in discussion were:

(i) Contrary to the impression gained by Hawker Siddeley, the officials said that they were influenced primarily by the interest rate, and, whilst they were aware of the problems of currency appreciation over the life of the loan, and said that they "took this into account", they could offer no suggestion of a systematic methodology for doing so;

(ii) They confirmed that on this basis it was open for bidders to propose finance in any currency, not necessarily that of the supplying country;

(iii) They did not insist (as, for example, did India) on receiving aid finance solely through Government channels with the benefit retained by the Exchequer and the local agent being funded by counterpart national funds - indeed, they admitted that in some Japanese joint ventures where the equipment had been aid-supported, the concessionary loan had been passed through to the joint venture enterprise;

(iv) In commenting on the conduct of British companies in pursuing business, they remarked that whereas commercial interests from other countries would frequently call on the Ministry of Finance, UK companies did not do so. And they used a phrase that could well serve as a slogan for anyone attempting to secure public sector contracts - "you must keep up with the file", a technique in which the Japanese and French particularly excelled, taking the trouble to maintain a continuing presence in KL.

(c) Defence Procurement Office: Accompanied by the Defence Attaché, Benjamin called on a group of staff and officials of the Procurement Directorate: owing to a meeting of the

CONFIDENTIAL

Malaysian Defence Board the more senior staff were out of contact. Nevertheless, the discussion was interesting in gaining an impression of how the relatively youthful but keen and sharp officials saw the UK's approach. All existing defence prospects were reviewed, save for the C3 proposal, since the appropriate officials were not available. Particular points of note were:

(i) On the anti-submarine force proposals, the delegation were looking forward to their forthcoming visit to the UK. They welcomed the training component, and underlined the importance of Westlands pursuing the concept of co-operation in establishing Malaysia's capability for servicing and refurbishing helicopters.

(ii) Of the more major prospects, the Vickers submarine yard was viewed as potentially very attractive, and Rapier would be very favourably examined. But there were inevitably budgetary constraints, and again there could be delays while priorities are sorted out under the Fifth Plan.

(iii) Interestingly, the same strand of complaint about the attitude of UK companies was remarked: British companies apparently only visited relatively infrequently, and tended to contact only Ministers or senior military staff. The meeting made the point that no British representatives had called on them directly, whereas the French, Germans and Dutch were much more energetic at cultivating all levels of the administration to update on the progress of particular prospects in which they were interested. The French were noted particularly as having set up a strong local presence for defence sales. More generally, the UK companies tended to give an impression of arrogance, with a "take it or leave it" approach that did not give the customer the feeling that his own special needs were paramount.

(iv) Consequently, whilst the Malaysian forces readily appreciated the quality and operational expertise inherent in the UK's military equipment, they voiced concern that the UK could lose out through simply failing to keep in close enough touch with key decision points in the administration.

In summary, whilst the "buy British last" shadow may have discouraged many companies from undertaking the expense of cultivating the market, with the improvement in relations following the Prime Minister's visit, UK companies will need to put in extra effort to catch up ground lost in cultivating the market, and working with the grain of the Malaysian style and preference.

CONFIDENTIAL

Singapore

The stay lasted for only a day, and there were effectively no opportunities for a structured discussion of particular commercial opportunities. It is worth noting as symptomatic of the Singaporean style that attempts to persuade the interested Ministry to publicise the UK's success in winning an order for Teletext during the Prime Minister's visit were not approved: they have a particular reluctance to give any impression that commercial decisions are influenced by political factors. In terms of reinforcing the already good bilateral relations, the visit was a great success: Lee Kuan Yew remains the dominant figure, and the Prime Minister received a handsome tribute for the Government's policies - a refreshing change from the somewhat carping style of Dr Mahathir.

The High Commission will be following up the detailed approaches made before the Prime Minister's visit. But an interesting sideline on the Japanese presence arose in discussion at a lunch for Mr Thatcher given by leading British bankers: they themselves remarked on the rising Japanese presence in the services area, and endorsed the Malaysian Minister of Transport's ready-reckoner of the Japanese presence, confirming that currently the Japanese community exceeds 20,000 as compared to a British community of 6,000, whereas the proportions would have been reversed as recently as four years ago.

Indonesia

The Government made spectacular efforts to mark this first visit by a British Prime Minister - for example, at the welcoming ceremony, there were five varieties of chocolate soldiers on display, a nineteen-gun salute, and reviewing the assembled lines required the Prime Minister to make a circular trek of a couple of hundred yards. This standard was maintained at the President's banquet, and in the 10,000 school children (a figure obtained from the local police chief) lining the route of the Prime Minister's to Bandung.

Behind the glitter, the visit was extremely valuable as an incremental step in bilateral relations, and there is undoubtedly a strong motivation to increase commercial ties. The most immediate scope lies in the defence co-operation arena, where the Indonesian services have already purchased frigates, Hawk and Rapier, and the President himself mentioned a further order for Rapier and co-operation in building the Scorpion family of armoured vehicles. This latter could be extremely large business, and the fact that the President himself referred to it is evidence of Dr Habibe's support (there may, however, be tensions with

CONFIDENTIAL

the military side, and this will need to be handled very carefully). The President also highlighted agriculture, food processing and storing as a top priority, and the Prime Minister said that this was an area where the UK had considerable expertise that should be included in any technical co-operation for the future. Foster Wheeler can also draw comfort from the fact that the President volunteered Indonesian interest in the UK participating in the uprating of the original Balikpapan refinery.

The most useful exchange from a commercial angle was the Prime Minister's discussion with Dr Habibe during the visit to his aircraft factory - Nurtanio - at Bandung. Dr Habibe was at his most ebullient, giving a personal commentary over a portable loudspeaker system as he conducted the Prime Minister around the factory. In informal conversation, Dr Habibe underlined the importance of the science and technology agreement, and identified particular fields where Indonesia would welcome co-operation (Annex C). The Prime Minister has asked that the Agreement should be ready for signature by Dr Habibe's visit in the summer, and clearly we should advance proposals on the specific areas by then as well, and action to mobilise the relevant companies is being taken.

The main problem in bringing the pieces forward lies in the form of finance required to meet Presidential Decree No 8. A secondary point is the importance of our companies being prepared to make acceptable co-operation deals with Indonesian parties.

It was clear from a discussion with Dr Sumarlin (summary report at Annex D) that there is no prospect of the UK reviving the SATPA line of ATP with a concessionality around 30%. Sumarlin made it plain that all other donors, with the exception of France and the UK, have amended their aid procedures to conform, and negotiations were in train with the French to ensure that their next annual provision was in the appropriate form. The summary needs to be filled out with a few remarks not recorded:

(i) The rationale behind the preference for long term concessional loans lies in Indonesia's overriding concern to even out its debt profile, and the importance of ensuring control and consistency of treatment for all investment funded by external credit. Sumarlin remarked that the formal arrangements for providing compliant finance were immaterial - loans could come either direct from Governments, Government credit and finance agencies, or through private banks.

(ii) Sumarlin said that there were some projects on which British companies had committed considerable effort that were now coming up for decision, and, in the absence

CONFIDENTIAL

of finance in suitable form, they could well go to countries prepared to deploy the preferential form of finance to secure the project nationally - he mentioned in particular Balikpapan airport and railways.

(iii) Benjamin pointed out that compliance with Decree No 8 posed a sharp shift in funding methodology for the UK, and he hoped that meanwhile the Indonesian Government might be amenable to accepting variants that might have comparable effects to cover immediate cases. Sumarlin was non-committal.

(iv) Benjamin mentioned three particular cases where British companies were having difficulties after having established joint ventures in Indonesia: Blue Circle cement, Tate & Lyle and Indonesian Plantation Ltd. He made the point that both Governments wished to see an improvement in commercial relations between the two countries following the Prime Minister's visit, and the confidence of British companies to invest in Indonesia could be affected by such instances, which could have repercussions well beyond the particular circumstances of the case. Sumarlin acknowledged all three instances, and acknowledged that the Tate & Lyle case particularly was one involving Indonesian Ministerial interests.

Further official calls were made on

Bapenas: The discussion again centred on aid conventions, and preceded the discussion with Dr Sumarlin. Benjamin also managed, however, to raise the vexed question of consultants' fees, which discriminated against UK consultants by virtue of various Departments adhering to out-dated rates. Bapenas confirmed that they had issued instructions to all functional Departments to adopt a more flexible approach pending the promulgation of new rates, and said that should there be any future cases of difficulty, this should be referred to them direct.

Ministry of Communications: Dr Djunaedi, currently responsible for railway developments, also remarked that there were immediate opportunities in the railway sector that the UK, despite having done the preliminary work, would be denied the business unless finance in the appropriate form was made available. He appeared hopeful, however, that the Pharos Marine contract might be approved. He also confirmed that further orders for double-decker buses were under consideration.

Brief as it was, the Prime Minister's visit established a greatly improved platform for British companies to get after new business in Indonesia: inevitably, however, there are liable to be hesitations about committing large resources unless there is some assurance that even some cases can be treated in terms of aid finance in accordance with Presidential Decree No 8.

CONFIDENTIAL

Other points of interest that emerged through informal contacts were:

(a) The financing of the Nurtanio aircraft factory is based on extremely attractive terms: the land and facilities have been provided by the Government on a free basis, without any obligation for normal amortisation. Much of the machining equipment is Japanese or German, and the production director confirmed that most of this has been provided under overseas aid, with the factory itself being allowed to take advantage of the concessionality of the finance. The funding clearly has a bearing on the potential viability of the operation, which currently, apart from manufacturing Messerschmidt-Bolkow helicopters (Dr Habibe's old stable) and the Puma, is principally devoted to a joint venture on the Casa with Spain. This joint venture embraces the exchange of parts between Indonesia and Spain, and joint development of a stretched version - comparable to the larger versions of Skyvan - which they envisage marketing internationally. The prototype was flying, but one suspects a few bugs yet. For the original Casa, the Indonesians envisage a domestic requirement of over 400 aircraft to serve their many outlying islands, and this was the basic rationale for setting up their own aircraft manufacturing capability. Assuming a country is interested in pursuing this route, in fact the choice of aircraft was a good one, in that it does not require sophisticated production technology, nor high precision aluminium-machining. They were very keen to further discussions with Bae on the 146.

(b) The Commercial Counsellor reported that his staff had been in contact with their French opposite numbers, one of whom is an ex-officer of the DREE, with whom he had previously had contact on the Guangdong nuclear project, who had said that after an internal review, the French had decided to focus on four primary markets to gain the best advantage of their aid programme - Indonesia, China, India, and Mexico.

Sri Lanka

Benjamin, sadly, fell by the wayside owing a virulent local bug, and, after three years of badgering to visit the Victoria Dam, was unable to do so. Judging by accounts, this may have been a blessing in disguise. But current issues touched on during discussions were:

(a) Samanalawewa: Mr de Mel stated very firmly that this project was Sri Lanka's top priority for the use of aid resources, and that they had invited the three countries in the proposed consortium to put forward proposals. The Prime Minister was noncommittal, but said that a decision would be taken on return to London.

CONFIDENTIAL

(b) Cable & Wireless: The Prime Minister lent her authority to the Cable & Wireless proposals for running the privatised telecommunication system. Again, it is worth noting that whilst Cable & Wireless are aiming to secure the overall operating/management contract, the Japanese have purloined the orders for fibre-optic cable on which the modernised telecommunication system will rest.

(c) Shipping Rates: The Sri Lankans gave a generally unsatisfactory response to the question of adopting internationally accepted allocations. At least this confirmed to them that, lest they had any impression to the contrary, the UK was not content with the point reached in current negotiations.

Delhi

On the commercial front, discussions during the overnight stay were focused exclusively on the Westlands WG30 situation, where Mr Gandhi had adduced technical reasons for not proceeding with an order that seemed questionable. Action was taken immediately to ensure that Westland's experts were in Delhi for technical discussions.

GENERAL

One of the most depressing features was the naivety and lack of appreciation among the Press corps of the realities of commercial existence. They appeared to have given themselves the impression that contracts fell off trees, and a number of background and informal discussions took place in an attempt to underline that life, especially in as toughly competitive a market area as Asean, was really very different. One could also deplore the "consumption for Britain" type of reporting that took place in the UK press which seemed largely to ignore the very positive features of the visit from the UK's political and commercial viewpoints. But this is probably simply to deplore the rather weak nature of the fourth estate in Britain.

A point that has passed almost without comment was a reference during Ministerial talks in Indonesia to a forthcoming meeting of Pacific States. Inevitably, the UK sees positive advantage in such aggregations of national interest. But, economically, the Pacific Basin, embracing the sweep of West Coast America, Mexico and the Pacific countries of Latin America, to the range of Australia, New Zealand, Indonesia, Malaysia, Thailand, Philippines, Hong Kong, China, Japan and North Korea represent a formidable trading entity: it already encompasses more than half the world's total demand, and with a differential growth rate in the area of 6-8% against the Atlantic or European economies, it is an area of trade of such formidable potential that unless an industrial country has staked a strong position within it, over two decades, it is debatable whether it will continue to survive as an industrial power. The Germans, who have been cultivating Indonesia for

CONFIDENTIAL

twenty years, and the French, who have identified China and Indonesia as top priorities, recognise this, but not so far the UK. The Indonesian Ambassador, before the visit, remarked that there are 7,000 Indonesians under training in Germany, 3,000 in France and 300 in the UK. A visit which must have helped the Prime Minister to appreciate the scale and dynamism of the Asean/Pacific market can only have positive results.

At the practical level, this is a market that requires commitment and resources to enter, but there is plenty of evidence to suggest that for those who are prepared to persist, there is a very good commercial opportunity for the taking. Getting over the hurdle of market entry is, however, the first difficulty for most British companies not already established in the market.

PEP/DTI

Summary Record of Meeting with Minister of Transport,
Tan Sri Chong Hon Nyan, Saturday 6 April 1985

Present:

Tan Sri Chong Hon Nyan, Minister of Transport
 Dato' Ahmad Badri bin Mohamed Basir, General Manager,
 Malayan Railway Administration
 Encik Kassim, Ministry of Transport
 Mr C B Benjamin, Department of Trade & Industry
 Mr M L Dalton, British High Commission

Japanese Yen Credits

Tan Sri Chong confirmed Malaysia finds the Yen Credits offered by Japan very attractive and are usually the deciding factor when all other criteria are equal. For example, when MRA invited tenders in 1982 for 15 mainline locomotives, MRA preferred the French bid but a Japanese offer of finance including Yen credits could not be passed up. The order went to Hitachi. Tan Sri Chong confirmed the Yen Credit package had covered the French engines incorporated in the locos. As to the operation of Yen Credits, Tan Sri Chong said allocations under the various agreements are ostensibly untied but when negotiating the agreements, the Japanese ask which projects Malaysia would like to see earmarked and a list is agreed. Obviously Japanese agreement is given to projects in which Japan also has an interest. (I am not aware of Yen Credits being made directly available for contracts for which a Japanese company is not the main contractor/supplier).

Cross-braced Bogies

Malaysia welcomes overseas investment. The Buy Malaysian campaign has reinforced Government's desire to buy locally assembled - if not manufactured - products and in this context would prefer to buy locally assembled cross-braced bogies. Tan Sri Chong said BREL should tie-up with Malaysia Shipyard & Engineering Sdn Bhd (MSE) of Johor (we presume this message was given to Mr Philip Norman and others of BREL who saw the Minister immediately before our meeting). Tan Sri Chong agreed it would be possible to give brownie points for local assembly by discounting "at bit" the contract price to allow for the extra start-up capital costs of a local assembly plant and the likely losses in the early stages of the proeuction learning

/Railbus

Railbus

A tender will be issued for the supply of Railbus; 10 2-car units initially. 22 2-car units will be included in the Fifth Malaysian Plan - if the Ministry is successful in its bid. The tender will not issue until the FMP is finalised. A purchase cannot be made until the 1986 financial year and thus a tender invitation is not likely before the latter part of 1985.

MRA Rehabilitation

Taylor Woodrow is one of the companies which have prequalified for rehabilitation projects already announced. The MBRG report is being used as a planning tool but before a major rehabilitation programme can be set in motion the Government must establish its priorities vis a vis rehabilitation of the existing network and the construction of a new line to the East Coast (the E-W line).

MAS Aircraft Replacement Programme

MAS is currently evaluating its options. These include a range of new jet aircraft to replace the F27 and the retention of the F27 fleet. Standards of passenger comfort are important - the travelling public is more demanding than hitherto. MAS is working on the basis that it will have to operate into existing domestic airports for some time to come. Mr Benjamin pointed out the advantages of the BAe 146 jet airliner in these circumstances. Tan Sri Chong said Fokker had made the same case for its new generation of aircraft.

Training for MRA Personnel

Prior to the meeting with Tan Sri Chong, Datuk Ahmad Badri told Mr Benjamin that for several years MRA had not sent any staff to Britain for training. He would welcome the re-establishment of links. Mr Dalton briefly mentioned the FSD channel for training requests. Mr Hickman, MBRG, reminded Datuk Badri that the MBRG report foresaw extensive training in Britain and that MRA had been asked to identify which of the existing courses in Britain would be attractive to MRA. The High Commission will follow up.

Summary Record Meeting at Ministry of Finance,
Saturday 6 April

Present:

Yahya Yaacob, Deputy Secretary, Finance
Nik Zainal and 2 unnamed officials
Syed Jaffar bin Syed Aznan, Dep Head, Finance Division
Hamid Junid, Special Assistant to Dep Minister, Dr Tan
Mr C B Benjamin, Department of Trade & Industry
Mr M L Dalton, British High Commission

Mr Benjamin asked how the Ministry of Finance evaluates international tenders incorporating elements of aid and/or soft finance (low interest/long term loans). The Malaysian side said the technical evaluation, undertaken by the purchasing authority, is paramount. Finance is secondary. After much probing by Mr Benjamin, it was clear to us that either the Malaysian side did not wish to reveal how they evaluated aid/soft finance offers or - and possibly more likely - they had no defined mechanism. They appeared to suggest that their evaluation could be influenced by the level of persistence shown by the tenderer and the degree of personal contact. Yahya Yaacob said the Japanese were the leaders in this respect. Their intelligence was good and at any time they knew on which desk the project file could be found!

Mr Benjamin raised the case of the railway loco tender and Sir Arnold Hall's letter to the Prime Minister in which Sir Arnold complained that Malaysian insistence that tenderers could only offer finance packages in the currency of country of manufacture was discriminatory. The Malaysian side said no such rule existed; tenderers could offer finance packages in any currency. (Mr Benjamin subsequently telegraphed Brush, via DTI, with this information).



ANNEX C

10 DOWNING STREET

From the Private Secretary

MR Dunning OT2

(advised & appropriate)

11 April, 1985

Ps/mtc

PS/SURBH

MR Roberts

MR Hutton OT2

MR Benjamin PER

Dear Peter,

PRIME MINISTER'S MEETING WITH DR HABIBIE, MINISTER OF
TECHNOLOGY OF INDONESIA IN BANDUNG ON 11 APRIL, 1985

You may find it helpful to have a brief note of the points raised in discussion between the Prime Minister and Dr Habibie over lunch in Bandung on 11 April.

Dr Habibie said that he was very keen to see a science and technology agreement between Indonesia and the United Kingdom. Ideally he would like to be able to sign this in June when he visits London. The Prime Minister agreed that we should work to this target. She also agreed that she would see Dr Habibie when he came to London.

They also discussed possible defence sales. Dr Habibie expressed strong interest in Scorpion/Alvis and in further purchases of Rapier. He undertook to examine the possibilities for co-operation on the Hawk 200.

Dr Habibie said that his priorities for infrastructure projects were:-

- a. railways.
- b. shipyards. Indonesia needed patrol boats and frigates, but the latter should be smaller than those which they had recently bought from us, around 2,500 tons. They needed about 20.
- c. power generation. Indonesia would need some 22,000 megawatts of electricity by the year 2000.
- d. gasification of coal.
- e. facilities for the production of agricultural machinery in Indonesia.
- f. telecommunications.

254/4

CONFIDENTIAL

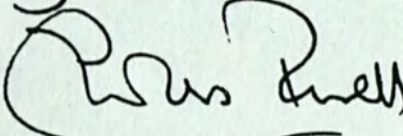
/The Prime Minister

CONFIDENTIAL

- 2 -

The Prime Minister said that she thought we would be able to help in virtually all these areas. She hoped that discussions could be pursued through officials with the aim of trying to reach some decisions by the time Dr Habibie visited Britain in June.

I am sending a copy of this letter to John Mogg (Department of Trade and Industry), Rachel Lomax (HM Treasury), Richard Mottram (Ministry of Defence), Michael McCulloch (Overseas Development Administration) and Robin Nicholson (Cabinet Office).

Yours sincerely

(C D Powell)

P Ricketts, Esq.,
Foreign and Commonwealth Office

CONFIDENTIAL

TELEX TELEX TELEX TELEX TELEX

3. VEREKER EXPLAINED THE DIFFERENT BUDGETS FROM WHICH OUR AID WAS ALLOCATED, MAKING IT CLEAR THAT THE BILATERAL PROGRAMME WOULD BE LARGELY DIRECTED TOWARDS TECHNICAL COOPERATION IN THE FUTURE AND THAT ATP FUNDS WERE SPECIFICALLY FOR USE IN CONJUNCTION WITH COMMERCIAL CREDIT. HE ALSO DESCRIBED SEVERE CONSTRAINTS ON OUR BILATERAL PROGRAMME AT PRESENT AND HELD OUT NO HOPE OF OUR BEING ABLE TO ACHIEVE EARLY INCREASE FOR INDONESIA MUCH AS WE WOULD LIKE TO.

4. IN ANSWER TO QUESTIONS SUMARLIN CONFIRMED THAT UNDER THE GOI'S CURRENT RULES A MIXED CREDIT OFFER CANNOT BE ACCEPTED (UNLESS PUT FORWARD IN AN INTERNATIONAL TENDER) EVEN IF THE TOTAL SUBSIDY ELEMENT IS EQUIVALENT TO THE SUBSIDY INVOLVED IN THE SOFT LOAN TERMS DEFINED IN INSTRUCTION NO 8 (WHICH SUMARLIN SAID GOI CALCULATED AT ABOUT 60%). VEREKER MADE IT CLEAR THAT OUR EXISTING ATP GUIDELINES PRECLUDED OFFERS WITH THIS LEVEL OF CONCESSIONALITY.

5. IN ANSWER TO OUR ENQUIRIES SUMARLIN AND MUCHTAPUDDIN SIREGAR GAVE THE FOLLOWING FIGURES OF AID BEING CURRENTLY COMMITTED BY OTHER BILATERAL DONORS ON SOFT TERMS EQUIVALENT TO OR BETTER THAN THE TERMS IN PRESIDENTIAL INSTRUCTION NO 8 (FIGURES REPRESENT CURRENT ANNUAL COMMITMENTS):

JAPAN	DLRS 360M
US	DLRS 150M
NETHERLANDS	GUILDERS 160M (APPROX DLRS 45M)
AUSTRALIA	AUSTRALIAN DLRS 44M (ALL GRANT)
CANADA	DLRS 40M
GERMANY	DLRS 45M
ITALY	DLRS 30M

IN THE CASE OF FRANCE SUMARLIN SAID THAT THEIR ANNUAL MIXED CREDIT PROGRAMME WAS NO LONGER ACCEPTABLE FOLLOWING THE INTRODUCTION OF INSTRUCTION NO 8. TALKS WITH THE FRENCH WOULD TAKE PLACE LATER THIS YEAR ABOUT THE FORM IN WHICH THEIR AID WOULD BE GIVEN IN FUTURE.

DONALD

NNNN