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Record of the Official Talks between the Rt. Hon. Margaret Thatcher, FRS, MP, and YAB Datuk Seri Dr. Mahathir Mohamad held at the Malaysian Prime Minister's Department in Kuala Lumpur, 5 April, 1985

Those present:

Prime Minister
Sir Antony Acland, KCMG, KCVO
H.E. Mr. D. H. Gillmore, CMG
Mr. F. E. R. Butler
Mr. C. D. Powell
Mr. C. B. Benjamin
Mr. J. M. M. Vereker
Mr. B. Ingham
Mr. P. D. R. Davies
Mr. R. T. Fell

YAB Datuk Seri Dr. Mahathir Mohamad
Tengku Ahmad Rithauddeen, Foreign
Minister
Tengku Razaleigh Hamzah, Minister
of Trade and Industry
Tan Sri Chong Hon Nyan, Minister
of Transport
Encik Abdul Kadir, Deputy Foreign
Minister
Tan Sri Sallehuddin, Chief Secretary
to the Government
Tan Sri Zainal Abidin, Secretary-
General, MFA
Dato' Kassim, Malaysian High
Commissioner in London
Encik Rajaram, Under-Secretary (Europe),
MFA
Tengku Idriss, Head of Western Europe
Division, MFA

Dr. Mahathir welcomed the Prime Minister to Malaysia. He had been disappointed when she had been compelled to postpone her visit last September but was all the more pleased that she had now been able to come. Because Malaysia had once been part of the British Empire and through continuing links many Malaysians knew Britain well, although he himself was not one of those who had studied in the United Kingdom. The systems of government and administration were very similar in the two countries. For example, both were constitutional monarchies. Perhaps if there had been more ministerial visits, links would have been closer still. But the Prime Minister's visit "would make up for lost time and lost opportunities". He looked forward to cordial discussions. Apart from one minor issue which had been discussed during their earlier private meeting, there were very few bilateral problems. He would like, however, to discuss some matters which arose from the United Kingdom membership of the European Community, and also higher education.

/The Prime Minister

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The Prime Minister thanked Dr. Mahathir for showing understanding about the reasons which had made it necessary for her to postpone her visit in September. The industrial relations scene in the UK was now much improved. She was very keen that her visit should be a success, as successful indeed as Dr. Mahathir's own visit to London in 1983. There was admiration in the United Kingdom for the way in which he handled Malaysia's affairs and genuine good will towards Malaysia among the British people.

Air Services

The Prime Minister reported that she and Dr. Mahathir had reached agreement on how to deal with the problem of the Fifth Frequency for the Malaysian Airline System on their route to London. She had been aware before her visit that this matter was standing between the two countries. There was also the problem of the Malaysian discriminatory tax measure. She and Dr. Mahathir had agreed to deal with these two matters separately. The tax issue affected many countries, including the United Kingdom, and had been raised by the Board of Airline Representatives (BAR).

The Prime Minister summarised the terms of the agreement which had been reached (text attached). Agreement in principle to a Fifth Frequency for MAS: a similar frequency to be granted to British Airways, if requested: introduction of the Fifth Frequency expected in 1-2 years: time: consideration to be given by the Malaysian Government to the representations made by the Board of Airline Representatives and a formal reply made.

Commercial Projects

The Prime Minister noted that she had also raised with Dr. Mahathir at their private meeting a number of commercial contracts, for which she believed British companies offered good value for money. These included the Biwater Shellabear rural

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water project, various railway projects, GEC's interest in fibre optics and the C3 system, the ICI synthetic protein project, Vickers Submarines, the British Aerospace 146 and the aluminium smelter feasibility study. Mr. Benjamin added the Lynx helicopter. He intended to follow up these projects with Malaysian officials during the Prime Minister's visit.

Dr. Mahathir said that the Malaysian government had been very happy with the British offers on feasibility studies for the aluminium smelter and rural water projects. But no decisions had yet been taken on these because the Malaysian government did not wish to over-extend its borrowing. He could say categorically, however, that the Malaysian government did not discriminate against the United Kingdom in awarding contracts nor favour the Japanese or anybody else. All would be treated on their merits. If products and prices were right, British companies had "every chance of winning contracts". The Malaysians were not interested in giving all their contracts to countries in the Far East. "Look East" did not mean this. The policy was aimed rather at learning from the work ethic of Japan and other Far Eastern countries.

Dr. Mahathir continued that the Malaysian government were interested in joint ventures with British companies, especially those which were export oriented. For example, he had recently met representatives of Vickers to discuss the production of submarines. Aerospace International Malaysia (AIM) were pursuing a joint venture with Bae.

Dr. Mahathir added that a Malaysian team had recently been sent to the Soviet Union to look at heavy lift helicopters. Although he was worried that they might "blow our huts away", they did need some of these. They had also been shown smaller Russian helicopters. Perhaps there were suitable British helicopters. It would, however, be a long time before a decision was taken to buy because Malaysia did not have the funds. Rural projects had priority.

/Tan Sri Chong referred

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Tan Sri Chong referred to close contacts between his Ministry and British companies, some of which had already won contracts for work on Malaysia's railway system, although no decision would be taken on Railbus. Malaysia would also be looking for a replacement for the Fokker F27 aircraft used on internal flights in Malaysia. The Prime Minister suggested Malaysia should consider the Bae 146 as a replacement for the Fokker. Tan Sri Chong added that Taylor Woodrow was interested in the construction of a second runway at Subang airport.

Higher Education

Turning to higher education, Dr. Mahathir noted that Malaysia had sent students to the United Kingdom for many years. But following the increase in overseas student fees, many had gone to the United States instead. There were now 18,000 Malaysian students in the United States, compared to 2,000 in 1980 and only 10,000 (sic) in the United Kingdom. But with the decline in the value of sterling and the rise of the US dollar, it would be cheaper to have Malaysian students back in the United Kingdom.

Dr. Mahathir referred to the recently announced Malaysian government proposal to have split degrees with overseas institutions including British universities whereby Malaysian students would spend two years at a course at a Malaysian university and the final year or two at universities overseas. He was very keen on this. He hoped it would receive the British government's blessing. It would mean that British lecturers would come to Malaysia to teach courses, the medium for which would be English.

The Prime Minister said that she was aware of a proposal involving Scottish universities. She was enthusiastic about the concept and would keep an eye on its progress. She could

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also tell Dr. Mahathir that the British government would extend the £5 million special provision for Malaysia to cover the year 1986/87. An additional £1.75 million would be made available for that year, which would provide help for 700 Malaysian students. Dr. Mahathir thanked the Prime Minister for this.

European Community

Tengku Razaleigh said that there were very few problems concerning bilateral trade between the two countries. There had been a persistent deficit to Malaysia's detriment but this had declined recently and indeed Malaysia's visible trade balance with the United Kingdom had been in surplus in 1984.

Malaysia was, however, experiencing problems with the European Community. Although Malaysia benefitted from the GSP, he hoped that the European Community could improve tariff preferences and ceilings and quotas for manufactured and semi-manufactured products produced by Malaysia such as plywood and other timber based products. The proposed consumption tax on processed palm oil was a matter of concern to Malaysia. He noted that the ^{present} Multi-Fibre Arrangement (MFA) would terminate in July 1986. He believed that consumer lobbies in the US and European Community as well as large producers such as Hong Kong, Taiwan and Korea wanted to end the MFA/ ^{altogether} Malaysia, as a small producer, would prefer to see the MFA extended.

Tengku Razaleigh emphasised that British investment was welcome in Malaysia. Although the United Kingdom was still a large investor, the level of investment had slipped. In particular, he would like to see more British investment in export-oriented industries, especially those where the United Kingdom had technical expertise. Rubber manufacturing was an excellent example. The British had excelled in this and it was a resource-based industry of particular interest to Malaysia. Ceramics and machine tools, especially precision tools, were other examples.

/The Prime Minister

The Prime Minister stressed that the United Kingdom was in favour of trade liberalisation by the EC. Opposition to further liberalisation of plywood imports came from France and Italy. The proposal for a consumption tax on fats and oils had been opposed robustly by the United Kingdom, Germany and the Netherlands and was not currently an issue. The Community's GSP scheme would be reviewed this year.

Dr. Mahathir raised the question of lead content in canned food. Malaysian exports could be affected if unrealistic European Community standards were introduced. The Prime Minister said that she was already aware of the problem because of its possible repercussions for the tin plating industry in South Wales.

Tengku Razaleigh asked about the United Kingdom's attitude to a new round of multilateral trade talks in the GATT. The Prime Minister said the United Kingdom, like the United States, supported a new round, which would have to deal with trade in agriculture and with services, as well as the responsibilities of the Newly Industrialised countries (NICs). A further step towards a new round would probably be taken at the Bonn Economic Summit. There had been little discussion as yet about a new MFA.

International Issues

Cambodia:

Dr. Mahathir said that as a result of recent Vietnamese incursions into Thailand, the Thais were in a belligerent mood. He was worried that further Vietnamese encroachments might lead them to cross into Kampuchea. This danger underlined the urgency of ensuring that Vietnam understood that it could not resort to military action of this sort with impunity. Although the recent Vietnamese offensive had destroyed resistance bases, it had not destroyed the resistance. The CGDK was still effective. Malaysia, like Britain, did not care for Pol Pot and his supporters but none the less still regarded them as part of /the

the legitimate government. Malaysia hoped that, if the Vietnamese withdrew, elections would be held in which the Cambodians would return Sihanouk and Son Sann, but not Pol Pot.

Mr. Mahathir continued that he was concerned lest Vietnamese success against the resistance camps might undermine support for the CGDK at this year's UNGA. If this happened, it would be a victory for the Vietnamese. Turning to the Soviet role, he hoped the Mr. Gorbachev might take a slightly different view from his predecessor, although he did not expect the Russians to leave their bases in Indo-China. The Vietnamese for their part continued to produce lists of five or six points which they claimed could form the basis for agreement but which were actually devices for maintaining Vietnam's position. Dr. Mahathir expressed appreciation of the British Government's stand on the Cambodian question. He hoped HMG would continue to support the CGDK despite its dislike for Pol Pot.

The Prime Minister suggested that it would be unrealistic to expect much change in the Soviet line under Mr. Gorbachev. Indeed, she feared that he might well increase Soviet activity in both Afghanistan and Vietnam. It was most important that Soviet designs should not succeed. The strong international reaction to the Soviet invasion of Afghanistan had probably prevented a Soviet invasion of Poland.

Brunei:

Dr. Mahathir said that he was worried about the situation in Brunei. Nothing at all was being done to satisfy even modest democratic aspirations. The Sultan did not seem to care about his people. He spent extravagantly abroad. His younger brother, however, appeared to be more sensible. Although Malaysia had close relations with the Brunei Government, it would not be possible for the Malaysian Armed Forces to fight against Brunei Malays in the event of an uprising against the Sultan.

/The Prime Minister

The Prime Minister said that she was aware of the problem which was one reason why she had decided to pay a brief visit to Brunei. The question was how to move the Sultan tactfully and effectively in the right direction. Dr Mahathir commented that the Malay Sultans had close contacts with the Sultan of Brunei. If there was trouble in Brunei, they would put pressure on the Malaysian Government to come to his aid. But he wanted to stress that this would not be possible. The Prime Minister commented that it would be better to encourage the Brunei Royal Family to take the steps necessary to prevent trouble before it happened.

Antarctica

Dr Mahathir outlined his approach on Antarctica on familiar lines, stressing that he was explaining Malaysia's position without expecting the Prime Minister to support it. The Prime Minister said that the British government believed the Antarctica Treaty worked well. In her view exploitation of Antarctica's minerals was a long way off.

China

Dr Mahathir said that the Malaysian government was in process of reviewing policy towards China. They had not yet reached final conclusions. But they believed the changes in China were real and meant that China was no longer really Communist. The Malaysian government would probably relax restrictions on Malaysians visiting China and he himself hoped to go there in November. In the past, Malaysia's policy had needed to take account of the fact that some people of Chinese origin in Malaysia were attracted to Chinese communism. However Malaysia had established diplomatic relations with China many years ago and China had stopped giving support to Communist insurgents in Malaysia. Broadcasts from China had now ceased. There were Communist broadcasts but these came from Southern Thailand.

Dr. Mahathir continued that his main concern was what would happen after Deng Ziaoping. The Chinese had followed one leader, Mao, almost to destruction. If China had a militaristic leader after Deng this would be very dangerous.

The Prime Minister explained the background to the Hong Kong Agreement. In her view, it would be implemented as agreed. She acknowledged that Dr. Mahathir's scenario was a possible one, though she thought it on balance unlikely. The Prime Minister continued that she had been impressed by Zhao Ziyang. It was important to try to influence the Chinese through encouraging their contacts with the outside world.

7 April 1985

The two Prime Ministers have discussed the matter of a further flight for Malaysia Airline System between Kuala Lumpur and London and agreed in principle that there should be a Fifth Frequency. A similar right would be granted to British Airways if requested.

Details of the Fifth Frequency will be discussed between the two sides. It is expected that it will be between one and two years before the additional service is operational.

It was noted that the Board of Airlines representatives had made representations to the Government of Malaysia about concessions for tax relief on air travel by Malaysia Airline System and that this matter, which calls for a formal reply, is being considered by the Malaysian Government.

5 April 1985

Since Dr Mahathir had committed himself to the last paragraph of this text, the Prime Minister's assessment was that it would not be practicable to get a ^{bilateral} assurance on lifting of the discriminatory tax measure, but that the strong probability was that he would infact lift it at some time in the reasonably near future. The position of BA is fully protected in the event that the expansion of traffic justifies their introducing an extra service. We also of course have a longish period before the Fifth Frequency becomes operational to see whether the Malaysians do indeed take action on the tax.

FCO please pass advance to
PS Department of Transport.

CDD
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	AND TO (precedence/post)	
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INFO	INFO (precedence/post)	<u>als 580</u>
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OF TRANSPORT

PRIME MINISTER'S VISIT TO MALAYSIA: CIVIL AVIATION

This was discussed at the beginning of the official talks between the Prime Minister and Dr Mahathir alone.

Dr Mahathir stressed that the issues of the Fifth Frequency and the tax measures favouring travel by MAS had to be dealt with quite separately. There was a strong case for the Fifth Frequency which was recognised by the airlines and its introduction

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not be made dependent upon any extraneous fact. He claimed that capacity between Kuala Lumpur and London was already full, and that traffic was in consequence being diverted through Singapore. He also claimed that agreement had virtually been reached between the airlines for the Fifth service to start as early as April, 1986.

The tax discrimination issue was a multilateral one and was being handled quite properly in discussions between the Malaysian Government and the Board of Airline Representatives, representing a large number of carriers. The representations made by this body were being considered by the Malaysian Government and a formal reply would be given, but in the proper multilateral context not in a bilateral meeting. He could give no guarantee what the outcome would be, though he left the Prime Minister in little doubt that the discriminatory measures would be removed (though it is essential that we should not say this publicly). In reply to the Prime Minister's question when a decision could be expected, Dr Mahathir said that it must be no later than October (i.e. at the time of the Budget) but might be earlier.

In the light of this exchange, the Prime Minister and Dr Mahathir agreed the following text, which was subsequently made public: (A-B attached)

NOTHING TO BE WRITTEN IN THIS MARGIN

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cc: Sir P.C.

10 DOWNING STREET

From the Private Secretary

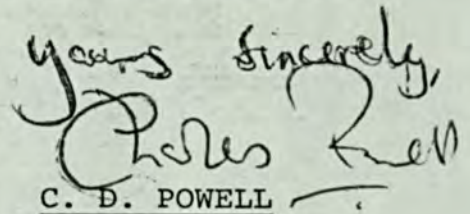
10 April, 1985

Dear Len,

Prime Minister's Meeting with Dr. Mahathir

I enclose a copy of the record of the Prime Minister's meeting with Dr. Mahathir during her visit to Malaysia.

I am copying this letter and enclosure to John Mogg (Department of Trade and Industry) and Richard Allan (Department of Transport).

yours sincerely,

C. D. POWELL

Len Appleyard, Esq.,
Foreign and Commonwealth Office

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