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FM TOKYO 240712Z APR 85

TO PRIORITY FCO

TELEGRAM NUMBER 257 OF 24 APRIL

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

YOUR TELNO 250 (NOT REPEATED): BONN ECONOMIC SUMMIT

1. MR NAKASONE HELD HIS LUNCHEON ON 24 APRIL FOR THE AMBASSADORS OF OTHER SUMMIT COUNTRIES, AND THE HEAD OF THE EC DELEGATION. THE GENERAL IMPRESSION I RECEIVED WAS THAT HE WAS SOMEWHAT APPREHENSIVE THAT JAPAN MIGHT BE MORE OPEN TO CRITICISM THAN HER PARTNERS. BUT HE IS PREPARED TO GIVE A ROBUST DEFENCE OF HIS POLICIES. *ms*

2. IN HIS INTRODUCTORY REMARKS, MR NAKASONE SAID THAT HE SUPPOSED HE HAD MORE HEADACHES THAN ANY OF HIS PARTNERS, AND HE SUPPOSED THAT THE BEST REMEDY FOR THEM WAS BAYER'S ASPIRIN. HE LAID GREAT STRESS ON THE FAR-REACHING NATURE OF THE MARKET-OPENING MEASURES WHICH HE HAD PUT FORWARD ON 9 APRIL, WHICH WOULD BE EFFECTIVE IN LARGE AREAS OF TRADE. HE ALSO EMPHASIZED THE NECESSITY FOR FURTHER PROGRESS TOWARDS THE NEW GATT ROUND. HE LOOKED FORWARD TO THE REAFFIRMATION, IN THE FORTIETH YEAR AFTER THE END OF THE WORLD WAR OF DEMOCRATIC VALUES.

3. IN RESPONSE TO INTERVENTIONS HE CONTINUED TO STRESS THESE THEMES. WHEN ASKED FOR TAX EXEMPTION ON INVESTMENTS IN JAPAN, TO ACCOMPANY THE MARKET-OPENING MEASURES, HE SAID THAT THE JAPANESE GOVERNMENT WOULD BE RE-EXAMINING THEIR TAX SYSTEM AND THE IMPLICATIONS OF THEIR HIGH RATE OF SAVINGS, BUT IN GENERAL HE BELIEVED THAT THE ATTRACTIONS OF THE MARKET WOULD GOVERN THE RATE OF FOREIGN INVESTMENTS IN JAPAN REGARDLESS OF MARGINAL ADJUSTMENTS IN TAXATION. HE COMMENDED SCHULZ'S RECENT PRINCETON SPEECH, BUT EXPRESSED DISQUIET ABOUT THE ATTITUDE OF THE US CONGRESS AND FEARS LEST THEY MIGHT INITIATE PROTECTIONIST MEASURES. HE APPLAUDED THE US ADMINISTRATIONS'S SUPPORT FOR THE NEW GATT ROUND. HE SAID HE BELIEVED THE MARKET-OPENING MEASURES TO BE TAKEN BY JAPAN WERE OF HISTORIC IMPORTANCE FOR THE PRESERVATION OF THE OPEN TRADING SYSTEM. HIS AIM WAS TO REVOLUTIONISE ATTITUDES IN JAPAN TOWARDS THE IMPORT OF MANUFACTURED PRODUCTS. HE WAS WIDELY ACCUSED BY THE OPPOSITION OF ACTING AS THOUGH HE REPRESENTED FOREIGN INTERESTS. THE OPPOSITION DID NOT UNDERSTAND CORRECTLY THE 'GRAVE DIFFICULTY' OF JAPAN'S POSITION. HIS AIM WAS TO ENSURE THAT REGULATION WAS MINIMISED, AND THE USERS' CHOICE MAXIMISED IN THE JAPANESE MARKET. HE WENT INTO SOME DETAIL IN THIS RESPECT ON TELECOMMUNICATIONS EQUIPMENT. HE QUOTED A BELGIAN NEWSPAPER AS HAVING EXPRESSED SCEPTICISM ABOUT THE INTENTIONS OF HIS GOVERNMENT TO TAKE MEASURES WHICH WERE EFFECTIVE AND NOT MERELY COSMETIC. HE HAD NO DOUBT ABOUT HIS OWN INTENTIONS. *ms*

5. WHEN I SPOKE ON THE LINES GIVEN IN YOUR TUR, FOR WHICH I WAS MOST GRATEFUL, MR NAKASONE COMMENTED THAT HE WAS ENTIRELY IN AGREEMENT.

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/s. THORPE

6. THERE WAS SOME FURTHER DISCUSSION OF ECONOMIC POLICY, IN WHICH MR NAKASONE AND THE FINANCE MINISTER, TAKESHITA , BOTH INTERVENED, STRESSING THEIR ACCEPTANCE OF THE NEED FOR FLEXIBLE POLICIES AND THEIR RECOGNITION OF THE INFLUENCE WHICH BOTH INTEREST RATES AND EXCHANGE RATES WOULD HAVE ON TRADE SURPLUSES. TAKESHITA SAID THAT THE CURRENT MOVEMENT OF EXCHANGE RATES WAS IN THE RIGHT DIRECTION. HE COULD STILL FORESEE SOUND AND HEALTHY GROWTH FOR THE JAPANESE ECONOMY. MR NAKASONE REMARKED THAT THEY TOO HAD TO BE CONCERNED WITH THEIR BUDGET DEFICIT.

7. THE UNITED STATES AMBASSADOR, MANSFIELD, REFRAINED FROM INTERVENING UNTIL THE CLOSE OF THE DISCUSSION, WHEN HE COMMENDED MR NAKASONE'S QUOTE ACCURATE AND DETAILED OBSERVATIONS UNQUOTE, HE SAID THAT HE LOOK FOR SOME FURTHER LOWERING OF TARIFFS BY THE JAPANESE GOVERNMENT. WHICH WOULD NOT ONLY AFFECT PROSPECTS FOR THE IMPORT OF INDUSTRIAL GOODS BUT WOULD ALSO LEAD TO IMPROVEMENTS IN THE AGRICULTURAL SECTOR. HE REPEATED THE HOPE WHICH HE HAD EXPRESSED LAST YEAR THAT JAPAN WOULD SPEAK IN FAVOUR OF THE INCLUSION OF AUSTRALIA IN FUTURE ECONOMIC SUMMITS. (YANAGIYA, VICE-MINISTER IN THE MFA AND FORMER JAPANESE AMBASSADOR IN CANBERRA, TOLD ME THAT HE BELIEVED THIS ISSUE WOULD NOT GO AWAY. THE AUSTRALIANS HAD BEEN DISAPPOINTED THAT THEY HAD NOT RECEIVED STRONGER SUPPORT, ESPECIALLY FROM US. THOUGH HE ACKNOWLEDGED THE DIFFICULTIES ABOUT DRAWING THE LINE, HE BELIEVED THAT THE LEVEL OF DEVELOPMENT IN THE AUSTRALIAN ECONOMY WOULD JUSTIFY THEIR INCLUSION WITHOUT OPENING QUESTIONS ABOUT OTHER COUNTRIES.)

8. THE GENERAL IMPRESSION WAS THAT MR NAKASONE'S PRINCIPAL OBJECTIVE IS TO AVOID BEING SINGLED OUT FOR CRITICISM AT BONN. HIS RESPONSE TO CALLS FOR THE EFFECTIVE IMPLEMENTATION OF HIS EXISTING POLICIES WILL DEPEND ON THE EXTENT TO WHICH THEY ARE BALANCED BY REFERENCES TO THE RESPONSIBILITIES OF OTHER PARTNERS.

9. MIFT OFFERS AN ASSESSMENT OF HIS CURRENT POSITION IN DOMESTIC JAPANESE POLITICS.

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