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TO PRIORITY FCO

TELEGRAM NUMBER 238 OF 17 APRIL

INFO ROUTINE OTTAWA, PARIS, ROME, BONN, UKREP BRUSSELS, WASHINGTON

YOUR TELNO 159 TO BONN: BONN SUMMIT

1. JAPANESE PREOCCUPATIONS AT THE BONN SUMMIT WILL BE CLOSELY RELATED TO THOSE EVIDENT AT THE RECENT OECD MINISTERIAL MEETING. BUT THEY PROBABLY BELIEVE THAT THE RISK OF THEIR BEING SINGLED OUT FOR CRITICISM AT BONN WILL BE EVEN GREATER. MR NAKASONE'S DOMESTIC POLITICAL CREDIBILITY WILL ALSO BE AT STAKE.

2. THE JAPANESE HAVE THREE MAIN PREOCCUPATIONS. FIRST, THEY ARE ANXIOUS THAT THE CURRENT TENDENCY FOR "THE JAPAN PROBLEM" TO BE TREATED AS A MULTILATERAL ISSUE MIGHT LEAD TO THEIR BEING ISOLATED AMONG THE INDUSTRIALISED COUNTRIES. SECONDLY, THEY HAVE ENDEAVOURED THROUGH THE PACKAGE OF EXTERNAL ECONOMIC MEASURES ANNOUNCED ON 9 APRIL TO DIVERT CRITICISM BOTH FROM THE UNITED STATES AND FROM THEIR OTHER TRADING PARTNERS, IN ORDER TO RETAIN FULL CONTROL OF THEIR OWN POLICIES AND TO AVOID EXCESSIVE PRESSURE FOR CHANGES OF DIRECTION. THIRDLY, IN PARTICULAR, THEY HAVE SOUGHT TO AVOID ANY COMMITMENTS TO EXPAND INTERNAL DEMAND SUCH AS MIGHT IMPOSE CONSTRAINTS ON THE GOVERNMENT'S LONG TERM POLICY OF REDUCING THE BUDGET DEFICIT.

3. PRIME MINISTER NAKASONE'S OWN PRESENTATION OF THE 9 APRIL PACKAGE INVOLVED AN UNUSUAL DEGREE OF PERSONAL COMMITMENT TO JAPAN'S FUTURE TRADE POLICY WHICH, IF OVERTLY REJECTED BY OTHER INDUSTRIALISED COUNTRIES, COULD DAMAGE HIS STANDING DOMESTICALLY. ABOVE ALL OTHER CONSIDERATIONS, THEREFORE, THE JAPANESE WILL BE HOPING AT THE BONN SUMMIT FOR SOME ALLEVIATION OF CRITICISM FOLLOWING THE ANNOUNCEMENT OF THE PROPOSED ACTION PROGRAMME. PRIME MINISTER NAKASONE'S DOMESTIC CHALLENGERS WOULD BE QUICK TO SEIZE ON ANY EVIDENCE OF WEAKNESS ON HIS PART IN THE FACE OF FOREIGN CRITICISM. THE GENERALLY WELCOMING ACCEPTANCE BY THE UNITED STATES ADMINISTRATION OF THE STEPS WHICH HE ANNOUNCED LAST WEEK WILL GIVE HIM SOME REASSURANCE.

4. HE MAY BE ASSISTED BY THE MUTUAL COMMITMENT OF THE US AND JAPAN TO A DATE FOR THE LAUNCHING OF A NEW ROUND. THE REACTION OF OFFICIALS HERE TO THE DRAFTING FORMULATION WHICH RESOLVED THE DISAGREEMENT AT THE OECD MINISTERIAL IS THAT THE TIMING QUESTION WILL REQUIRE FURTHER CONSIDERATION AT BONN. NAKASONE IS ALREADY STRONGLY COMMITTED TO A SPECIFIC LAUNCH DATE, BOTH IN ORDER TO DEMONSTRATE TO US OPINION JAPAN'S WILLINGNESS TO SUPPORT THE NEW ROUND AND ALSO BECAUSE OF JAPAN'S WISH TO PROJECT ITSELF AS ONE OF THE PRINCIPAL PROTAGONISTS OF FREE TRADE AT A TIME OF THREATENING PROTECTIONISM. IF THE SUMMIT WERE TO CONCLUDE WITHOUT ANY FURTHER PROGRESS ON TIMING, THIS WOULD BE UNFORTUNATE FOR PRIME MINISTER

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/ NAKASONE.

NAKASONE. BUT PROVIDED HE WERE ABLE TO SHOW THAT JAPAN WAS ALIGNED WITH THE USA ON THIS AND THAT THE BLAME COULD BE LAID AT OTHERS' DOORS (EG THE EC), HE WOULD NOT FIND IT TOO DIFFICULT IN DOMESTIC POLITICAL TERMS.

5. ON MACRO-ECONOMIC POLICY, THE JAPANESE ARE LIKELY TO LIE LOW. THEY WILL SUPPORT THE LINE THAT SUMMIT COUNTRIES SHOULD PURSUE THEIR OWN BROAD MACRO-ECONOMIC OBJECTIVES. THEY THINK THAT FOR THE UNITED STATES, THIS WILL MEAN TRYING TO TACKLE THEIR DEFICIT: FOR EUROPE, DEALING WITH THE SOCIO-ECONOMIC RIGIDITIES WHICH THEY BELIEVE TO LIE BEHIND HIGH UNEMPLOYMENT: AND FOR JAPAN ACHIEVING SOME DEGREE OF BALANCE BETWEEN THE PROMOTION OF EXTERNAL AND DOMESTIC DEMAND. (THERE IS, HOWEVER, INCREASING PRESSURE WITHIN THE PARTY HERE ORCHESTRATED BY NAKASONE'S OPPONENTS, FOR THE GOVERNMENT TO DO MORE ON DOMESTIC DEMAND.)

6. THE MFA, TO WHOM WE HAVE SPOKEN ABOUT THE FORTHCOMING SUMMIT, DO NOT ENVISAGE ANY REAL DIFFICULTIES WITH EITHER THE MOF OR MITI OVER THE CONTENTS OF THE SUMMIT MACRO-ECONOMIC DISCUSSION UNLESS THERE IS ANY QUESTION OF A TRADE-OFF BETWEEN THE FRENCH DESIRE TO SEE PROGRESS OVER THE FUNCTIONING OF THE INTERNATIONAL MONETARY SYSTEM AND THE FIXING OF THE DATE OF THE NEW ROUND.

7. THE QUESTION OF JAPANESE REPRESENTATION AT THE SUMMIT HAS AGAIN ARISEN HERE. THE MITI MINISTER, MURATA, WILL GO WITH THE PRIME MINISTER, FINANCE AND FOREIGN MINISTERS. THE JAPANESE THINK THAT THE WISH OF THE GERMANS TO HAVE FOUR, AS OPPOSED TO THREE, MINISTERS PRESENT AT THE SUMMIT WILL HELP THEM. BUT SINCE ONLY THREE REPRESENTATIVES WILL BE ABLE TO BE PRESENT AT THE TABLE AT ANY TIME, CHOICES WILL HAVE TO BE MADE BETWEEN MURATA AND THE MINISTERS OF FOREIGN AFFAIRS AND FINANCE. FOR THE TIME BEING, NEITHER OF THE LATTER ARE PREPARED TO GIVE UP THEIR PLACES TO BENEFIT MURATA.

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