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Foreign and Commonwealth Office

London SW1A 2AH

5 June 1987

CDP/5/6

Dear Charles

Venice Summit: Japan

In whatever contacts she has with Nakasone at Venice the Prime Minister may wish to raise trade issues. I therefore attach two compact and self-contained briefs, the substance of which has been agreed with DTI although they have been drafted in the FCO. The first refers to Cable & Wireless, seeking to make our main point clearly but without appearing to threaten Nakasone. The second refers to specific British firms, which can be used to illustrate our general point about the need to open up the Japanese market. The PM should note that the Managing Director of the company selling Condor in Japan is a son-in-law of Y K Pao, who has particularly asked that the PM should mention the system.

I am copying this letter to Timothy Walker (DTI).

James Curran

R N Culshaw

(R N Culshaw)
Private Secretary

C D Powell Esq
PS/10 Downing Street

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CJP
5/6.From: R Q Braithwaite
Date: 5 June 1987

PS

cc: PS/PUS
Mr Gillmore
Mr McLaren
Mr Maud
Mr Richardson
Mr Shepherd
Cabinet Secretary
Mr Hugh Evans, Treasury
Mr Broadbent, Economic Adviser

VENICE SUMMIT: JAPANESE VIEWS

1. I was telephoned from Tokyo this morning by Watanabe, Director-General for Economic Affairs in the Foreign Ministry who will be at Venice with Nakasone. You may remember my account of a long breakfast session I had with him last week.

2. Watanabe had gone on from London to Washington, where he had found American officials more nervous than hitherto about the prospect that US tax increases could become the subject of discussion at Venice. Danzansky (White House Sub-Sherpa) said that an intensive effort was currently being made within the US Administration on the question of budget reform. But it was very delicate, and for foreign leaders to raise the issue too strongly in Venice could be counter-productive. McMinn (Assistant Secretary, State Department) had said that the recent measures taken by the Japanese Government had been appreciated in Washington, and that the atmospherics for Japan at Venice would be satisfactory. He was not however optimistic about the prospect for discussion of macro-economic issues. The President remained entirely committed against tax increases. Treasury officials (unnamed) had told Watanabe that Baker considered that foreign governments had taken insufficient account of the steps which the US Administration had taken, and would take to reduce the deficit. The deficit would be cut by \$35 billion in 1987, and there was a firm target for fiscal year 1988 for a further \$40 billion cut. Watanabe had been advised that it would be best not to cross examine the Americans in Venice about how these cuts would be achieved, whether by increased revenue or increased expenditure.

3. Watanabe had discussed all this with Nakasone. Nakasone still wished to raise the issue of the US budget deficit with the President both at their bilateral meeting and at dinner. He would argue that he himself had had to make difficult choices in pushing through his latest package of expansionary measures, since this had run counter to the previous firm policy of his government of further reducing the Japanese budget deficit. The Venice Summit might be the last opportunity he had to meet the President in his present capacity, and he would appeal to the President to make what he perfectly realised was an equally difficult choice. Nakasone was now considering the tone of his approach to the President in more detail.


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4. I thanked Watanabe for all this information. I said that I was not entirely surprised at the change of tone among American officials since the President had twice recently gone on record as opposing tax increases. Nevertheless we did believe that the American budget deficit was a serious problem in the current state of the world economy along with the German and Japanese surpluses. As for the recent Japanese measures, we had now looked at them in some detail. At official level our judgment was that they were indeed significant, and represented a real effort by Mr Nakasone. But the details remained, perhaps inevitably, unclear. It would be very important politically as well as economically, that the new measures should be seen to have a real effect in practice.

5. I did not of course know, and could not predict, how the Prime Minister would wish to handle these issues at Venice. Officials had of course provided her with an analysis of the problem of the imbalances and she might speak accordingly either bilaterally with the President or in discussion on the Tuesday morning on economic issues. I hoped that there would be an opportunity for her to have a few words with Nakasone as well, perhaps in the margins of dinner on the first night. I thought it likely that she would want to know what progress was being made on Cable and Wireless and whisky.

Comment

6. It was probably inevitable that American officials should become less keen that the possibility of tax increases should be mentioned at Venice, once the President had gone public. I do not think that this need prevent the Prime Minister from raising the matter privately with the President when she sees him. But we will need to look again at the line it is suggested she might take at the Heads of State discussion of economic questions on Tuesday morning.



R Q Braithwaite

5 June 1987

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FROM: R Q Braithwaite

DATE: 27 May 1987

Mr Gillmore

cc PS

Mr McLaren

Mr Kerr

Mr Masefield, FED

Mr Richardson, ERD

Mr Shepherd, ECD(E)

Sir J Whitehead, TOKYO

JAPAN: PREPARATIONS FOR SUMMIT

I had a lengthy private breakfast this morning with Watanabe, the Director General for Economic Affairs at the Japanese Foreign Ministry. Watanabe is on his way to Washington to do what he can to tidy up the dispute over semi-conductors and to explain the forthcoming Japanese package, in preparation for the Venice Summit.

Presentation of Japanese Policy

2. I said that leaving aside questions of substance (on which see below), Japan's partners had a major difficulty with the way Japanese Ministers and officials presented their policies. Inadequate presentation simply fuelled the scepticism about Japanese policy which was now deeply rooted. Apart from Mr Nakasone, Japanese Ministers were not good at convincing their Western colleagues that they were genuinely trying to grapple with the problem of changing Japan's economic structure and the attitudes of the Japanese people. Japanese senior officials and senior businessmen were better able to communicate. But it was generally believed that at medium official level, and amongst people at large, the forces of conservatism prevented the effective implementation of policies which Japanese senior officials and Ministers believed to be in Japan's own national interest as well as in the interest of Japan's partners. There was inevitably a feeling that Japan and the Japanese were still very different from the rest of us. That meant that Japanese policy attracted criticism, even when - objectively speaking - its failings were no greater than those of the Americans and the Germans for example.

3. I suggested (with proper diffidence) that Japanese Ministers would be more convincing if they could persuade their partners that they were pursuing new economic policies not simply in order to fend off importunate foreigners, but because they thought that it was in the national interest of the Japanese people. They should be frank about the domestic obstacles which their policies faced, and the reasons why progress would inevitably be slow and would suffer occasional reverses. They should be very aware of the great damage which was done by such absurdities as the claim that Japanese snow was different and that European skis could not therefore be imported. If they could appeal to their Western colleagues as fellow politicians, determined to act despite political and parliamentary difficulties of a kind that their colleagues

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could recognise, they would I thought begin to regain some of the sympathy which was now lacking. We would, of course, continue to press hard on particular issues - such as whisky and Cable and Wireless - where we thought the Japanese were performing inadequately. But for a start, I thought it would be helpful if Mr Nakasone could be very frank at the Venice Summit.

4. Watanabe accepted all this in good part, and appeared to agree. But he said there was a fundamental problem: apart from Mr Nakasone Japanese politicians were not good at the kind of frank exchange with foreign colleagues which I recommended. This was probably true even of his own Minister, Kuranari. I said that it was because he had been subjected to a series of dialogues with the deaf in the past, that the Secretary of State had suggested to Kuranari at their recent meeting in Paris that bilateral exchanges should in future be preceded by official preparation. Much time had been wasted in Paris while Mr Kuranari had presented the latest LDP/Maekawa package, of which we were already aware and about which we were sceptical. It would have been better to take the package for granted and have a proper and frank exchange on its merits: but there had been no time for that. When the Secretary of State came to Tokyo (as of course he still hoped to do) I thought it would be important to prepare the visit carefully, and to ensure that there was genuine discussion both with Japanese Ministers and with other senior Japanese.

Packages

5. Watanabe said that the Japanese would be announcing a definitive version of their latest package on 29 May in time for the Summit. He and his colleagues had been arguing in Tokyo that this package should be designed to deflate rather than inflate expectations, so that it should not suffer from the lack of credibility of earlier packages. He said that in addition John Whitehead and the American and Italian Ambassadors would be summoned in the next few days by the Director General of the Management and Coordination Agency. Mr Nakasone had been concerned by foreign statements that his "action programme" had not been implemented and had instructed the Director General to investigate. It was the results of that investigation which the Director General would make known to the Ambassadors.

6. I said that the annual production of new "packages" had led to widespread scepticism amongst Japan's partners. The packages were usually vague and confusing, and were announced before the Japanese officials had been properly briefed to answer the questions to which they inevitably gave rise. I had for example been struck by the ignorance of the Japanese officials who had presented the latest package to the Sherpas a few weeks ago about such elementary matters as the amount of new money that was involved. This produced a most damaging effect. Watanabe said that the 29 May package would be sober and detailed. I welcomed this.

/US/Japanese Relations



US/Japanese Relations

7. Watanabe said that he had been shocked by the deterioration in the US/Japanese relationship which had taken place in the first two months of this year. The Foreign Ministry had considered that the only way of arresting this decline was for Mr Nakasone to make his planned visit in April despite the risks to which that had exposed him. Mr Nakasone had accepted the advice only reluctantly. Preparation for the visit had included a secret meeting between Japanese and White House officials. The visit had been a success. The personal rapport between the Prime Minister and the President had stood up well. Mr Nakasone had made a reasonably favourable impression on Congress. The decline in the relationship had at least been halted. But it was still very fragile.

Macro-Economic Issues at the Venice Summit

8. I said that there was now considerable concern about the fragility of the world economy. The Summit declaration would need to tread a narrow path between complacency and the kind of expressions of concern which could damage confidence seriously. I believed that it was now time for a frank discussion of issues of which we had all been aware for many years but had been unwilling to tackle, namely the effects on the world economy of the American double deficit and the Japanese/German surpluses. In the past the President's colleagues had been unwilling to seem to criticise him too severely. But I believed that this year the line must be that the Americans must be seen to be tackling their domestic economic problems if confidence in the world economy was to be maintained. German and Japanese policy would also need to be addressed: we would certainly expect to see Japanese policy brought into the discussion.

8. Watanabe agreed. He said that Danzansky (the White House Sherpa) had told him that the only person in the Administration now opposed to tax increases was the President himself. Both Howard Baker and Jim Baker were in favour. Danzansky believed that the Venice Summit could act as a "catalyst" in helping the President to change his attitude and go to Congress with a convincing message. Credit for any change in American economic policy would have to be shared by the Democrats as well as the President if it was to be effective.

9. I said that Danzansky had made the same point to me, and we were taking it into account in considering the line that the Prime Minister might be advised to take at Venice. She had great sympathy with the President and for the principles underlying his economic policy. She too was in favour of reducing the burden of taxation, and she had indeed done so in this country. But she could point out to the President that she had initially had to increase taxation in order to impose greater discipline on the UK budget: she had nevertheless been able to do so without departing from her basic principles.

/Conclusion

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Conclusion

10. Watanabe promised to let me know how he got on in Washington, and generally to keep in touch in the run-up to Venice. I welcomed this.

27 May 1987

R Q Braithwaite

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