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ECONOMIC SUMMIT : JAPANESE VIEWS

SUMMARY

1. TAKESHITA LIKELY TO EMPHASISE EFFECTIVENESS OF EXISTING JAPANESE POLICIES IN REDUCING TRADE SURPLUS, AND OFFICIAL PROJECTIONS OF PROGRESSIVE REDUCTION TO BELOW 2 PERCENT OF GNP IN NEW 5-YEAR PLAN. MAY MAKE NEW COMMITMENT TO EXPAND AND IMPROVE QUALITY OF JAPANESE AID. BUT JAPAN DOES NOT WISH TO SEE AGRICULTURE DOMINATE THE MEETING.

DETAIL

2. I SPOKE TO KITAMURA, TAKESHITA'S PERSONAL REPRESENTATIVE, ON 30 MAY ABOUT JAPANESE PRIORITIES FOR THE SUMMIT. WE HAVE ALSO SPOKEN TO HIS DEPUTIES IN THE MFA AND TI MITI, MOF AND EPA. FOLLOWING IS SUMMARY. MORE DETAIL FOLLOWS ON SOME ASPECTS.

MACRO-ECONOMIC ISSUES

3. JAPAN BELIEVES THE SUMMIT SHOULD GIVE A MESSAGE OF CONFIDENCE TO THE MARKETS THAT ECONOMIC POLICY COORDINATION IS WORKING WELL AND THAT PROGRESS IS BEING MADE TOWARDS THE GOALS OF SUSTAINED NON-INFLATIONARY GROWTH AND REDUCTION OF IMBALANCES. THOUGH THIS YEAR'S ECONOMIC PICTURE IS BRIGHTER THAN IT WAS AT VENICE, CREDIBILITY WITH THE MARKETS SHOULD BE MAINTAINED BY DUE REFERENCE TO THE LESSONS OF BLACK MONDAY. THE JAPANESE BELIEVE THEIR OWN PERFORMANCE OUGHT TO EARN CREDIT AGAIN (MFA COMMENTED THAT IT WAS IMPORTANT THAT TAKESHITA BE REASSURED THAT CURRENT POLICIES WERE APPRECIATED) AND THAT THERE SHOULD BE A SPOTLIGHT UPON THE U'S TWIN DEFICITS. DESPITE THE LIMITATIONS WHICH AN ELECTION YEAR IMPLIED THE DEFICITS SHOULD NOT BE ALLOWED TO BE THE DOG WHICH DID NOT BARK. THE DIVERGING TRADE BALANCES OF THE EC COUNTRIES, ESPECIALLY THE FRG'S GROWING SURPLUS, SHOULD ALSO BE HIGHLIGHTED. MEASURES WERE NOW NEEDED TO INCREASE SAVINGS IN THE US AND PROMOTE STRUCTURAL ADJUSTMENT IN EUROPE. THE LINK BETWEEN MACROECONOMIC COORDINATION AND MICROECONOMIC DOMESTIC STRUCTURAL POLICY SHOULD BE MADE EXPLICIT.

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4. WE SAID THAT JAPANESE POLICIES WERE INDEED APPRECIATED, BUT THERE WAS STILL A RISK THAT THE MARKETS WOULD FIND IN A FEW MONTHS TIME THAT PROGRESS HAD BEEN TOO SLOW. BOTH MFA AND MITI DISPUTED THIS, MAINTAINING THAT THE SURPLUS WOULD CONTINUE TO FALL. ECONOMIC POLICY WOULD BE APPLIED FLEXIBLY TO SUSTAIN DOMESTIC GROWTH AND KEEP TO THE MINUS 0.5 PERCENT PER ANNUM TARGET FOR GROWTH IN THE EXTERNAL SECTOR IN THE FIVE-YEAR PLAN FORMALLY ADOPTED ON 27 MAY; BUT NO FURTHER MEASURES WERE CONTEMPLATED AT THE MOMENT. KITAMURA ACCEPTED HOWEVER THAT IN THE BROADEST SENSE JAPAN WOULD HAVE TO CONTINUE ITS EFFORTS TO BRING ABOUT PERMANENT STRUCTURAL CHANGE, AND THAT MUCH OF THE BOOST IN IMPORTS WOULD COME NOT SO MUCH FROM THE US OR EUROPE, BUT FROM THE ASIAN NICs.

DEBT AND AID

5. MFA THOUGHT IT SHOULD BE POSSIBLE TO SAY THAT SOLID PROGRESS HAD BEEN MADE ON THE DEBT PROBLEMS OF MIDDLE INCOME COUNTRIES. THERE WAS NOT MUCH NEW FOR GOVERNMENTS TO DO, SINCE MOST OF THE DEBT WAS PRIVATE, OTHER THAN ENCOURAGE CASE-BY-CASE PROPOSALS. IT WAS NOW IMPORTANT TO ESTABLISH GOOD INVESTMENT CLIMATES IN INDEBTED COUNTRIES TO ENCOURAGE THE EXPANSION OF CAPITAL FLOWS. IN THIS, ODA WAS VITAL, AND TAKESHITA IS LIKELY TO MAKE A NEW COMMITMENT TO INCREASE THE QUANTITY AND/OR QUALITY OF JAPANESE ODA. MFA HAVE BEEN MEETING RESISTANCE FROM THE MOF FOR THEIR PROPOSAL THAT JAPAN SHOULD PLEDGE TO ACHIEVE THE DAC AVERAGE OF 0.35 PERCENT OR SOMETHING ABOVE IT WITHIN A DEFINITE TIMETABLE. TAKESHITA IS LIKELY TO BROKE A COMPROMISE BETWEEN MINISTRIES ON HIS RETURN FROM EUROPE NEXT WEEK, BUT EXACT DETAILS MAY BE LEFT UNTIL AFTER THE SUMMIT, AND MFA MAY WISH TO BE ABLE TO POINT TO INTERNATIONAL EXPECTATIONS OF JAPAN EXPRESSED AT THE TORONTO MEETING. WE STRESSED THE IMPORTANCE OF MAKING PROGRESS AT THIS SUMMIT ON THE SUB-SAHARAN DEBT INITIATIVE, SAYING THAT, IF NECESSARY, WE WERE PREPARED TO BE SOMEWHAT FLEXIBLE IN ORDER TO ACHIEVE THIS. WHILE NOTING THAT THE US STILL SEEMED OPPOSED, MFA SAID THAT, ALTHOUGH IT MIGHT LEGALLY BE DIFFICULT FOR JAPAN TO REDUCE INTEREST RATES ON RESCHEDULED DEBT, WORDING WHICH ALLOWED COUNTRIES TO CONTRIBUTE BY ALTERNATIVE EQUIVALENT MEASURES WOULD HAVE JAPANESE SUPPORT: JAPAN WOULD THEN BE ABLE TO POINT TO ITS DOLLARS 400 MILLION UNTIED GRANT AID TO SUB-SAHARAN AFRICA ANNOUNCED AT VENICE LAST YEAR, AND POSSIBLY TO AN EXPANDED GRANT ELEMENT IN ANY NEW AID PACKAGE.

TRADE

6. JAPAN WILL STRESS PROGRESS IN THE URUGUAY ROUND AS THE BEST MEANS OF WARDING OFF PROTECTIONISM. OFFICIALS BELIEVE IT WAS AGREED AMONG

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THE SHERPAS THAT PROTECTIONIST MEASURES AGAINST INVESTMENT WERE EQUALLY TO BE RESISTED. JAPAN TLOOKED FOR COMMITMENTS THAT THE US/CANADA FREE TRADE AGREEMENT AND THE UNIFCATION OF THE EC MARKET WOULD BE CARRIED OUT WITH RESPECT FOR THE PRINCIPLES OF THE OPEN WORLD ECONOMY AND NOT BE A STEP TOWARDS REGIONALISM. BECAUSE OF THE SENSITIVITIES OF NON G7 COUNTRIES, JAPAN THOUGHT THE SUMMIT WAS NOT THE PLACE IN WHICH TO PRESCRIBE SPECIFIC IDEAS FOR AGREEMENT IN THE GATT MID-TERM REVIEW, THOUGH INFORMAL DISCUSSIONS MIGHT WELL TAKE PLACE.

NICS

7. ON THE NICS, JAPAN AGREED WITH THE UK THAT ONE NEEDED TO TAKE ACCOUNT OF DIFFERENCES BETWEEN THE ASIAN NICS, ESPECIALLY HONG KONG. THE APPROACH OF QUOTE SOME AMERICANS UNQUOTE WAS PREMATURE: THE IMMEDIATE OBJECTIVE SHOULD BE TO MAKE THE NICS SEE SOME ATTRACTION IN A DIALOGUE.

AGRICULTURE

8. WE EMPHASIZED THE NEED TO GIVE MOMENTUM TO AGRICULTURAL NEGOTIATIONS IN THE URUGUAY ROUND, NOT ONLY FOR SUBSTANTIVE REASONS, BUT ALSO BECAUSE OF THEIR INFLUENCE ON PROTECTIONISM AND OTHER AREAS OF NEGOTIATION IMPORTANT TO JAPAN. THE JAPANESE ARE PUTTING IT ABOUT THAT THIS IS A DIFFICULT ISSUE BECAUSE OF THE LIKELIHOOD OF AN EC/US CLASH AND IT SHOULD NOT BE ALLOWED TO DOMINATE THE SUMMIT MEETING. THEY ARE SCEPTICAL OF THE VALUE OF THE COMPROMISE LANGUAGE AGREED AT THE OECD MINISTERIAL, ALTHOUGH MFA SAID THAT IT WAS A BASIS ON WHICH DISCUSSION COULD BEGIN. AT TORONTO JAPAN WOULD NOT TRY TO POUR COLD WATER ON THE IDEA OF PROGRESS IN THE URUGUAY ROUND: BUT THERE SHOULD BE A BALANCE IN THE ROUND BETWEEN THIS AND OTHER ISSUES. THE MFA ACCEPTED THAT JAPAN SHOULD, IN DUE COURSE, MAKE ITS OWN CONTRIBUTION TO IMPROVING THE CLIMATE OF NEGOTIATIONS BEYOND ABSTAINING FROM EXPORT SUBSIDIES (WHICH JAPANESE FARMERS REGARDED AS A SUFFICIENT CONTIBUTION), BUT AGRICULTURE SHOULD NOT BE SINGLED OUT FOR PRIORITY TREATMENT.

POLITICAL AND OTHER ISSUES

9. KITAMURA WAS CONSCIOUS OF CRITICISM THAT LAST YEAR'S SUMMIT WAS OVERSHADOWED BY POLITICAL STATEMENTS AND EXPECTS TORONTO TO PRODUCE PERHAPS ONLY ONE, ALBEIT FAIRLY COMPREHENSIVE, FOCUSSING ON EAST/WEST RELATIONS. AS PART OF DISCUSSIONS ON THIS, JAPAN WOULD SEE VALUE IN AN EXCHANGE ON SINO/SOVIET RELATIONS AND A COMPARISON OF SOVIET GLASNOST AND CHINESE OPEN DOOR POLICIES. LEADERS MIGHT NOT HAVE TIME TO DISCUSS POLITICAL ISSUES MUCH BEYOND THIS, BUT JAPAN ACCEPTING OUR INTEREST IN TERRORISM, WOULD LIKE THE SUMMIT TO GIVE

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SOME MORAL SUPPORT TO THE KOREANS BY MAKING A COMMITMENT, EVEN IF NOT AN EXPLICIT PUBLIC ONE, TO PREVENTING ACTS OF TERRORISM AT THE OLYMPIC GAMES. KITAMURA SUSPECTED THAT THE US PLAN FOR A JOINT ASSISTANCE PROGRAMME TO THE PHILIPPINES WOULD BE RAISED, THOUGH THE MFA SEEMED CONCERNED THAT THE AMERICANS MIGHT PLACE TOO MUCH EMPHASIS ON THE STRATEGIC IMPORTANCE OF THE PACIFIC IN AN ATTEMPT TO PUT PRESSURE ON ALLIES. SUCH PRESSURE MIGHT BE COUNTER-PRODUCTIVE IN JAPAN TO THEIR EFFORTS TO INCREASE AID TO THE PHILIPPINES. UNO WOULD PROBABLY WELCOME A DISCUSSION OF THE MIDDLE EAST, WHICH HE WOULD BE VISITING IMMEDIATELY AFTER TORONTO, AND CAMBODIA ALTHOUGH KITAMURA ACCEPTED THAT THE AGENDA WAS ALREADY FAIRLY FULL. FINALLY, MFA SAID THEY WERE NOT KEEN TO DEVOTE TOO MUCH TIME TO DISCUSSION OF DRUGS OR ENVIRONMENTAL ISSUES. THEY SAW SOME VALUE IN THE PRIME MINISTER'S PROPOSAL FOR AN INFORMAL DISCUSSION OF THE PROBLEMS FOR GOVERNMENTS OF MEETING THE REQUIREMENTS OF AN AGEING SOCIETY. KITAMURA DID NOT MENTION THE HUMAN SCIENCE FRONTIER PROJECT (BUT SEEM MY TELNO EJECT D5 COPIED TO FCO.)

COMMENT

10. THE JAPANESE BELIEVE, AND HOPE, THAT THIS IS NOT SHAPING UP TO BE A PARTICULARLY DRAMATIC SUMMIT. THEY WILL PUT THEIR BEST FEET FORWARD BY PUBLICISING THE PERFORMANCE OF THEIR OWN ECONOMY AND THEIR NEW ODA PROPOSALS. BUT THEY WILL RESIST ATTEMPTS TO FOCUS ATTENTION ON AGRICULTURE, PREFERRING TO SUBSUME THE ISSUE IN GENERAL DISCUSSION OF THE URUGUAY ROUND. THEIR GENERAL ASSESSMENT IS THAT THERE WILL BE LESS PRESSURE ON JAPAN TO DO ANYTHING FURTHER TO REDUCE THEIR OWN TRADE IMBALANCE.

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