



Foreign and Commonwealth Office

London SW1A 2AH

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14 March 1989

Dear Charles

Visit of Prime Minister of Malaysia

The Prime Minister will call on Dr Mahathir Mohammed, the Prime Minister of Malaysia, at the Malaysian High Commission at 9 am on Wednesday 15 March. I enclose a biographical note on Dr Mahathir.

Dr Mahathir is still convalescing after quintuple bypass surgery following a heart attack suffered on 18 January. The Prime Minister might like to wish him a speedy recovery and a restful holiday in Spain (where he will be travelling on 16 March). In the initial courtesies she might also like to add a word of congratulation on the success of the recent Preparatory Conference on Vietnamese Boat People, which was well chaired by Malaysia.

You will be aware that despite his ill-health and the private nature of his visit, Dr Mahathir specifically let it be known that he would welcome this meeting with the Prime Minister, and that the air services dispute would be his principal concern. In welcoming last week's solution to this dispute, the Prime Minister will wish to express the hope that the Malaysian Government will now begin to award defence sales contracts to Britain in accordance with the MOU signed by herself and Dr Mahathir last September (see para below). She will wish to note how much relations with Malaysia have improved in the past few years and reaffirm Britain's commitment to furthering this improvement.

Air Services Dispute

The Prime Minister will recall that the Malaysian Government put all its weight behind MAS, the national airline, in its request for sixth and seventh weekly frequency from Kuala Lumpur to London. Agreement was

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reached between government negotiators and the airlines at midnight on Friday 10 March, on a sixth frequency for MAS to London, and on the conditions for triggering a seventh (and any subsequent) frequencies. These conditions will be based either on rights for BA to points beyond Kuala Lumpur, or on a royalty payment by MAS to BA (the airlines are working on a figure of two million pounds sterling for the seventh frequency). The agreement is a balanced one and provides opportunities for both airlines.

Defence Sales Package

The Malaysians linked the granting of MAS's request to the award of defence sales contracts to British companies, expected under the terms of the Memorandum of Understanding signed by the Prime Minister and Dr Mahathir when they last met on 27 September 1988. The Malaysian Government indicated that it would not sign a single contract until the flight frequency problem was resolved. However, some useful preparatory work with the Malaysian Armed Forces (themselves frustrated by the delay) has been going on.

Under GATT Britain could not accept such linkage. Nonetheless the Prime Minister could say that with the air services problem now solved, she hopes the way is clear for the expected contracts to be awarded to British firms. It is for the Malaysians to decide priorities, but MOD expect that the first contracts will be for Tornado aircraft, Martello radars, 105 mm guns and for C31 command and control communications equipment.

Bilateral Trade continues to rise although in 1988 there was a visible trade balance of £214m in the Malaysians' favour. The invisible trade balance however remains greatly in our favour and is estimated by the Malaysians at some £400m per annum.

The Prime Minister could take this opportunity to further our interest in three contracts all of which are at a critical stage. The Prime Minister will recall writing to Dr Mahathir on 23 December, pressing STC's case to be awarded the East-West Malaysia Submarine Telecommunications contract. We believe the letter and Dr Mahathir's intervention prevented award of the

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contract to NEC, their Japanese rivals. There has since been a rebid, but we understand STC are well placed against NEC. The Prime Minister could thank Dr Mahathir for his personal interest in this contract and again emphasise:

- (a) the importance she places on this £41 million contract;
- (b) STC's technical excellence;
- (c) our excellent (revised and improved) ATP supported finance offer.

The Prime Minister might refer to our offer of ATP support for Laing's proposal for 11 district hospitals based on the nucleus design. Dr Mahathir will recall visiting such a hospital at Maidstone in mid-1987. Laings have a Letter of Intent from the Minister of Health which we hope will soon be translated into a contract (total size about £100 million, with UK content £40 million and £14 million ATP grant).

The Prime Minister might mention our close interest in the important Pergau hydroelectric scheme (about £200 million UK content) and the track record and expertise of the UK consortium (Balfour Beatty, GEC, Cementation). She could add that we are giving urgent consideration to an aid package under the Aid and Trade Provision in Line with the Malaysian timetable of placing contracts by June.

The Queen and Duke of Edinburgh are to pay a State Visit to Malaysia just before CHOGM. A new Agong has just been elected to serve from 26 April. The Prime Minister could say that the Queen will shortly be replying to the current Agong's invitation. The new Agong (the Sultan of Perak) is a well respected UK trained lawyer and former Lord President of the Malaysian Federal Court. But he is alleged to have had differences with Dr Mahathir in the past. The Prime Minister may wish to say merely that we hope the State visit will cement the new and excellent relations between the UK and Malaysia.

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CHOGM

Malaysia will host the next CHOGM which starts on 18 October this year. The Prime Minister could say that she is very pleased that Malaysia has thus so publicly reaffirmed her commitment to the Commonwealth. She could remind Dr Mahathir of the need to avoid sanctions against South Africa again dominating the agenda. The Commonwealth must not rock the boat just as South Africa is disengaging from Namibia (the Namibian elections are scheduled for 1 November). More attention should be paid to new non-political agenda items. We understand Malaysia has in mind an initiative on the environment, perhaps focusing on the study of Climatic Change and Sea Level Rise.

The Prime Minister could look forward to welcoming Pakistan back into the Commonwealth at CHOGM (Dr Mahathir is clearly taking a personal interest in ensuring early agreement of Commonwealth members).

Human Rights

There is some concern in this country about detentions without trial and restriction orders in Malaysia. Of the 119 people detained in 1987 only two remain in detention - opposition leader Lim Kit Siang and his son. Concern here focuses on Christian campaigners who, since their release from detention, have been subject to severe restriction orders. The wife and 8-year old daughter of one are in Britain and have applied for asylum (this should not be revealed to the Malaysians). Supporters of those affected have plans to embarrass Mahathir's Government in the run-up to CHOGM and the State Visit. Domestic measures against Christians in particular will arouse strong emotions in this country and some other members of the Commonwealth. The Prime Minister may not judge it appropriate to raise these matters in a call of this sort.

Satanic Verses

As an Islamic country Malaysia has banned the book. Apart from a small, peaceful demonstration outside the British High Commission (which the Malaysians handled correctly) this has not been an issue between us.

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I am copying this letter to Brian Hawtin (MOD),
Neil Thornton (DTI) and Roy Griffins (DTp).

Yours ever

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