

SUBJECT cc MARS CONFIDENTIAL

RECORD OF A DISCUSSION BETWEEN THE PRIME MINISTER AND THE PRIME MINISTER OF MALAYSIA AT 1900 HRS ON WEDNESDAY, 9 MARCH AT 10 DOWNING STREET

Present:-

- |                   |                             |
|-------------------|-----------------------------|
| Prime Minister    | Dr Mahathir                 |
| Sir Antony Acland | Malaysian High Commissioner |
| Mr John Coles     |                             |

The Prime Minister said that she was glad that Dr. Mahathir's private visit to the United Kingdom offered them an opportunity to meet. She hoped that the Prime Minister would enjoy his son's graduation ceremony on 11 March. Dr Mahathir said that he had been sorry that he was not able to take up the Prime Minister's invitation to meet him on an earlier occasion.

The Prime Minister said that she would be interested to hear Dr. Mahathir's reflections on the Non-Aligned Summit meeting in Delhi. Dr. Mahathir said that this was the first time he had attended a NAM summit. There was little Malaysia could do at such meetings but to express its viewpoint and try to muster support for further activity in other fora. The membership of the Non-Aligned was increasing. If one could secure the support of 50% of its members, it would be possible to achieve things elsewhere.

The Prime Minister said that we always regarded Non-Aligned conferences as influential. Mrs. Gandhi had said that she was determined to make this summit genuinely non-aligned, in contrast

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to the last one in Havana. She knew that Mrs. Gandhi had little liking for the Communists who caused difficulties for her in five of her states. She had considerable admiration for Mrs. Gandhi whom she saw frequently. India was one of the most difficult countries in the world to govern, as recent events in Assam demonstrated. Dr. Mahathir said that it was essential for Mrs. Gandhi to maintain law and order. Without this, as a recent article in a British magazine had stated, democracy was not possible. You could only have freedom if the people knew how to handle it.

The Prime Minister referred to the current OPEC meeting in London. We were not involved but the decisions of the meeting would be important. Sir Antony Acland said that he felt that the convening by OPEC of a formal meeting suggested that it was moving towards a consensus. It was the suddenness of changes in the price of oil which was disturbing for the world economy. The Prime Minister agreed. We wanted to see a fall in oil prices but it was essential that this should be gradual. What effects had the world recession had on Malaysia?

Dr. Mahathir said that Malaysia had indigenous oil supplies so was less worried on that score. But the price of other commodities, in particular rubber, had also fallen. Malaysia was affected by the current trend, particularly in the United States, towards the building of small cars which used considerably less rubber. But the economy in general was beginning to recover. The Prime Minister asked whether Dr. Mahathir judged that a world recovery was on the way. There was now more optimism about the American economy but the question was whether the recovery now under way there would be long lasting.

/Dr. Mahathir

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Dr. Mahathir said that he had no doubt that the bottom of the recession had been reached. Any movement now should be upward. Sir Antony Acland observed that the ASEAN countries enjoyed considerable economic growth. Dr. Mahathir said that the growth rate had fallen to 4% in Malaysia last year. The Prime Minister said that we would gladly settle for such a growth rate.

Dr. Mahathir stated that the ASEAN countries had learnt a good deal from each other. Indonesia had earlier followed foolish economic policies but the need for the control of expenditure and for the opening up of the country to foreign trade were now recognised. Most ASEAN countries had similar economies and all welcomed foreign investment. This had enabled the group to grow together. But Indonesia was still facing problems, particularly because 70% of its exports were petroleum-related. A lower price and lower production level for oil, if agreed, would affect Indonesia substantially.

Invited by the Prime Minister to comment on Cambodia, Dr. Mahathir said that a political solution was still elusive. But ASEAN would continue its campaign. At the Non-Aligned Summit ASEAN had wanted the Khmer Rouge to retain its seat. Others had argued for an empty seat. The formula which had been agreed lent some hope that in three years time the Khmer Rouge representative would be seated. It was important that these matters were settled according to proper procedures and were decided by the whole movement, not just by Cuba as at the Havana Summit. More than half the Non-Aligned membership had supported ASEAN. He believed that their cause had gained ground. Nepal had its arm twisted by India though King Birendra had publicly congratulated him on his speech. A number of countries did not wish to offend the Soviet Union and Fidel Castro. The latter enjoyed considerable popularity in the Non-Aligned

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Movement. Even Argentine had said that it appreciated the Cuban attitude towards the Falkland Islands.

The Prime Minister said that we had been impressed by Dr. Mahathir's references to Afghanistan, as reported in The Times. She recalled the former President Tito's attacks on Castro at Havana and the steps taken by non-aligned countries to prevent Cuba securing a seat on the Security Council. It was strange that Castro was not judged by his policies. Dr. Mahathir said that he had particularly noticed the standing ovation given to Castro in Delhi. He himself had had to stand up and "join the club". The Prime Minister said that Castro was a powerful speaker - dictators often were. Dr. Mahathir commented that in the eyes of some non-aligned countries, Castro's achievements had been considerable. Sir Antony Acland asked whether many of the non-aligned had not disapproved of Castro's extremely partial chairmanship in Havana. Agreeing, Dr. Mahathir said that there was relief in Delhi that Castro was no longer president of the movement.

In response to a question from the Prime Minister, Dr. Mahathir stated that little new had been said about the Iran/Iraq war in Delhi. The truth was that there was nothing new to say. But he believed that Iraq was beginning to realise that it could not insist on all its earlier conditions for ending the war. He also felt that, as oil prices fell, the Arabs would tend to reduce their support for Saddam Hussein. The Prime Minister commented that if the war came to an end, Iran and Iraq would start producing oil again and that could add to current problems. The current high level of oil stocks produced

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continuing uncertainty about oil prices, and consequently continuing uncertainty in the foreign exchange markets. Dr. Mahathir said that he did not believe that oil consumption would go back to its old levels. The Prime Minister agreed. We had learned conservation habits. Dr. Mahathir said that he found it interesting that new industrial techniques, such as the use of robots, tended to employ less electricity than the human labour which they had replaced. The Prime Minister recalled with interest her visits to factories employing robots in Japan. Dr. Mahathir said that he had been equally interested; he had been especially impressed by the use of robots in Japanese motor car factories.

Following further discussion of industrial techniques in Japan, Dr. Mahathir observed that so far robots had not caused much unemployment but there were recent signs that the Japanese unions were beginning to get worried about the employment implications.

The Prime Minister said that the progress made by the newly industrialised countries meant that the world had to accept new patterns of trade. Skills would have to go up market. Dr. Mahathir agreed that there was a constant need for upgrading.

The Prime Minister said that one result of the influx of Japanese new technology into the United Kingdom was that we were rethinking the value of technical schools. In earlier years we had placed considerable emphasis on them. There had then been a decline of interest. These schools were now resuming their earlier importance.

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She was constantly pointing out that the Communist countries placed great emphasis on the value of technical education. She had noted that Japan trained three times as many engineers as Britain did. Japan's record of fundamental research was nothing like as strong as ours. But the Japanese were better at application and had a genius for developing the right product for the market. The spread of Japanese videos and other products in Britain showed that the British people quickly adapted to the latest techniques when they became available. But it had taken Japanese imports to demonstrate this - the trade unions tended to stop indigenous products coming on to the market quickly. Things were changing in the private sector in this respect but not so far in the public sector.

Dr. Mahathir said that Malaysia had followed the British educational system and had made some mistakes. The Prime Minister said that Lee Kuan Yew had often complained to her that Singapore and other countries of Asia had built up their economies on bases which Britain had now abandoned. He could not understand why we were giving up our grammar/<sup>schools.</sup> She hoped that Dr. Mahathir would come and see her as frequently as Lee Kuan Yew did.

Dr. Mahathir said that Malaysia was also placing great emphasis on technical training. The basis of his "Look East" policy was the sending of people to Japan to acquire Japanese skills and, especially, the Japanese attitude to work. The Prime Minister agreed that the work ethic was a key factor in Japan.

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Commenting on Japanese investment in the United Kingdom the Prime Minister referred to the achievement of Sony in obtaining a Queen's Award for Exports. Sony was very pleased by its productivity in the United Kingdom.

Dr. Mahathir said that Malaysia had recently awarded broadly similar contracts to a Japanese and United States firm. The Japanese had finished their work three months ahead of the contract date. The American firm was now four months behind schedule and was complaining of labour problems (though the Japanese firm had had to use the same labour). The performance of Japanese management was excellent.

The Prime Minister suggested that Dr. Mahathir should not underestimate the effect he had had on our policy. Our recent decision to make available new funds for overseas students was in large measure due to his representations. Dr. Mahathir said that he was very grateful for this change of attitude and policy. Traditionally, Malaysia sent many of its students to Britain. There could be 16,000 here at any one time. It was particularly important to Malaysia that Malaysian students of Chinese origin came here. If they did not pressures built up in Malaysia and tension was created. The United Kingdom was a very useful safety-valve.

The discussion ended at 1945 hrs.

A.J.C.

10 March, 1983

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PRIME MINISTER

I promised to let you have 'The Times' extract describing Dr. Mahathir's speech at the NAM Summit yesterday on Afghanistan. The extract is reproduced below. I would not advise that you refer to this in your speech - my guess is that this would leave Dr. Mahathir to make some balancing reference to underline his non-aligned credentials.

Extract from 'The Times'

Malaysian onslaught: In a surprisingly strong attack on the Soviet Union, Malaysia yesterday called on the summit to condemn the "dishonourable invasion of puny Afghanistan". If it shrank from doing so "fear would stalk the little nations with predatory neighbours".

The criticism by Dr. Mahathir Mohamad, Prime Minister of Malaysia, was unusual in its bluntness. An attack on the Soviet Union by name is rare.

Malaysia is a country that believes words should not be minced, and that the non-aligned movement's credibility suffers by resorting to watered-down declarations. A number of countries are impatient at the movements' failure to name the Russians in the past.

A. J. COLES

9 March 1983