

MEETING-RECORD

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10 DOWNING STREET

LONDON SW1A 2AA

27 September, 1988.

*From the Private Secretary*

*Dear Lynn,*

**PRIME MINISTER'S MEETING WITH THE PRIME MINISTER OF MALAYSIA**

The Prime Minister met Dr. Mahathir this morning to sign a Memorandum of Understanding establishing a framework for the future sale of British defence equipment to Malaysia. Following the signing ceremony, the Prime Minister made a few brief remarks. I enclose a copy of her text. She did not use it absolutely verbatim, but made all the points in it. It may go some way to meet the Malaysians' wish that the Prime Minister should repeat the points about civil aid in her letter of 8 August to Dr. Mahathir.

The Prime Minister subsequently had a session of talks with Dr. Mahathir which continued over lunch. Dr. Mahathir was accompanied by the Malaysian Attorney General, the Chief Secretary to the Government and the Malaysian High Commissioner. Mr. David Gillmore was also present.

Defence Sales

The Prime Minister said that the Malaysians would no doubt let us know how they wished to proceed with the purchase of the items of defence equipment on the list attached to the Memorandum of Understanding. We would be ready to set up a project team to help them establish priorities, if that was their wish. Dr. Mahathir confirmed that the Malaysian Government would indeed like this. He made no mention of appointing a prime contractor.

Civil Aid

The Prime Minister continued that we looked forward to discussing with the Malaysians their priorities when it came to civil projects. Dr. Mahathir said that there were several major projects pending. One of the most important was the Hill Road project, intended to open up the Malaysian Highlands for farming and industry as well as tourism (and the construction of an International Islamic University). While it was a difficult project, and would need to be very



carefully engineered to avoid a repetition of the problems experienced with the East-West Highway, the Malaysian Government attached great importance to it. The Prime Minister said that the United Kingdom would be happy to contribute to a feasibility study.

Dr. Mahathir added that the Malaysian Government also gave a very high priority to the proposed Sail Training Ship. They hoped this could be completed in time for The Queen to inaugurate it during CHOGM in October, 1989. Their advice from the shipyard was that if an order was placed now, the ship could be completed in time (in fact, I believe the shipyard say it cannot be done before early 1990). The Prime Minister said that we would give very rapid consideration to how we might contribute to this project. The Malaysian High Commissioner should keep us informed about his discussions with the shipyard.

#### Malaysian Economy

Dr. Mahathir said the Malaysian economy was doing very well, with growth over the first six months of 1988 running at an annual rate of 9 per cent. A gratifying share of this was coming from manufactured goods. He made particular reference to the Malaysian-manufactured car, which he hoped would be available in Europe shortly.

#### Air Services

Dr. Mahathir said that expansion of the tourist industry had a high priority for Malaysia. In this context, the failure of the negotiations between British Airways and MAS to reach agreement on additional frequencies for MAS was very disappointing. British Airways had put forward conditions which were unacceptable: indeed, they had even challenged MAS's existing rights, arguing for instance that if a non-stop B747 flight was introduced, the number of passengers must be restricted. The fact was that British Airways chose not to utilise their rights fully, because they preferred to concentrate on Singapore, but were unfairly refusing to allow MAS to expand. Malaysia's real problem was that it was caught between Singapore and Bangkok. British Airways chose to direct their flights to Singapore. As a consequence, it was Singapore Airlines which obtained additional rights even though many of their passengers were Malaysian.

The Prime Minister said that the Government could not tell British Airways what to do. She had understood that British Airways felt there was not full reciprocity in their agreement with MAS. But she would have enquiries made of the airline to establish exactly what their position was, and why the obstacles mentioned by Dr. Mahathir had so far proved insurmountable.

#### Tropical Timber

Dr. Mahathir referred to international criticism of Malaysia's logging industry. Malaysia had to extract some

defected in Parliament. But this did not worry him: he had a very substantial majority. His subsequent comments indicated a continuing dissatisfaction with the conduct of the Malaysian judiciary and its lack of efficiency. He acknowledged that the possibility of restoring appeals to the Privy Council in some cases remained in his mind. But he evidently did not wish to pursue it.

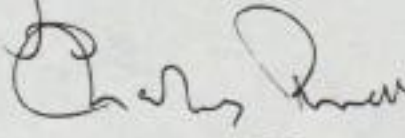
Follow-up

The Prime Minister wishes us to follow up expeditiously the points on air services and the Sail Training Ship.

On air services, she would be grateful if the Transport Secretary would write straightaway to Lord King to ask for British Airways' assessment of the problems in their negotiations with MAS and how they might be resolved, making clear that the Government would favour an early settlement of the problem.

On the Sail Training Ship, the Prime Minister thinks that we must be prepared to help, although we should seek substantial financial contributions from the main British companies likely to benefit from the defence package. I should be grateful if this could be pursued urgently by the Foreign and Commonwealth Office, Ministry of Defence and Department of Trade and Industry.

I am sending copies of this letter to Brian Hawtin (Ministry of Defence), Neil Thornton (Department of Trade and Industry), Carys Evans (Chief Secretary's Office, HM Treasury), Roy Griffins (Department of Transport) and Trevor Woolley (Cabinet Office).

Yours sincerely,  
  
C.D. Powell

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Foreign and Commonwealth Office