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Chancellor's (Lawson) Papers:  
Visits and Bilaterals between British and Japanese Ministers.

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From the Private Secretary

11 March 1988

**FAREWELL CALL BY THE JAPANESE AMBASSADOR**

I should record that the Japanese Ambassador paid a brief farewell call on the Prime Minister this morning.

The Prime Minister complimented Mr. Yamazaki on his very considerable achievements as Ambassador in London and thanked him for all the help which he had given us. She also expressed appreciation for the very vigorous part which Mrs. Yamazaki had played. The Prime Minister recalled that she was a great admirer of Mr. Nakasone and was much looking forward to meeting Mr. Takeshita in May. Referring to progress made during Mr. Yamazaki's time in London, the Prime Minister singled out Cable and Wireless, the seats which had been allocated to British firms on the Tokyo Stock Exchange and the considerable increase in Japanese investment in the United Kingdom. There was still much to be done to open Japan's market to foreign exports and we hoped in particular to see early action on the question of whisky. There was also the problem of agricultural subsidies to be dealt with in the GATT. But overall there had been important progress and Mr. Yamazaki could take great credit for it. The Prime Minister added that she was pleased by the way in which the United Kingdom/Japan 2000 Group had developed.

Mr. Yamazaki said that he had enjoyed his time in London. He hoped to be able to continue to work for the promotion of Anglo-Japanese relations after his retirement. He had noted very important changes in the United Kingdom's economy during the three years he had been Ambassador here and had tried to convey this impression in his recent speech. The Prime Minister commented that she had read the speech and much appreciated it. Mr. Yamazaki continued that the Japanese economy was changing rapidly, with domestic demand expanding fast. Japan was trying to play a responsible role. He was pleased to be able to say there appeared to be no political problems between the two Governments. Indeed consultation was very good.

The Prime Minister wished Mr. Yamazaki well in his retirement.

I am copying this letter to Alison Brimelow (Department of Trade and Industry), Alex Allan (HM Treasury) and to Trevor Woolley (Cabinet Office).

(CHARLES POWELL)

R. N. Culshaw, Esq., MVO,  
Foreign and Commonwealth Office.

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INFO ROUTINE UKREP BRUSSELS, WASHINGTON

MEETING BETWEEN LORD YOUNG AND FOREIGN MINISTER UNO: 14 MARCH

SUMMARY

1. A BREAKFAST DISCUSSION COVERING THE WHOLE RANGE OF UK/JAPAN COMMERCIAL ISSUES, AND SETTING THE SCENE FOR SUBSEQUENT DISCUSSIONS.

DETAIL

2. IN WELCOMING LORD YOUNG, UNO NOTED THE FAVOURABLE DEVELOPMENTS IN UK/JAPAN TRADE. TRUE, THERE WERE SOME ISSUES STILL REQUIRING SOLUTIONS, AND HE WOULD PERSONALLY DO HIS BEST ON THE QUESTION OF WHISKY, ON WHICH HE HOPED FOR A SOLUTION BY THE SUMMIT. HE WELCOMED LORD YOUNG'S MISSION TO JAPAN AS AN OCCASION FOR BROADENING AND CONSOLIDATING ECONOMIC LINKS.

3. IN THANKING UNO, LORD YOUNG REFERRED TO THE CONSTRUCTIVE ROLE PLAYED BY THE MFA IN UK/JAPAN ISSUES. HIS VISIT, FOLLOWING SIR G HOWE'S, WAS INTENDED TO BROADEN AND DEEPEN UK/JAPAN RELATIONSHIPS. IN WELCOMING UNO'S WORDS ON THE WHISKY QUESTION, LORD YOUNG ADDED THAT THE NEED FOR FURTHER SEATS ON THE TOKYO STOCK EXCHANGE WAS ANOTHER ITEM OF UNFINISHED BUSINESS, WITH A REQUIREMENT FOR SEATS FOR BZW AND ALSO CAPEL. FOR ITS PART THE UK WELCOMED JAPANESE INVESTMENT IN THE UK: HE STRESSED THE OPPORTUNITIES FOR JAPANESE COMPANIES OFFERED BY THE COMPLETION OF THE SINGLE MARKET IN 1992. LOOKING TO THE WORLD SCENE, PROGRESS IN THE GATT ROUND WOULD BE IMPORTANT, PARTICULARLY IN RELATION TO AGRICULTURE, ON WHICH THE EC HAD HAD TO TAKE ITS OWN TOUGH DECISIONS MEANWHILE, IT WOULD BE IMPORTANT TO AVOID THE DANGERS OF BILATERALISM: SEMICONDUCTORS WERE AN EXAMPLE, AND CONSTRUCTIONS MIGHT PROVE ANOTHER.

4. UNO AGREED THAT THE GATT SYSTEM SHOULD BE MAINTAINED AND STRENGTHENED. CERTAIN ASPECTS WERE PARTICULARLY IMPORTANT FOR EARLY HARVEST, AND JAPAN HAD MADE DETAILED PROPOSALS ON AGRICULTURE. AS REGARDS BILATERALISM, THERE WAS NO INTENTION THAT THE CURRENT US/JAPAN TALKS ON CONSTRUCTION SHOULD RESULT IN A DISCRIMINATORY REGIME. AS TO SEMICONDUCTORS, THE GATT DID

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NOT (HE SUGGESTED) EXCLUDE BILATERAL ARRANGEMENTS: BUT GATT SHOULD BE STRENGTHENED AGAINST DISCRIMINATORY PRACTICES GENERALLY.

5. LORD YOUNG WELCOMED UNO'S ASSURANCES ON CONSTRUCTION AND JAPANESE SUPPORT FOR INVESTMENT BY UK COMPANIES. LOOKING AHEAD, THERE WAS SCOPE FOR COOPERATION BETWEEN THE UK AND JAPAN IN SCIENCE AND HIGH TECHNOLOGY. CERN AND HOTOL OFFERED LONG-TERM POSSIBILITIES. IN THE SHORTER TERM, BRITAIN HAD MUCH TO OFFER IN AIRCRAFT AND DEFENCE SALES. ONE EXAMPLE (WHICH UNO NOTED POSITIVELY) WAS OUR INTEREST IN SALES OF BAE 146.

6. IN TAKING LEAVE OF UNO, LORD YOUNG SAID THAT HE WOULD RETURN TO THE UK WITH A STRONG SENSE OF THE OPPORTUNITIES IN JAPAN, IN THE STRONG HOPE THAT SUCH DIFFICULTIES AS REMAINED IN THE RELATIONSHIP - WHISKY TAXATION AND THE STOCK EXCHANGE - WOULD SHORTLY BE REMOVED FROM THE AGENDA.

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MEETING BETWEEN LORD YOUNG AND MR TAKEUCHI (TOKYO STOCK EXCHANGE): 14 MARCH

SUMMARY

1. A SHORT MEETING IN WHICH LORD YOUNG HINTED AT A POTENTIAL LINK BETWEEN THE FUTURE PROGRESS OF JAPANESE APPLICATIONS REGARDING THE LONDON PRIMARY GIFTS MARKET AND THE AVAILABILITY OF SEATS ON THE TSE FOR BZW AND JAMES CAPEL.

DETAIL

2. AFTER RECALLING MR HOWARD'S VISIT LAST YEAR, LORD YOUNG SAID THAT THE UK HAD WELCOMED THE FOUR SEATS TO BE MADE AVAILABLE FROM MAY 1988. IT WAS HOWEVER DISAPPOINTING THAT NO SEATS HAD YET PROVED AVAILABLE FOR BZW AND JAMES CAPEL. BOTH WERE REPUTABLE COMPANIES WITH EXPERIENCE IN THE JAPANESE MARKET: THEIR NEEDS SHOULD BE ACCOMMODATED. IN RESPONSE TO TAKEUCHI'S POINT THAT ANY FURTHER EXPANSION OF THE TSE HAD YET TO BE DECIDED UPON, LORD YOUNG SUGGESTED THAT A SEAT MIGHT BE PURCHASED FROM AN EXISTING MEMBER, AND STRESSED THAT THIS PROPOSAL SHOULD BE TAKEN FORWARD BEFORE MOUNTFIELD VISITED IN LATE MARCH, WITH A VIEW TO A FIRM AND EARLY ASSURANCE BEING GIVEN THAT THE PROBLEM WOULD BE SOLVED VERY SHORTLY. IN EMPHASISING THIS POINT, LORD YOUNG HOPED THAT THE SATISFACIION OF NOMURA-'S AND DAIWA'S AMBITIONS IN LONDON WOULD COME AT THE SAME TIME AS THE ADMISSION OF BZW TO THE TSE. HE ADDED THAT HE HOPED TO BE ABLE TO WELCOME TAKEUCHI TO LONDON FOR THE OPENING OF NOMURA'S NEW PREMISES.

3. TAKEUCHI COMMENTED THAT THERE HAD BEEN SOME MERGERS BETWEEN SEAT-HOLDERS IN PAST YEARS, BUT NO RECENT ACQUISITION. SUCH A STEP REMAINED PERFECTLY FEASIBLE: IT WAS A MATTER FOR THE PRIVATE FIRMS INVOLVED TO CONSIDER WHETHER SUCH A STEP WOULD BE DESIRABLE. LORD YOUNG COUNTERED THAT HE WAS NOT CONCERNED WITH WHETHER ACQUISITION OF A SEAT-HOLDER WAS DESIRABLE: THE QUESTION FOR THE UK GOVERNMENT WAS WHETHER IT WAS A PRACTICAL POSSIBILITY. IN ACKNOWLEDGING THIS, TAKEUCHI SUGGESTED, AND LORD YOUNG AGREED, THAT THE DETAILS OF THE DISCUSSION SHOULD BE



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KEPT PRIVATE, BOTH SIDES TAKING THE LINE THAT WHILE THE UK GOVERNMENT NOTED WITH SATISFACTION THE FOUR SEATS GRANTED LAST YEAR TO BRITISH APPLICANTS, LORD YOUNG HAD STRESSED THE NEED FOR OTHER UK APPLICANTS TO BE CATERED FOR IN THE NEAR FUTURE.

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MIPT: MEETING BETWEEN LORD YOUNG AND TAMURA: DTI/MITI TALKS

1. DURING THE MEETING AND OVER DINNER THERE WAS FURTHER DISCUSSION OF VARIOUS ASPECTS OF THE DTI/MITI TALKS.
2. TAMURA REFERRED TO THE NEW ROLE OF THE DTI AND WARMLY WELCOMED THE EXPANDED FRAMEWORK PROPOSED FOR THE TALK AND THE FACT THAT MITI WOULD BE SENDING A TEAM OF EXPERTS. REFERRING TO QUALITY AND DESIGN, HE SAID THAT MITI HAD DESIGNATED 1989 AS DESIGN YEAR: THERE WOULD BE AN INTERNATIONAL DESIGN EXHIBITION AT NAGOYA, IN WHICH MITI HOPED THE DESIGN COUNCIL WOULD PARTICIPATE. LORD YOUNG SAID THAT QUALITY AND DESIGN WERE DEPARTMENTAL PRIORITIES: THESE ASPECTS, AND MITI'S PLANS FOR 1989, SHOULD BE DISCUSSED BY OFFICIALS AT THE TALKS.
3. OVER DINNER, LORD YOUNG SUGGESTED THAT THE TALKS MIGHT ALSO BE USED BY OFFICIALS TO REVIEW BRIEFLY THE PROSPECTS FOR LONG-TERM COLLABORATION BETWEEN JAPAN AND THE UK ON SUCH PROJECTS AS HOTOL AND (PERHAPS TOGETHER WITH OTHER PARTICIPATING COUNTRIES) ON CERN. THESE THEMES WERE NOT DEVELOPED: ALTHOUGH LORD YOUNG DID NOT CREATE ANY EXPECTATION THAT WE WOULD WISH TO MAKE DETAILED PROPOSALS, THE MITI OFFICIALS CONCERNED MAY SEEK SOME ELABORATION OF OUR VIEWS BEFORE THE START OF THE TALKS.
4. IN WELCOMING THE RE-LAUNCH AND EXPANSION OF THE DTI/MITI TALKS, LORD YOUNG ALSO SUGGESTED THAT TAMURA MIGHT LIKE TO VISIT THE UK WITH A TEAM OF INDUSTRIALISTS FOR A DAY OF DISCUSSIONS. THIS IDEA SEEMED WELL RECEIVED: ONE POSSIBILITY IDENTIFIED IN INFORMAL DISCUSSION WAS A MEETING AT GLENEAGLES IN JULY.

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YOUR TELNO 228 : MEETING BETWEEN LORD YOUNG AND TAMURA

SUMMARY

1. AT THEIR MEETING AND DINNER ON 14 MARCH LORD YOUNG AND TAMURA (MINISTER OF INTERNATIONAL TRADE AND INDUSTRY) HAD A SATISFACTORY DISCUSSION COVERING:

A) OPPORTUNITY JAPAN

B) A RANGE OF BILATERAL AND MULTILATERAL ISSUES

C) DTI/MITI TALKS

THE AGREED TEXT (MY TELNO 279) WAS ISSUED BY BOTH SIDES AFTER THE MEETING

DETAIL

2. IN AN OPENING SESSION (WITH LORD YOUNG'S TEAM OF INDUSTRIALISTS PRESENT) TAMURA RECALLED WITH GRATITUDE HIS RECEPTION BY THE PRIME MINISTER, THE FOREIGN SECRETARY AND LORD YOUNG IN LONDON IN JANUARY AND COMMENTED THAT HE WISHED THE JAPAN/UK RELATIONSHIP TO BE THE CORNERSTONE OF JAPAN'S RELATIONSHIP WITH THE EC. WELCOMING THE OPPORTUNITY JAPAN CAMPAIGN, HE SAID THAT MITI WOULD COOPERATE TOWARDS THE ACHIEVEMENT OF ITS AMBITIOUS TARGETS, AND THAT THE CAMPAIGN WOULD HAVE FRUITFUL RESULTS IF PARTICIPATING UK CONCERNS PURSUED IT VIGOROUSLY. LORD YOUNG RESPONDED BY RECALLING THAT THE INDUSTRIALISTS TEAM WITH HIM SPOKE FOR MORE THAN 10 PER CENT OF UK GDP: THE COMPANIES CONCERNED WERE INTERESTED BOTH IN EXPORTING TO JAPAN AND IN INVESTING THERE (AS OVER 75 JAPANESE COMPANIES HAD IN THE UK), AS WELL AS COOPERATING IN THIRD MARKETS.

3. SOME OF THE INDUSTRIALISTS THEN SPOKE OF THEIR EXPERIENCE IN THE JAPANESE MARKET, INCLUDING WALSH (STC), GIORDANO (BOC), ALLIANCE (COATS VIYELLA) AND HARRISON (NEI). TENNANT (GUINNESS) GAVE DETAILS OF PLANS FOR A NEW JAPAN-BASED SALES SUBSIDIARY MARKETING SOME OF THE GROUP'S WHISKY AND SPIRITS BRANDS. THIS REPRESENTED A MAJOR STATEMENT OF CONFIDENCE IN THE JAPANESE MARKET, PUT IN HAND

AT THE MOMENT WHEN THE GATT PANEL REPORT WAS UNDER CONSIDERATION IN TOKYO: THE GROUP WAS CONFIDENT THAT THE JAPANESE WOULD MEET THE POINTS IN THE PANEL REPORT IN FULL, WITH ACTION IN A SHORT PERIOD OF TIME. IN RESPONDING, TAMURA SAID HE WAS GLAD TO HEAR FEW CRITICISMS OF THE JAPANESE MARKET, WHICH SUPPLIERS SHOULD REGARD AS DIFFERENT, RATHER THAN DIFFICULT. LORD YOUNG COMMENTED THAT FURTHER PROGRESS REMAINED NECESSARY, WITH SOME UNFINISHED BUSINESS IN MARKET-OPENING, WHICH SHOULD BE COMPLETED SHORTLY.

4. THERE FOLLOWED A RESTRICTED SESSION (LORD YOUNG, TAMURA AND OFFICIALS). TAMURA OPENED BY WELCOMING JAPANESE INVESTMENT IN THE UK AND EC, AND BY EXPRESSING THE FEAR THAT EC ANTI-DUMPING MEASURES COULD AFFECT THIS. LORD YOUNG SAID THAT TWO-WAY INVESTMENT WAS IMPORTANT: THERE WERE UK COMPANIES KEEN TO INVEST IN THE EXPANSION OF THE JAPANESE SPIRITS MARKET AND THE TOKYO STOCK EXCHANGE: BOTH THESE OUTSTANDING ISSUES REQUIRED SPEEDY SETTLEMENT. AS TO ANTI-DUMPING, NO COMPANY IMPORTING THE RIGHT PROPORTION OF COMPONENTS AT THE RIGHT PRICE NEED FEAR THE EC MEASURES. JAPANESE COMPANIES SHOULD DISCUSS PARTICULAR DIFFICULTIES WITH THE DTI, MOST COMPONENTS SHOULD BE AVAILABLE IN THE EC. LOOKING MORE WIDELY, REAL PROGRESS HAD BEEN MADE IN ANGLO/JAPANESE COOPERATION: FURTHER OPPORTUNITIES REMAINED, NOTABLY THE THIRD BOSPHORUS BRIDGE PROJECT, ON WHICH WE LOOK TO MITI FOR SUPPORT. IN RESPONSE, TAMURA RECALLED THE MINISTRY OF FINANCE PROPOSALS FOR SOLVING THE WHISKY TAX ISSUE (ON WHICH HE GAVE NO FRESH DETAILS), RECALLING HIS OWN COMMITMENT TO MRS THATCHER TO HELP TOWARDS A SOLUTION. AS TO THE TOKYO STOCK EXCHANGE, HE MENTIONED SPACE PROBLEMS IN THE TSE BUILDING, BUT TOOK THE POINT THAT PURCHASE OF EXISTING SEATS BY UK APPLICANTS SHOULD BE FACILITATED AS AN ALTERNATIVE TO GENERAL EXPANSION. ON THE BOSPHORUS BRIDGE, MITI WOULD DEAL POSITIVELY WITH THE UK REQUEST, ALTHOUGH SOME TECHNICAL PROBLEMS REMAINED.

5. IN A BRIEF DISCUSSION OF THE SINGLE EUROPEAN MARKET, TAMURA WELCOMED ITS OBJECTIVE (AND UK SUPPORT FOR IT) WHILE EXPRESSING CONCERN THAT IT SHOULD NOT LEAD TO FRESH BARRIERS TO EXTERNAL TRADE. LORD YOUNG RESPONDED THAT THE UK HAD THE MOST OPEN TRADING SYSTEM IN THE WORLD, LEADING OTHER COUNTRIES IN EXPORTS PER HEAD, IMPORT VOLUMES, AND BEING SECOND ONLY TO JAPAN IN OVERSEAS INVESTMENT. THE UK WOULD BE CONCERNED TO PROMOTE THE PRINCIPLES OF THE OPEN TRADING SYSTEM IN THE FRAMEWORK OF THE SINGLE EUROPEAN MARKET. ANY PROBLEMS ARISING FROM THE EUROPEAN MARKET SHOULD BE SOLUBLE BETWEEN FRIENDS.

6. THERE WAS ALSO POSITIVE REFERENCE (IN THE MEETING AND OUTSIDE IT)

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TO DTI/MITI TALKS ON 28/29 MARCH. SEE MIFT. (NOT TO UKREP BRUSSELS)

COMMENT

7. A USEFUL AND WIDE-RANGING MEETING, COVERING A FULL RANGE OF ISSUES IN A BRIEF SPACE OF TIME AND CONFIRMING THE WARM RELATIONSHIPS ESTABLISHED BETWEEN TAMURA AND UK MINISTERS IN LONDON AND TOKYO IN JANUARY.

8. SEE MIFT.

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LORD YOUNG'S MEETING WITH PRIME MINISTER TAKESHITA: 16 MARCH

SUMMARY

1. A CORDIAL MEETING, WHICH COVERED A NUMBER OF KEY UK/JAPAN ECONOMIC ISSUES.

DETAIL

2. IN WELCOMING LORD YOUNG, MR TAKESHITA RECALLED THAT HE HAD EMPHASISED TO COLLEAGUES THAT HE WAS A WELCOME GUEST. THE PRESENT ADMINISTRATION IN THE UK HAD FOSTERED GROWTH IN TRADE AND EMPLOYMENT, AND WAS NOW CONCERNED WITH THE OPPORTUNITIES IN JAPAN. ALL THESE TRENDS WERE WELCOME.

3. IN THANKING MR TAKESHITA FOR SEEING HIM AT A BUSY POINT IN THE DIET BUDGET PROCESS, LORD YOUNG EMPHASISED THE UK BUDGET AS A MILESTONE IN BRITISH ECONOMIC PROGRESS. IT WAS A BUDGET BASED ON A SURPLUS OF POUNDS 3 BILLION, WITH THE PROSPECT OF A SIMILAR SURPLUS NEXT YEAR. THE REDUCTION IN THE TOP TAX RATE REPRESENTED A MAJOR ADVANCE. BRITAIN AND JAPAN WERE FOSTERING WEALTH-CREATION THROUGH COMPARABLE ECONOMIC POLICIES. MR TAKESHITA SAID THAT THE SUCCESS OF UK ECONOMIC POLICY HAD BEEN WIDELY NOTED IN JAPAN, WITH ITS STRESS ON FREE COMPETITION, THE CREATION OF FRESH LINKS BETWEEN INDUSTRY AND CENTRES OF HIGH TECHNOLOGY, THE PROMOTION OF SMALL AND MEDIUM-SIZE ENTERPRISES, AND THE RE-VITALISATION OF THE REGIONS. ALL THESE HAD MADE A PROFOUND IMPRESSION IN JAPAN, AS WITNESSED IN AMBASSADOR YAMAZAKI'S 'OLYMPIC MEDAL' REFERENCE TO THE UK'S ECONOMIC ADVANCE.

4. PRIME MINISTER TAKESHITA WENT ON TO SAY THAT HE HAD BEEN GLAD TO WELCOME SIR G HOWE IN TOKYO AND LOOKED FORWARD TO HIS OWN VISIT TO LONDON IN EARLY MAY. LORD YOUNG REPLIED THAT HE HAD BEEN ASKED BY THE PRIME MINISTER TO STRESS THAT MR TAKESHITA WOULD BE WARMLY WELCOMED IN LONDON.

5. COMMENTING ON HIS OWN VISIT, LORD YOUNG SAID THAT HE, AND THE TOP-LEVEL BUSINESS TEAM WITH HIM, WERE OPTIMISTIC ABOUT THE PROSPECTS FOR INCREASED TRADE AND INVESTMENT BETWEEN THE UK AND JAPAN. OVER 75

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JAPANESE COMPANIES HAD ALREADY INVESTED IN THE UNITED KINGDOM. THERE WAS ALSO SOLID EVIDENCE OF UK INVESTMENT IN JAPAN: GUINNESS, FOR INSTANCE, WERE MAKING AN ANNOUNCEMENT ON 16 MARCH OF THE ESTABLISHMENT OF A NEW JAPANESE SALES SUBSIDIARY.

6. TURNING TO HIS DISCUSSIONS WITH OTHER JAPANESE MINISTERS, LORD YOUNG SAID THAT HE HAD BEEN GRATEFUL FOR THE WELCOME HE HAD RECEIVED FROM HIS JAPANESE COUNTERPARTS. HE REGRETTED THAT NO MEETING WITH FINANCE MINISTER MIYAZAWA HAD PROVED POSSIBLE: HAD A MEETING BEEN FEASIBLE, HE WOULD HAVE WISHED TO MAKE A PARTICULAR POINT ABOUT THE TAXATION OF SCOTCH WHISKY, AND ON THE ADMISSION OF UK FIRMS TO THE TOKYO STOCK EXCHANGE, AS TWO IMPORTANT ISSUES OF UNFINISHED BUSINESS. MR TAKESHITA REPLIED THAT AS A PREVIOUS FINANCE MINISTER HE WAS FAMILIAR WITH THESE ISSUES: HE PROMISED TO MAKE CLEAR TO MIYAZAWA THE CONTINUING IMPORTANCE ATTACHED TO THEM IN THE UNITED KINGDOM.

7. IN CONCLUDING A WARM SERIES OF EXCHANGES, BOTH LORD YOUNG AND MR TAKESHITA NOTED THE FUTURE PROSPECTS FOR INCREASED COOPERATION BETWEEN JAPAN AND THE UK IN ALL COMMERCIAL FIELDS.

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ACDD  
DEFENCE  
NED

PS/PUS  
SIR J FRETWELL  
MR BRAITHWAITE  
MR GILLMORE  
MR BOYD  
MR KERR  
MR MAUD  
MR SLATER  
MISS PESTELL  
MR FEARN  
MR MCLAREN  
MR GOULDEN

ADDITIONAL 42

JAPAN POLITICAL AND ECONOMIC

NNNN

*pmf*

**dti**

the department for Enterprise

CONFIDENTIAL

21/3

CH/EXCHEQUER	
REC.	21 MAR 1988
ACTION	Mr H P Evans
COPIES TO	PS/CST, PS/FST, PS/PMG
	PS/EST, Sr P.M. Adleton
	Sr G Lubler
	Sr T Burns
	Mr Monck, Mr Scholar
	Mr Cankester
	Mr Swigney, Mr Sw Matthews
	Mr PG Davis, Mr Nolan

PRIME MINISTER

✓

**VISIT TO JAPAN: 10-16 MARCH 1988**

21/3/88.

Accompanied by a nine-strong team of UK industrial leaders I visited Japan on 10-16 March. My visit, a counterpart to the Foreign Secretary's in January, took me to both Tokyo and Osaka. It combined meetings with Prime Minister Takeshita and his colleagues with further steps, in the context of the Opportunity Japan campaign, to identify the real potential that an improved relationship with Japan now holds for us.

2 I was greatly impressed by what I found. True, our economic relationship with Japan will continue to require plain-speaking and firmness as regards business that remains to be completed, notably the taxation of Scotch whisky and the admission of British applicants to the Tokyo Stock Exchange; and I left Prime Minister Takeshita and International Trade and Industry Minister Tamura in no doubt of the continuing importance we attached to an early settlement of these points. But it was clear that the Japanese market is one in which, overall, there is much greater readiness to contemplate an increased role for imports; and this is borne out by the steady increase in Japan's volume of imports (both globally and from the UK) over many months. What is more, I encountered concern among the Japanese Ministers to whom I spoke that such trends should continue.

3 It is now essential that we should encourage British business to take the opportunities offered by the Japanese market. My visit left me in no doubt that these opportunities exist, if we establish the right presence and maintain the necessary relationships in the market place. There is much potential for expanding co-operation and investment: this was





the department for Enterprise

CONFIDENTIAL

clear from the start of my visit (when with Mr Graham Day and Professor Roland Smith I met representatives of Honda in connection with the privatisation of Rover Group) to its conclusion (when I noted Sanyo's and Nissan's proposals for further investment in the UK, and Guinness's plans to establish a sales subsidiary in Japan). There are corresponding opportunities in the field of direct exports (where I saw the range of British goods already available in Japanese stores) and in major projects (where an aerial inspection of the progress of reclamation for the new Kansai Airport at Osaka made a deep impression). In all these fields my Department will be working through the Opportunity Japan campaign to sensitize British industries to the opportunities that are available, and the skills - linguistic skills being a prime example - needed to exploit them. wgr!

4 At the Governmental level too I encountered a welcome for the improved relationship between the UK and Japan, and a concern that it should be broadened and deepened. Prime Minister Takeshita, with whom I had a cordial discussion, looked forward to meeting you during his visit to London on 3-5 May. Mr Tamura, whose Ministry made exceptional efforts to establish contact with the industrialists accompanying me, recalled warmly his discussions with you, the Foreign Secretary and myself in London earlier this year and undertook to lend his personal support to the solution of outstanding economic issues. He also welcomed the relaunch, on a broader basis, of the periodic consultations that have for some years taken place between his Department and mine.



**CONFIDENTIAL**

5 I also had an excellent meeting with Posts and Telecommunications Minister Nakayama with whom I was able to confirm an agreement in principle, negotiated by my Department with the MPT, on the liberalisation and value added services between the UK and Japan.

6 For Government, as for industry, the establishment of links with Japan and its market will be a process requiring long investment of time and effort. What is more, we must not lower our guard as regards the real improvements in commercial relations that still remain to be made. But I believe that successful visits of this kind, which I plan to repeat in future years, will be effective in establishing personal relationships with senior members of the Japanese Government and projecting - in both countries - a clearer image of the opportunities that exist, so that our industry can establish trading patterns with Japan commensurate with Japan's role as one of the strongest economies in the world.

7 I am copying this minute to the Foreign and Commonwealth Secretary, the Chancellor of the Exchequer, the Secretary of State for Education and Science, the Secretary of State for Transport, the Minister of Agriculture, and the Secretaries of State for Scotland, Wales and Northern Ireland; and to Sir Robin Butler.



D Y

21 March 1988

DEPARTMENT OF TRADE &amp; INDUSTRY

RESTRICTED



*Phyf*

10 DOWNING STREET  
LONDON SW1A 2AA

<b>CH/EXCHEQUER</b>	
<b>DATE</b>	<b>30 MAR 1988</b>
<b>ACTION</b>	<i>Mr H.P. EVANS</i>
<b>COPIES TO</b>	<i>CS, PST, PMB, EST, SIR P. MIDDLETON, SIR G. LITTLER, SIR T. BURNS, Mr MAICK, Mr SCHOLAR, Mr LANKESTER, Mr BURENER, Mr S.W. MATTHEWS, Mr P.G. DAVIS, Mr MOLAN.</i>

*31/3*

From the Private Secretary

30 March 1988

NEW JAPANESE AMBASSADOR

The Prime Minister has agreed to see the new Japanese Ambassador at 1215 on Friday 15 April. I should be grateful for a brief to reach me the preceding day.

I am copying this letter to Stephen Ratcliffe (Department of Trade and Industry) and Alex Allan (HM Treasury).

Charles Powell

R.N. Culshaw, Esq., MVO.,  
Foreign and Commonwealth Office.

RESTRICTED

JAPAN, BRITAIN PLAN FINANCIAL MEETING ON APRIL 21  
TOKYO, APRIL 5, REUTER - JAPANESE AND BRITISH OFFICIALS  
WILL MEET IN TOKYO ON APRIL 21 TO DISCUSS DEREGULATION OF  
THEIR FINANCIAL AND CAPITAL MARKETS, A FINANCE MINISTRY  
OFFICIAL TOLD REUTERS.

NRBV

*PWP*

THE DISCUSSION WILL BE THE SEVENTH SUCH BILATERAL MEETING,  
THE OFFICIAL SAID, ADDING THAT THE TALKS TAKE PLACE ABOUT ONCE  
A YEAR.

VICE FINANCE MINISTER TOYOO GYOHTEN WILL REPRESENT JAPAN,  
THE OFFICIAL SAID.

05-APR-0409 MON659 MONE

ENDS

P

REUTER MONITOR

1143

*PPS*

*12/2*

*✓*

*ABC Li*

MIYAZAWA SAYS G-7 TO ENDORSE POLICY COORDINATION

NRBI

TOKYO, APRIL 5 - THE GROUP OF SEVEN (G-7) IS EXPECTED TO  
REVIEW ITS EFFORTS ON POLICY COORDINATION SINCE DECEMBER AT  
ITS NEXT MEETING IN MID-APRIL, FINANCE MINISTER KIICHI  
MIYAZAWA SAID.

HE TOLD A NEWS CONFERENCE THE G-7 IS LIKELY TO BE HIGHLY  
PLEASED WITH ITS EFFORTS SO FAR AND IS EXPECTED TO ENDOSRE  
THEM IN MID-APRIL.

THE G-7 IS GENERALLY EXPECTED TO MEET ON APRIL 13 IN  
WASHINGTON AHEAD OF THE INTERNATIONAL MONETARY FUND AND WORLD  
BANK MEETINGS.

05-APR-0044 MON593 MONE

ENDS

P

REUTER MONITOR

1143





10 DOWNING STREET  
LONDON SW1A 2AA

✓  
11/4

AWP

CH/EXCHEQUER	
REC.	11 APR 1988
ACTION	Mr H.P. EVANS
COPIES TO	CST, FST, PAB, EST, Sir P. MIDDLETON, Sir G. LITTLER, Sir T. BURNS, Mr MONCK, Mr SCHOLAR, Mr LANKESTER, Mr BURGNER, Mr S.W. MATTHEWS, Mr P.G. DAVIS, Mr MOLAN.

11 April 1988

PRIME MINISTER'S INTERVIEW WITH YOMIURI SHIMBUN

The Prime Minister has agreed to give an interview to the Japanese newspaper Yomiuri Shimbun on 25 April.

We have now received a list of their suggested subjects and this is enclosed. Charles Powell has asked if you could let us have briefing notes on questions 1 2 3 4 and 7 by close of play on Wednesday 20 April.

I am copying this letter with enclosure to Alex Allen in the Treasury with a similar request for additional briefing on questions 1 and 2 as well as briefing on questions 5 and 6.

MICHAEL BATES  
Press Office

Mr Lyn Parker,  
FCO.

## Questions for Mrs. Thatcher

### 1. Evaluation of economic summits

You are now the most experienced leader among the heads of the seven industrialized nations. What is your evaluation of past and future summits?

### 2. Agenda of the Toronto Summit

The main objective of recent summits has been the co-ordination of policies. What items on the agenda of the forthcoming Toronto Summit do you consider important?

What should individual countries do to strengthen the world economy?

In connection with this, how do you think a stable exchange rate- a pressing need for both Britain and Japan- can be achieved?

### 3. Mr. Takeshita's visit to Britain

What do you expect from Mr. Takeshita's visit to Britain? Are there any specific problems you would like to see resolved during your meeting with Mr. Takeshita?

### 4. British-Japanese economic relations

How do you regard the present economic relationship between Britain and Japan? What do you consider to be hopeful aspects of the relationship and what obstacles would you like to see removed in order to improve relations?

### 5. The British economy

Could you tell us your analysis of the reasons for the current boom in the British economy?

### 6. Tax reform

The world is watching your tax reforms with much interest. We Japanese are especially interested because tax reform is an urgent problem for us.

Could you comment on your tax reforms and offer any advice you may have for others facing the same problem?

Questions for Mrs. Thatcher

7. Gorbachev and East-West relations

Recently you warned that the West should not adopt too optimistic an approach towards the Soviet Union.

Has your opinion of Mr. Gorbachev changed since you first met him in London?

How do you evaluate the future course of his domestic policies and his foreign policies? Do you think that the present ethnic troubles in the Soviet Union and the withdrawal of the Soviet troops from Afghanistan will have a significant impact both within and outside the Soviet Union?

8. The "Thatcher Revolution"

What do you think is the future for what has been called the "Thatcher Revolution"? What do you hope to achieve next and what is the vision of Britain you are aiming for?

9. Your daily life

Could you tell us something about your daily life in 10 Downing Street?

What issues concern you most at present and what are your priorities?

RESTRICTED

CH/EXCHEQUER	
REC.	14 APR 1988
ACTION	MR H. EVANS
COPIES TO	CST FT PM GST SIR P. MIDDLETON SIR G. LITTLE SIR T. BURNS MR J. MONTAGU MR L. WILKINSON MR S. W. MATTHEWS MR P. G. DAVIS MR MORAN

*[Handwritten signature]*

Foreign and Commonwealth Office

London SW1A 2AH

14 April 1988



*[Handwritten signature]*

Call by new Japanese Ambassador

In your letter of 30 March you requested briefing for the new Japanese Ambassador's call on the Prime Minister tomorrow.

When the Prime Minister receives Mr Chiba she will no doubt wish to refer to the forthcoming visit by the Japanese Prime Minister Mr Takeshita. He will be having talks with the Prime Minister on 4 May. His visit comes at an opportune moment following the efforts by the Foreign Secretary and by Lord Young to take advantage of the growing openness in the Japanese economy and Government. The Japanese Vice-Minister for Foreign Affairs, Murata, told the Foreign Secretary earlier this week that Mr Takeshita attaches great importance to his visit which he sees as a significant step in the development of Japan's relations with the UK and with Europe.

The Prime Minister will wish to set out how she sees our overall relationship with Japan. Our priority is to clear up unfinished business. Above all, we want Mr Takeshita to make a clear statement of Japan's intentions regarding the whisky tax. We also attach importance to access being given on the Tokyo Stock Exchange to all qualified applicants. We are currently pressing the Japanese to look at ways of allowing BZW to obtain a seat at an early date.

Getting these issues resolved will help us to concentrate on the increasing opportunities for cooperation between our governments and in the private sector. We need to work together on world economic management, and in the aid field. Japan has sought advice from us on the disbursement of her additional grant aid package for sub-Saharan Africa and has appointed the Crown Agents as procurement agents in some African countries. The Prime Minister might mention that we would welcome a Japanese contribution to the Limpopo project and the opportunity to work together with Japan on this.

RESTRICTED



In the private sector we look forward to an increase in the flow of trade and investment in both directions. In 1987 UK exports to Japan rose by 25%. This growth rate was maintained into the first quarter of 1988. Strong growth should continue for the foreseeable future. Imports from Japan were up 9% in 1987. Japanese investment in manufacturing now totals over £1.3 billion (over 80 firms).

/ I attach a personality note on Mr Chiba. I am copying this letter to Stephen Ratcliffe, Alex Allan and John Weston.

*Yours ever*  
*R N Culshaw*  
(R N Culshaw)  
Private Secretary

C D Powell Esq  
PS/No 10 Downing Street



10 DOWNING STREET  
LONDON SW1A 2AA

CH/EXCHEQUER	
REC.	18 APR 1988
ACTION	Mr H.P. EVANS,
COPIES TO	CST, FST, PMG, EST, Sir P. MIDDLETON, Sir G. LITTLER, Sir T. BURNS, Mr Monck, Mr SCHOLAR, Mr LANKESTER, Mr BURGNER, Mrs D. MATTHEWS, Mr P. G. DAVIS, Mr MOLAN

From the Private Secretary

15 April 1988

Dear Robert,

PRIME MINISTER'S MEETING WITH THE JAPANESE AMBASSADOR

The Prime Minister received the new Japanese Ambassador for a talk this morning.

The Prime Minister said that she was much looking forward to Mr. Takeshita's visit in May. She very much hoped that various outstanding problems in our relations could be dealt with before he came. Her experience was that she talked to every Japanese Prime Minister about problems like the tax on whisky and seats for British firms on the Tokyo stock exchange, they all told her that the problems would be dealt with and yet she found herself having to take them up with their successors. The best possible basis for getting relations between her and Mr. Takeshita off to a good start would be if the problems over whisky and the stock exchange could be settled in advance or, at the latest, at the time of his visit.

The Prime Minister welcomed the efforts being made by the Japanese Government to stimulate imports into Japan. Our own exports had risen substantially. She hoped this would continue. We also very much welcomed Japanese investment in the United Kingdom. Such investment had proved a great success for both countries. Japanese firms provided superb management and found that their British workforce responded well.

The Prime Minister said that she would hope to discuss some of the main themes for the forthcoming Economic Summit with Mr. Takeshita, in particular the need to make a success of the GATT round, which must deal with agriculture. She would also like to discuss some of the major international issues, particularly developments in the Gulf and in East/West relations. The Ambassador agreed that agriculture was bound to be a major issue at the Summit but warned that it was highly political in Japan. The Prime Minister said that Japan was not unique in that respect. But the problem simply had to be dealt with.

The Ambassador said that the Japanese government was most grateful for the arrangements being made for the younger son of the Crown Prince when he came to Oxford later this year. The Prime Minister said that we were very pleased to welcome him. She would hope in due course to entertain him at Chequers.

I am copying this letter to Alex Allan (HM Treasury), Alison Brimelow (Department of Trade and Industry) and Trevor Woolley (Cabinet Office).

*you surely,*  
*C.D. Powell*

(C.D. POWELL) —

Robert Culshaw, Esq., M.V.O.,  
Foreign and Commonwealth Office.

PPS-PT

PPS

\*

Item 2 needs to  
show agree was  
Item 5 needs strong  
Ch. Paron a son  
No balance  
Context? (for budget)

We will arrange to <sup>provide</sup> ~~provide~~  
+ dispatch). (written present)  
5/4  
M... as

FROM: S W MATTHEWS  
DATE: 19 April 1988

- cc: PS/CST
- PS/FST
- PS/PMG
- PS/EST
- Sir P Middleton
- Sir G Littler
- Sir T Burns
- Mr Lankester
- Mr Monck
- Mr Scholar
- Mr Burgner
- Mr Evans
- Mr P G Davis
- Mr Pickford
- Miss Sinclair
- Mr Bush

**PRIME MINISTER'S INTERVIEW WITH YOMIURI SHIMBUN**

The Prime Minister has agreed to give an interview to this Japanese newspaper on 25 April, and has asked for briefing from the FCO and ourselves by close on Wednesday 20 April.

2. I am attaching briefing notes covering questions 1, 2, 5 and 6. The notes on Summits and international policy co-operation (questions 1 and 2) have been seen by Sir Geoffrey Littler.

3. A problem of co-ordination with the FCO arises over these two questions, as they have also been asked to draft briefing notes on them. I have encouraged the FCO to leave the economic side of these questions to us. They are keen, though, to consolidate the political and economic material for questions 1 and 2 before it goes to No.10. As I shall be out of the office from noon today until Thursday morning, would it be possible for you to deal directly with the FCO (Duncan Taylor - extension 2956) on this, when the notes have been approved by the Chancellor?

Ch  
I think wrong note should  
make the point that exchange rate  
stability refocus is direct  
from G7 communique

agree  
S.W.

S W MATTHEWS

AA



FROM: S W MATTHEWS  
DATE: 19 April 1988

Ch.  
Recast versions of PM's  
answers to "Yominri Shimbum"  
over. OK?

(I have passed on your  
amendments to 1+2 to the  
FCO, who have taken them  
into their draft).

JF OK

**PRIME MINISTER'S INTERVIEW WITH YOMIURI SHIMBUN**

**1. Evaluation of Economic Summits.**

**You are now the most experienced leader among the heads of the seven industrialised nations. What is your evaluation of past and future Summits?**

- Economic Summits have undoubtedly been a success.
- Agreement not always easy, yet Summit countries have achieved a remarkable consensus on how to tackle world economic problems - a strategy of getting inflation down, keeping public spending and borrowing within tight limits, resisting protectionism, and implementing market-oriented structural reforms.
- These policies have served us well and we have seen six years of continuous growth, averaging some 3 per cent, while inflation has been reduced to very low levels.

## 2. Agenda of the Toronto Summit.

The main objective of recent Summits has been the co-ordination of policies. What items on the agenda of the forthcoming Toronto Summit do you consider important?

What should individual countries do to strengthen the world economy?

In connection with this, how do you think a stable exchange rate - a pressing need for both Britain and Japan - can be achieved?

- The agenda for Toronto will be to keep the world economy moving in the right direction.

*This*

- Means reaching agreement on policies to sustain a steady and satisfactory rate of non-inflationary growth, while reducing further the large current account imbalances of the United States, Japan and Germany.

- US still has some way to go in reducing its budget deficit. Japan will need to maintain strong growth of domestic demand for several years. ~~Such policies will cut current account imbalances and promote greater exchange rate stability.~~

- Also vital to reinforce our determination to resist protectionism and to tackle the problems of world agriculture.

*and continue the progress on opening up its markets.*

*###*  
*By continuing to coordinate economic policies to strengthen the underlying fundamentals will ~~the Summit~~ reinforce the conditions for exchange rate stability.*

*[undecorated, but straight from G7 communique, so unobjectionable].*

## 5. The British economy.

Could you tell us your analysis of the reasons for the current boom in the British economy?

Last year the British economy grew faster than any other major industrial country. But that was no flash in the pan. The last six years have been for this country the longest period of steady growth, at an average annual rate of 3 per cent, for 50 years. But more importantly this sustained growth has not been accompanied by any signs of a resurgence of inflation. The inflation rate is currently  $3\frac{1}{2}$  per cent, and 1987 was the first year for a generation that the rate of growth exceeded the rate of inflation.

This transformation is the result of a combination of sound financial policies and supply side reforms.

At the heart of our macroeconomic policy is firm monetary discipline, backed up by a prudent fiscal stance, which provide the framework for reducing inflation. Our actions over the past nine years have demonstrated our continuing determination to maintain downward pressure on inflation, and have produced a stable and secure environment in which businesses can flourish.

We have secured an enviable virtuous circle where lower borrowing and lower tax rates give the private sector both the scope and the incentive to expand. And the increased tax revenues that follow in turn allow further reductions in borrowing or tax.

Hand in hand with prudent financial policies, our supply side reforms have transformed attitudes in industry. We have removed arbitrary regulations and abolished restrictive practices which, together with lower taxes and measures to encourage wider ownership, have freed the spirit of enterprise in this country - so long suppressed by the weight of bureaucracy and petty regulations.

The effect on industry is abundantly clear - rising profitability, rapid growth in the number of new businesses, the fastest growth of productivity amongst major developed countries, and buoyant business confidence.

Photo

Privatisation

WB have surplus!

## 6. Tax reform.

The world is watching your tax reforms with much interest. We Japanese are especially interested because tax reform is an urgent problem for us.

Could you comment on your tax reforms and offer any advice you may have for others facing the same problem?

The aim of our tax reforms has been to create a climate in which all types of business can thrive, and individual initiative and risk taking are rewarded. This is best achieved by simple structures and low rates of tax. Other countries are increasingly coming to the same conclusions.

Since 1979 we have

- reduced the basic rate of income tax by ~~8~~ per cent; (from 33 per cent to 25)
- slashed the top rate of income tax from 83 per cent to 40 per cent;
- cut the rate of tax on company profits by ~~17~~ per cent; (from 52 per cent to 35)
- replaced seventeen rates of capital transfer tax (running up to 75 per cent) by a single rate of 40 per cent on inheritance;
- abolished five significant taxes;
- ended the taxation of inflationary capital gains, taxing real gains at the same rates as income.

We have cut rates substantially; yet revenues are buoyant, showing that lower rates do stimulate enterprise.

Most important of all, we have achieved these reductions in tax rates against a background of prudent economic management. This has enabled us to balance the budget, ~~a piece of profound common sense~~ which means that our tax cuts will stick. can be sustained,

and now cannot further in due course.



*[Handwritten signature]*

*[Handwritten signature]*

Treasury Chambers, Parliament Street, SW1P 3AG  
01-270 3000

20 April 1988

Michael Bates Esq  
Press Office  
10 Downing Street  
LONDON SW1

*Dear Mr Bates*

**PRIME MINISTER'S INTERVIEW WITH YOMIURI SHIMBUN**

You copied your letter of 11 April to Lyn Parker in the FCO to Alex Allan here.

... I attach briefing notes on questions 5 and 6. We have passed to the FCO briefing on questions 1 and 2, which they will consolidate into their reply.

I am copying this letter to Lyn Parker.

- cc PS/Chief Secretary
- PS/Financial Secretary
- PS/Paymaster General
- PS/Economic Secretary
- Sir P Middleton
- Sir T Burns
- Sir G Littler
- Mr Lankester
- Mr Anson
- Mr Monck
- Mr Scholar
- Mr Burgner
- Mr Evans
- Mr P G Davis
- Mr Pickford
- Miss Sinclair
- Mr Bush

*Yours sincerely*

*[Handwritten signature]*

J M G TAYLOR

### 3. The British economy

Could you tell us your analysis of the reasons for the current boom in the British economy?

Last year the British economy grew faster than any other major industrial country. But that was no flash in the pan. The last six years have been for this country the longest period of steady growth, at an average annual rate of 3 per cent, for 50 years. But more importantly this sustained growth has not been accompanied by any signs of a resurgence of inflation. The inflation rate is currently 3½ per cent, and 1987 was the first year for a generation that the rate of growth exceeded the rate of inflation.

This transformation is the result of a combination of sound financial policies and supply side reforms.

At the heart of our macroeconomic policy is firm monetary discipline, backed up by a prudent fiscal stance, which provide the framework for reducing inflation. Our actions over the past nine years have demonstrated our continuing determination to maintain downward pressure on inflation, and have produced a stable and secure environment in which businesses can flourish.

In 1980-81 public sector borrowing took over 5 per cent of GDP, whereas last year we actually repaid £3½ billion of public sector debt. And at the same time firm control of public expenditure has allowed us to reduce tax rates, which is the best possible way to boost incentives and enterprise in the economy. So we have secured an enviable virtuous circle where a balanced budget and lower tax rates give the private sector both the scope and the incentive to expand. And the increased tax revenues that follow in turn allow further repayments of debt or reductions in tax.

Hand in hand with prudent financial policies, our supply side reforms have transformed attitudes in industry. We have removed arbitrary regulations and abolished restrictive practices which had for so long suppressed the spirit of enterprise in this country.

Also since 1979 we have privatised 17 major companies, thus reducing the state-owned sector of industry by getting on for 40 per cent. This has been a major factor in promoting efficiency, increasing incentives and widening share ownership. A measure of its success is

that the number of individual shareowners in the UK has trebled since 1979. The privatisation programme will continue, with electricity supply, the water industry and the British Steel Corporation still to come.

The effect on industry is abundantly clear - rising profitability, rapid growth in the number of new businesses, the fastest growth of productivity amongst major developed countries, and buoyant business confidence.



## Tax reform

The world is watching your tax reforms with much interest. We Japanese are especially interested because tax reform is an urgent problem for us.

Could you comment on your tax reforms and offer any advice you may have for others facing the same problem?

The aim of our tax reforms has been to create a climate in which all types of business can thrive, and individual initiative and risk taking are rewarded. This is best achieved by simple structures and low rates of tax. Other countries are increasingly coming to the same conclusions.

Since 1979 we have

- reduced the basic rate of income tax from 33 per cent to 25 per cent;
- slashed the top rate of income tax from 83 per cent to 40 per cent;
- cut the rate of tax on company profits from 52 per cent to 35 per cent;
- replaced seventeen rates of capital transfer tax (running up to 75 per cent) by a single rate of 40 per cent on inheritance;
- abolished five significant taxes;
- ended the taxation of inflationary capital gains, taxing real gains at the same rates as income.

We have cut rates substantially; yet revenues are buoyant, showing that lower rates do stimulate enterprise.

Most important of all, we have achieved these reductions in tax rates against a background of prudent economic management. This has enabled us to balance the budget, which means that our tax cuts can be sustained, and indeed carried further in due course.



Sir G Littler

Grateful if you could glance over  
this note before I send it off.

27

Fair.

A handwritten signature in black ink, appearing to be 'H. S. G.' or similar, written in a cursive style.

FROM: S W MATTHEWS  
DATE: 22 April 1988

**CHANCELLOR**

cc: Economic Secretary  
Sir G Littler  
Mr Lankester  
Mr Evans  
Mr Mountfield  
Mr Ilett  
Mr Walsh  
Mr Savage  
Ms Symes

**COURTESY CALL BY JAPANESE AMBASSADOR**

The new Japanese Ambassador in London, Mr Chiba, is calling on you at 4.15pm on Wednesday, 27 April. A biographical note (and photograph!) are attached. A background brief on the Japanese economy is also attached.

2. Some topics which might come up are:

**Bilateral financial relations.**

Sir Geoffrey Littler has reported separately on this following the latest round of talks in Tokyo.

**World agriculture.**

You might like to reiterate the need for all countries, including Japan, to reduce levels of protection. Points to make might be:

- Progress on agriculture will be vital for the success of Uruguay round, and the Japanese have as much interest as anyone in multilateral trade liberalisation generally.
- All countries share responsibility for current agricultural overproduction, not just the exporters but also the importers such as Japan (who protect their markets and subsidise their producers).
- Concern about food security, the environment and so forth, are not unique to Japan.

- A PSE-type aggregate measure of support is a vital yardstick in negotiations.
- UK will be maintaining pressure in the Community for further reforms.
- See much merit in the Cairns group notion of a downpayment at the Ministerial Mid-Term Meeting in Montreal in December.

#### IMF quotas

If Mr Chiba raises Japan's desire for a selective increase in quotas at the IMF, the recommended line is simply that we realise the concerns of Japan to move up in the Fund more rapidly than the normal quota increase mechanism allows. But there are a number of complications, including the wish of others to move up at the same time, and we should have to consider the overall implications of any specific proposal very carefully.

Background. At the Spring Meetings Mr Miyazawa raised the question of a selective quota increase to move Japan up into a position more in line with its relative strength in the world economy. This affects our second position in the Fund. We might accept the Japanese moving up but we do not know whether the Germans and others would then also seek a special increase. This could push the UK down to joint third or below. It could also have the repercussions in the World Bank where there has been French pressure to overtake us.

There is also a problem in ensuring that, if the Japanese should overtake us in the Fund, there is a suitable adjustment in the relative UK and Japanese contributions to the Fund's resources in terms of unremunerated reserve tranches, i.e. that part of contributions to the Fund's resources on which no interest is received.

84  
S W MATTHEWS

CONFIDENTIAL

BIOGRAPHICAL NOTE: MR KAZUO CHIBA

Mr Chiba was born in Tokyo in 1925. Born into a diplomatic family he grew up in Paris. He was accepted into the Japanese Ministry of Foreign Affairs in 1948 and graduated from Tokyo University Law Faculty in 1949.

In 1964 he served as first secretary in Washington. He was subsequently Director of the North America Division in the MFA from 1967 to 1972. He served as Minister in Moscow (1972-1974), followed by spells as Consul-General, first in Atlanta (1974-76), then in Berlin (1976-78). In 1978 he returned to the MFA as Director-General of the Middle East and African Affairs Bureau. In 1980 he was appointed Ambassador to Sri Lanka and from 1982 to 1987 he served as Ambassador to the International Organisations in Geneva.

Our Ambassador in Tokyo has described Mr Chiba (who is often known as "Kaz") as intelligent, articulate, lively, amusing, if somewhat self-opinionated and at times maverick. He speaks excellent English. His Japanese colleagues have a high regard for his abilities, a little less so for his cooperativeness. He is known as a hard taskmaster but commands respect. In Geneva he built up a reputation as a tough negotiator. Work is his hobby.

His wife Madame Keiko Chiba is attractive, charming and lively. She speaks fluent English. They have two children; a daughter, who is married to a diplomat (currently a Private Secretary in the Foreign Minister's Office); and a son who is also a diplomat (temporarily at University in the USA).

FOREIGN AND COMMONWEALTH OFFICE  
18 MARCH 1988

D10AAD

*Handwritten notes in red ink:*  
What he did  
was (he was 20 when [unclear])!

Bio-  
GRAPHICAL  
NOTE



*His Excellency Mr. Kazuo Chiba*

## JAPANESE ECONOMY

1. A two year phase of slow growth ended last Spring - chiefly because domestic demand accelerated but partly also because exports revived. Despite the high yen, industrial production was almost 10 per cent higher in the three months to January than a year before.

2. During 1987 (1986Q4-1987Q4) real GNP grew just under 5½ per cent and real domestic demand just under 6¼ per cent. The real foreign balance therefore declined by 1¼ per cent of GNP. With the terms of trade worsening slightly (despite the yen's appreciation), the current account surplus declined a little more than this - from 4.7 per cent to 3.3. per cent of GNP.

Table 1: Current account

	Real Foreign Balance*	Terms of Trade**	Current balance % of GNP	\$ bn
1986 Q1	3.6	108	4.0	16
Q2	2.6	131	4.4	22
Q3	2.5	134	4.5	24
Q4	2.5	135	4.7	24
1987 Q1	3.0	128	4.9	25
Q2	1.8	128	3.4	21
Q3	1.9	123	3.6	20
Q4	1.2	126	3.3	21

\* At 1980 prices; percentage of real GNP.

\*\* Ratio of price deflator of exports of goods and services to that of imports of goods and services; 1980=100.

3. The acceleration in domestic demand is based largely on a re-expansion in public investment (following cuts in 1984-85) and a boom in private housebuilding. Fears have been expressed that the construction industry is overheating. But the real bottleneck is the supply of development land, which is restricted by excessive regulations.

## Inflation

4. General inflationary pressures remain weak. Average earnings in manufacturing increased by only 2½ per cent in 1987, while output per employee in manufacturing rose 6-6½ per cent. Labour costs per unit of output thus declined substantially. In yen terms, commodity prices have hardly changed over the past year despite their appreciable rise in dollars. Some rise in nominal wage growth is likely in 1988, but inflation should remain low - less than 2 per cent.

## Fiscal policy

5. Despite the expansionary package last May said to be worth yen 6 trillion (1¼ per cent of GNP), the general government deficit has risen only slightly - continued restraint in current spending and strong growth of tax receipts tending to offset very rapid growth in public investment: see table 2, which also shows the OECD's latest estimates of budget balances in 1988.

6. The general government financial deficit - the national accounts concept normally used for international comparisons - is substantially lower than the central government borrowing requirement in Japan because the social security budget is in surplus by 2½ - 3 of GNP. The Japanese refuse to recognise the general government concept as an indicator of fiscal stance on the grounds that the social security surplus is not 'saved' but used to finance investment by public corporations.

## Monetary policy

7. Since Takeshita's statement in January, during his visit to Washington, that Japan was easing monetary policy, short-term interest rates have come down only marginally. The 3-month Gensaki rate has remained close to 3.8 per cent for more than a year.

8. The broad money supply (M2 plus CDs) is growing at a rate of about 12 per cent a year, but has been strongly affected by financial innovation. Reform and liberalisation (introduction of money market certificates, increased availability of CDs, and



freeing of interest rates on large wholesale deposits) have contributed to a rapid rise in wholesale bank deposits. During 1987, the total of money market certificates, CDs and deposits with liberalised interest rates about doubled, and its share of total bank deposits rose from 13 to 22 per cent.

9. Table 2 gives summary figures for 1985-87 and the OECD's latest forecasts for 1988.

Table 2: Japanese Economy: Key Figures\*

	<u>1985</u>	<u>1986</u>	<u>1987</u>	<u>1988</u>
GNP: Nominal	6.3	4.4	4.0	6½
Real	4.7	2.4	4.1	4¼
Real Domestic Demand	3.8	4.0	5.0	5½
Consumer prices	2.2	0.5	0.0	1¾
Current balance (\$ bn)	49	86	86	81
General government deficit (% of GNP)	0.8	1.1	0.3	0.4
Central government deficit** (% of GNP)	5.2	5.2	4.0	4.3

\* Percentage changes.

\*\* Fiscal year beginning 1 April of the year shown.

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*Handwritten signature*

CH/EXCHEQUER	
26 APR 1988	
ACTION	Mr H.P. EVANS
COPIES TO	CST, FST, PMG, EST, SIR P. MIDDLETON, SIR G. LITTLER, SIR T. BURNS, MR MONCK, MR SCHOLAR, From the Private Secretary, MR LANKESTER, MR BARONER, MR J. W. MATTHEWS, MR P. G. DAVIS, MR MOLAN

✓  
26/4

10 DOWNING STREET

25 April 1988

Visit of Mr. Takeshita

The Prime Minister does not like the way in which the Japanese seem to be trying to "fix" her meeting with Mr. Takeshita so far as possible in advance and prevent anything happening at the meeting which has not been precisely foreseen by the Japanese bureaucracy. She has therefore decided that she wishes her meeting with him to be on a very restricted basis. She will be accompanied only by a notetaker. She hopes that Mr. Takeshita will similarly restrict himself to one accompanying official, or at the most two (plus an interpreter).

There will of course be plenty of opportunity for others to meet Mr. Takeshita before and at dinner.

I am copying this letter to Alex Allan (HM Treasury) and Stephen Ratcliffe (Department of Trade and Industry).

(CHARLES POWELL)

R.N. Culshaw, Esq., MVO,  
Foreign and Commonwealth Office.

RESTRICTED



Ch.

Japan

JGL has let me have his draft minute to you. (Draft :: he is still thrashing out the line with DTI, who are pressing for an explicit link between BZW getting a seat in Japan, + Japanese firms being allowed to become GEMs).

This meeting sets out the background.

JF

27/4



Ch.

Japan

I chased JGL's office.

He has been tied up in meetings all morning, so we may not get a note this side of lunch. But it will be

ready before your meeting with the Japanese Ambassador.

*(This is for Swi.)*  
*Thank you* *W* *1500* *1200* *1100* *1000* *900* *800* *700* *600* *500* *400* *300* *200* *100* *0*

27/4

CONFIDENTIAL

From: Sir G.Littler  
Date: 25 April 1988

CHANCELLOR

c.c. PS/Econ Sec  
Sir P.Middleton  
Mr Lankester  
Mr Scholar  
Mr Ilett  
Miss Noble

**TOKYO STOCK EXCHANGE MEMBERSHIP**

At the bilateral meetings I led in Tokyo last week the main focus was the possibility of finding some way to get membership of the Tokyo Stock Exchange for Barclays/BZW within, say, a year. There were warm expressions of goodwill, but we were unable to obtain the assurances we wanted. We need now to decide what action to take, and what briefing to give the Prime Minister for her meeting next week with Mr Takeshita, the Japanese Prime Minister.

2. In the remainder of this submission, I first explain in some detail the position on Tokyo Stock Exchange Membership, then run over Japanese interests in London, before proposing the line we should now adopt.

The Tokyo Stock Exchange Problem

3. There is a perfectly genuine physical limit on Tokyo Stock Exchange membership. From its beginnings, the Exchange centred on a dealing floor, in which all members have similar booths, and this arguably gives parity among members, openness and a helpful basis for supervision. With a physically limited floor space, there is genuinely a limit on membership numbers (some squeezing up allowed an initial extra 10 seats in 1986; a new and larger floor was needed to allow the recent addition of 22 seats).

(sounds like school!)

CONFIDENTIAL

4. One can argue - and I did - that all this is unnecessary with modern technology. London has dispensed with its floor; even in Tokyo many stocks are now dealt with on screens off the floor, although all leading stocks are still 'floor' stocks. But the Japanese maintain that they are not satisfied that standards can be maintained as well on the 'London basis' as under their well-tried floor arrangements. They are in any case not at present prepared to contemplate a revolutionary change.

5. So the next possibility is a further enlargement. To this their answer is that they accept in principle the probable need for yet another enlargement in future; but they have only just undertaken one such move, at considerable cost in rebuilding and equipment, they cannot contemplate a further move until some time ahead, and of course a favourable decision then would take effect only after further new building, etc.

6. Although I have described the problem as genuine, it does also have a less respectable aspect. Not surprisingly the unsatisfied demand (from a host of excluded Japanese brokers) has led to a very high commercial value of stock exchange seats, and this brings in a powerful vested interest reason for existing members to resist unlimited or even large expansion of membership.

7. I have explored two other theoretical ways of resolving our immediate problem. First, some form of partial membership, which would give status and access to membership dealing terms but not a floor booth. The Japanese answer is that, having thought about it, they cannot see a practical way of achieving this.

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8. Secondly, I have pressed the possibility of access to an existing seat (by merger or acquisition). On this point, both the Ministry of Finance and the Stock Exchange Chairman gave warm indications that they would be happy to endorse such a solution if it could be achieved on commercial terms. (They both observed that Barclays/BZW would formally have to make an application and satisfy normal criteria, but added that that would be no problem). Some sporadic hints in response to pressure over several weeks on this have confirmed our belief that the Tokyo heavy-weights could between them contrive such an opening. But there is an obvious problem of price. Roughly speaking, whereas new seats recently cost about \$1.3 million each, the commercial route might cost up to ten or twenty times as much, unless somebody was ready to be unusually generous! Barclays/BZW are not ready to take on so high a cost - or at least they are hoping our efforts will secure something better.

9. In response to the Japanese response on all these ideas, I made it clear to both the Ministry of Finance and the Chairman of the Stock Exchange that, while I acknowledged the points they had made, the continued exclusion of Barclays/BZW - or indeed of other qualified firms - was unacceptable and we looked to them to find some way of resolving the problem. I said that otherwise such a 'running sore' was bound to damage prospects for further Japanese progress in London. (I deliberately did not link this with progress on any particular Japanese aspirations, implying that it could be on all). I also indicated that this might figure in the coming meeting of Prime Ministers, which worried them!

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Japanese Interests in London

10. There are currently three groups of unsatisfied Japanese aspirations in London: Gilt-Edged Market Makers (GEMMs); lead management of sterling issues; branch status for regional banks.

11. GEMMs. There are at present no Japanese in the list of GEMMs. The two biggest Japanese securities houses, Nomura and Daiwa, showed interest last year. We deterred them at first, in order to add to pressure for a reasonable quota of seats on the Tokyo Stock Exchange in the decision of last December. When we were given 4 seats we felt it reasonable to allow them to apply for authorisation, but again to add to pressure for a fifth seat for Barclays/BZW we indicated that we would not decide on the applications until after the recent bilaterals.

12. In fact the balance of interests is uncomfortable. It is in the UK interest to have Nomura and Daiwa acting as GEMMs, given their size and influence, to strengthen the market for the sales of UK gilts we need to make. And continued refusal could expose the Bank of England to legal action with an uncertain outcome, although we believe the Japanese would be reluctant to try this. For their part, the Japanese want the prestige of GEMM status, and have invested resources in preparing for it, but they know that it is still largely a loss-making market and probably would be ready to accept postponement without too much anguish. At no time have the Japanese authorities committed themselves to support the GEMM applications, but of course that may just be a tactical decision. Our best judgment is that withholding consent for a time may be a mildly useful, but not a very powerful negotiating weapon.



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13. Lead Management. This has been a long-running demand of interest to leading Japanese securities houses, which we have so far refused on the ground that Japan does not offer reciprocal treatment. There is some room for argument: in principle they offer some opportunities, and one has been taken, but in a limited section of the market - a partial concession which we cannot copy. If we had no other problems in the financial field with Japan, we would be ready to negotiate, perhaps on a trial run. But we can equally choose to persist in refusing.

14. Regional Banks. This is by far the biggest issue: for the Japanese, because the banks concerned are pressing hard, and the Japanese Ministry of Finance has committed itself strongly to support one particular bank (Hokuriku) in its demand for branch status; and for the Bank of England, who are hesitant about the increase in the total scale of Japanese operations here if they have to admit some half dozen or so more substantial participants. But again, other things being equal, the Bank of England might be prepared to consider an application for one bank, making it clear that any process of adding others would have to be a slow one.

Line to Adopt

15. I suggest we need to be guided by several considerations which are partly in conflict:

- we must keep up pressure for a solution to the problem of Barclays/BZW;
- realistically, however, I very much doubt whether there can be a solution within a year or so except on the basis of Barclays/BZW acquiring (or merging with) the

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holder of an existing seat: on this basis, my guess is that reasonable pressure might produce an opportunity, which would already be an achievement, but it would take a great deal more pressure - and could prove impossible - to produce the opportunity at much less than a commercial price. How far is it right for the UK Government to go down that road?

- There has to be some risk that excessive pressure by the UK could be counter-productive: British interests now established in Tokyo have invested a good deal there and are doing reasonably well and looking forward hopefully in a market which is very competitive but not hostile; but they are conscious of being vulnerable in case that market did turn hostile.

16. During his visit to Japan a month ago, Lord Young argued forcefully for a solution to the Barclays/BZW problem and drew a parallel with progress on GEMM applications in London. But my understanding is that he did not make an irrevocable and unique link. I think it would have been a mistake to do so. There is a much stronger Japanese interest in regional banks than GEMMs. And think we need to keep our pressure both broader and more flexible. I have found this the best strategy for the two or three years in which we were fighting successfully to get licences for British securities firms. And I am worried about where we would stand on a more specific linkage if, for example, we found that Barclays/BZW lost interest (not at present their position, I believe, but by no means inconceivable in future).

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17. My recommendations are as follows:

- we should go slow on Japanese aspirations across the board, deliberately not focussing on any particular case and making it clear to them that this is a response to their failure to help over the Tokyo Stock Exchange membership problem so far;
- going slow should not mean putting up the shutters; in particular we should be ready to allow one GEMM entrant after a little delay, and a second after longer delay, tightening up as we go along if there is still no sign of progress on membership;
- we should tell Barclays/BZW that they cannot simply sit back and wait for a gift to fall into their laps - at least if they want early results; they will have to be prepared to negotiate;
- through official channels we go on pressing for whatever kind of help the Japanese can offer, making it clear that it is for them to find some helpful route.

Brief for the Prime Minister

18. I recommend that the Prime Minister should be briefed to raise the issue. She could best do so in general terms, without going into details, on the following lines:

- we have welcomed progress in mutual access to London and Tokyo markets; but:
- the 'rationing' of Tokyo Stock Exchange membership is a cause now of acute difficulty, with its effect of excluding a major and qualified British firm from the

CONFIDENTIAL

position its British competitors have been successful in achieving; this kind of limitation is the antithesis of open markets and symptomatic of Japanese protectionism of which we complain;

- the contrast with London's complete openness is striking and the resulting imbalance unacceptable;
- we look to the Japanese to find a solution: until they do, we are bound to be less sympathetic to their wishes on business here.

Against reasons why the Japanese find this difficult, the answer should be that it is their problem, created by their system.

Conclusion

19. [I have discussed this submission with the Bank of England, DTI and FCO officials .....

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*PMP*

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PS/CHANCELLOR OF THE EXCHEQUER  
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TELNO RETRACT 033: MRS THATCHER'S INTERVIEW WITH THE YOMIURI

1. MRS THATCHER'S INTERVIEW RECEIVED SATURATION COVERAGE IN THE YOMIURI (CIRCULATION 9.2MILLION) ON 27 APRIL. THE HIGHLIGHTS OF THE INTERVIEW WERE CARRIED WITH A PHOTOGRAPH AS THE LEAD STORY ON THE FRONT PAGE UNDER THE BANNER HEADLINE QUOTE BRITAIN HOPES FOR JAPANESE INVESTMENT UNQUOTE. A TRANSCRIPT OF THE INTERVIEW APPEARED ON THE SECOND PAGE. THE YOMIURI'S POLITICAL STAFF PROVIDED BACKGROUND ANALYSIS AND EDITORIAL COMMENT ON PAGE THREE. MRS THATCHER'S REMARKS ABOUT EAST/WEST RELATIONS AND THE NEED FOR FURTHER LIBERALISATION OF THE JAPANESE MARKET WERE TAKEN UP ON INSIDE PAGES.

2. THE YOMIURI NOTED THAT AT THE TOP OF MRS THATCHER'S AGENDA FOR HER TALKS WITH MR TAKESHITA WILL BE THE MANAGEMENT OF THE WORLD ECONOMY AND UNFINISHED BILATERAL BUSINESS VIZ THE REFORM OF THE LIQUOR TAX AND SEATS ON THE TOKYO STOCK EXCHANGE. MRS THATCHER'S CALL FOR BRITISH FIRMS AND FINANCIAL INSTITUTIONS TO HAVE OPEN ACCESS TO THE JAPANESE MARKET EQUIVALENT TO THAT ENJOYED BY THE JAPANESE IN THE UK WERE PROMINENTLY FEATURED.

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ADDITIONAL 46

JAPAN POLITICAL AND ECONOMIC  
MR WHEELER, PEP 1 DIV DTI

PS/NO.10  
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cc: Economic Secretary  
 Sir G Littler  
 Mr Lankester  
 Mr Evans  
 Mr Mountfield  
 Mr Ilett  
 Mr Walsh  
 Mr Matthews  
 Mr Savage  
 Ms Symes

Treasury Chambers, Parliament Street, SW1P  
 01-270 3000

28 April 1988

Robert Culshaw, Esq MVO  
 PS/Foreign Secretary  
 Foreign and Commonwealth Office  
 London SW1

*Dear Robert*

**COURTESY CALL BY JAPANESE AMBASSADOR**

The Japanese Ambassador, Mr Chiba, paid a courtesy call on the Chancellor yesterday. Sir Geoffrey Littler was also present.

Membership of the Tokyo Stock Exchange

Mr Chiba said that Sir Geoffrey Littler's recent visit to Japan had been reported in "a certain way" in the newspapers. He had, however, had more optimistic reports from the Japanese Finance Ministry. The Chancellor said it was good to hear this. He had to say, however, that we had been disappointed by the outcome of Sir Geoffrey's visit.

Mr Chiba said that he imagined that the problems relating to BZW's application for a seat on the Tokyo Stock Exchange were very much in the Prime Minister's mind. He knew that Mr Takeshita was much looking forward to his forthcoming meeting with the Prime Minister. He hoped that it would be possible for the discussions to concentrate on "big" topics. The Chancellor said that the Prime Minister would certainly wish to discuss these "big" issues. But she also took a close interest in smaller, bilateral issues. These smaller questions were of political significance. The City was particularly important to the United Kingdom, and we wished to see our key players taking a significant role in Tokyo. This would be important for the City's future development, as well as for even closer Anglo-Japanese relations. Mr Chiba said that the Japanese Finance Ministry had said there were technical reasons why the Tokyo Stock Exchange could not be enlarged to provide a seat for BZW. The Chancellor said that these alleged technical difficulties could be readily overcome by electronic means - in which Japan was pre-eminent. We therefore found it difficult to understand why these were produced as reasons for blocking BZW's membership.

Scotch Whisky

The Chancellor expressed the hope that the continuing difficulties over whisky would soon be resolved.



### Toronto Summit

The Chancellor asked about Japanese expectations for the Toronto summit. Mr Chiba said that Mr Takeshita hoped that currency stabilisation would continue. On trade matters, he hoped that progress could be made against protectionism. The Chancellor agreed; he hoped that market forces could be brought to bear, in particular, on the problem of world agriculture. The United States, Europe and Japan all protected their agricultural industries; there must be agreement that all should move. Mr Chiba agreed, while noting the internal political difficulties in Japan of achieving this. The Chancellor said that he hoped that the LDP would have sufficient political strength to overcome resistance.

### UK Economy

Mr Chiba asked about the UK's domestic economic objectives. The Chancellor described recent economic developments. He assured Mr Chiba that the Government's aim was to reduce further the rate of inflation. This might take time - the last few percentage points were the hardest - but it remained a firm objective.

I am copying this letter to Charles Powell (No.10) and to Stephen Ratcliffe (DTI).

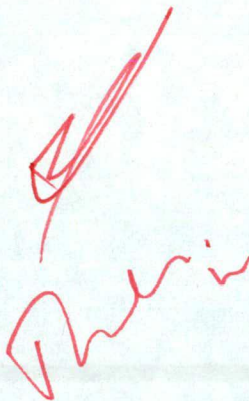
*Yours ever*  
*Jonathan Taylor*

J M G TAYLOR  
Private Secretary



FROM: R I G ALLEN  
DATE: 29 APRIL 1988

**CHANCELLOR**

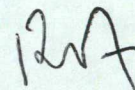


cc Sir G Littler  
Mr H P Evans  
Mr Peretz  
Mrs Lomax  
Mr Burgner  
Mr A Edwards  
Mr Segal

**PRIME MINISTER'S INTERVIEW WITH JAPANESE TV NHK: FRIDAY, 29 APRIL**

You and copy recipients may be interested in seeing the attached transcript (economic section only) of the interview the Prime Minister did this morning for Japanese TV.

Parts of the non-economic section of the interview were transmitted on lunchtime TV and radio news bulletins.



**R I G ALLEN**

PM - INTERVIEW NHK - LONDON - 29 APRIL 1988

FROM JAMES LEE FOR COI RADIO TECHNICAL SERVICES

TRANSCRIPT OF INTERVIEW GIVEN BY THE PRIME MINISTER,

MRS. THATCHER, IN LONDON, ON FRIDAY, 29 APRIL 1988

INTERVIEWER: HATSUHISA TAKESHITA (NHK)

=====

INTERVIEWER:

Prime Minister, thank you very much for this interview.

You are meeting with the Japanese Prime Minister, Mr. Takeshita, in this very room on the 4th of May. This meeting will be what your Government described as "the beginning of the new constructive partnership with Japan". What would you like to achieve through this meeting?

PRIME MINISTER:

I am very much looking forward to it. I have, of course, met Mr. Takeshita before. We both go regularly to the Economic Summit and that will be valuable and, as you know, Japan plays an enormous part in that Summit and twice while I have been Prime Minister it has been held in Tokyo. So we start off on a very good basis.

I think that we shall discuss the main broad outlines of keeping the world economy going forward with a reasonable rate of growth - sound growth without inflation - and trying all the time to keep the world's trade open so that it is free trade but also fair trade.

PM - INTERVIEW NHK - LONDON - 29 APRIL 1988

-2-

PRIME MINISTER (CONTD):

Of course, we shall discuss things as we see them from the viewpoint of each other's countries. We have a great deal in common, but some things are different. I hope that we will discuss frankly - it has always been my habit to do so - and I am sure it will be a very valuable meeting.

INTERVIEWER:

On the question of fairness of trade, just a year ago you have been very critical about the Japanese Government's handling of the Cable and Wireless case among other things, and now the situation seems to be very much improved and the Anglo-Japanese relationship has improved dramatically nowadays. Is the time of trade friction between our two countries over, or still there is a potentiality or possibility of a resurgence of it?

PRIME MINISTER:

I think things are improving.

First, there has been the position of the Yen, with its enormous increase, which has obviously had a very considerable effect.

Secondly, I think that tremendous efforts have been made in recent years to open up Japanese markets, to make them freer.

PM - INTERVIEW NHK - LONDON - 29 APRIL 1988

-3-

PRIME MINISTER (CONTD):

I think there is quite a long way to go yet and there are one or two things which Mr. Takeshita and I must discuss which affect us particularly.

You see, there is an enormous difference in the attitude of the two countries and I think it comes about this way:

We were the centre of an empire for a long time. We were used, therefore, to having goods come from all over the world into the market-places of Britain, into the shops. It was a daily experience of the housewife that she had a massive choice. She looked at the goods, not to say: "Are they made in Britain?" but "Are they good value for money? Do we like them? Then we buy them!" Now, that has been a very open approach and do not forget, countries raise their standard of living not only by aid but by trade - whether other countries will accept their goods - so our tradition is free trade, goods coming in from all over, looked at on merit, on efficiency, on value for money, on design.

Now that is not Japan's tradition. It just is not. It is much much more difficult to get into Japan. She has been a much less open country and now things are having to change and we welcome that change. We think there is a little bit further to go, but we say quite openly: "If you expect to be able to export to the rest of the world, then you must be prepared to take products from the rest of the world on the same basis!" I think Japan is making great efforts in that respect.

PM - INTERVIEW NEK - LONDON - 29 APRIL 1988

-4-

PRIME MINISTER (CONTD):

And there is one other thing I should mention:

We have a marvellous system of distribution of goods; shops which have branches all over the United Kingdom, and a very good system. If you can sell into Britain, there is a very good system of getting your goods all over.

We do not find that quite so easy in Japan. Perhaps we have excelled at distribution of goods, whereas Japan has excelled at very efficient production, so you plug in from their very efficient production to a very efficient system of distribution. We are now getting very efficient production, but we do not yet find quite such an efficient system of distribution.

INTERVIEWER:

You made it clear that you will be discussing the remaining issues concerning trade relations with Mr. Takeshita here. I presume they are scotch whisky and also the participation of British equity firms in the Tokyo stock exchange?

PRIME MINISTER:

Yes, those are the two things. I do not want to go into detail at the moment. I hope we will settle them; they have been running sores for a long time, and it is best that we settle them.

PM - INTERVIEW WHK - LONDON - 29 APRIL 1988

-5-

PRIME MINISTER (CONTD):

I have taken up scotch whisky so many times and also, as you know, on the other matter, our financial markets are open. So many of your countrymen are practising freely in our financial markets and so, just as we offer that kind of freedom, so we expect to receive with our people over there. I am sure that we shall be able, by quiet discussion, to solve it and I hope it is soon.

INTERVIEWER:

So you do not expect any tough negotiation on those issues?

PRIME MINISTER:

Look! What I am saying is it will not be fair, it will not be right if they are too tough. As you find us, so you must receive us.

INTERVIEWER:

Now let me turn to the world economy.

I understand that the British economy has improved dramatically; you are now out of the so-called "British disease", but still there is talk about overheating of the British economy and also the possibility of the reduction of exports because of the high value of Sterling. Also, on the other hand, the United States still has the problem of a huge deficit.

How would you view the future of the world economy and also, what is your prescription to avoid any catastrophe and disastrous situation and sustain the growth?

PM - INTERVIEW NHK - LONDON - 29 APRIL 1988

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PRIME MINISTER:

I think the prospects for the world economy are good provided we all continue sound financial policies, that is to avoid inflation, to live within our means and to run our industries in a highly competitive, efficient way, and - through the GATT and the Economic Summit - to keep world trade open and to open it up where it is not open, and to deal with things like agriculture where we all have a certain amount of protection. That is one of the purposes of the Economic Summit: to discuss these things on a common basis.

As far as the British economy is concerned, yes, we are growing faster than any other country in Europe. I do not think we are overheating - we watch for that very carefully indeed, because of the consequences on inflation.

Yes, the country has a strong currency at the moment because Sterling is very much in demand, but as you know in Japan, when your currency is strong you have to have really efficient industries. There is no question of relying on a low value of currency to sell your goods. That is the time when you get your industries really efficient and you sell on, really, good value - not so much on price, but on quality and on things people really want. Yes, value for money, but not so much on the cheapest but on the best, and that too, we shall also concentrate on.

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PRIME MINISTER (CONTD):

We also, as you know, are very good at service industries and services are playing an increasing part in the world and, let us face it, London is really the foremost financial centre because of this outward-looking view we have always had, which I think perhaps is uniquely outward the world over.

So our industry is steadily improving, doing well. May I say we have learned a great deal from Japanese companies here.

There is something very good about cooperation between the Japanese management and industries and the British character. They come here, they do extremely well. Management is superb. They get a marvellous response. People know when they go to work for a Japanese company what is expected of them and they give it.

When I went round Nissan shortly after having opened it, with great pride several of the work-force said to me: "Here, Mrs. Thatcher, every person is given responsibility!" The quality they were getting, the productivity they are getting in that plant is as good as in Japan and that is why Japanese companies find it good to come to Britain. They are welcome! The products are well-designed and they are well-produced and the cooperation extremely good.

Now, we all live in a wider world. Fortunately, we have not got a budget deficit. We have got a budget that is called a "surplus" - what it really means, as you know, is that you redeem debt. I like running things that way. It is the way in which you



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PRIME MINISTER (CONTD):

can sustain the economy in the longer run, always to run it soundly, and I hope and believe that the American people will be getting on top of their deficit. They are doing far more export at the moment - their trade deficit is responding a little - but one also has to remember this: the United States is a very strong country. I do not only mean strong in her economy; I mean strong and enterprising, strong in freedom, strong in enterprise, strong in defence, strong in the way she carries out and performs her duties the world over. That is why the dollar, although it may go up and down - the dollar and the United States - in the longer run, whatever short-term difficulties, will always be a country and a currency of strength, and I think we all realise it.

INTERVIEWER:

What do we have to do about the emergency of protectionism - I mean American, especially Congress?

PRIME MINISTER:

Well, as you know, we fight it the whole time. The world went protectionist in the 1930s and it went into the deepest recession we have ever known.

We have to take very seriously the GATT negotiations. As I indicated, we are a country which does free trade, welcomes free

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PRIME MINISTER (CONTD):

trade and where we do not find it in others, we simply have to say: "Free trade is reciprocal and if you do not get it both ways then we will both take measures against one another which would not be good!"

Also, you know, if you try to protect your own industries too much they will become inefficient. It is quite wrong. If you protect your own, they will get slack, they will get lazy, they will know they have a safe market. If you want really efficient industries, then they have to compete with others. For that, we have to go to GATT.

There are one or two changes that we shall need:

There are some countries - some of the newly-industrialised countries, as you know some of them on the Pacific Rim - that have been able to export freely while having protection until they built up their industries. It is time some of that protection went. It is getting unfair.

Of course, there are some Third World countries whose only possible exports are agricultural. Now, you and I expect to export if we are efficient on manufacturing, the world over. We must also, therefore, be prepared to receive agricultural imports, because they are the only thing which those countries can do and can do efficiently.

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PRIME MINISTER (CONTD):

Well now, three of us have the same fault: the United States, the European Economic Community and Japan. We all subsidise our farmers very heavily indeed and protect them, and I think in some cases you are paying your farmers ten times the world price for some foodstuffs - in Europe we are two, two-and-a-half times world price, the United States subsidises heavily.

Now can you see how exasperating that must be for people who want to export to us and say: "Look! We take your exports in manufacturers! Why will you not take our exports in agriculture?"

We cannot get it down immediately. President Reagan put forward a proposal to GATT that these big subsidies go over a period of ten years. I think that is a little bit ambitious, but I think he has indicated the direction in which we must move, conscious as we all are that agriculture has a very special place in our way of life. You know, it strengthens the fabric of society and the rural areas are important, so whatever we do, we have to do at a speed which those areas can absorb.

INTERVIEWER:

This agriculture issue; would you raise this question at the time of the Economic Summit and also possibly at the meeting with the Japanese Prime Minister here?

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PRIME MINISTER:

I think we must talk about it and we shall also have to talk about it at the Economic Summit. As a matter of fact, we started to talk about it in Tokyo. We talked about it two years in succession. We have not got very far, but we in Europe are now getting down our surpluses; that is a good thing, because that will have an impact on the world price. The United States, similarly, is prepared to tackle it.

The first stage is to talk about it. The agricultural community knows that it has to be dealt with, but we must give them time, and I stress again the rural areas are important to us all, but we must tackle the problems and I think they know we have to.



*Php* ✓  
*J/S*

CH/EXCHEQUER	
REC.	03 MAY 1988
ACTION	Mr H.P. EVANS
COPIES TO	CST, FST, PMG, EST, SIR P. MIDDLETON, SIR G. LITTLE, SIR T. BURNS, Mr MONCK, Mr SCHOLAR, Mr LANKESTER, Mr BURGNER, Mr S. N. MATTHEWS, Mr P. G. DAVIS, Mr MOLAN.

10 DOWNING STREET  
LONDON SW1A 2AA

From the Private Secretary

2 May 1988 cc.  
Mr HUDSON

*Presented to*  
*No 10.*  
*J/S*  
*3/5*

*Ch.*  
*Content (I have flagged*  
*the (anodyne) section on whiskey / B2W) ?*

*J/S*  
*3/5*

**DINNER FOR MR. TAKESHITA**

I wrote to you on 29 April enclosing a draft for the Prime Minister's speech at the dinner for Mr. Takeshita on 4 May. I now enclose a slightly revised version.

I am copying this letter and enclosure to Alex Allan (H.M. Treasury) and to Stephen Ratcliffe (Department of Trade and Industry).

*Content - this*  
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*Japan's a few comms)*

Charles Powell

Robert Culshaw, Esq., M.V.O.,  
Foreign and Commonwealth Office.

SP3AAB

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PRIME MINISTER'S SPEECH

AT DINNER

FOR THE JAPANESE PRIME MINISTER

ON

WEDNESDAY, 4 MAY

Prime Minister, Mrs. Takeshita, My Lords,

Ladies and Gentlemen,

First of all, may I extend a very warm welcome to you, Prime Minister, to your wife and to the members of your delegation on this your first official visit to the United Kingdom as Prime Minister.

We are delighted to have you here, and wish you a very enjoyable and successful

visit.

Of course you are no stranger to us, but a familiar and welcome friend.

You have attended almost as many Economic Summits as I have, and we always greatly admired and respected the wisdom of your contributions.

I remember in particular the important part which you played at the London



Economic Summit in 1984.

Indeed, you have served as Japan's Finance

Minister no less than five times, which is  
a remarkable record.

One result has been that, on your previous  
visits to London, you have always called  
at No. 11 Downing Street.

Well, that's a very good address, but we  
are delighted that this time it is to

No.10 Downing Street that we welcome you.

We know, too, of your many personal  
accomplishments.

An expert in judo - a dexterity which,  
when applied to the mind, we all need at  
Parliamentary Question Time.

I understand that your university has just won  
the Japanese rugby club championship,

which will give you a special bond with my husband who takes more than a passing interest in that sport.

I am told that your favourite song starts with

the words:

"I'll persist until I achieve my aim".

That certainly gives us something in common.

On a more serious note, Prime Minister, we also know of your attachment to the concept of furusato, which I think we would express as pride in one's native place and in the traditional virtues of home and family. That is a belief that we in this Government certainly share and support. You have also called for "enrichment of the spirit" as a counter-balance to the material things of our age, and that too

is very important, because again it puts the emphasis on the attitude of the individual rather than the state, and encourages him to use the manifold opportunities which greater prosperity creates.

Prime Minister, there are several very important aspects to your visit which I want to mention.

First, it is a new chance for Japan and Britain to establish an excellent working relationship.

We need to act together at the Economic Summit to try to ensure continued economic growth and therefore the expansion of trade.

But for that to be successful, we need to have a good personal understanding, and I

am sure that your visit will create it.

Second, we also see your visit as representing

your wish to build on the work done by

your distinguished predecessor - whom we

very much respected - to strengthen

bilateral relations between Britain and

Japan.

They have made very great progress - and

not just on an official basis.

I would like to mention in particular how pleased we were to have His Highness Prince Hiro at Oxford, and what an excellent impression he made.

We are now looking forward to welcoming His Highness Prince Aya who will start at St. John's in October.

Third, we should clear up what we refer to as

'unfinished business', that is problems



such as the tax on whisky and seats on the

Tokyo Stock Exchange.

We have had a very full discussion of

these problems [and you have given me your

personal commitment to achieving a

satisfactory solution to them very

shortly].

Fourth, there is the wider aspect of our trade relations.

We in Britain have been accustomed since Elizabethan times to look outward.

The days of Empire left our people used to buying products which come from every corner of the world.

They expect those goods to be able to enter our country freely and without hindrance.

They judge them not on place of origin, but on interest, merit and value for

money.

And they find it hard to understand why that cannot be the case the world over.

We recognise and welcome the fact that Japan is now importing more.

But we would like to see it taken further still, to the point where it is as natural for your people to buy the best, whether it is made at home or imported from abroad, as it is for ours.

And so we should increase our trade.

British exports to Japan have grown fifty per cent in the last two years.

I should like to set the objective of doubling them in the next three.

Fifth, we also very much welcome Japanese investment in Britain.

That, too, has doubled in the last two

years, and we want to see it continue to grow.

We have a very favourable experience of Japanese management, and I think your companies are pleased with what a British workforce can achieve.

X | Taken together they represent an unbeatable combination;

And sixth, we want to see private contacts of all kinds enlarged.

We should have more links between our towns and cities - including your own prefecture of Shinawe.

I would like to see many more British people learn Japanese.

And we should make full use of the United Kingdom-Japan 2000 Group, some of whose British members are here tonight.

I have always made a point of seeing the Group when it meets in the United Kingdom, and its work has my strong support.

There is a final reason, Prime Minister, why we welcome your visit, and that is because we see it as a mark of your commitment to bring about Japan's better integration into world affairs.

Britain and Japan share a belief in democratic values.

We operate within the same liberal economic and trade system.

We have very similar security interests.

We both respect and welcome United States' leadership, and wish to work very closely with them.

These points in common should be the foundation



for a much broader relationship in which  
Britain and Japan work together as friends  
and allies across the board.

Your visit has been a most important step  
in that direction.

Prime Minister, I believe that your motto is:

"Translate one's promises into action".

I would be happy to adopt it too.

Let us both commit ourselves to translate

into action, under our joint leadership, a  
promise to <sup>resolve</sup> ~~restore~~ outstanding problems  
and establish even closer relations  
between Britain and Japan.

I ask you all to rise and drink a toast to the  
Prime Minister of Japan and  
Mrs. Takeshita, to further prosperity and  
success for the people of Japan, and to  
good relations between our two countries.



*mp*

FROM: MISS M P WALLACE

DATE: 3 May 1988

MR R I G ALLEN

**PRIME MINISTER'S INTERVIEW WITH JAPANESE TV NHK: FRIDAY, 29 APRIL**

The Chancellor was grateful for your minute of 29 April.

*Mpw.*

**MOIRA WALLACE**

493 6030

EXCHEQUER	
04 MAY 1988	
COPIES TO	Mr H.P. EVANS, CST, FST, PMG, EST, Sir P. MIDDLETON, Sir G. LITTLER, Sir T. BURNS, Mr MONCK, Mr SCHOLAR, Mr LANKESTER, Mr BURENER, Mr S.W. MATTHEWS, Mr PE-DAVIS, Mr MOLAN.

✓  
4/5

EMBASSY OF JAPAN  
46 GROSVENOR STREET  
LONDON W1X 0BA

3rd May 1988

Mr RIG Allen Mr Tyne

Ch  
"Economic" section on  
pages 14-16.  
2/ 4/5

Dear Chancellor,

I am instructed by Prime Minister Noboru Takeshita to send you an advance copy of the speech which he will deliver at the luncheon to be given by the Corporation of London at the Mansion House on Wednesday, 4th May 1988.

I have pleasure in enclosing herewith this text.

*Yours sincerely,*  
*Kazuo Chiba*

Kazuo Chiba  
Ambassador

The Rt.Hon. Nigel Lawson, MP,  
Chancellor of the Exchequer,  
11, Downing Street,  
London, S.W.1.

OPENING A NEW ERA IN JAPANESE-EUROPEAN RELATIONS

STATEMENT BY PRIME MINISTER TAKESHITA

ON THE OCCASION OF THE LUNCHEON  
GIVEN BY THE RT. HON. THE LORD MAYOR  
AND THE CORPORATION OF LONDON  
AT THE MANSION HOUSE

4th May 1988

My Lord Mayor, Your Excellencies, My Lords, Aldermen,  
Sheriffs, Ladies and Gentlemen,

I am greatly honoured to have been given the opportunity to address such a distinguished audience on my first visit to Europe as Prime Minister, and I would like to thank you, My Lord Mayor, and all those who have so graciously extended their hospitality to me during my visit to the United Kingdom.

I understand that The Mansion House is an edifice of great historical significance, not least because His Majesty The Emperor came here during his visit to the United Kingdom. As I gaze at this imposing and sumptuous interior, I cannot help but be aware that Great Britain is a country of rich history and tradition.

At the same time, however, during my present visit, I am again reminded most forcefully that the United Kingdom is a country of progress and innovation. When I arrived in London yesterday, I had the opportunity to take a brief tour of the city. I heard the loud rhythmic noises of construction in progress. I saw the streets filled with people who seemed to

be buoyed up with vitality and confidence; I felt I was witnessing for myself the birth of a "New Britain" in front of my very eyes. In meeting the challenges of a new era, Britain has undertaken efforts towards tax reform and privatisation which have been steadily bearing fruit. I believe those efforts can be an invaluable guide for Japan as it implements its own economic structural adjustments. I would like to express my sincere respect for the efforts made both by the British Government led by Prime Minister Thatcher, and the British people.

I would also like to express my thanks to you for the warm hospitality extended to the many businessmen and other members of the Japanese community in the City of London, the prestige of which as a centre of international finance has been further heightened since the 'Big Bang'.

My Lord Mayor, Ladies and Gentlemen,

In this dynamic era the countries of Western Europe as well as Japan have been rapidly expanding their international roles and responsibilities. In order to make a greater contribution to the people of the world, I believe our countries should embark upon a new era in Japanese-European relations by stepping up considerably the level of their cooperation. It is for this reason I was so eager to visit Europe early in my tenure as Prime Minister of Japan.

Today, as we approach the 21st century, unprecedented changes of great magnitude, both political and economic, are taking place in various parts of the world.

The agreements on INF and Afghanistan seem to augur well for East-West relations. At Japan's doorstep in the Asian and Pacific region, the developing countries are achieving dynamic growth and showing an energy which is causing the world map to be redrawn. In Europe, the partnership between the European Community and EFTA, together with the economic integration and the political cooperation of the EC, is furthering the formation of an economic space with a population of 360 million.

On the other hand, the world still faces a multitude of problems relating to regional conflict, human rights, the macro-economy and the accumulation of debts.

In this situation it is of utmost importance that the trilateral partners of Japan, Europe, and the United States, which share the same set of values, fulfil their respective responsibilities. At the same time, they should combine their strength in order to foster world peace and prosperity. It cannot be denied, however, that the relations between Japan and Europe, which form one side of the triangle, have perhaps not been close enough, compared with the other two sides, that is, the relations between Japan and the United States on the one hand, and Europe and the United States on the other.



However, in view of the situation confronting the world in recent years, and of the growing influence which the countries of Western Europe and Japan possess in the international community, we must not allow this state of affairs to continue. Interdependence in the international community has deepened to an extent unimaginable in former times. There is an imperative need for effective and balanced cooperation, both politically and economically, between the trilateral partners of Japan, Europe and the United States.

It was for this very reason that in my policy speech at the first ordinary session of the Diet after assuming office as Prime Minister I made the following statement:

"Cooperation with the countries of Western Europe is an important principle of Japan's foreign policy, and I shall strive to add greater depth and breadth to Japanese-European relations in all fields, political, economic, cultural and others."

It is my intention during my visit to gain first-hand experience of present-day Europe. I also intend to reaffirm with European leaders the significance of Japanese-European cooperation, and to search for ways in which this cooperation can be enhanced.

I sincerely hope that my visit will contribute to the sound development of relations between Japan and Europe, and further, of relations between Japan, Europe and the United

States.

My Lord Mayor, Ladies and Gentlemen

Since assuming the office of Prime Minister I have upheld as a primary goal of my Cabinet the building of a "Japan contributing to the world". This is because I believe it is the responsibility of Japan, as a major industrialised democracy, to play a positive role, commensurate with its increased national strength, in order to maintain peace in the world and to secure the prosperity of the international community.

Based on this conviction, I would like to take this opportunity, here at The Mansion House, to announce to the world Japan's "International Cooperation Initiative", which is comprised of the following three pillars.

First, the strengthening of cooperation to achieve peace.

As you may know, Japan is firmly committed to the furtherance of world peace, and its Constitution does not permit it to extend any military cooperation. This does not mean, however, that Japan should stand idly by with regard to international peace. I believe that Japan, from a political and moral viewpoint, should extend cooperation to the utmost of its ability. I will pursue "Cooperation for Peace" as a

new approach toward enhancing Japan's contributions to the maintenance and reinforcement of international peace. This will include positive participation in diplomatic efforts, the dispatch of necessary personnel and the provision of financial cooperation, aiming at the resolution of regional conflicts.

The second pillar is the strengthening of international cultural exchange.

Japan must make further efforts in the area of exchanges between diverse cultures, both in response to the heightened interest that the countries of the world are showing in Japan and to promote Japan's own internationalisation. At the same time, I consider that Japan should make a positive contribution, cooperating with appropriate international organisations, to the preservation of the cultural heritage of mankind and the promotion of culture.

The third pillar is the expansion of Japan's official development assistance.

ODA is the most valued aspect of Japan's international contribution. In an effort to strengthen its assistance to developing countries, Japan has set three successive medium-term targets to expand its ODA. I intend to continue to improve Japan's ODA both quantitatively and qualitatively, so that Japan may be able to make an even more positive contribution in the future.

From the point of view of "Japan contributing to the world" which I have just outlined, I would like to offer my thoughts on how Japan should proceed to deepen and broaden its cooperative relationship with Europe.

Since assuming the office of Prime Minister, I have consistently advocated the creation of an 'affluent society with a flourishing culture' which is based on the harmonious balance between material and spiritual richness.

I wish today to begin with cooperation in the cultural field, prior to political and economic issues.

Cultural exchange, I believe, is no less important and, in fact, may be even more important than cooperation in the political and economic fields in adding depth and breadth to Japanese-European relations.

At the beginning of my speech, I referred to international cultural exchange as one of the three main pillars of "Japan contributing to the world". Cultural exchange in the broad sense is of fundamental importance in building a foundation of understanding and mutual respect among peoples as equal human beings -- transcending differences in political systems and values -- and also in promoting smoother relations in political and economic fields.

The diverse cultures of the world should be appreciated widely by all nations for the universal values they embody and as the common assets of all mankind. Cultural exchange fosters tolerance of different cultures, thereby leading to the establishment of an open international community and even to the achievement of international harmony and world peace. Exchange among diverse cultures provides a stimulus for the invigoration of the international community and the vitality for development. I intend to promote interchange among the various cultures of the world, while encouraging the preservation of each nation's precious culture; I will also promote Japan's contribution to the enrichment of the world's cultures as we approach the 21st century.

It is gratifying to note that very deep foundations have already been laid for interchange between the cultures of Europe, for which the Japanese people have a profound and enduring appreciation, and Japan's own culture, which has been developed over the past two thousand years. In the process of the modernisation of the Japanese state in the latter half of the nineteenth century, we learnt much from European civilisation. But we did not merely import and imitate; we adapted what we learned, and made it part of our own culture. When European intellectuals and men and women of letters first experience Japanese culture, they often show an almost instant understanding and sensitive appreciation of it. This is perhaps because there is something which Japanese and European cultures have in common.

Centuries ago there was the Silk Road which linked the East and the West. More recently, the great Indian poet, Sir Rabindranath Tagore, looked forward to the birth of the civilisation of a new era through the fusion of Oriental and Occidental cultures. I am sure that, as we approach the 21st century, cultural exchange between Japan and Europe will open up a new "Silk Road", an East-West "Passage of Hearts", which will be of great value in creating the culture of the new era.

Needless to say, if culture is to play this role in Japanese-European relations in the future, mutual effort and cooperation by both Japan and Europe will be more necessary than ever. I would, therefore, like to take a number of concrete measures in a variety of areas.

Of primary importance is the expansion of personnel exchange.

Personnel exchange is an important means of deepening mutual understanding directly between the people of Japan and Europe linking heart with heart. However, personnel exchange between Japan and Europe, like trade, is at present not quite balanced. We thus have to encourage more Europeans to see Japan.

Various invitation programmes between Japan and Europe are being implemented at the government level. In view of the importance of intellectual exchange, I would like to initiate

a new fellowship programme under which European scientists and researchers would carry out research in Japan for about one year.

The English Teaching Recruitment Programme, which grew out of a British idea, developed last year into the Japan Exchange and Teaching Programme (which is commonly referred to as the JET Programme). Under this Programme, teachers from abroad spend one year teaching English in schools all over Japan. This Programme is having a considerable effect, not only in terms of language training, but also in terms of mutual understanding between people of different cultures. In 1988 Japan will invite approximately 1,500 young people from Britain, the United States and other English-speaking countries, and I am delighted to add that there are plans to increase this number in the coming years. We have also decided to extend this Programme to the teaching of other European languages, such as French and German.

I am also considering the possibility of implementing a "working holiday" scheme, under which young Japanese would go to Europe and Europeans would come to Japan for a stay of several months.

Science and technology continue to offer many possibilities and a wide scope for co-operation. There is a need for knowledgeable people from Japan and Europe to re-explore comprehensively possible areas and types of cooperation, and to consider what would be the most desirable

cooperation.

I also intend to increase assistance to Japanese studies and the teaching of the Japanese language. As a Japanese, I am much delighted to learn that in Europe the number of people who are enthusiastically studying the Japanese language and Japanese affairs is rapidly increasing. This demonstrates the extent of European interest in Japan. This interest is to be very much welcomed also from the point of view of international cultural exchange, and I intend to lend as much support as possible to activities in this regard.

Another means of promoting exchange lies in the expansion of knowledge on each other's cultures and in the expansion of organisations serving Japanese-European exchange and dialogue.

The Great Japan Exhibition held in 1981 in London was a very popular event. I have been informed that a "Japan Festival" is being planned for 1991, with events to be held all over Britain. The "Europalia 1989 Japan" is planned in Brussels in the autumn of next year. In Japan, cultural events from the various countries of Western Europe are always a success. Right now the Sadlers Wells Royal Ballet, so full of grace and poetry, is performing there and the prestigious La Scala Opera also is soon to visit Japan. Events such as these provide valuable opportunities for deepening understanding between Japan and Europe.



Among the organisations for Japanese-European dialogue, the Japan-UK 2000 Group studies how the co-operative relationship between the two countries should be expanded as we look ahead to the 21st century. It is envisaged that the Japan-German Centre in Berlin will play a significant role in promoting exchange in academic, political, economic and cultural fields not only between the two countries, but also between Japan and Western Europe as a whole. Japan and France are also drawing up plans for the construction of a cultural centre.

Supplementing these endeavours, my Government intends to make constant efforts under its "Cultural Exchange Programme to bridge Japanese and European minds" and will take the necessary measures for its realisation.

Naturally, stability and development in the political and economic fields set preconditions for the promotion of cooperation in the cultural field. I wish, therefore, to move on to cooperation in the political field.

Solidarity and unity are indispensable for the safeguard of the values of freedom and democracy which are shared by all the countries of the West. It was from this viewpoint that at the Williamsburg Summit in 1983, the then Japanese Prime Minister Nakasone stressed that Western security was indivisible. For this reason, Japan joined in consultations among the countries of the West on the INF issue. By the same

token, stability in Asia and the Pacific is also a matter of great interest for the countries of Europe.

I take this opportunity to reiterate that the security of the West is indivisible.

Japan is keenly interested in developments in European security even after the removal of INF, including the talks on the reduction of conventional forces, in as much as it continues to affect Japan's security. There are not a few cases in which regional conflicts, not only in Asia but also in the Middle East, Africa and elsewhere, have a great impact on Japan and Europe. I consider it Japan's responsibility to contribute, in consultation with European countries and the United States, to the resolution of these conflicts as well as to reconstruction efforts in a manner commensurate with its strength and the state of its national affairs.

European countries are capable of making a considerable contribution to the future not only of Africa but also of Asia and the Pacific region. I believe that if Japan and Europe cooperate in these areas, more effective and greater results can be expected.

It is hoped that the forthcoming summit between President Reagan and General-Secretary Gorbachev, the special session of the United Nations General Assembly on disarmament, and the Summit meeting of major industrialised countries in Toronto will all contribute to a resolution of

the important political and economic problems confronting the world. Japan, as a member of the West, and from the viewpoint of trilateral cooperation between Japan, Europe and the United States, is determined to expand further its political dialogue with Europe, and to strengthen in concrete terms its cooperative relations for international peace.

I would now like to state my views on cooperation in the economic field.

In recent years Japan has in particular devoted considerable efforts to making its economic structure more internationally harmonious; to helping restore the balance in the world economy by expanding domestic demand and other measures; to improving as far as possible access to its market and to expanding imports; and to making use of its accumulated surplus for the benefit of the world.

Many concrete results have already emerged. In 1987 Japan's economy shifted to a pattern which was led entirely by domestic demand. In fact, domestic demand contributed 5.0% to Japan's real growth rate, while overseas demand contributed minus 0.7%, and an overall growth of 4.2% was achieved.

Progress is also being made in improving market access. Many issues with Europe have been resolved during the last one or two years. Imports from Europe for the last two years showed growth by 84.3%. This trend continues unchanged in

1988.

Furthermore, Japan is making ever greater efforts in its official development assistance to the developing countries. Its ODA budget amounts to US\$10 billion for fiscal 1988, and is the largest in the world, exceeding that of the United States. We are at present implementing measures such as the financial recycling of more than US\$30 billion over three years, and non-project type grant assistance of about US\$500 million over three years to African and other countries. I shall continue to address in a positive manner the subject of Japanese-European cooperation in the Third World.

Europe, together with Japan and the United States, has the strength to make a great impact on the world economy. For this reason alone, it is Europe's grave responsibility as it strives to achieve integration, to maintain a free trade system that is rid of protectionism for the sake of building an open and truly international world order. Japan and Europe, I believe, should contribute to the maintenance and reinforcement of the free trade system through the Uruguay Round of GATT talks, and other means.

Adam Smith, the great British economist, advocated the rejection of protectionist policies and a shift to economies based on liberal policies. His theories eventually became the foundation for the development of the world economy. It is my fervent hope that the countries of Western Europe will be at the forefront of the movement to uphold the spirit of Adam

Smith's ideas and continue to steadfastly support the free trade system.

My Lord Mayor, Ladies and Gentlemen,

I believe that with the 21st century in sight Japan must build a society that is more open to the world by connecting the results of its economic development with real affluence and comfort for its people. It is my firm conviction that Japan must contribute to the countries of the world as a creative and vigorous cultural nation in which, with balanced land development, people can live comfortably and peacefully, nurturing their individual aspirations and their prospects for a happy family life.

I have made this notion of creating a furusato, that is, a place like one's own home town which is bound up with one's identity, the starting point of my political activity.

With its rich natural endowments, its splendid cities with their comfortable living environment, and its diverse peoples who are imbued with a spirit of individuality and creativity -- Europe has many valuable lessons which I would like to learn and absorb in order to realise my notion of creating a furusato for all people.


Japanese-European interchange played a particularly significant role in the building of Japan as a modern state

during the period following the Meiji Restoration. I trust that Japan will again benefit from the interchange with the peoples of Europe as it strives to build a state which will contribute to the world as we approach the 21st century.

Japan and Europe have great responsibilities with regard to world peace and development. Just as a bud grows bigger and bigger until it is ready to burst into bloom, so is the potential for Japan and Europe ripening; the potential to deepen their relationship by thinking and working together from a global viewpoint in every field - political, economic, cultural - within the framework of trilateral cooperation while developing their relations with the United States. Now is the time to allow that bud to burst into bloom. Now is the time to open a new era in Japanese-European relations. Let us build an even more fulfilling Japanese-European cooperative relationship and join forces for the benefit of people everywhere.

My Lord Mayor, Ladies and Gentlemen,

I would now like to propose a toast to the enduring prosperity of the United Kingdom and Japan, and a strengthening of our already close relations, to the well-being of our peoples, to the prosperity and further development of the Corporation of London, and to the health and happiness of You, My Lord Mayor and of each of the distinguished guests here today.



Kanpai!

[ END ]

CONFIDENTIAL



10 DOWNING STREET

LONDON SW1A 2AA

CH/EXCHEQUER	
REC.	05 MAY 1988
ACTION	Mr H.P. EVANS,
COPIES TO	CST, EST, PMG, EST, Sir P. MIDDLETON, Sir G. LITTLER, Sir T. BURNS, Mr MONCK, Mr SCHOLAR, Mr LANKESTER, Mr R.G. ALLEN, Mr BURGNER, Mr S.W. MATTHEWS, Mr P.G. DAVIS, Mr MOLAN,

4 May 1988 Mr TYRRE

From the Private Secretary

*Mr - ps.*

*Ray*

Dear Tony,

PRIME MINISTER'S MEETING WITH THE JAPANESE PRIME MINISTER

The Prime Minister had a meeting lasting some two hours with Mr. Takeshita this evening. The first 75 minutes were in restricted session, the remainder involving a wider circle. The restricted session was attended on the Japanese side by Mr. Ozawa, Deputy Chief Cabinet Secretary and Mr. Hasegawa, Director General of the European and Oceanic Affairs Bureau of the Ministry of Foreign Affairs. For the wider session they were joined by the Japanese Ambassador, Mr. Kitamura, Deputy Minister of Foreign Affairs, Mr. Muraoko, Director General, Ministry of International Trade and Industry and Mr. Terada, Private Secretary to the Prime Minister. The Foreign Secretary, HM Ambassador Tokyo and Sir Percy Cradock were also present.

Restricted Session

The Prime Minister welcomed Mr. Takeshita, observing that they were far from strangers, having met at many Economic Summits. She would very much like to hear from him how he saw the prospects in Japan and wider world developments. We appreciated the positive steps taken by the Japanese Government to allow the value of the yen to rise and to open up the Japanese market. British exports to Japan were increasing and this was very welcome. We looked forward to a broader relationship with Japan whom we saw as a major partner and ally.

Mr. Takeshita said that he had been Prime Minister for six months, while the Prime Minister was embarking on her tenth year. That meant she had been Prime Minister eighteen times longer than he had, so he approached the meeting with all due humility. He wanted the Prime Minister to know that the Emperor had asked him to say how grateful he was for the hospitality extended to Prince Hiro and for the arrangements being made for Prince Aya to attend Oxford. The Prime Minister interjected that we were very happy that they had both chosen to study in the United Kingdom. Prince Hiro was a great credit to Japan and a delightful guest. We were looking forward to receiving Prince Aya. Mr. Takeshita said that he would pass on these remarks to the Emperor.

CONFIDENTIAL



Continuing his introductory comments, Mr. Takeshita said that the United Kingdom economy under the Prime Minister's leadership and as a result of her bold policy initiatives was exceptionally vigorous. He recalled with pleasure his meetings in Tokyo with Sir Geoffrey Howe and with Lord Young, who had come with a delegation of businessmen. The Japanese Minister of Trade and Industry would be paying a return visit to the United Kingdom later this year and there was great competition among Japanese businessmen for places on his delegation.

### Tokyo Stock Exchange

Mr. Takeshita then said that he wished to raise the subject of seats on the Tokyo Stock Exchange. It was when he was Finance Minister in 1984 that he had asked the President of the Tokyo Stock Exchange, which was an autonomous institution, to consider changing the regulations so that non-members from inside and outside Japan could be admitted. That was now happening and he was glad to note that four British companies were among the first non-Japanese members. By the end of the month, 16 non-Japanese companies would have seats. The Prime Minister enquired whether these would include BZW and James Capel. Mr. Takeshita said that there was not room for them yet. The Prime Minister said that this was very bad news and people in Britain would certainly not understand it. We had been exceptionally open in the way in which we had received Japanese firms in the City of London. Mr. Takeshita said that he understood the Prime Minister's points. But she would recall that it was only a short time since the internationalisation of the Tokyo Stock Exchange had started. The choice of companies for the second enlargement had been decided by the chronological date on which they had started their operations in Tokyo. The basic problem was that of space constraints in the Stock Exchange. He had called in all those concerned to discuss how the problem could be overcome and would take a keen personal interest in the question of additional places.

The Prime Minister said it would be hard to convince people that space was a real constraint. After all, Japan led the world in electronics. She simply could not convincingly report to Parliament that the Japanese Prime Minister had told her that there was not sufficient space on the Tokyo Stock Exchange to admit additional members. She recalled that we had been particularly open to Japanese financial organisations. She must press Mr. Takeshita hard on this point. We should feel it very unfair if British firms were excluded on unconvincing grounds. She welcomed the fact that Mr. Takeshita had promised to take a close personal interest. But she must underline that we looked to the two British firms to be admitted very soon and for the same spirit of openness to be shown by the Japanese side as Japanese firms had received in London.

Mr. Takeshita said that the fact was that, on the Tokyo Stock Exchange, it was still floor traders who did business and they used old-fashioned systems. He agreed that business

methods should be mechanised so that the space constraints were no longer a problem. He accepted that the system must be changed and repeated that he would take a great personal interest in the matter. The Prime Minister said that she would expect no less. Meanwhile, Mr. Takeshita must expect to see delays in the handling of applications by Japanese firms in London, to match the way in which British firms were treated in Tokyo. She did not at all like having to say this. It went quite against our nature which was to be open and welcoming to business from abroad. But she simply could not justify treating Japanese firms fairly in London while there was discrimination against British firms in Tokyo.

#### Tax on Whisky

The Prime Minister continued that there was another difficult issue to discuss, that of discriminatory taxation on whisky. She had talked to several of Mr. Takeshita's predecessors about this problem. They had originally claimed there was no discrimination but we had always known that there was. When we had failed to get satisfaction as a result of our private representations, we had no alternative but to ask the European Community to seek redress under the GATT. The GATT had delivered a clear report, namely that all like spirits should be taxed on a non-discriminatory basis; and that all competing spirits should be taxed on a basis under which any discriminatory effect in favour of domestic products was no more than de minimis. We took the view that it would be unthinkable for Japan to fail to implement the conclusions of this GATT report in full. Anything else would strike at the very root of our trade relations.

The Prime Minister continued that the Japanese had recently made various proposals which went some way to meet our requirements, but not far enough. The main outstanding problem was that the differential between whisky and shochu was too high, at about 40:1. She would therefore like to propose to Mr. Takeshita that the tax on whisky should be set at 1000 yen, while the tax on shochu should be doubled. This would still leave a differential of 10:1 and we would want a clear commitment from the Japanese to reduce this further over a period of time, with arrangements for monitoring that it was actually happening. Such a solution would indicate a clear determination on Japan's part to implement the GATT ruling. She appreciated that this would be a difficult step for Japan. But we had had to take many difficult steps ourselves, and it would transform our relations to get this problem out of the way. She returned once more to the wider point that only if GATT rulings were observed strictly could the organisation play an effective part in solving world trade problems.

Mr. Takeshita said that he knew what the Prime Minister meant. A policy decision had already been taken to abolish the grading system for whisky. As for shochu, it was important to understand first what it was. It was a substitute for sake made in the south of Japan by poor peasants. It was therefore basically a regional drink with many small producers, who were in general supporters of his

party. His intention was to encourage most of those people to pull out of the business altogether. But this would take time. In the light of the GATT recommendations, Japan must clearly reduce the differential between whisky and shochu. Since arriving in London he had talked by telephone to a senior LDP expert on tax problems and sought his help. They had discussed various possibilities, but on the question of doubling the tax on shochu his colleague had been very negative. His own proposal was that the tax on whisky should be reduced by 35% while the tax on shochu was increased by 50%. Taking account of alcoholic content, this would reduce the current differential of 24:1 to 10:1, which he understood to be the Prime Minister's objective. He would continue to discuss this problem on his return to Tokyo with the LDP taxation council and there should be further negotiations between officials. Mr. Takeshita added that his own view was that shochu did not compete with whisky. Nonetheless, he would give the Prime Minister his personal commitment to seek a solution to this problem.

The Prime Minister said that, if it was not possible to put the tax on shochu up more than 50%, then obviously the tax on whisky must come down more than envisaged in the Japanese Government's proposals. She did not quite see how Mr. Takeshita's figures added up. But she welcomed the fact that he seemed to accept the target of reducing the differential to 10:1 at this stage, although there must of course be further reductions subsequently. She agreed there should be further contacts between officials. The key point was that GATT should be obeyed and be seen to be obeyed. She was grateful for Mr. Takeshita's undertaking to give his personal commitment to reaching a satisfactory solution.

#### United Kingdom/Japan Relations

The Prime Minister complimented Mr. Takeshita on his speech at the Mansion House. She welcomed his wish to see a closer relationship between Japan and Europe, and in particular between Japan and the United Kingdom. We very much shared that aim. We were grateful for the steps which had been taken on matters of direct interest to us, such as Cable and Wireless. We were particularly pleased with the growth of Japanese investment in this country. The combination of Japanese management and a British workforce was very successful.

Mr. Takeshita concurred in the Prime Minister's assessment of Japanese investment in the UK and produced a map which illustrated graphically the extent of it (copy enclosed). The fact that the Prime Minister had attended the opening ceremonies of a number of Japanese factories had made a deep impression in Japan. He recalled the speech of the former Japanese Ambassador, in which he had said that the British economy would win the gold medal in an economic Olympics. He had asked Mr. Yamazaki on his return to Tokyo which medal the Japanese economy would win. After a bit of thought, Mr. Yamazaki had suggested a bronze medal.

United Kingdom and Japan Economies

The Prime Minister referred to the strong growth in the United Kingdom economy. Mr. Takeshita said that domestic demand had been the main factor in Japan's growth over the past year. He expected growth in the current year to be 3.7%. The contribution from domestic demand would be 4.7% with exports providing minus 1.0%.

Mr. Takeshita added that Japan had undertaken to recycle \$30 billion of its surplus as aid to developing countries. Although they had not set a precise target for their future aid as a proportion of GNP, it would certainly increase. They were also interested in improving the quality of their aid and would like to co-operate with the United Kingdom on this. He wished to draw attention to the steady appreciation of the yen, although it had not done him much good at home. His friends all twitted him that the yen had gone up like his name (Noboru apparently means 'going up' in Japanese), while his popularity had gone down. However, there was now a general agreement among the G7 that the yen had reached an appropriate level. One result of the rise in the value of the yen was that Japan's industrial re-structuring had progressed more rapidly than expected. The Prime Minister commented that the ability of Japan's manufacturing industry to adapt was indeed remarkable.

Toronto Economic Summit

The Prime Minister said that there were grounds for cautious optimism about the world economy. Nonetheless, some major problems remained to be discussed at the Toronto Economic Summit, including the US budget deficit, continuing imbalances in world trade and particularly Germany's disappointing economic performance, and subsidies to agriculture. The last was an issue which involved all the main countries, including Japan.

Mr. Takeshita said that he would follow the Prime Minister's lead at the Toronto Economic Summit. He hoped that the meeting would reiterate the Summit's commitment to policy co-ordination. He would also like to see it deal with the problem of accumulated debt. For instance, a country like Indonesia faced unexpected debt burdens as a result of the rise in the value of the yen. He would like to see Finance Ministers look at the possibility of helping such countries on a case by case basis. The Prime Minister agreed that the case by case qualification was important. Each country was different. For instance, some had the option of reducing debt by sale of internal assets. She hoped that Japan would lend its support to the Chancellor's debt initiative for sub-Saharan Africa. This would write off the debts of the poorest African countries, provided they reached agreements with the IMF.

Plenary Session

The Prime Minister opened the plenary session by

WHAT?

Charles tells me this is what PM actually said. He will make sure she is re-briefed on what your initiative actually is. Do you want me to write a note? YES BMB

reporting on her talks with Mr. Takeshita. They had discussed the world economic scene, and the issues which would come up at the Toronto Economic Summit. They had looked to the future with reasonable optimism. They had identified agriculture and debt as major problems to be considered at the Summit. On the bilateral front, they had discussed the problem of seats on the Tokyo Stock Exchange very frankly and fully. We were extremely disappointed that it had not been possible to allocate additional seats to British firms. The British people would simply not understand that a highly technological nation like Japan could argue that this was impossible because of space constraints. However, she was grateful to Mr. Takeshita for agreeing to take a keen personal interest in this problem. As regards the tax on whisky, she had said that she was sure that Japan would wish to implement the findings of the GATT panel fully, in particular by dealing with the differential between the tax on whisky and that on shochu. She had made a specific proposal to Mr. Takeshita to the effect that the tax on whisky should be set at 1,000 yen per litre and the tax on shochu doubled. This would reduce the existing differential to 10:1, with an undertaking to narrow it further over a period of time. Mr. Takeshita had accepted the objective of reducing the differential to this proportion, but had suggested that it could be achieved in a slightly different way. He could not accept the doubling of the tax on shochu. Again, he had given a personal commitment to find a solution. The Prime Minister added that she and Mr. Takeshita had also agreed on the importance of Japanese investment in the UK and she had warmly endorsed the sentiments in his speech at the Mansion House.

### International Issues

The Prime Minister then invited Mr. Takeshita to set out his views on a number of current world issues.

Mr. Takeshita said that the settlement reached on Afghanistan was a good one, provided that Soviet withdrawal took place as promised. Japan would send someone to join the UN Monitoring Group and would make a substantial contribution to the resettlement of refugees. The key question was whether the refugees would in fact return. The Gulf was another area of major importance, particularly for Japan, which was highly dependent on Middle East oil. Japan was not able to send minesweepers, but had decided to make a financial contribution to ensuring safe navigation in the Gulf, as well as increasing its aid to neighbouring states such as Oman and Jordan.

Mr. Takeshita continued that he had recently visited Manila for the ASEAN Heads of Government Meeting, had also been to South Korea and would shortly visit China for the 10th anniversary of the Japan-China Peace Treaty. Japan supported Prince Sihanouk's position on Cambodia. He believed that all Western countries should support President Aquino in the Philippines. He had been greatly impressed in South Korea by the peaceful transition of power following the Presidential elections. As regards China, he would only note that the leadership was stable following the recent Party Congress.

The Prime Minister complimented Mr. Takeshita on his concise account of the main world issues. She would concentrate in her own remarks on East-West relations, where we welcomed the changes taking place within the Soviet Union, while remaining cautious about Soviet external policy. She would note, however, that at least two of the conditions set by China for an improvement in its relations with the Soviet Union seemed likely to be met, which could lead to a resumption of the Soviet-Chinese dialogue. There also seemed to be prospects for securing the withdrawal of Soviet and Cuban troops from Angola. She shared Mr. Takeshita's impression of South Korea. In the Middle East we supported Secretary Shultz's attempt to get negotiations started without being very optimistic about the prospects. We remained greatly concerned about the Iran-Iraq conflict and in particular the use of chemical weapons. We were strongly opposed to sanctions against South Africa. She noted that both Britain and Japan had extensive trade with South Africa. Mr. Takeshita said that he was interested by the Prime Minister's comments on East/West relations. But he wished to recall that Japan still had territorial problems with the Soviet Union.

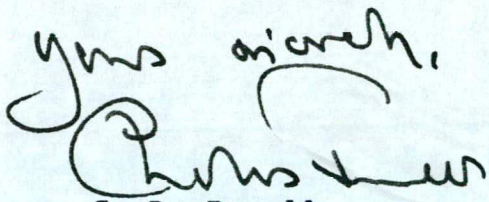
The Prime Minister referred to the work of the United Kingdom-Japan 2000 Group. We hoped this would continue to make a major contribution to better relations between Britain and Japan. Mr. Takeshita said that he entirely agreed on the excellent contribution made by the Group.

Mr. Takeshita recalled that he had been the Prime Minister's host when she had visited Japan in 1977 while Leader of the Opposition. He would very much like her to come again as an official guest now that he was Prime Minister. The Prime Minister said that she appreciated the invitation which she would accept at a time convenient to both of them.

The Prime Minister would like to follow up this meeting rapidly by sending Mr. Takeshita a message setting out our views and our understanding of what was agreed on the Tokyo Stock Exchange and on taxation of whisky, adding some generally complimentary remarks about the visit as a whole. I should be grateful for a draft as soon as possible.

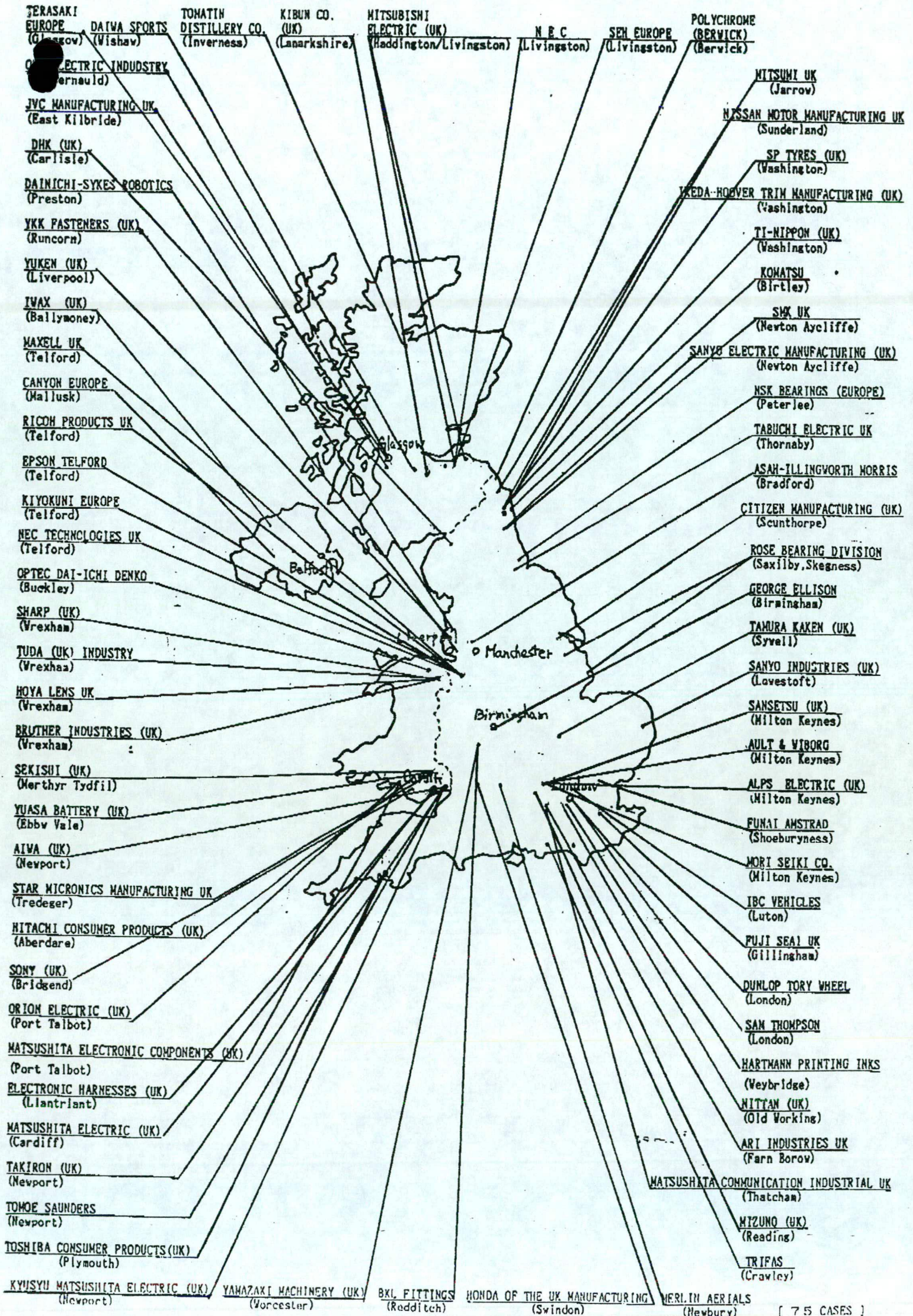
Lastly, I enclose for the record a copy of the Prime Minister's speech at dinner, in its final form.

I am copying this letter to Alex Allan (H.M. Treasury), Stephen Ratcliffe (Department of Trade and Industry) and Trevor Woolley (Cabinet Office).

*Yours sincerely,*  
  
C. D. Powell

A. C. Galsworthy, Esq., C.M.G.,  
Foreign and Commonwealth Office.

THE PRESENT CONDITION OF INVESTMENTS IN THE U.K. BY JAPANESE MANUFACTURERS



SP3AAB

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CDP

PRIME MINISTER'S SPEECH

AT DINNER

FOR THE JAPANESE PRIME MINISTER

ON

WEDNESDAY, 4 MAY



Prime Minister, Mrs. Takeshita, My Lords,

Ladies and Gentlemen,

First of all, may I extend a very warm welcome

to you, Prime Minister, to your wife and

to the members of your delegation on this

your first official visit to the United

Kingdom as Prime Minister.

We are delighted to have you here, and

hope you have found your visit

successful.

Of course you are no stranger to us, but a familiar and welcome friend.

You have attended almost as many Economic Summits as I have, and we always greatly admired and respected the wisdom of your contributions.

I remember in particular the important part which you played at the London

Economic Summit in 1984.

Indeed, you have served as Japan's Finance Minister in no less than five Cabinets, which is a remarkable record.

One result has been that, on your previous visits to London, you have always called at No. 11 Downing Street.

Well, that's a very good address, but we are delighted that this time it is to

No. 10 Downing Street that we welcome you.

We know, too, of your many personal  
accomplishments.

An expert in judo - a dexterity which,  
when applied to the mind, we all need at  
Parliamentary Question Time.

I understand that your university has just won  
the Japanese rugby club championship,

which will give you a special bond with my  
husband who takes more than a passing  
interest in that sport.

I am told that your favourite song starts with

the words:

"I'll persist until I achieve my aim".

That certainly gives us something in  
common.

On a more serious note, Prime Minister, we also know of your attachment to the concept of furusato, which I think we would express as pride in one's native place and in the traditional virtues of home and family. That is a belief that we in this Government certainly share and support. You have also called for "enrichment of the spirit" as a counter-balance to the material things of our age, and that too

is very important, because again it puts the emphasis on the attitude of the individual rather than the state, and encourages him to use the manifold opportunities which greater prosperity creates.

Prime Minister, there are several very important aspects to your visit which I want to mention.

First, it is a new chance for Japan and Britain  
to establish an excellent working  
relationship.

We need to act together at the Economic  
Summit to try to ensure continued economic  
growth and therefore the expansion of  
trade.

But for that to be successful, we need to  
have a good personal understanding, and I



am sure that your visit has created it.

Second, we also see your visit as representing

your wish to build on the work done by

your distinguished predecessor - whom we

very much respected - to strengthen

bilateral relations between Britain and

Japan.

They have made very great progress - and

not just on an official basis.

I would like to mention in particular how pleased we were to have His Highness Prince Hiro at Oxford, and what an excellent impression he made.

We are now looking forward to welcoming His Highness Prince Aya who will start at St. John's in October.

Third, we should clear up what we refer to as 'unfinished business', that is problems

such as the tax on whisky and seats on the  
Tokyo Stock Exchange.

We have had a very full discussion of  
these problems and you have given me your  
personal commitment to achieving a  
satisfactory solution to them

Fourth, there is the wider aspect of our trade  
relations.

We in Britain have been accustomed since Elizabethan times to look outward.

The days of Empire left our people used to buying products which come from every corner of the world.

They expect those goods to be able to enter our country freely and without hindrance.

They judge them not on place of origin, but on interest, merit and value for

money.

And they find it hard to understand why that cannot be the case the world over.

We recognise and welcome the fact that Japan is now importing more.

But we would like to see it taken further still, to the point where it is as natural for your people to buy the best, whether it is made at home or imported from abroad, as it is for ours.

And so we should increase our trade.

British exports to Japan have grown fifty per cent in the last two years.

I should like to set the objective of doubling them in the next three.

Fifth, we also very much welcome Japanese investment in Britain.

That, too, has doubled in the last two

years, and we want to see it continue to grow.

We have a very favourable experience of Japanese management, and I think your companies are pleased with what a British workforce can achieve.

Taken together they represent an unbeatable combination;

And sixth, we want to see private contacts of  
all kinds enlarged.

We should have more links between our  
towns and cities - including your own  
prefecture of Shimane.

I would like to see many more British  
people learn Japanese.

And we should make full use of the United  
Kingdom-Japan 2000 Group, some of whose  
British members are here tonight.



I have always made a point of seeing the Group when it meets in the United Kingdom, and its work has my strong support.

There is a final reason, Prime Minister, why we welcome your visit, and that is because we see it as a mark of your commitment to bring about Japan's closer integration into the Western system of nations.

Britain and Japan share a belief in democratic values.

We operate within the same liberal economic and trade system.

We have very similar security interests.

We both respect and welcome United States' leadership, and wish to work very closely with them.

These points in common should be the foundation

for a much broader relationship in which  
Britain and Japan work together as friends  
and allies across the board.

Your visit has been a most important step  
in that direction.

Prime Minister, I believe that your motto is:

"Translate one's promises into action".

I would be happy to adopt it too.

Let us both commit ourselves to translate

into action, under our joint leadership, a  
promise to resolve outstanding problems  
and establish even closer relations  
between Britain and Japan.

I ask you all to rise and drink a toast to the  
Prime Minister of Japan and  
Mrs. Takeshita, to further prosperity and  
success for the people of Japan, and to  
good relations between our two countries.

✓ 6/5

RECEIVED
06 MAY 1988
TO: Mr. H. P. EVANS
CST, PST, PMG, EST,
SIC P. MIDDLETON,
SIC G. LITTLER,
SIC T. BURNS, MR MONCK,
MR SCHOLAR,
MR LANKESTER, MR R. I. G. ALLEN,
MR BURGENER, MR S. W. MATTHEWS,
MR P. G. DAVIS, MR MOLAN, MR TYLIE.



10 DOWNING STREET  
LONDON SW1A 2AA

5 May, 1988.

From the Private Secretary

### VISIT OF THE JAPANESE PRIME MINISTER

I enclose a copy of a message to the Prime Minister from Mr. Takeshita about his recent visit.

I am sending copies of this letter and its enclosure to Alex Allan (HM Treasury), Stephen Ratcliffe (Department of Trade and Industry) and Trevor Woolley (Cabinet Office).

(C.D. Powell)

Robert Culshaw, Esq., MVO,  
Foreign and Commonwealth Office.

*CC*

EMBASSY OF JAPAN  
46 GROSVENOR STREET  
LONDON W1X 0BA

5th May 1988

*Dear Prime Minister,*

I am asked by Prime Minister  
Noboru Takeshita to forward a message to  
you.

I have much pleasure in sending  
... the text, herewith enclosed.

*Yours sincerely,*

*Kazuo Chiba*

Kazuo Chiba  
Ambassador

The Rt.Hon. Margaret Thatcher, MP,  
Prime Minister and First Lord of the Treasury,  
10, Downing Street,  
London, S.W.1.

DEAR PRIME MINISTER,

THANK YOU VERY MUCH FOR THE HOSPITALITY YOU EXTENDED TO ME AND THE MEMBERS OF MY DELEGATION. THE DINNER YOU KINDLY HOSTED IN HONOUR OF MY WIFE AND MYSELF LAST NIGHT WAS INDEED A MEMORABLE ONE, WHICH I SHALL LONG RECALL WITH THE UTMOST PLEASURE.

MY STAY IN LONDON WAS VERY BRIEF. I WAS, HOWEVER, THOROUGHLY SATISFIED WITH THE VISIT IN THAT I WAS ABLE TO ESTABLISH PERSONAL TIES AND FRIENDSHIP WITH YOU THROUGH SUBSTANTIAL AND FULFILLING TALKS.

I VERY MUCH LOOK FORWARD TO MEETING YOU AGAIN VERY SOON TO RENEW OUR FRIENDSHIP.

YOURS SINCERELY,

NOBORU TAKESHITA

PRIME MINISTER OF JAPAN



*bf. 12/5*

FROM: J M G TAYLOR  
DATE: 6 May 1988

*bf. 16/5*

MR BOTTRILL

*[Handwritten signature]*

cc Sir G Littler  
Mr Lankester  
Mr H P Evans  
Mr Mountfield  
Mr P G Davis  
Mr Walsh

**PRIME MINISTER'S MEETING WITH THE JAPANESE PRIME MINISTER:  
CHANCELLOR'S SSA INITIATIVE**

The Chancellor has noted that Mr Powell's note of the Prime Minister's discussion with Mr Takeshita records the Prime Minister as saying that: "She hoped that Japan would lend its support to the Chancellor's debt initiative for Sub-Saharan Africa. This would write off the debts of the poorest African countries, provided they reached agreements with the IMF."

2. The Chancellor has suggested that it might be helpful for us to send a briefing note to Mr Powell on the main points of the Chancellor's initiative. I should be grateful for a draft.

*JF*

J M G TAYLOR



CONFIDENTIAL

003357  
MDLIAN 6440

PS/CHANCELLOR OF THE EXCHEQUER  
TREASURY

CONFIDENTIAL  
FM BONN  
TO PRIORITY FCO  
TELNO 438

OF 101525Z MAY 88  
INFO ROUTINE TOKYO, ROME, PARIS, UKREP BRUSSELS, WASHINGTON

JAPANESE PRIME MINISTER'S VISIT TO BONN: 5-8 MAY  
SUMMARY

1. MAIN FOCUS OF TAKESHITA'S TALKS IN BONN WAS ON STRENGTHENING THE CULTURAL RELATIONSHIP AND CLOSER DIALOGUE ON INTERNATIONAL AFFAIRS. NO DETAILED DISCUSSION OF SPECIFIC ECONOMIC PROBLEMS.

DETAIL

2. SCHEEL, HEAD OF THE FAR EASTERN DEPARTMENT IN THE AUSWAERTIGES AMT, GAVE A COMMUNITY BRIEFING TODAY (10 MAY) ON TAKESHITA'S VISIT TO THE FRG. TAKESHITA'S PROGRAMME IN BONN CONSISTED OF A COURTESY CALL ON PRESIDENT VON WEIZSAECKER, THREE HOURS OF TALKS WITH CHANCELLOR KOHL, INCLUDING LUNCH, A BREAKFAST MEETING WITH GENSCHER AND A VISIT TO BONN UNIVERSITY. GENSCHER ALSO HOSTED A DINNER FOR TAKESHITA IN HIS CAPACITY AS VICE-CHANCELLOR (IN KOHL'S ABSENCE). AT JAPANESE REQUEST, TAKESHITA'S PROGRAMME OF CALLS IN BONN WAS DELIBERATLY KEPT LIGHT. THE LAST TWO DAYS OF THE VISIT WERE SPENT IN MUNICH.

3. THE ATMOSPHERE OF THE TALKS WAS CORDIAL ALTHOUGH DISCUSSIONS WERE MAINLY CONFINED TO GENERALITIES. TAKESHITA SPOKE IN FAMILIAR TERMS ABOUT HIS DESIRE TO STRENGTHEN THE EC/JAPAN LEG OF THE JAPAN/EC/US TRIANGLE. KOHL AND GENSCHER ALSO STRESSED THE DESIRABILITY OF A CLOSER DIALOGUE BETWEEN EUROPE AND JAPAN PARTICULARLY ON EAST WEST RELATIONS, REGIONAL ISSUES SUCH AS AFGHANISTAN AND SOUTH EAST ASIA AND MANAGEMENT OF THE WORLD ECONOMY. IT WAS AGREED THAT:

- THERE WAS A REAL CHANCE OF BETTER EAST/WEST RELATIONS FOLLOWING SIGNATURE OF THE INF TREATY, INCLUDING REMOVAL OF MEDIUM-RANGE MISSILES EAST OF THE URALS:
  - THE FRG AND JAPAN BOTH SHARED A MAJOR RESPONSIBILITY FOR MAINTAINING WORLDWIDE ECONOMIC EQUILIBRIUM AND FREE TRADE. GENSCHER STRESSED THAT COMPLETION OF THE SINGLE MARKET WOULD MAKE AN IMPORTANT CONTRIBUTION TO WORLD ECONOMIC GROWTH:
  - THERE WAS SCOPE FOR CLOSER COOPERATION ON NORTH/SOUTH ISSUES:
  - JAPAN AND EUROPE SHOULD BOTH BE READY TO COOPERATE IN PROVIDING RECONSTRUCTION AID FOR AFGHANISTAN. TAKESHITA SAID THAT JAPAN WOULD HELP TO FINANCE THE UN GROUP TO BE STATIONED IN AFGHANISTAN AS WELL AS PROVIDING A REPRESENTATIVE FROM THE JAPANESE FOREIGN MINISTRY.
4. ON THE BILATERAL SIDE, THE MAIN FOCUS OF TAKESHITA'S TALKS WITH

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KOHL WAS ON THE CULTURAL RELATIONSHIP AND PARTICULARLY THE IMBALANCE BETWEEN THE RELATIVELY LARGE NUMBER OF JAPANESE ABLE TO SPEAK GERMAN OR STUDYING IN THE FRG AND THE MUCH SMALLER NUMBER OF GERMANS STUDYING IN JAPAN OR ABLE TO SPEAK JAPANESE. IT WAS AGREED TO:

A) NOMINATE SPECIAL REPRESENTATIVES TO CONSIDER WAYS OF PROMOTING LANGUAGE STUDIES ON BOTH SIDES AND ENHANCED EXCHANGE PROGRAMMES:

B) FOUND A GERMAN INSTITUTE FOR JAPANESE STUDIES IN TOKYO OR YOKOHAMA WHICH WOULD CONCENTRATE ON MODERN JAPAN:

C) SET UP A JAPANESE PROGRAMME FOR YOUNG GERMAN TEACHERS TO VISIT JAPAN:

D) USE THE FORMER JAPANESE EMBASSY IN BERLIN AS A FORUM FOR DISCUSSION BETWEEN JAPANESE AND EUROPEANS, INCLUDING EAST EUROPEANS.

5. THE PROBLEM OF OPENING UP THE JAPANESE MARKET WAS DISCUSSED ONLY IN VERY GENERAL TERMS. WE HAVE LEARNT FROM A PRIVATE SOURCE THAT THE JAPANESE TURNED DOWN A PROPOSAL THAT TAKESHITA SHOULD MEET THE BDI (CBI EQUIVALENT). NO MENTION WAS MADE OF SPECIFIC

OUTSTANDING PROBLEMS SUCH AS ALCOHOLIC DRINKS OR IMPROVED ACCESS TO THE TOKYO STOCK EXCHANGE FOR GERMAN BANKS. KOHL AND GENSCHER ACKNOWLEDGED THAT CONSIDERABLE PROGRESS HAD BEEN MADE WITH MARKET-OPENING MEASURES BUT SAID THAT MUCH MORE NEEDED TO BE DONE. AT HIS FINAL PRESS CONFERENCE HOWEVER, TAKESHITA CLAIMED THAT JAPAN HAD ALREADY DONE ENOUGH AND STRESSED THAT IT WAS NOW UP TO THE EC TO OPEN ITS MARKETS TO MORE JAPANESE PRODUCTS. A CONTACT IN THE FEDERAL PRESS OFFICE HAS TOLD US THAT TAKESHITA GAVE A LACKLUSTRE PERFORMANCE AT THE PRESS CONFERENCE AND SEEMED VERY TIRED.

6. GENSCHER TRIED TO DISPEL JAPANESE CONCERN THAT THE COMPLETION OF THE SINGLE MARKET MIGHT STRENGTHEN PROTECTIONIST TENDENCIES WITHIN THE COMMUNITY. HE EXPRESSED DISAPPOINTMENT, HOWEVER, AT THE LOW LEVEL OF JAPANESE INVESTMENT IN THE FRG. ONLY 1.8 PER CENT OF JAPAN'S DIRECT INVESTMENT CAME TO THE FRG COMPARED TO 20 PER CENT TO THE EC AS A WHOLE.

7. SCHEEL SAID THAT GENSCHER PLANNED TO VISIT JAPAN IN THE AUTUMN, ALTHOUGH THE VISIT HAD NOT YET BEEN ANNOUNCED. THE FRG WAS ALSO USING ITS PRESIDENCY TO TRY TO STRENGTHEN EC/JAPAN RELATIONS WITHIN THE TROIKA FRAMEWORK. VON RICHTHOFEN, THE GERMAN POLITICAL DIRECTOR, WOULD BE VISITING TOKYO ON 13 MAY AND IT WAS HOPED TO ARRANGE A TROIKA MEETING AT MINISTERIAL LEVEL IN PARIS ON 19 MAY.

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JAPAN POLITICAL AND ECONOMIC

MR P J WESTON CAB OFFICE

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*[Handwritten initials]*  
1 Jonathan  
2 prep

FROM A BOTTRILL  
DATE 13 MAY 1988

PS/CHANCELLOR

1. *Alex*  
I think it might be best if  
the letter went from you,  
since you spoke to Mr Powell  
about this.

cc Sir G Littler  
Mr Lankester  
Mr Evans  
Mr Mountfield o/r  
Mr P G Davis  
Mr Walsh  
Mrs Thomson

2. *Ch.* Content?  
*of 13/5*

**CHANCELLOR'S SSA INITIATIVE: PRIME MINISTER'S MEETING WITH THE JAPANESE PRIME MINISTER**

I attach a draft letter for you to send to Mr Powell in response to his record of the Prime Minister's discussion on Sub-Saharan African debt as requested in your minute of 6 May.

*A Bottrill*

A BOTTRILL

*Ch.*  
This has been considerably delayed & I don't really fancy writing in this sort of tone to Charles now - I'm sure he wouldn't show it to PM anyway. Better now to split next time she's being briefed to raise SSA with anyone & hang a letter then.

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35/3

*Much too late.*  
*Can you please explain this orally, if you think there is a problem?*  
*[Signature]*

*1 appt.*

Draft letter from <sup>P</sup>PS/Chancellor to Mr Powell, 10 Downing Street

*I mentioned to you that*

In your note of the Prime Minister's discussions with Mr Takeshita, the Japanese Prime Minister, you record the Prime Minister as saying that the Chancellor's Sub-Saharan African Debt Initiative would "write off the debts of the poorest African countries".

The Chancellor's Initiative would bring debt relief but not write off debts for certain low income, debt distressed countries mainly in Sub-Saharan Africa, that have IMF approved structural adjustment programmes in place. The initiative comprises three elements:

- i. Conversion of aid loans to grants. The UK has converted £245 million of aid loans to Sub-Saharan Africa and other creditors, particularly FRG, Canada and Nordics have done likewise.
- ii. Extending grace and repayment periods on rescheduled debt in the Paris Club. To date, ten countries have received grace and repayment periods of 15 and 20 years instead of the usual 10 years.
- iii. Reducing interest rates on rescheduled debt to below market levels. There has been less support for this proposal. Only Canada and Italy among the G7 support us. The US remains strongly opposed.

The Chancellor's Initiative would give these countries an incentive to start or continue strong adjustment programmes. By implementing the Chancellor's Initiative creditors would maximise the chances of ultimate recovery of the debt, while foregoing some interest. If the problems of these countries are not addressed, then creditors run the risk of progressive economic deterioration and prolonged default which would be in nobody's interests.

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OBJET: MEETING OF THE TROIKA AT POLITICAL DIRECTORS, LEVEL  
WITH JAPAN, 13 MAY 1988

REF: CPE,PRES,BON

THE FIFTH ROUND OF CONSULTATIONS OF POLITICAL DIRECTORS  
BETWEEN THE TROIKA AND JAPAN TOOK PLACE ON 13 MAY, 1988  
IN TOKYO. THE JAPANESE DELEGATION WAS HEADED BY THE DIRECTOR  
GENERAL OF THE EUROPEAN AND OCEANIC AFFAIRS BUREAU, MR.  
KAZUTOSHI HASEGAWA.

A) RECORD OF THE CONSULTATIONS

1. VISIT OF PM TAKESHITA TO EUROPEAN COUNTRIES.

THE JAPANESE SAID THAT WITH THE VISIT OF PM TAKESHITA TO  
UK, I, D IN MAY AS WELL AS WITH HIS UPCOMING VISIT TO NL,  
B, F AND THE COMMISSION HE EMPHASIZED EUROPEAN-JAPANESE SIDE  
OF TRIANGLE USA-JAPAN-EUROPE IN THE PERSPECTIVE OF THE SINGLE  
COMMON MARKET IN 1992. JAPAN WANTED TO COOPERATE MORE CLOSELY  
WITH EUROPE, INCLUDING ON CULTURAL AND SOCIAL MATTERS.

2. EAST-WEST RELATIONS INCLUDING CSCE, DISARMAMENT  
AND ARMS CONTROL.

JAPAN WELCOMES THE NEW TREND IN EAST-WEST RELATIONS: ONE  
SEGMENT OF IT WAS THE SIGNING OF THE INF-AGREEMENT SEMI  
THE OTHERS INCLUDE THE PERSPECTIVE OF SOLVING REGIONAL  
ISSUES, THE IMPROVEMENT OF THE HUMAN RIGHTS SITUATION AND  
CLOSER BILATERAL RELATIONS OF WESTERN COUNTRIES WITH THE  
SOVIET UNION AND THEIR ALLIES.

MR. HASEGAWA EXPRESSED SOME SKEPTICISM ABOUT MR.  
GORBACHEV WHO SHOULD BE JUDGED NOT BY HIS WORDS BUT BY HIS  
DEEDS. IN NEGOTIATING WITH THE SU, THE WEST SHOULD BE  
UNITED BEHIND THE US. JAPAN SUPPORTED THE PRINCIPLE  
OF DETERRENCE AND DIALOGUE.

WE -THE TROIKA- SAID WHILE HAVING NO ILLUSIONS THAT THERE WAS NO  
MAJOR CHANGE IN THE MILITARY FIELD WE STRESSED THAT A SOVIET  
UNION MORE OPEN TO THE OUTSIDE WORLD WOULD BE IN OUR INTEREST.  
WE SHOULD PUT GORBACHEV'S WORDS TO A TEST.

MR. HASEGAWA DID NOT SEE A MAJOR CHANGE IN SOVIET  
FOREIGN POLICY PRIORITY WHICH WAS STILL LED BY THE USA, THAN  
FOLLOWED BY WESTERN EUROPE. AS TO ASIA AND THE PACIFIC, JAPAN

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DID NOT SEE ANY MAJOR CHANGE. ITS IMMEDIATE AIM WAS PERHAPS TO GAIN ECONOMIC INFLUENCE BY JOINING THE ASIAN DEVELOPMENT BANK AND THE PACIFIC ECONOMIC COOPERATION COUNCIL. AN IMPORTANT INTERNAL DEVELOPMENT WOULD BE THE CPSU PARTY CONFERENCE ON JUNE 28. JAPANESE SIDE TOOK PARTICULAR INTEREST IN THE CSCE FOLLOW-UP CONFERENCE IN VIENNA AND THE MANDATE STILL TO BE DECIDED ON CONVENTIONAL ARMS CONTROL IN EUROPE. THE OUTCOME WOULD HAVE GLOBAL CONSEQUENCES, INCLUDING ON THE SITUATION IN ASIA.

PM TAKESHITA WOULD HEAD THE JAPANESE DELEGATION ON THE SPECIAL UN ASSEMBLY ON DISARMAMENT IN JUNE.

AS TO EASTERN EUROPE, THE JAPANESE TRIED TO IMPROVE THEIR RELATIONS. PM NAKASONE HAD GIVEN A NEW IMPETUS, IN VISITING POLAND, THE GDR AND JUGOSLAVIA. LDP GENERAL SECRETARY ABE VISITED THE CSSR AND HUNGARY END OF APRIL BEGINNING OF MAY. THE JAPANESE SAW VERY WELL THE POLITICAL DIFFERENCES BETWEEN THE COUNTRIES, WHICH WERE INTERESTED IN ECONOMICAL, TECHNICAL COOPERATION AND IN POLITICAL DIALOGUE.

A SPECIAL INTEREST WAS DEVOTED TO YUGOSLAVIA. JAPANESE AGREED TO OUR POINT THAT WE SHOULD HELP YUGOSLAVIA TO FIND ITS WAY OUT OF THE PRESENT ECONOMICAL DIFFICULTIES WHICH HAD ALSO A POLITICAL INCIDENCE.

2. TROIKA MINISTERIAL MEETING IN PARIS ON MAY 19. WE EXPRESSED SOME REGRET THAT THE TIME AVAILABLE WOULD BE ONLY ONE HOUR AND A HALF. JAPANESE WERE NOT ABLE TO ACCEPT OUR INVITATION FOR LUNCH.

WE AGREED ON FOLLOWING AGENDA:

1. EAST-WEST RELATIONS INCLUDING ARMS CONTROL, CSCE.
2. ASIA: CHINA, CAMBODIA, AFGHANISTAN.
3. NEAR AND MIDDLE EAST, GULF.
4. OTHER QUESTIONS, INCLUDING YUGOSLAVIA.

JAPANESE SAID THAT JUGOSLAVIAN PRIME MINISTER MIKULIC WOULD VISIT JAPAN END OF MAY.

3. ASIA.

JAPANESE SAW IN ASIA STABILIZING AND DESTABILIZING FACTORS.

- PHILIPPINES: SITUATION SEEMED TO BE STABILIZING, ALTHOUGH PRESIDENT AQUINO HAD STILL PROBLEMS, E.G. LAND REFORM AND DEBT PROBLEM. JAPAN PLEDGED TO GIVE 1.2 BILLION DOLLARS PER YEAR ADDITIONAL ECONOMIC AID. US WANTED TO INVITE EUROPEAN COUNTRIES TO GIVE MORE ECONOMIC COOPERATION. WE SAID THAT WE EXAMINE A US 'MARSHALL PLAN' PROPOSAL.
- KOREA:  
PEACEFUL TRANSMISSION FROM PRESIDENT CHUN TO ROH FOR FIRST

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TIME WAS STABILIZING FACTOR. GENERAL ELECTION ON 26 APRIL SEEMED FAIR. ECONOMIC DEVELOPMENT IS AMAZING. KIM DAE JUNG SEEMES READY TO COOPERATE WITH GOVERNMENT BEFORE OLYMPIC GAMES. JAPANS RELATIONS TO SOUTH KOREA WERE OVERALL IN GOOD SHAPE.

- NORTH KOREA:

KIM JONG ILS POSITION SEEMS CONSOLIDATED AS LONG AS HIS FATHER STAYS ON. RECENT PERSONEL CHANGES SEEMED TO BE MORE OF ROUTINE THAN SIGNS OF POWER STRUGGLE. JAPANS MEASURES AGAINST NORTH KOREA FOLLOWING THE DOWNING OF SOUTH KOREAN PLANE WERE RELAKSED IN ORDER TO SEND A SIGNAL TO NORTH KOREA.

- CHINA:

NATIONAL PEOPLES CONGRESS HAVING DECIDED PERSONAL CHANGES WAS SIGN OF STABILIZATION. DIVISION OF LABOR AMONG LEADERS WORKED VERY WELL, AS SHOWN BY RECENT VISIT OF FM UNO IN CHINA: CHINESE FM QIAN CRITIZED MINISTERS OKUNOS REMARKS ABOUT JAPANESE WAR RECORD SEMI PRIME MINISTER LI PENG SHOWED DISPLEASURE AT JAPANESE HANDLING OF KOKARYO DORMITORY PROBLEM SEMI CCP GS ZHAO ZIYANG DESCRIBED BILATERAL RELATIONS IN GOOD TERMS.

THE CHINESE-SOVIET RELATIONS WERE IMPROVING GRADUALLY. CHINESE MADE CLEAR THAT RELATIONS WOULD NOT GO BACK TO FIFTYS EVEN IF ALL THREE OBSTACLES WERE REMOVED.

- COMBODIA.

JAPANESE SIDE POINTED OUT DIFFERENCES BETWEEN COMBODIA AND AFGHANISTAN. WHILE SOVIET UNION WAS COMPELLED TO GET OUT OF AFGHANISTAN, PARTLY BECAUSE OF DOMESTIC PROBLEMS, SITUATION IN COMBODIA WAS DIFFERENT. VIETNAM HAD INVADED COMBODIA BECAUSE CHINESE INFLUENCE SEEMED TO BE A THREAT TO UNITY OF VIETNAM. BEFORE PULLING OUT VIETNAM MUST BE SURE OF GOOD INTERNATIONAL ENVIRONMENT.

- AFGHANISTAN:

JAPANESE EKSPLAINED PARTICIPATION OF JAPANESE CIVILIAN IN UN OBSERVER TEAM.

PTHEY WILL PAY FIVE MILLION DOLLARS

FOR THE TEAM, THEN GIVE AID TO REINTEGRATION OF REFUGEES AND FOR RECONSTRUCTION. WE LAID OUT OUR RESPECTIVE EFFORTS.

VIETNAM:

JAPANESE TOLD OF A VIETNAMESE REQUEST FOR FOOD AID. WE EKSPLAINED THAT WE HAD RECEIVED A SIMILAR REQUEST ON WHICH NO DECISION WAS REACHED. WE MADE CLEAR THAT WE WOULD GIVE ONLY HUMANITARIAN AID THROUGH NGOS BUT NO ECONOMIC



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AID.  
ASEAN.

JAPANESE SAID THAT ASEAN COUNTRIES ASKED FOR MORE MARKET OPENING. JAPANESE HAD DONE THEIR BEST, BUT WOULD DO MORE. IN 1987 THEY PLEDGED TWO BILLION DOLLARS TO ASEAN COUNTRIES. WE TOLD THEM THAT EC-ASEAN MEETING IN DUSSELDORF ON MAY 2-3 WAS VERY SUCCESSFUL.

SOUTH PACIFIC:

MR. HASEGAWA SAID THAT INFLUENCE OF FORMER COLONIAL POWERS WAS WANING. EXPECTATIONS OF ISLAND COUNTRIES TOWARDS JAPAN WERE RISING. HE POINTED OUT IMPORTANCE OF KURANARI'S VISIT IN JANUARY 1987. HE SAID THAT US FOLLOWED JAPANESE SITUATION SEEMED OVERALL STABLE. FIJI COUP DETAT WAS EXCEPTION. SOVIET AND LIBYAN INFLUENCE WAS LIMITED. JAPANESE AID WAS GROWING. THEY WANTED TO COOPERATE MORE CLOSELY WITH US, UK, AUS, NZ AND WITH EC.

WE EXPLAINED EC EFFORTS UNDER LOME CONVENTION.

4. NEAR AND MIDDLE EAST:

WE EXPLAINED EPC STAND ON ARAB-ISRAELI-CONFLICT, IRAN-IRAQ-WAR, LEBANON AND POINTED TO THE REVIVAL OF EUROPE-ARAB DIALOGUE IN COMING JUNE. JAPANESE SIDE ANNOUNCED THAT FM UNO WOULD VISIT SYRIA, JORDAN, EGYPT AND ISRAEL AFTER TORONTO SUMMIT. JAPANESE EXPERIENCE IN THIS REGION WAS LIMITED. VISIT TO ISRAEL WOULD BE THE FIRST VISIT BY JAPANESE FOREIGN MINISTER. JAPAN WOULD TAKE THE RISK OF SOME ARAB CRITICISM. JAPAN SUPPORTED INTERNATIONAL CONFERENCE ON MIDDLE EAST.

B) ALTHOUGH WE REGRETTED THAT TIME AVAILABLE FOR DISCUSSIONS WAS NOT LONG ENOUGH, WE FELT THAT ALSO THIS ROUND OF EPC TROIKA CONSULTATION WITH JAPAN HAD BEEN VERY FRIENDLY AND USEFUL. WHILE FM UNO REGRETTED NOT TO BE ABLE TO RECEIVE EPC-PARTNERS, THERE HAD BEEN A SHORT DISCUSSION WITH VICE MINISTER MURATA ON THE NECESSITY OF A MORE INTENSE DIALOGUE BETWEEN JAPAN AND THE EPC. WE WERE GLAD THAT THIS POLITICAL DIALOGUE WAS NOT OVERSHADOWED BY ECONOMIC FRICTION. WE EXPRESSED THE HOPE THAT ALTHOUGH THE TIME OF THE TROIKA MEETING ON MINISTERIAL LEVEL ON MAY 19 WOULD BE VERY SHORT THE DISCUSSION ON A LIMITED NUMBER OF ISSUES COULD STILL BE MEANINGFUL AND INTENSE.''

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FROM: A C S ALLAN

DATE: 23 May 1988

NOTE FOR THE RECORD

cc PS/Economic Secretary  
Sir P Middleton  
Sir T Burns  
Sir G Littler  
Mr Lankester  
Mr H P Evans

**BILATERAL WITH EIICHI NAKAO**

The Chancellor had a bilateral with Mr Eiichi Nakao, the head of the Japanese Economic Planning Agency, during the OECD Ministerial meeting in Paris on Wednesday 18 May.

2. Most of the discussion was confined to pleasantries and compliments, laboriously and fully translated - purely for the benefit of Nakao's aides, since Nakao himself speaks good English.

3. The Chancellor raised the question of seats on the Tokyo Stock Exchange and Scotch whisky. He also noted that the Japanese delegation had expressed concern about Sub-Saharan Africa in their interventions in the morning discussions. The Chancellor himself had put forward proposals for helping the most heavily indebted countries in Sub-Saharan Africa, and it will be very helpful if the Japanese could support these in Toronto.

4. Nakao said that his people were studying the problems of the Tokyo Stock Exchange very carefully and would be providing a response as soon as possible. On Scotch and wine, the Japanese position had been explained in the new Five Year Plan leading to 1992. The objective was to make the Japanese economy fully open to world competition. The EPA would take a strong initiative in discussing this with the Ministry of Finance and the Ministry of Agriculture.

5. On Sub-Saharan Africa, the line taken in the morning session had been discussed and agreed before the Japanese team had left



Tokyo. In Toronto, the Japanese would endorse support for heavily indebted countries, and would consider any UK proposals very carefully.

A C S ALLAN .