PART TWO

MT

CONFIDENTIAL FILING

Visit to of Mr Nakasone Prime Minister of Japan, and his successor Mr Takeshita, and his successor Mr Kaifu.

JAPAN

S 3005

Part One: February 1986
Part Two: December 1987

Referred to	Date	Referred to	Date	Referred to	Date	Referred to	Date
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Part 2 ends

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PART 2 ends:-

Japanese embassy to PUS 28.2.90

~~PUS Japan to PUS 15.2.90~~

PART 3 begins:-

CDP to FCO 1.3.90

R 1/3 (4)

EMBASSY OF JAPAN
LONDON

28th February 1990

CDP 4/3

Dear Prime Minister,

I have been instructed to transmit to you a letter from Mr. Toshiki Kaifu, Prime Minister of Japan.

I have pleasure in attaching this letter herewith, together with an English translation thereof.

Yours sincerely,

Hiroshi Hashimoto
Minister
Charge d'Affaires a. i.

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

PRIME MINIS
PERSONAL MES
SERIAL No. I 31A/90
SUBJECT cc MASTER

(TEXT)

15th February 1990

Dear Prime Minister,

I would like to express once again my deep gratitude for the warm hospitality that you and your Government extended to me and my colleagues on our recent visit to the United Kingdom.

Although the visit was very short, we were able to have a frank and significant exchange of views on the recent international situation, and relations between out two countries. These talks followed on from those we held in Tokyo in September of last year. In particular, I was deeply impressed by your profound awareness and acute analysis of the international situation. When you visited Japan last September, you stressed that you wished to further develop towards the 1990s the already cordial Anglo-Japanese relationship into an unprecedented partnership. I am delighted that we were able, in our recent talks, to confirm that since last September Anglo-Japanese relations have made excellent progress. Further, on my recent visit to the United Kingdom, I was struck again by the enthusiasm with which you approach the promotion of relations between our two countries, and I also further deepened my awareness of the importance of these relations.

I intend to continue my efforts, in co-operation with yourself, Prime Minister, to enhance friendship between our two countries in the political, economic and cultural fields and to achieve deeper harmony and co-operation with the United Kingdom. I am looking forward to the opportunity of meeting you again at the Houston Summit.

Finally, I sincerely pray for the continued good health of both yourself and your husband, and for the lasting prosperity of your country.

Yours sincerely,

TOSHIKI KAIFU
Prime Minister of Japan

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

拝啓

先般の貴国訪問に際し、極めて短期間の訪問であったにもかかわらず、閣下及び貴国政府が私共一行に対して示された、心のこもったおもてなしに対し、改めて深甚なる謝意を表します。

今回の訪問では、昨年九月の東京での会談に引き続いて、貴首相と最近の国際情勢及び二国間関係につき忌憚のない有意義な意見交換を行うことができました。就中、私は、貴首相の国際情勢に関する高い御見識と鋭い分析に改めて深い感銘を受けました。更に昨年九月に貴首相が訪日された際「九十年代に向けて日英関係を前例のないパートナーシップと友好の関係に発展させていきたい」旨強調されましたが、今次会談において、その後、日英関係が順調に進んでいることを貴首相と確認できたことを嬉しく思います。また、今次訪問を通じ、貴首相の日英関係促進に寄せられる熱意に再び強く打たれると共に、私も

同様に日英関係の重要性を一層深く認識致しました。

今後、貴首相と協力しつつ、政治、経済、文化等幅広い分野において両国間の友好を更に高めるため、また、貴国との間で一層の協調、協力を実現するため努力して参りたいと存じます。貴首相とヒューストン・サミットの機会に再びお目にかかれることを大変楽しみにしております。

最後に、貴首相並びに御夫君の御健康と貴国の繁栄を心よりお祈り申し上げます。

敬具

平成二年二月十五日

日本国内閣総理大臣

海部俊樹

連合王国首相
マーガレット・サッチャー　閣下

(2) cc f/c

EMBASSY OF JAPAN
LONDON

Prime Minister
CDS 15/1

12th January 1990

Dear Prime Minister,

Before he left London this afternoon, Prime Minister Toshiki Kaifu told me how pleased he was with his talks with you at No. 10, Downing Street.

I should like to add my own thanks for this very successful visit. I especially appreciated the warm welcome extended to Mr. Kaifu and I feel sure that the very substantial discussions which took place will surely prove of inestimable value to both sides in the future.

Although the visit was very short, it further signified the close relationship between our two countries and, in my humble opinion, reaffirmed the Western Alliance.

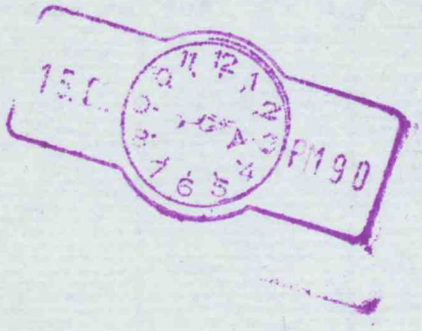
Thank you for your warm hospitality at luncheon.

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.



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MEETING RECORD
SUBJECT cc MASTER

CONFIDENTIAL file

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10 DOWNING STREET

LONDON SW1A 2AA

From the Private Secretary

12 January 1990

Dear Stephen,

PRIME MINISTER'S MEETING WITH THE JAPANESE PRIME MINISTER

The Prime Minister had a talk with the Japanese Prime Minister this morning, followed by a working lunch. Mr. Kaifu was accompanied by the Japanese Foreign Minister, Mr. Takao Fujimoto (Deputy Chief Cabinet Secretary), the Japanese Ambassador and Mr. Owada (Deputy Minister for Foreign Affairs). The Foreign Secretary and HM Ambassador Tokyo were also present. The atmosphere of the occasion was excellent: cheerful, friendly and warm with a very considerable identity of views.

Introduction

The Prime Minister welcomed Mr. Kaifu and recalled how much she had enjoyed her own visit to Japan in September last year. She complimented Mr. Kaifu on his speech in Berlin. We were grateful for Japan's generosity towards Eastern Europe. We were very keen to see closer political consultation among the Summit Seven, so that we all kept in touch with each other's views. The Prime Minister added that we were particulary grateful for Mr. Kaifu's help over securing additional seats for British firms on the Tokyo Stock Exchange. This marked a great advance in our relations.

Mr. Kaifu said he was grateful for the warm welcome he had received in London. He recalled the very valuable discussions which he and the Prime Minister had held in Tokyo. He was glad to be the last Japanese Prime Minister with whom Mrs. Thatcher would have to raise the question of seats on the Tokyo Stock Exchange. He recalled the wish which the Prime Minister had expressed in Tokyo to make the 1990s a decade of unprecedented partnership and friendship between Britain and Japan. He wholeheartedly agreed with this. The bilateral relationship between two countries was very important.

Bilateral Relations

Mr. Kaifu continued that bilateral relations were indeed very good, with an excellent dialogue. He would emphasise in particular the helpful role played by the UK/Japan 2000 Group. Japan would be opening a new Consulate-General in Edinburgh in the spring of 1991. Relations on the economic side were also good. There had been a big increase in Britain's exports to

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Japan: and Japanese investment in the United Kingdom remained strong. He wanted to see economic relations between Britain and Japan become ever closer.

The Prime Minister confirmed that we very much welcomed Japanese investment in the United Kingdom, which also produced excellent returns for Japanese firms. The fact was that Britain was the most open market in the Community and it was natural that Japanese firms should want to invest here. We saw it as our task to bring the rest of Europe up to our standards of openness and deregulation.

Mr. Kaifu referred to the importance of cultural relations and the two major manifestations, UK 90 and the Japan Festival in 1991. He would also like to see closer scientific and technical cooperation. Japanese and British researchers were already working together on new materials. The Prime Minister endorsed this wish: the more we cooperated the better.

Mr. Kaifu referred to the forthcoming Osaka Garden Festival in Japan. He would very much welcome it if the United Kingdom felt able to participate officially. Sir Julian Ridsdale had been very active in this. After consulting the Foreign Secretary, the Prime Minister said that we envisaged our participation as coming primarily from the private sector. But since Mr. Kaifu had raised the matter with her personally, we would look again at the question of official participation, since it clearly meant a lot to Japan. She thought it possible that we could make some official contribution and this would be followed up urgently by officials. Mr. Kaifu expressed gratitude.

Mr. Kaifu said that Japan would be putting forward its candidacy for the 1998 Winter Olympics and hoped to have Britain's support. The Prime Minister asked teasingly whether Mr. Kaifu was sure there would be any snow. We would certainly give the request our consideration.

The Prime Minister then raised the question of liberalisation of air services. We had been disappointed at the failure to make progress in the inter-governmental talks in October and would like to resume negotiations as soon as possible. She had heard on CNN last night that the Japanese had just concluded a new air services agreement with the United States. We were very keen to press ahead. Mr. Kaifu said that he would instruct Japanese officials to follow up. There was a problem of limited capacity at Narita airport.

East/West Relations

The Prime Minister said that she looked forward to hearing Mr. Kaifu's impressions from his European tour. We would never experience another year like 1989. We had to see that democracy, freedom and the rule of law took root throughout Eastern Europe. Building something up was always a more difficult task than tearing down tyranny. It was in all our interests to give support to Mr. Gorbachev, although we knew the particular problems which Japan faced over her Northern Territories. Britain and Japan saw eye to eye on the importance of helping

Eastern Europe with aid, training and joint ventures.

Mr. Kaifu agreed that Mr. Gorbachev deserved support. He had discussed this with President Bush before the Malta Summit and they were of one mind. Equally, political reform in Eastern Europe needed to be under-pinned by economic reform. He had much appreciated the long letter which the Prime Minister had written him on the subject. Japan wished to contribute to the stability of Eastern Europe: this was common ground between government and opposition. Financial help was important but was not the only thing: the East Europeans had to learn how a market economy worked. He wondered how the Prime Minister thought Japan could best contribute to that. The Japanese were willing to encourage private investment, but the East European countries would need to improve the environment for it.

The Prime Minister said that we were seeing not just political reform but the total collapse of Communism as a system of government. This was of enormous significance. But it underscored the magnitude of the task which faced us: people in the Soviet Union and China simply had no experience of liberty or a market economy. The history of Eastern Europe was slightly different. There people had some recollection of democracy and a market system and we had to help them restore it. By doing this we would be helping Mr. Gorbachev, because he could then point to the success of reform in Eastern Europe. But the mess was even worse than we had thought, with no reliable statistics, no means of credit control, shortages of food and so on. There were no manuals on how to get from a system of central planning to a market economy: indeed no one had ever done it. In her view the most important requirement was for training in management and financial matters. That involved both bringing people from Eastern Europe to the West to see how the market economy worked, and setting up management training over there. Britain and Japan had important interests in common. We were both islands at opposite ends of the great land mass which ran from the Atlantic to the Pacific, on which these great changes were taking place. We were both democracies and highly industrialised societies. There was a special obligation on us to keep in touch and work together.

Mr. Kaifu said that he very much agreed with the Prime Minister's analysis and about the importance of training. Japan was also providing some food aid. It had been suggested, for instance, that Japan should finance the purchase of food in Hungary and give it to Poland. Both countries were contributing to the stabilisation fund for Poland.

China

The Prime Minister said that she would be very interested in Mr. Kaifu's views on China. The Chinese leaders were clearly still grounded in the old ways and were terrified of democracy. Change would come to China eventually but it was impossible to predict when. No doubt there would be a struggle for power after Deng Xiaoping's death. China could not continue to be left behind by the world.

Mr. Kaifu said that Japan regarded China's behaviour over the Tianenmen Square incident as completely unacceptable and had reacted toughly. Equally, it would not be in the interests of anyone for China to become isolated. The Japanese Government was therefore urging China to act in ways which demonstrated determination to resume the policy of reform and openness. The recent lifting of martial law had been a positive development. But more was needed to provide evidence that China genuinely intended to resume the path towards reform.

The Prime Minister said that it was important for the Summit Seven to keep together in their approach to China, for instance on the question of World Bank loans. We all knew tht we had to get back into relations with China: the question was how and when. It was not made easier by the extreme sensitivity of the Chinese, which made it very difficult to talk to them. The Chinese leaders accused Britain of internationalising the problem of Hong Kong, but that was absurd. Hong Kong would not be prosperous if it were not for its international links. But she agreed that the lifting of martial law was a step forward which should be welcomed. Mr. Kaifu repeated that Japan's policy was to do all it could to make China more reasonable and open. It was important for the countries of the West to continue to consult closely and to harmonise their policies. We had to take a patient and long-term view.

Lunch-time Discussion

A number of issues were raised over lunch.

The Prime Minister referred to the very strong performance of the Japanese economy in 1989, which seemed to have exceeded even the Japanese Government's expectations. This must be a good basis for the elections. Mr. Kaifu said that it had also enabled the Government to produce a supplementary Budget. This had established a new fund for artistic and cultural activities, had provided resources for more training and enabled the expansion of development aid programmes. He would very much like to see closer co-operation between Japan and the United Kingdom in the field of development aid. Britain had enormous experience of Third World countries on which Japan would like to draw, while providing funds and volunteers. The Prime Minister welcomed this and the Foreign Secretary undertook to follow it up.

Mr. Kaifu asked the Prime Minister's advice about Poland and Hungary and showed curiosity about Mr. Walesa's role. Why had he not taken the opportunity to head the Polish Government? The Prime Minister said that Mr. Walesa was wise enough to know his own limitations. His crucial role lay in bringing the Polish people to accept the sacrifices which would be necessary to get economic reform.

The Foreign Secretary asked whether Japanese firms would be willing to invest in Eastern Europe. Mr. Kaifu said that they were generally rather reluctant. The Japanese Government would be sending teams to various East European countries to study the business environment so that Japanese firms could be better informed. There had already been some indications of interest in

joint ventures, for instance by Suzuki in Hungary.

The Prime Minister asked Mr. Kaifu to give her regards to the Emperor and Empress, the Crown Prince and Prince Aya, as well as to Mr. Takeshita. Mr. Kaifu thanked the Prime Minister for the hospitality shown to Prince Aya during his time in the United Kingdom.

The Prime Minister raised privately with Mr. Kaifu the concern felt in this country about Japan's whaling activities.

Following lunch, the Prime Minister and Mr. Kaifu both addressed the press outside Number 10. You will receive a transcript of their remarks separately.

I should be grateful if you could follow up urgently with the Departments concerned the question of some sort of official participation in the Osaka Garden Festival.

I am copying this letter to Neil Thornton (Department of Trade and Industry), John Gieve (HM Treasury), Myles Wickstead (Overseas Development Administration) and Sonia Phippard (Cabinet Office).

Yours sincerely,

Charles Powell

C. D. POWELL

Stephen Wall, Esq.
Foreign and Commonwealth Office

(1)

PRIME MINISTER

MEETING WITH MR. KAIFU: WHALING

You will want to be aware of the attached letter from Mr. Kinnock urging you to raise the subject of whaling with the Japanese Prime Minister tomorrow.

I think it will make your life easier if you do raise the matter briefly, referring to the strong feelings in this country. I have warned the Japanese Ambassador that you may do so.

CDP

C. D. POWELL
11 January 1990

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Foreign and Commonwealth Office

London SW1A 2AH

11 January 1990

Prime Minister

To be aware

CDP.

Dear Charles

Prime Minister Kaifu's Visit: Osaka Garden Festival

I mentioned in my letter of 8 January about Mr Kaifu's visit, that he might raise the question of official British participation in the Osaka Garden Festival.

Mr Kaifu did not raise the matter during his talks with Chancellor Kohl earlier this week; the Germans are also not taking part officially at Osaka. If Mr Kaifu nevertheless raises the issue here, we could offer a gesture of support without compromising our refusal to take part officially in the Festival. The Prime Minister might, for example, offer a message of good wishes for the Festival which could be published in the catalogue. (The Prime Minister should be aware that the Japanese did not participate officially in the Liverpool Garden Festival of 1984.)

If the Prime Minister agrees with this, and if the Japanese Foreign Minister raises the subject with the Foreign Secretary, Mr Hurd might say that the Prime Minister would be happy to contribute a message.

Mr Kaifu may also ask us to appoint a Commissioner-General; that should be refused, as it would mean official participation.

Yours ever

Bob Peirce

(R N Peirce)
Private Secretary

C D Powell Esq
PS/10 Downing Street

PRIME MINISTER

MEETING WITH THE JAPANESE PRIME MINISTER

You are to see Mr. Kaifu on Friday, first for an hour of talks from 1100-1200, followed by a working lunch from 1215-1315. He then has to leave on the next leg of his European tour. (He will have done Bonn, Berlin, Brussels and Paris before London, and is going on to Rome, Budapest and Warsaw).

I have not achieved your objective of very restricted talks, having been able to reduce the Japanese participants only to four (from the eight on whom they insisted). Mr. Kaifu apparently regards this as a minimum. The line-up will be Mr. Kaifu, Japanese Foreign Minister, Deputy Cabinet Secretary and the Japanese Ambassador on their side: you, Foreign Secretary, H.M. Ambassador Tokyo and me on the other. Since the main purpose is to make the Japanese happy, I have settled for this. I suggest we have the talks in the Cabinet Room (with interpreters, ten is really too many for the White Room): and to make it a little special, admit cameras and TV at the beginning. You may also like to say a few words to the press on the steps of No. 10 after lunch.

The proximate cause of Mr. Kaifu's visit is the approach of a general election in Japan, his need for a higher profile and the wish to offset the continuing rumbles of scandal in the ruling Liberal Democratic Party. If the LDP keeps its majority, his position as Prime Minister is probably secure. But a poor performance will be the end of him.

But there is more to it than this. The visit is part of Japan's emergence into a political role commensurate with its economic strength: and a wish to balance its vital but increasingly disputatious relationship with the United States by a close and more political involvement with Western (and Eastern) Europe. The intention is, I think, to demonstrate that Japan has a world role: and the substantial financial help Mr. Kaifu will announce for Poland and Hungary will back up that claim. There also

appears to be a tinge of anxiety hanging over the visit. To the Japanese, it may appear that the Caucasians are busy settling their disputes in Europe, leaving Japan to face the music alone in the Far East.

In short, the days of a depoliticised or gelded Japan are clearly over, and it is probably not long before the era of a demilitarised Japan is over too. As with Germany, the curtains are being drawn on the Second World War and its consequences and we face two economically dominant and newly self-assertive major powers. Our aim has been to bind Japan into the West: and this visit is an opportunity to continue that, building on your own successful foray to Tokyo in September.

The main areas to be covered in the talks are:

- East-West relations
- international economic issues
- bilateral issues

There is full briefing on them in the FCO's letter in the folder and in the excellent telegram from Tokyo. You will also find the note of your meeting with Mr. Kaifu in Tokyo last September.

You will want to start by recalling that visit, thanking Mr. Kaifu for his hospitality then and referring to your joint television appearance. You will also want to welcome him back to No. 10, remembering that he has been here twice before as a member of the UK-Japan 2000 Group.

You might then mention the decision to set up a new forum for political consultation through the Summit Seven network. We have been a leading advocate of this. It is particularly important in view of the rapid changes in East/West relations. You know that Mr. Kaifu is paying particular attention to this issue during his visit. You might first invite his impressions of what is happening in the Soviet Union and in Soviet/Japanese relations. You could recall that the matter of Japan's Northern Territories came up at your meeting with Mr. Gorbachev in

September and he took a very trenchant line on it. Once Mr. Kaifu has spoken, you will want to give him your own assessment of events in Eastern Europe, the consequences for the Western Alliance, the help which the West is giving to reform in Eastern Europe and the complexity of the German question. My inclination would be to underline our resolve to remain strong in defence: the Japanese will be looking for signs that Western Europe is giving up the struggle.

You might also under this heading ask about Japan's relations with China, and take the opportunity to explain the background to Sir Percy Cradock's visit. While we acknowledge the need to do business with Peking - none more than us, with our Hong Kong responsibilities - we hope the Japanese will not be precipitate in resuming development aid.

On international economic issues, you will want to take up where you left off in Tokyo. We welcome the reduction in Japan's current account surplus, but want to see continuing structural reform. We support the American Structural Impediments initiative (but do not endorse US efforts to deal with problems which affect all of us on a purely bilateral basis). You will want to mention the Uruguay Round and particularly agriculture, on which the EC has now put forward proposals.

On EC matters, you will want to reassure him of our liberal approach to the Single Market and suggest that the best way to indicate Japanese support for this is to continue to make Britain the focus of Japanese investment in Europe. We shall oppose firmly any attempts to restrict trade in cars made in the EC by Japanese-owned firms.

On the bilateral front, you can thank him warmly for helping to sort out the extra seats on the Tokyo Stock Exchange. It will be good to have this old favourite off the agenda. (If he asks about authorisation for Japanese regional banks in the UK, you can say that the Bank of England hopes to invite one candidate in the near future.) Unfortunately, there has not been the progress for which we hoped on liberalising Air Services/frequencies and

fares). The October talks were not a success and we want another round very soon. Finally, he may raise the Osaka Garden Festival. We have declined to participate officially - to the enormous distress of Julian Ridsdale (who is the British Commissioner for the Festival) and of the Japanese - on the grounds that this should be a private sector venture. All other major countries except the Germans have agreed to some official participation (and the Germans may have cracked during Mr. Kaifu's visit to Japan). If Mr. Kaifu does raise it, you might say that you will take another look.

CHARLES POWELL
10 January 1990

(2)

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Prime Minister

You may like to show knowledge of Mr. Kaifu's speech in Berlin when you meet him on Friday.

CDP 10/1

Gist of Berlin Speech
By
Prime Minister Toshiki Kaifu of Japan

1. (Preamble)

The Wall was a symbol of the rejection of freedom and failure to deliver prosperity to those subjugated by the builders of the Wall.

He congratulates the citizens of Berlin for the dismantling of the Wall and praises the courage of those in the East who made this decision.

He feels deep sorrow for the countless precious lives that have been sacrificed in pursuit of freedom during the painful postwar years in East Europe and most recently in the political turmoil in Romania.

2. (Fundamental Views on East-West Relations and Involvement of Japan)

(1) The moves towards reform in East Europe will affect not only the European scene but the basic structure of the postwar world order as well and, thus, will have a significant impact on the stabilisation of the Asia-Pacific situation. Japan, which is expected to play a major role not only economically but also politically, should conduct diplomacy with an aspiration to toil tirelessly for peace and prosperity of the world. Therefore, Japan will contribute positively to developments that are conducive to the stabilisation of the world order.

Furthermore, Japan, which itself opted for a regime rooted in freedom, democracy and a market economy after the war, is, as a matter of course, interested deeply in the smooth attainment of the objectives of reform in East Europe based on similar values.

In order to facilitate Poland and Hungary to shift their economies smoothly from a centrally-planned system to one based on market forces, Japan is willing to transfer technology necessary for their reform by, among other things, receiving trainees and sending experts in such areas as business management and environment. This technical cooperation to be implemented over the coming several years will translate into approximately US $25 million in financial terms.

Japan has also decided to provide support to the Polish Stabilisation Fund by making available an equivalent of US $150 million and to provide an emergency food aid worth US $25 million to Poland.

In addition, the Export Import Bank of Japan is planning to finance, under certain conditions, around US $500 million over three years to Poland and Hungary respectively. As regards the Government cover of international trade and investment insurance, the coverage for Poland is planned to be resumed under certain conditions, with a coverage ceiling of US $350 million over two years, while the coverage ceiling for Hungary has been expanded from US $200 million to US $400 million over two years.

The Japanese Government also intend to dispatch a large-scale survey mission on economic and investment environment to the two countries this coming Spring. Also, if it meets their wish, the Japanese Government intend to embark on negotiations for an investment guarantee agreement with them bilaterally.

As further effort to back up their economic reform, Japan also intends to participate in the preparations for establishing the European Bank for Reconstruction and Development.

Further, Japan stands ready to act positively with other industrialised democracies when East European countries other than Poland and Hungary also embark on reform towards democratisation and a market economy.

(2) The current situation in East Europe once again points to the need to intensify cooperative relations between Japan and West Europe.

Moves to overcome the division of Europe are likely to become increasingly active as reform progresses in East European countries. As to the question of German Unification, he hopes that a framework of peace and stability will be established so that the legitimate aspiration of the German people to unify the country divided after the war can be realized amicably through the free exercise of their right to self-determination.

He welcomes EC's moves toward establishing the Single Market by the end of 1992 and the associated moves of the EFTA countries.

He is determined to work together with the West European countries to preserve and further develop the open economic system.

The problems of such economic nature, as well as others confronting us today, call for further strengthening of cooperative ties between Japan, Europe and the United States at the global level. The unity of the West in flying high the banner of freedom and democracy has brought about the changes that are presently taking place in the Soviet Union and East Europe.

(3) In spite of dissipating ideological antagonism and the shift in emphasis from confrontation to dialogue and cooperation in general in the East-West relations today, deterrence and balance of power continue to be the underpinning for world security.

3. (East-West Relations and the Asia-Pacific Region)

The present developments in East Europe are a result of the new-thinking diplomacy advanced by the present Soviet leadership. He welcomes this change in Soviet diplomacy. He earnestly hopes that the new-thinking diplomacy of the Soviets will be applied actively to the Asia-Pacific region as well.

Japan supports the right directions pursued under "perestroika". On its part, Japan is making efforts to normalise relations with the Soviet Union with the philosophy that contacts in political, economic and other fields should be expanded while maintaining a proper balance among these fields.

On the other hand, there still exists the Northern Territories issue, a problem pending to this day in the Far East, in spite of the thawing of other situations which emanated from the Cold War. He is firmly determined to conclude a peace treaty with the Soviet Union by resolving this issue and to develop a friendly relationship that is truly stable. By so doing, he strongly hopes to cooperate with the Soviet Union, as with the United States, China and others, for peace and prosperity in Asia and the Pacific.

As an Asian nation, Japan has always aspired, as one of the fundamental policies of its diplomacy, to contribute as best as it can to peace and prosperity in the Asia-Pacific region.

First of all, Japan will continue its efforts to engage in direct dialogue with North Korea while at the same time, consolidating further its friendly ties with the Republic of Korea, although the relaxation of tension on the Korean Peninsula should come from the efforts of North and South.

Secondly, in spite of the Tienanmen incident, it is extremely important for peace and prosperity in Asia and the Pacific that China maintains stable and cooperative relations with countries around the world without heading towards isolation. Both China and its interlocuters should make continued step-by-step efforts with this perspective in mind.

Thirdly, Japan will continue to contribute actively to the international efforts in order to achieve a comprehensive political settlement of the Cambodian problem and is determined to play a major role in economic assistance for the reconstruction of that country once that objective is achieved.

4. (Concluding remarks)

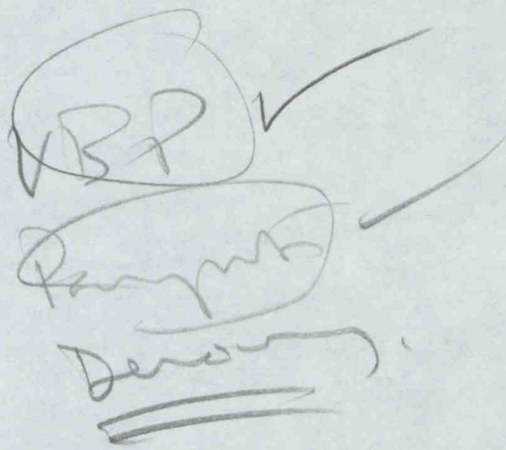
He appeals to all to turn the twenty-first century into a century where the word "war" has no place, a century in which major progress will be achieved in improving human welfare, by shaping a new world order through persevering efforts for global cooperation including the above-mentioned Japan's efforts.

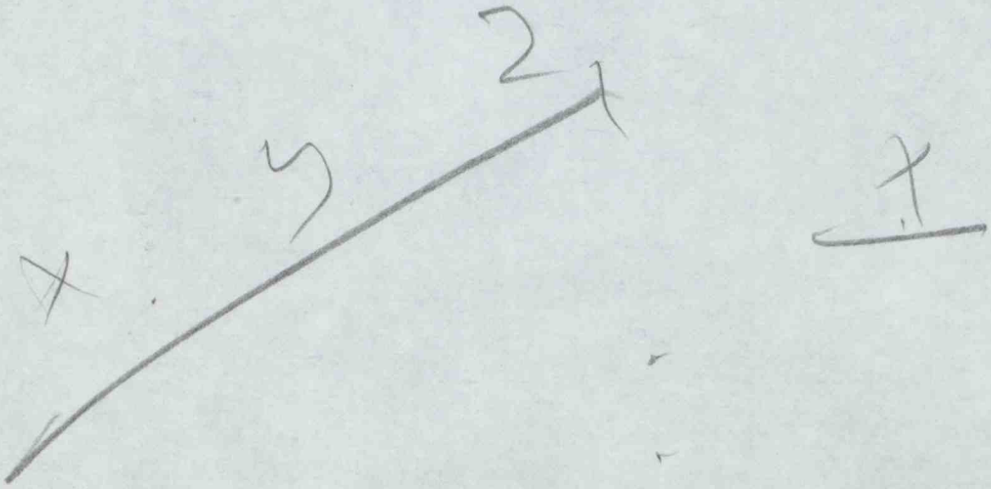
He expresses his deepest respect to the citizens of Berlin who have, to this day, continued to keep the banner of freedom and democracy flying loftier and more courageously than anyone else.

(END)

Mr.

Mr. Owada





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BKUP

Foreign and Commonwealth Office

London SW1A 2AH

10 January 1990

Prime Minister
You may like to glance at the summary. ecd 11/1

Dear Charles

Prime Minister's Talks with Mr Kaifu: Ambassador's Annual REview

I enclose a copy of Sir John Whitehead's Annual Review on Japan for 1989. The Prime Minister may wish to read this before her talks with Mr Kaifu on 12 January.

Yours ever

(R N Peirce)
Private Secretary

C D Powell Esq
PS/10 Downing Street

SUMMARY

JAPAN: ANNUAL REVIEW 1989

1. Further good progress in Anglo-Japanese relations. Prime Minister's visit the centrepiece: consolidation of present policies and vision of "unprecedented partnership" in the 1990s. The deepening political dialogue makes good progress and produces some clear results. (paras 1-3)

2. Exports generally have risen by 30% to £2 1/4 billion, making Japan our ninth best export market. 25 new Japanese investments in the UK including Toyota and Fujitsu. Liquor tax reform is leading to an encouraging increase in Scotch whisky exports. The last stages for BZW and James Capel to obtain their Tokyo Stock Exchange seats next year. The beginnings of more active cooperation on science and technology. We could benefit greatly from increased Japanese tourism. (paras 4-5)

3. Other EC countries are following our example. We shall have to step up our efforts to stay ahead. Moves by eg France and Italy to attract more Japanese investment are particularly worrying. We must continue to demonstrate to the Japanese that we are full-blooded members of the EC otherwise our clout here will be diminished. (para 6)

4. Death of the Emperor Showa (Hirohito); of more significance constitutionally than politically. Some evidence of a new style from his successor. (para 7)

5. Turmoil and drift on the political scene. Three Japanese Prime Ministers in one year. The unpopular consumption tax and the Recruit and sex scandals were only the tip of the iceberg of dissatisfaction with politicians and the political system. Kaifu has played his limited cards well but he has now powerbase. The LDP considered likely to win the general election next year

/despite

despite the setback in the Upper House elections in the summer. (paras 8-9)

6. Many Japanese dissatisfied with their lot domestically and unprepared for an uncertain world role. But their economic power (growth of 5.2% in real terms with a -0.7% contribution from the external sector, a current account surplus of $61 billion, and net external assets of $300 billion) will not permit this. A seriously worrying deterioration in US/Japan relations with no solutions in sight. A potential threat to the free trading system. (paras 10-11)

BRITISH EMBASSY
TOKYO

22 December 1989

The Rt Hon Douglas Hurd MP
Secretary of State for Foreign
and Commonwealth Affairs
London

Sir

JAPAN: ANNUAL REVIEW 1989

1. A year of further good progress in Anglo-Japanese relations. A mixed year for Japan itself: an excellent economic performance but scandal and drift on the domestic political scene; and a mixed performance internationally, with the deterioration in US/Japan relations one of the more significant and potentially worrisome trends on the world scene.

2. The centrepiece in our bilateral relations was the visit by the Prime Minister in September. This consolidated the policies which have been implemented in the past two years: "I want my visit to Japan to demonstrate beyond all doubt Britain's determination to have the best possible relations with Japan at every level: trade, political, cultural, investment. I hope and believe that desire is reciprocated and we shall together make the 1990s a decade of unprecedented partnership and friendship between Britain and Japan". This was endorsed by Japanese Ministers, senior officials and businessmen and the path has now been firmly set for the future by both countries.

3. The Anglo-Japanese political relationship has deepened and become more purposeful at all levels. We have promoted greater Japanese involvement in Nigeria, Namibia, South Africa (the Urban Foundation) and Eastern Europe and obtained useful Japanese support over Hong Kong (investment, trade, a ministerial visit and a generally helpful line on Vietnamese Boat People).

4. Other progress in Anglo-Japanese relations was measurable in a number of fields:

a. in the second year of our campaign, Opportunity Japan, UK exports increased by £500 million to £2 1/4 billion, 30% over 1988. Japan rose to become our ninth best export market.

b. There was continued strong Japanese direct investment in the manufacturing sector in the UK. Over 25 new projects were approved by Japanese companies during

the year, including Toyota and Fujitsu, with welcome signs of moves to establish R&D centres.

c. Liquor tax reform, implemented in April, has led to an encouraging increase in imports of bottled Scotch whisky.

d. The Tokyo Stock Exchange approved a further increase in membership which should finally enable BZW and James Capel to take seats in autumn 1990.

5. Less readily measurable have been:

e. more active cooperation on science and technology, albeit on a carefully differentiated basis to ensure our own national advantage. Good prospects for high-level missions and much greater collaborative activity.

f. Japanese tourism: each year about 1½ million extra Japanese travel abroad; they spend per capita more than any other nation. Efforts have started to ensure that we obtain a good share of this lucrative business: a first visit to Japan by a British Minister of tourism, the prospect of diversion of some extra resources to Japan by the BTA and the creation of a task force in London to gear our tourist industry to cope with the somewhat idiosyncratic Japanese tourist. This important source of invisible earnings will not be satisfactorily realised without sustained senior ministerial support. The market could be worth £500 million a year to us in comparatively short order, if we try.

6. In all these areas we have met our objectives during the past year; but there are signs that there will be more difficult problems to overcome next year. Having led European countries in improving links with Japan, others are following our example with considerable success. French, Italian and Spanish exporters are taking the opportunities in Japan much more seriously. Japanese tourists flock more readily to Paris and the "romantische Strasse" than to the UK. Something of a mood has been fostered, particularly by the French and Italians, that too much Japanese direct investment has gone to the United Kingdom, with hints that their governments may look more favourably on Japan as 1992 approaches if more Japanese investment is directed to France, Italy, Spain and even Germany. Some Japanese companies are coming to the view that a spread of investment would be a reasonable insurance policy. There should be enough good Japanese investment to go round, but this is a trend which we must counter by a continuing welcome for investment, plus a steady reiteration of the well-known advantages of the UK. More recently questions have been raised here about the British commitment to Europe and whether we are in danger of being "left behind". There are of course good answers to these points. But serious Japanese doubts on this score would sharply reduce the

influence we have here. It is as a full-blooded member of the Community that the Japanese wish to see us and that will give us the most leverage on them.

7. For Japan itself 1989 marked the change of an era. It was at the same time the 64th year of the Showa (Hirohito) era and the first of Heisei. The old Emperor finally died on 7 January aged 87 to be succeeded by his elder son, Akihito. The transition was smoother than the world's media suggested and had more significance in the context of the continued evolution of a constitutional monarchy in Japan than in political terms. The main focus of debate was on Hirohito's responsibility or otherwise for the war. This was left - by the Japanese press, by Prime Minister Takeshita and even by his son - for the historians on unstated but implicit grounds that it would be inaccurate or impolitic to come out with a definitive statement. Involvement there clearly was: but in view of his personality and predilections as well as his actions since the war, his role has to have been that of a pawn in the hands of the military rather than an instigator or leader. The Japanese court is still in mourning. But there are already signs of change: greater informality and a more relaxed style, a wish for greater involvement, and the holding of a press conference with the Empress at which the most personal questions were accepted if not answered.

8. There was also change, and much more turmoil, on the political scene. Japan had 3 Prime Ministers in 1989. Takeshita resigned in April to ensure the passage of his 6 tax reform bills, including an indirect (consumption) tax. Uno, a surprise choice as successor to Takeshita, lasted only 2 months until sex scandals and the major defeat of the ruling Liberal Democratic Party in the Upper House elections forced him to resign. There were other deeper waters eating away at the bedrock not only of LDP support but also to some extent at the political system itself. These were of various levels but centred on the arrogance of politicians whose position had gone unchecked for too long and who had therefore slipped into fundraising and other activities ranging from the injudicious but generally accepted to the allegedly criminal. The Recruit scandal needed a persistent press campaign to ensure that it was firmly laid at the door of politicians, not all of whom came from the LDP. And it was the scale of financial contributions by Recruit which made the issue stick, not the method itself of gaining political influence. This raised the issue of Dietmen disbursing funds thus raised for purposes of local popularity in multi-member constituencies where pork-barrel politics and personal popularity counted for more than policies. Politicians accused of losing touch with the electorate were themselves seen as the product of a system ripe for overhaul. The question was whether an effective two party system with smaller, possibly one member constituencies, would be more effective: but nobody was confident of how to get from here to there.

9. Japanese politics was shown in 1989 to lack real leaders and/or politicians of principle; the opposition Japanese Socialist Party after 40 years in opposition has had a shot in the arm but will take some time to attract back the talent that it has lost over time; the centre parties are seen as less relevant and hence are in at least temporary decline if not eclipse; while the LDP as yet shows no serious signs of a split. Kaifu, the third Prime Minister of the year, represents a shift in generation. But despite some adroit tactical moves he is a man who lacks a strong political base and a large personality. He has been shown to be a front-man, primarily for Takeshita. This does not bode well for an easy transfer of political power from one generation to another; the issue will return to haunt the LDP and Japanese politics more generally in 1990 or 1991 even though the LDP are now expected to win the Lower House election early in 1990 but perhaps only with the help of independents.

10. Underlying these political concerns is a feeling that the economic goals of the last 40 years have been achieved but have left Japanese society somewhat dissatisfied and Japan a little rudderless - and at a time when all around seems to be undergoing substantial change. Domestically their concerns spread from feeling less affluent than the figures suggest, through stirrings of unease at the rift opening up between paper rich property owners and infinitely poorer two generation mortgage property purchasers, to concerns about the role of women in society and the over-rigid educational system. Internationally there is concern about Japan's appropriate role in the world and a wish inside many that the world should leave Japan in peace and allow it to remain a producer society of many of the goods which other countries' consumer societies wish to buy. This is not an heroic aspiration, but nor is it Machiavellian. It simply represents the stage which the Japanese, without strong political leadership and still somewhat burdened with their historical legacy, have reached.

11. But their innate economic power (growth this year of 5.2% in real terms including a contribution from the external sector of -0.7%, a current account surplus of $61 billion and net external assets of $300 billion increasing by $50 billion annually) will not permit this. Others, and particularly the Americans, wish at the same time to see Japan contributing on the world scene in ways which are acceptable to the United States, while at the same time containing the trading, economic and progressively technological power of Japan. In these respects the Americans too have not seriously started to come to terms with the quite rapidly changing positions of Japan and the United States in the world. The US/Japan relationship is immensely important to us and to much of the rest of the world. During 1989 it has been allowed to drift and verbal exchanges have become markedly more acerbic with the Japanese progressively giving as good as they get in an atmosphere conducive to a more nationalist and right-wing approach. It badly needs managing. But in an area where genuine concern is mixed with the prospect of easy political tricks and rich media

pickings, the requirement is for demonstrable solutions to identifiable problems, and on a comparatively short timescale. None of this seems to be forthcoming. The Structural Impediments Initiative talks have done well to identify genuine issues in both countries which could usefully be tackled. But there is little sign so far of a political will to tackle them; and even if tackled there is small prospect of a significant impact on the trade imbalance. The threats for 1990 are the time-bomb of action under Super 301 against Japanese exports, of managed trade, and of a consequent threat to the GATT process.

12. I am sending copies of this despatch to the Chancellor of the Exchequer, the Secretaries of State for Trade and Industry and Employment, the Governor of the Bank of England, the Governor of Hong Kong, HM Representatives in Washington, Peking, Moscow, Bonn, Paris, Rome, Madrid, UKREP Brussels, UKDEL OECD and UKMIS Geneva and to HM Consul General, Osaka.

I am, Sir
Yours faithfully

John Whitehead

John Whitehead

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FM TOKYO
TO DESKBY 090900Z JAN FCOLN
AND TO PRIORITY WASHINGTON, PEKING, MOSCOW, UKREP BRUSSELS
TELNO 16
OF 090900Z JANUARY 1990

YOUR TELNO 7: VISIT OF MR KAIFU: JAPAN'S PLACE IN THE WORLD

SUMMARY

1. THE FUNDAMENTAL READJUSTMENT OF THE KEY RELATIONSHIP WITH THE US, MADE INEVITABLE BY JAPAN'S ECONOMIC SUCCESS, LIES BEHIND A QUICKENING DEBATE TO DEFINE A NEW, MORE INDEPENDANT WORLD ROLE FOR JAPAN. AT PRESENT THE JAPANESE ARE SOMEWHAT DISCONCERTED BY THE PACE OF THE EAST-WEST THAW IN EUROPE (NOT MATCHED IN ASIA) AND BY THE VIRULENCE OF CONGRESSIONAL AND MEDIA CRITICISM OF JAPAN IN THE US. THEIR ECONOMIC INTERESTS AND POLITICAL INSTINCTS AFTER 40 YEARS OF THE POST-WAR ORDER PLACE THEM IN THE WESTERN CAMP, BUT THEY ARE STILL ALL TOO CONSCIOUS OF THEIR RACIAL, CULTURAL AND HISTORICAL DIFFERENCES FROM THE OTHER MAIN MEMBERS. AS THE POST-WAR ORDER CHANGES BOTH ON A GLOBAL SCALE AND IN US-JAPAN TERMS, IT BECOMES INCREASINGLY IMPORTANT FOR THE WEST TO BIND THEM IN.

DETAIL

2. THE JAPANESE ARE CONSCIOUS THAT GORBACHEV HAS SPARKED IMPORTANT CHANGES IN THE SOVIET UNION AND IN EAST-WEST RELATIONS GENERALLY. BUT THEY REMAIN VERY SCEPTICAL ABOUT THE SCOPE FOR IMPROVEMENT IN THE SOVIET ECONOMY ON A MANAGEABLE TIMESCALE AND TEMPTED TO DOWNPLAY THE POSITIVE EFFECTS OF HIS POLICIES. THAT IS PARTLY BECAUSE THEY SEE THE SOVIET UNION MORE IN NATIONALST THAN COMMUNIST TERMS - AND MUCH OF THEIR OLD ANTIPATHY (AND THE NORTHERN TERRITORIES PROBLEM) REMAINS.

3. THEY ARE ALIVE TO THE IMPORTANCE OF THE CHANGES IN EASTERN EUROPE, AND (INTELLECTUALLY MORE THAN EMOTIONALLY) HAVE ACCEPTED THE CASE FOR JAPAN TO HELP THOSE COUNTRIES TO MOVE AWAY FROM COMMUNIST DICTATORSHIP ECONOMIES. ONLY A FEW YEARS AGO THEY MIGHT WELL NOT HAVE DONE SO: THEY SEE EASTERN EUROPE AS OF LITTLE ECONOMIC SIGNIFICANCE AND POLITICALLY REMOTE. BUT THE QUEST FOR A WORLD ROLE FOR JAPAN HAS HELPED TO DRAW THEM IN. THEY DO NOT HOWEVER FEEL INVOLVED IN THE DEBATE ON THE IMPLICATIONS OF GERMAN REUNIFICATION (EXCEPT TO THE EXTENT THAT IT WILL INFLUENCE THE DEVELOPMENT OF THE EC AND THAT IT MAY FURTHER INCREASE GERMANY'S

WEIGHT IN EUROPE).

4. BY COMPARISON, IN JAPANESE EYES, UNCERTAINTY, CONFUSION, WEAK LEADERSHIP AND VACILLATING POLICIES IN CHINA, OF WHICH THE TIANANMEN SQUARE MASSACRE WAS THE MOST VISIBLE MANIFESTATION BUT ONLY ONE ASPECT, ARE INTRINSICALLY OF MORE IMPORTANCE POLITICALLY AS WELL AS ECONOMICALLY AND CLOSER TO HOME. STABILITY IN EAST ASIA IS ESSENTIAL TO JAPAN'S ECONOMIC INTERESTS IN THE REGION AS WELL AS TO THE CONTINUING EXPANSION OF ITS POLITICAL INFLUENCE. ALTHOUGH HISTORY DICTATES A LOW PROFILE, JAPAN CLEARLY ASPIRES TO A LEADING ROLE IN THIS PART OF THE WORLD.

5. IN A CURIOUS WAY JAPAN FELT CHINA HAD ''LOST'' THE SINO-SOVIET SUMMIT EARLY IN THE YEAR BECAUSE IT REMOVED A SOLID BLOCK TO SOVIET AMBITIONS IN ASIA. YET JAPAN NOW FEELS SOMEWHAT FRUSTRATED THAT THE SOVIET UNION IN ITS NEW GUISE HAS MOVED SO FAR FORWARD WITH THE US AND IN EUROPE BUT PAID SCANT ATTENTION TO ASIA AND JAPAN IN RECENT MONTHS. THERE IS SCOPE HERE FOR A FEELING THAT THE CAUCASIANS ARE SETTLING DISPUTES AMONG THEMSELVES, CONCEIVABLY TO THE DISADVANTAGE OF JAPAN. THERE IS HOWEVER LITTLE CHANCE OF THE JAPANESE RUSHING TO MAKE THEIR OWN ACCOMODATION WITH THE SOVIET UNION TO THE DISADVANTAGE OF THE WEST (SUCH AS A DEAL WHICH WOULD RADICALLY ALTER THE US-JAPAN SECURITY TREATY IN RETURN FOR THE NORTHERN TERRITORIES, ALTHOUGH THE RUSSIANS WILL PRESUMABLY SEEK A POLITICAL AS WELL AS PERHAPS AN ECONIMIC QUID PRO QUO SHOULD THEY EVENTUALLY AGREE TO RETURN TERRITORY TO THE JAPANESE).

6. MANY IN JAPAN FEEL DISTINCT UNEASE ABOUT THE SCOPE AND PACE OF ALL THESE CHANGES, WHICH COME AT A TIME OF PROFOUND CHANGE IN JAPAN'S OWN POSITION IN THE WORLD. JAPAN HAS GROWN UP IN THE 40 YEARS OF EAST-WEST COLD WAR, AS PART OF THE WESTERN COMMUNITY WITH WHICH IT HAS IDENTIFIED. BUT IT'S HISTORICAL LEGACY IT'S SKILLS AND INCLINATIONS AND MUCH WORLD SENTIMENT HAVE BEEN IN FAVOUR OF ITS REMAINING A VIRTUALLY DEPOLITICISED AS WELL AS DEMILITARISED ECONOMIC POWER.

7. AS MEMORIES OF THE LAST WAR STARTED TO FADE, IT BEGAN TO BE ARGUED, PARTICULARILY IN THE UNITED STATES, THAT THIS LEFT JAPAN ENJOYING A FREE RIDE. THE DEGREE TO WHICH JAPAN'S AID AND DEFENCE BUDGETS HAVE EXPANDED IN RECENT YEARS, COUPLED WITH CONSIDERABLE INCREASES IN SUPPORT COSTS FOR US FORCES IN JAPAN, HAS LESSENED THAT FEELING. YET NEW AND MORE SERIOUS STRAINS HAVE BEEN CREATED BY THE EXTENT TO WHICH JAPANESE

ECONOMIC PERFORMANCE IS NOW OUTSTRIPPING THAT OF THE UNITED STATES IN A PROGRESSIVE NUMBER OF AREAS, AS REFLECTED IN THE US DOLLARS 50 BILLION TRADE IMBALANCE, THE VISIBLE AQUISITION OF REAL ESTATE AND OTHER ASSETS IN THE UNITED STATES, AND JAPAN'S INCREASING LEAD IN KEY CIVILIAN AND SOME MILITARY-RELATED TECHNOLOGIES. THIS DEPENDENCE ON JAPAN, COUPLED WITH A REMARKABLE SHIFT IN INTERNATIONAL ATTITUDES IN THE PAST TEN YEARS FROM MEASURING SUCCESS OR FAILURE IN POLITICAL TO ECONOMIC TERMS, HAS UNDOUBTEDLY PRICKED AMERICAN SELF ESTEEM. AMERICANS HAVE HOWEVER PERSISTED IN SEEING THE PROBLEM LARGELY IN TERMS OF UNFAIR JAPANESE PRODUCTIVE AND BUISNESS PRACTICES, AND IGNORING THE OTHER LEGITIMATE CAUSES OF JAPANESE SUCCESS. CONSEQUENTLY US ATTITUDES TOWARDS JAPAN HAVE BECOME MARKEDLY MORE HOSTILE AND EMOTIONAL.

8. PUT IN THE STARKEST TERMS, AS A RESULT OF DEVELOPMENTS IN THE SOVIET EMPIRE AND THE HOPE OF A SIGNIFICANT REDUCTION OF EAST-WEST TENSIONS, THERE IS THE PROSPECT OF INFLUENTIAL CIRCLES IN THE UNITED STATES, JAPAN AND EVEN WESTERN EUROPE ENGAGING IN RHETORIC AND SOME ACTIONS WHICH WILL HAVE THE EFFECT OF LOOSENING THE IMMENSLY IMPORTANT TIES (ASSUMED COMMON VALUES SUCH AS DEMOCRACY AND FREE MARKET ECONOMY AS WELL AS INSTITUTIONAL IN THE FORM OF THE US/JAPAN MUTUAL SECURITY TREATY) WHICH HAVE BOUND THE JAPANESE IN TO THE WESTERN COMMUNITY TO THE WEST'S ENORMOUS ECONOMIC AND STRATEGIC BENEFIT. THERE ARE ALREADY SIGNS OF A FEELING OF ISOLATION AMONG THINKING (AS WELL AS KNEE-JERK REACTION) JAPANESE IN THE FACE OF WHAT THEY SEE AS IRRATIONAL CRITICISM. THE CONSEQUENCE IS BOUND TO BE MORE SELF-ASSERTIVE POLICIES ON THE PART OF THE JAPANESE.

9. IDEALLY, WHAT IS NOW NEEDED IS A CLEAR AND ACKNOWLEDGED RECOGNITION OF THIS DANGER ON THE PART OF ALL CONCERNED AND AGREEMENT ON MEASURES TO DEAL WITH IT. THE PROBLEMS ARE WEAK LEADERSHIP (PARTICULARILY IN JAPAN WITH NO STRONG AND BROAD-VISIONED POLITICIAN WITHIN SIGHT OF BECOMING PRIME MINISTER), LEADERSHIP IN BAULK (IN THE UNITED STATES IN VIEW OF CONGRESSIONAL ATTITUDES) OR LEADERSHIP WITH OTHER PREOCCUPATIONS (AS IN WESTERN EUROPE). THE POLICIES REQUIRED ARE:

- A CONSCIOUS EFFORT TO BIND JAPAN INTO THE WESTERN COMMUNITY BY DEVELOPING HABITS OF CONSULTATION ON ALL MAJOR INTERNATIONAL ISSUES. IN OUR CASE, THIS HAS BEEN A

A PRIORITY FOR THE LAST 2-3 YEARS, BUT WE NEED TO KEEP UP THE MOMENTUM AND IDENTIFY MORE PRACTICAL AREAS FOR JOINT ACTIVITY. WE NEED ALSO TO MAINTAIN OUR EFFORTS AT CREATING A MULTILATERAL FORUM INCLUDING JAPAN FOR POLITICAL AS WELL AS ECONOMIC DISCUSSIONS.

- A DETERMINATION TO FIND SOLUTIONS TO TRADE/ECONOMIC FRICTIONS WHICH PRESERVE THE OPEN WORLD TRADING SYSTEM. THIS WILL REQUIRE A GREATER EFFORT BY THE JAPANESE TO OPEN THEIR MARKETS IN SPITE OF THEIR DOMESTIC LOBBIES, BUT ALSO AN EFFORT TO PUBLICISE THE OPPORTUNITIES WHICH THE JAPANESE MARKET ALREADY OFFERS. THESE ARE ALREADY THE TWIN PILLARS OF OUR TRADE POLICY, BUT WE MAY NEED TO CONSIDER ALSO HOW WE AND EUROPE GENERALLY MAY BE ABLE TO CONTRIBUTE TO DEFUSING US/JAPAN PROBLEMS.

- MORE SKILLFUL EXPLANATION TO THE PUBLIC OF THE LONG-TERM SHIFTS WHICH ARE TAKING PLACE. THE JAPANESE NEED, AS THE ASAHI SHIMBUN SAID RECENTLY, ''TO TEAR DOWN THE SPIRITUAL WALL SO AS NOT TO BE TREATED AS HERETICS BY THE REST OF THE WORLD''. THE REST OF US NEED TO EDUCATE OUR CONGRESSMEN AND MEDIA ABOUT THE PRACTICAL POLICY CHOICES FACING US AND WHAT IS AT STAKE.

WHITEHEAD

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Foreign and Commonwealth Office

London SW1A 2AH

8 January 1990

CDJ 12/1

Dear Charles

Visit of the Japanese Prime Minister, Mr Kaifu: 12 January 1990

The Japanese Prime Minister, Mr Kaifu, will call on the Prime Minister on 12 January for one hour of talks from 11.00 to 12.00 followed by a working lunch from 12.15 to 1.15. We are corresponding separately about participation.

Mr Kaifu's Itinerary

Mr Kaifu is visiting the UK as part of a European tour. This is Mr Kaifu's second major visit abroad since his appointment as Prime Minister in August 1989. His itinerary includes Bonn, Berlin, Brussels and Paris (before London) followed by Rome, Warsaw and Budapest. Mr Kaifu's meetings with European leaders reflect the Japanese desire to strengthen their links with Europe at a time when East/West relations are changing rapidly and Japan's relationship with the US is under strain. By visiting Eastern Europe, Mr Kaifu hopes to demonstrate Japan's willingness to contribute effectively to the most pressing political challenge facing the West. His European tour is also designed to impress the Japanese voter on the eve of the general election expected on 18 February. Mr Kaifu expects to draw electoral advantage from underlining the failure of socialism in Eastern Europe.

Agenda

There is no formal agenda but we have agreed with the Japanese that the talks between the two Prime Ministers will focus mainly on East-West relations, and on international economic issues. The Prime Minister may also wish to touch briefly on outstanding bilateral issues, notably air services. In their separate talks the Foreign Secretary and Mr Nakayama will discuss China, Hong Kong, Vietnamese Boat People, Cambodia and bilateral questions.

/Objectives

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Objectives

Our objectives for the talks are:

(a) to reinforce our position as a major European interlocutor for Japan;

(b) to involve Japan more closely in Western consultations on international policy issues, in particular East-West relations;

(c) to encourage the Japanese Government to press ahead with structural reform of the Japanese economy.

Mr Kaifu's first priority will be to exchange views on East-West relations. The Japanese are keen to keep in step with the Western response to developments in Eastern Europe. But they are concerned that the Soviet desire to reduce tension in Europe has not been matched by an equivalent reduction in the Soviet threat in the Asian Pacific region. On international economic issues Mr Kaifu will wish to reassure the Prime Minister that Japan is committed to a successful conclusion of the GATT Uruguay Round, and to structural reform. However he will be reluctant to provide undertakings on specific reforms (eg agriculture/ distribution) which would prove electorally damaging.

Japan Internal Political

Mr Kaifu has consolidated his domestic political position since he met the Prime Minister in September. Although he is still regarded as a presenter, rather than a decider, of policy, Mr Kaifu's open manner, clean cut image and relative youth have helped repair the tarnished image of the Liberal Democratic Party (LDP). By contrast, the divisions in the ranks of the Opposition have resurfaced. The LDP are now likely to retain their absolute majority (albeit reduced) in the February Lower House elections. This would ensure that Mr Kaifu remains in office. The run up to the elections will not be easy for the LDP. The Recruit trials which began in December are a public reminder of past LDP transgressions. Mr Kaifu has failed to produce a convincing package of political reforms to reduce the role of money in Japanese politics. The LDP's proposals for reform of the unpopular consumption tax have convinced few of the critics. But the LDP has a major asset: the continued strength of the Japanese economy - real GNP grew by around 5% in 1989. End of year bonuses averaged some £2,500. A sustained growth of personal consumption is forecast for the early 1990s.

Japan and the West

Japan and the West

As Japan's weight in the world economy grows, the Japanese are seeking a greater role in international affairs, and closer involvement in Western decision making. It is to our advantage to harness Japanese strength to promote Western interests. Together with the Americans, we have been exploring ways of drawing the Japanese more into Western political consultations, in particular through the development of a new forum for political consultations within the Summit Seven framework. We should ensure that we gain due credit for this. The Prime Minister could mention the importance we attach to keeping Japan closely involved on international political issues. East-West questions will be an important subject for the new forum.

East/West, Soviet Union and Eastern Europe

Mr Kaifu will be keen to hear the Prime Minister's views on the present state of East-West relations. He will be particularly interested in her assessment of the likely course of events in Eastern Europe and the Soviet Union, and her ideas on how the West can contribute to stable political change.

Japanese relations with the Soviet Union remain bogged down over the issue of the northern territories. High level contacts since the Prime Minister's visit to Japan have brought no progress. The Japanese hope that the Soviet desire for closer economic ties with Japan will soften the Soviet approach to the territorial issue. In the absence of movement on the Soviet side, the Japanese continue to be sceptical about the depth and genuineness of change in Soviet foreign policy. They are however apprehensive that Japan's continued hard-line policy towards the Soviet Union is at variance with the policies of their Western partners. Such a policy may become increasingly difficult to sustain domestically between now and Gorbachev's visit to Japan in 1991.

On East-West issues, the Prime Minister might say that:

- East and West are agreed that reform in Eastern Europe should take place against a background of security and stability.

- We have made clear to the Russians that the West does not intend to take advantage of developments in Eastern Europe to undermine Soviet security or Warsaw Pact cohesion.

/- But

- But the West should do all we can to support the reform process in the Soviet Union and Eastern Europe.

- Gorbachev faces considerable domestic difficulties over the coming months, with the economy, in holding the party together, and in dealing with nationality problems. Western political support continues to be important.

On conventional arms control, the Prime Minister might say that the UK is committed to seeking a CFE agreement in 1990 (probably in the Autumn, though it is too early to set a specific time). That target is ambitious, but achievable if both sides continue to have the political will. We will insist on arrangements for verification and non-circumvention which will ensure that the Russians cannot build up their forces behind the Urals. This will help to prevent any risk that a CFE agreement would increase the threat to the Soviet Union's Asian neighbours.

On the GDR/German Question, the Prime Minister might:

- stress the importance of expressing support for the reforms which Modrow is introducing. This can help stability.

- explain our thinking on the German Question: the need for a measured approach which will not cause unnecessary problems with the Soviet Union. All EC and NATO members now publicly subscribe to this.

The Prime Minister might welcome the Japanese $150 million loan to the Stabilisation Fund to support Poland's IMF programme and express the hope that Japan will do more to share the Western burden of assistance to Eastern Europe. Mr Kaifu is likely to announce a new initiative during his European trip, probably technical assistance and food aid.

The Prime Minister might tell Mr Kaifu that we are considering how best to respond to events in other Eastern European countries and are looking at what assistance we can give to help Romania develop free and independent political parties and other structures of democracy. Large scale economic assistance should not be needed.

China

Foreign Ministers will discuss China in detail. But Mr Kaifu is likely to seek the Prime Minister's understanding of proposed Japanese moves to improve their relations with China. The Japanese have so far stuck to the measures agreed by Western countries after Tiananmen Square; but they are

/concerned

concerned that Western policy is pushing China into isolation. Spurred by recent American steps to improve their relations with China, the Japanese have invited the Chairman of the Chinese State Planning Commission to visit Japan and plan shortly to resume without commitment discussion of a new Yen 810 billion soft loan which has been frozen since last June.

The Prime Minister might say that we share Japanese concern that China should not turn in on itself. We have to do business with them over Hong Kong. But she may wish to stress:

- continuing internal repression and the absence of any positive gesture from China, to which the West could respond, inhibit the wholesale normalisation of relations

- the importance of maintaining Western solidarity in our approach to China. The resumption of development aid by Japan would be a major coup for the Chinese. We hope therefore that the Japanese will consult further before reaching a final decision.

International Economic Issues

International economic issues were central to the Prime Minister's talks with Mr Kaifu in Japan in September. The Prime Minister argued the need for Japan to overcome structural rigidities in the economy, on the basis of shared international commitments (the importance of structural reform was recognised at the Paris Summit and the OECD Ministerial meetings last year). Structural reforms in Japan would sustain the reorientation of the Japanese economy from export to domestic demand led growth. The acceleration of domestic demand since 1986 has already reduced Japan's global current account surplus to around $60 billion in 1989 - barely 2% of GDP (compared with $86 billion in 1986 - 4.4% of GDP). Because of Yen depreciation this trend may not continue in 1990 and 1991. The Prime Minister may wish to reiterate the need for the Japanese to press ahead with structural economic reform, particularly in agriculture, land taxation and the distribution system.

Structural issues have assumed increasing importance in US/Japan relations. Congress is impatient with the failure to reduce Japan's trade surplus with the US (around $50 billion). Through their "Structural Impediments Initiative", the Americans are pressing the Japanese bilaterally for structural reforms and market opening measures under threat of Super 301 retaliatory action. Little progress has been

/made

made so far in advance of the Japanese elections. The Japanese are critical of the US failure to address their own budget deficit. The Prime Minister could:

- explain that while we are broadly in agreement with the US analysis of the issues, we do not endorse American bilateralism;

- express concern that, for the sake of the open trading system, trade friction between Japan and the US should not escalate.

A further deterioration in US/Japan relations could cast a shadow over the Texas Economic Summit and the closing stages of the Uruguay Round. Many major issues remain to be settled if the Uruguay Round is to suceed. The most significant issue in relation to Japan is agriculture. The Prime Minister might therefore say:

- Japan's political sensitivities about further agricultural liberalisation are well understood. But difficult decisions must be faced, as the Community has now begun to do in its comprehensive proposals on agriculture recently tabled in Geneva.

- It is essential that GATT provides an effective means of resolving trade disputes. A strengthening of GATT rules, in particular the dispute settlement mechanism, is vital if the GATT is not to be undermined by unilateralism, especially by the US.

EC/Japan

Mr Kaifu may ask the Prime Minister about the prospects for further EC integration in the light of developments in Eastern Europe. More specifically, he might ask about Community policy towards imports of Japanese vehicles after 1992. In the EC we have argued that any transitional period of protection after 1992 should be as short as possible. There has been some suggestion that the European production of Japanese manufacturers should be included in such transitional import restrictions. The Prime Minister might:

- stress the UK's liberal approach to trade matters generally, and the Single Market in particular;

- make clear that the UK would firmly oppose a proposal to restrict trade in cars made in the EC by Japanese owned firms (as we did on behalf of Nissan UK last year);

- urge Mr Kaifu to take a similar approach if the Commission puts such a proposal to the Japanese.

/IMF Quotas

IMF Quotas

Mr Kaifu might possibly raise the ninth review of IMF quotas, and thank the UK for joining the consensus that Japan should move to second place in the rankings (currently held by the UK). The new rankings of the other G7 countries (except the US, who will remain in first position) are not yet finally settled. The Prime Minister might simply reply that she hopes Finance Ministers will be able to conclude the long drawn-out review this month.

Bilateral Relations

UK-Japan bilateral relations, including trade, will be discussed by the Foreign Secretary and Mr Nakayama during their talks. The Prime Minister could welcome the overall strengthening of Anglo-Japanese cooperation over the last two years, and recall the hope she expressed during her visit to Japan in September that the 1990s would be "a decade of unprecedented partnership" between Britain and Japan.

The Prime Minister may also wish to refer briefly to two bilateral issues which she discussed with Mr Kaifu at their last meeting. On the Tokyo Stock Exchange (TSE), the Prime Minister could thank Mr Kaifu for his efforts in paving the way for membership by the two outstanding British applicants. His undertakings to the Prime Minister have been fulfilled: the TSE has cleared the way for BZW and James Capel to apply for seats. Formal invitations are expected in January or February. The new members expect to take up their seats in November. If Mr Kaifu raises the question of UK authorisation for Japanese regional banks, the Prime Minister could say that she expects the Bank to be in a position to invite one candidate in the near future.

There has been no progress on the liberalisation of air services between the UK and Japan since the Prime Minister last saw Mr Kaifu. At the intergovernmental talks in October no agreement was reached on a more liberal approach to fixing frequencies and determining fares. British and Hong Kong carriers are keen to expand their services to Japan. The Prime Minister will wish to express disappointment about the talks in October, and stress the urgent need for the two sides to get together again as soon as possible. The Foreign Secretary will also make these points to Mr Nakayama.

The Japanese have indicated that Mr Kaifu may wish to raise with the Prime Minister the Japanese proposal for an Anglo/Japanese Working Holiday Visa Scheme, and official British participation in the Osaka Garden Festival 1990. On the former, officials are exploring schemes which could,

/within

within existing immigration rules, facilitate the exchange of young people between the UK and Japan. On the latter, the Prime Minister might explain our opposition to the principle of official participation in International Garden Festivals: such events are more suited to the private sector. There will be a very good private British entry. Sir Julian Ridsdale MP, Chairman of the Anglo/Japanese Parliamentary Group, and an old friend of Mr Kaifu, has been appointed British Commissioner to represent the private sector participants.

I am copying this letter to John Gieve (HM Treasury), Neil Thornton (DTI), Simon Whiteley (Department of Transport), and Sonia Phippard (Cabinet Office).

Yours ever

(R N Peirce)
Private Secretary

C D Powell Esq
PS/10 Downing Street

KAIFU, Toshiki

Prime Minister since August 1989.

Born 1931.

A graduate of Waseda University law faculty, he worked as a secretary to an LDP Dietman, Kinsho Kono, before "inheriting" the latter's constituency, Aichi No 3 (adjacent to the industrial city of Nagoya), in 1960. At the time of his first election he was, at 29, the youngest MP in the Diet. A senior member of the small (30 members) Komoto faction, Kaifu's previous Government posts have been Parliamentary Vice Minister for Labour, Deputy Chief Cabinet Secretary and Minister for Education (twice - in 1976/77 under Fukuda and in 1985/86 under Nakasone).

A protege of former Prime Minister Miki, Kaifu is an eloquent speaker (he was a leading light of Waseda debating club, a cradle for many budding politicians) with a relaxed and friendly manner. He is an expert on education. Generally pro-British, Kaifu has been a member of the 2000 Group since its inception and was Director-General of the Japan/British Parliamentarians' League. He received an Honorary KBE on the Queen's visit to Japan in 1975.

Some members of the Komoto faction have been suspicious of Kaifu's close links to Takeshita who was his senior at Waseda University. He owes his present position to the support which Takeshita and Abe threw behind him in the LDP presidential race in August 1989. Most political commentators believe that (like Uno) he was chosen as a stop-gap Prime Minister to tide the party over until Abe and others involved in Recruit can return to public office after the next general elections. Certainly Kaifu lacks a power-base of his own and relies on the factional clout of Takeshita and Abe to get things done. Even so his open manner, clean image and relative youth seem to have defused at least some of the hostility towards the LDP which had built up during the Takeshita and Uno administrations. The main tasks facing him are to reform the consumption tax and to provide some measure of political reform in order to win back alienated LDP voters before the next general election.

Married with one son and one daughter.

Hobbies: sports, music, art, photography.

Understands a little English but does not speak any.

KPNAAD

NAKAYAMA, Taro

Foreign Minister since August 1989.

Born 1924.

A graduate of the Osaka college of Medicine Nakayama is a paediatrician-turned-politician. He comes from a political family; his parents were both members of the Diet (his mother was the first ever female member of the Cabinet) and his brother is a former Minister for Posts and Telecommunications. He served 3 terms in the politically less powerful Upper House before resigning his seat and standing successfully for the Lower House in 1986. His constituency is in the industrial city of Osaka. A member of the Abe faction his previous government posts have been Parliamentary Vice Minister for Labour and Director General of the Management and Coordination Agency (MCA) 1980/81 (under Suzuki).

Nakayama was not first choice for this post: Kaifu's original preference was either to keep Mitsuzuka on, or give the job to a professional diplomat. Hitherto Nakayama's main interests have been medical ethics (transplants, definition of brain death etc) and scientific; he is an enthusiastic proponent of an independent space programme for Japan and is keen on new energy sources. Nevertheless he has always had a general interest in foreign affairs and in particular in the Northern Territories issue on which he is a hardliner (as Director General of the MCA he instituted Northern Territories Day). He was one of the first Japanese politicians to hire a foreign political secretary. Dapper in dress and rather jolly in manner.

Married with two children.

Hobbies: music, cinema, swimming and golf.

Speaks English.

FUJIMOTO, Takao

Deputy Chief Cabinet Secretary.

Born 1931.

After graduating from the Law Department of Tokyo University he joined Nippon Telegraph and Telephone Co before following his father's footsteps into politics in 1963 as a Dietman for Kagawa No 1 constituency. He has been elected eight times since then.

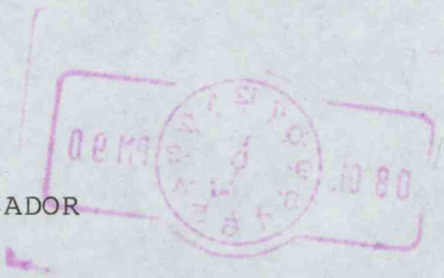
He has served as Parliamentary Vice Minister for the Environment and, when Komoto resigned the post when his company went bankrupt, as Director General of the Okinawa Development Agency. He later served as Minister for Health and Welfare under Takeshita and is presently one of two deputy Chief Cabinet Secretaries.

A senior member of the Komoto faction, he is well versed in environment and scientific issues. He has good links with the opposition parties.

Hobbies: sports (especially golf), reading and "karaoke" singing.

Married with one child.

KPNAAZ



CHIBA, Kazuo
JAPANESE AMBASSADOR

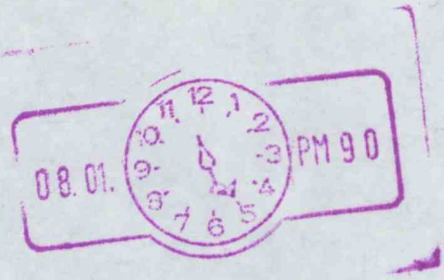
Born in Tokyo in 1925, son of a diplomat. Grew up in Paris. Entered the MFA after graduation from Tokyo University Law Faculty in 1949.

First Secretary, Washington 1964-67; Director of the North America Division, MFA 1967-1972; Minister, Moscow 1972-1974; Consul-General, Atlanta 1974-76; Berlin 1976-78; Director-General of the Middle East and African Affairs Bureau 1978-80; Ambassador to Sri Lanka and from 1982-81; Ambassador to the International Organisations in Geneva, 1982-87. Ambassador, London since March 1988.

Since his arrival in the UK, Mr Chiba has proved to be a knowledgeable interlocutor, who has contributed actively to the current excellent state of Anglo-Japanese relations.

Mr Chiba is 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 for his co-operativeness. 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, Keiko Chiba is attractive, charming and lively. She speaks fluent English having graduated from Wellesley College, in Boston. They have two children, a daughter, who is married to a diplomat, and a son who is also a diplomat.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C/Foreign/Kaifu

bc PC

10 DOWNING STREET

LONDON SW1A 2AA

From the Private Secretary

7 January 1990

VISIT OF THE JAPANESE PRIME MINISTER

Thank you for your letter of 4 January about Mr. Kaifu's visit.

I suggest that, to avoid over-crowding, we hold the Prime Minister's and the Foreign Secretary's talks simultaneously. The two Prime Ministers could each be accompanied by one official (and an interpreter): others would attend the separate talks between Foreign Ministers. The two sides would then come together for the working lunch. For this we would accept six Japanese and four on our side.

The division of subjects which you propose sounds right, but there is bound to be some overlap.

(C. D. POWELL)

R. N. Peirce, Esq.,
Foreign and Commonwealth Office.

10 DOWNING STREET

Charles Ofr

Kaifu Visit.

The FCO have tried to cut back the Japs' bid for supporting cast. But Chiba came thro to me this evening to re-iterate ("under pressure from Tokyo") their request for all 8. I was non-committal but said one of us would get back to the Embassy on Monday.

If UK side is PM, you, FCO and Ambo then the lunch could still be in the small dining room provided the interpreter sat behind the table.

DN

Foreign and Commonwealth Office

London SW1A 2AH

4 January 1990

Dear Charles

Visit of Japanese Prime Minister

Thank you for your letter of 21 December about arrangements for Mr Kaifu's visit on 12 January.

The Foreign Secretary will be travelling to Hong Kong in the afternoon of 12 January. He will therefore be able to attend the talks between the Prime Minister and Mr Kaifu and the working lunch at No 10. As Sir John Whitehead will be returning to London for Mr Kaifu's visit, we recommend that he also attend the talks and lunch.

The Foreign Secretary will have an hour of talks with the Japanese Foreign Minister, Mr Nakayama, from 0945 to 1045, before the talks at No 10. In order to avoid duplication in the subjects to be covered in the two sets of talks, the list of issues to be discussed with the Japanese might be divided as follows:

Prime Minister's talks with Mr Kaifu

(a) East/West relations, including Western assistance to Eastern Europe;

(b) International economic issues, including structural reforms, US/Japan relations, GATT and EC/Japan;

The Prime Minister might also raise two bilateral issues which she last discussed with Mr Kaifu, the Tokyo Stock Exchange and Air Services.

Foreign Secretary talks with Mr Nakayama

(a) China, Hong Kong and the Vietnamese Boat People;

(b) Cambodia;

(c) Bilateral relations, including trade;

(d) Air Services (UK/Japan and Hong Kong).

/In

In my letter of 21 December I suggested who might participate on the Japanese side in the talks and lunch at No 10. The Japanese have now formally proposed that the following take part:

1.	Mr Kaifu	Prime Minister
2.	Mr Nakayama	Foreign Minister
3.	Mr Fujimoto	Deputy Chief Cabinet Secretary (a member of parliament, and a fellow member of Mr Kaifu's Komoto faction. He will be briefing the Japanese press following the talks).
4.	Mr Chiba	Japanese Ambassador
5.	Mr Owada	Deputy Minister for Foreign Affairs (Political Director equivalent; he will join Mr Fujimoto in briefing the press).
6.	Mr Togo	Director General, European and Oceanic Affairs Bureau, MFA (Deputy Under Secretary equivalent; he will be briefing Mr Kaifu for the talks).
7.	Mr Orita	Director of the Second West Europe Division, MFA (Head of the Department which deals with the UK) as a note taker.
8.	Mr Ito	Private Secretary (MFA) to Mr Kaifu.
9.	Interpreter	

The Japanese are aware of the Prime Minister's preference for restricting numbers on these occasions and would not, I think, be surprised if we were to indicate that 8 Japanese and an interpreter is too many. If you agree, we will suggest to the Japanese that they limit their side to four (Mr Kaifu, Mr Nakayama, Mr Fujimoto and Ambassador Chiba) and one Private Secretary (Mr Ito) or MFA adviser, plus the interpreter.

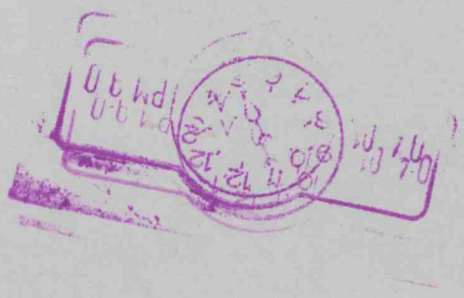
Yours ever

Bob Peirce

(R N Peirce)
Private Secretary

C D Powell Esq
PS/10 Downing Street

Japan : visit
of Japanese PM Pt 2.



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PC

10 DOWNING STREET
LONDON SW1A 2AA

From the Private Secretary

4 January 1990

VISIT OF JAPANESE PRIME MINISTER

Thank you for your letter of 4 January to Charles Powell. He will no doubt want to comment substantively on the agenda but I think you can take it that you would be right to try to limit the Japanese side in the way that you suggest.

(DOMINIC MORRIS)

R.N. Peirce, Esq.,
Foreign and Commonwealth Office.

c: Japanese

cc PC

10 DOWNING STREET

LONDON SW1A 2AA

From the Private Secretary

21 December 1989

VISIT OF THE JAPANESE PRIME MINISTER

Thank you for your letter of 21 December about the arrangements for Mr Kaifu's visit in January. I agree that we should try to avoid a formal agenda and am content with the list of general subjects which you propose.

As you know the Prime Minister much prefers participation in such occasions to be very limited. That preference was observed by the Japanese in Tokyo. If the Foreign Secretary is not travelling, he must clearly be there. It is not clear from your letter whether Sir John Whitehead will be in the country at the time. Perhaps it is best to establish the answers to these two points first before reaching a decision.

Charles Powell

Bob Peirce Esq
Foreign and Commonwealth Office

CCPC

Foreign and Commonwealth Office

London SW1A 2AH

21 December 1989

Dear Charles

Visit of Japanese Prime Minister: 11-12 January

The Japanese Embassy have now formally accepted the arrangements which we have proposed for Mr Kaifu's visit to the UK in January. Mr Kaifu will arrive late in the evening on 11 January. As agreed he will meet the Prime Minister for one hour of talks on 12 January from 11.00 to 12.00, followed by a short working lunch at No 10 from 12.15 to 1.15. Mr Kaifu will then leave for the airport in time to fly to Rome where he has a meeting that evening with Signor Andreotti.

On present plans Mr Kaifu will be accompanied in the talks by the Foreign Minister, Mr Nakayama; the Deputy Chief Cabinet Secretary, Mr Fujimoto; the Japanese Ambassador, Mr Chiba; and an interpreter. The Japanese side may propose additional participants in the talks. They are however aware of the need to keep a tight limit on numbers.

We do not think it is desirable to propose to the Japanese a formal agenda for the talks. We suggest that we should inform the Japanese that the Prime Minister will wish to cover the following general subjects during the talks and lunch:

- East/West relations, including Western assistance to Eastern Europe;

- China, Hong Kong and the Vietnamese Boat People.

- Structural reforms, including EC/Japan, GATT, US-Japan relations;

- Bilateral matters, including trade questions;

I should be grateful for your advice on who should attend the talks and lunch on the British side.

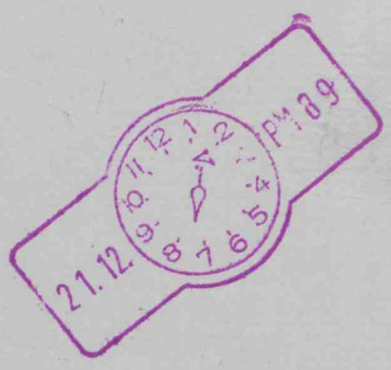
/The

The Foreign Secretary may be travelling on 12 January. If he is in London, however, I would expect him to offer Mr Nakayama separate talks.

Yours ever

(R N Peirce)
Private Secretary

C D Powell Esq
10 Downing Street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Rang FCO 5/12

Yes - but Japanese must understand it will be a small lunch

MR. POWELL

The Japanese are being tiresome! They have now decided 9 January would not suit them, and they would prefer to revert to Friday 12 January. However, I understand Kaifu needs to take off from Heathrow at 1400, so any lunch we had would have to be early.

Would you be content with talks, say 1100 to 1200, followed by a small working lunch at 1215? This would enable Kaifu to leave at about 1315.

D S Green

p.p. Amanda Ponsonby

4 December 1989

Rt Hon

(1)

Agree to hold the Japanese Prime Minister on 9 January & give a dinner?

CDD

CHARLES

VISIT OF JAPANESE PRIME MINISTER

After a lot of toing-and-froing, the Japanese think that they could come to London on either 9 January or 17 January.

I would slightly favour 9 January, although it would mean holding the talks and dinner at the end of a Questions day. The Prime Minister is committed on 17 January to giving the first National Children's Home lecture and I would like to leave the day fairly free. Could you see if the Prime Minister is happy to go for 9 January with, say, the talks at 4.30 and a dinner that evening?

Pam Main

pp

AMANDA

30 November 1989

Yes pls

12th Jan talks + working lunch

NOT TO BE COPIED

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1990

Wednesday 3 January-Sunday 7 January
? KEEP FREE

Tuesday 9 January
House Returns ?
1515 QUESTIONS

Thursday 11 January
Keep free
PLOWDEN GROUP DINNER

Friday 12 January
0800 Hair?
1750 DEPART NO.10
1815-1830 MAKE UP
1900 WOGAN INTERVIEW

Monday 15 January
Speechwriting

Tuesday 16 January
0930-1030 E(EP)
Speechwriting

Wednesday 17 January
Speechwriting
1930 for 2000? NATIONAL CHILDREN'S HOME DINNER AND SPEECH

Thursday 18 January
1030 Cabinet
LINCOLN'S INN DINNER

Friday 19 January
FINCHLEY
TO CHEQUERS

Sunday, 21 January
DINNER: LORD AND LADY WESTBURY

Monday 22 January
0830 Hair
1000 Week Ahead Meeting
1100 Diary Meeting
1300 Colleagues' Lunch
1430 General Eide + CDP

Tuesday, 23 January
?LOOK IN AT SUPPORTERS PARTY FOR WINTER BALL:
CARLTON GARDENS

Wednesday 24 January
1100 OPEN TATE GALLERY'S NEW ARRANGEMENT OF
PERMANENT COLLECTION ?

CONFIDENTIAL

SUBJECT CC MASTER

10 DOWNING STREET

LONDON SW1A 2AA

From the Private Secretary

19 September 1988

PRIME MINISTER'S MEETING WITH MR. NAKASONE

The Prime Minister had a talk this morning with Mr. Nakasone who was accompanied by the Japanese Ambassador and an interpreter (I should imagine that the latter probably fell on his sword once out of sight of No.10 having been repeatedly corrected and castigated by both Nakasone and the Ambassador!).

Mr. Nakasone began by thanking the Prime Minister for all she had done to help Mr. Takeshita both at the Toronto Economic Summit and beforehand. He was confident that the position which he had adopted in his own time as Prime Minister on a number of outstanding trade problems with the United Kingdom would remain unchanged.

Mr. Nakasone went on to talk about relations with the Soviet Union. As the Prime Minister would know, Japan had a problem with the Soviet Union over the Northern Territories. The Japanese Government very much appreciated Britain's support for their stance. He had discussed the matter recently with Mr. Gorbachev, whom he assessed was keen to establish better relations with Japan principally for economic reasons. Gorbachev had said that he recognised that there was a problem over the Northern Territories but did not know how to deal with it. This was at least some advance on previous Soviet positions which had refused to acknowledge the existence of a problem. More generally he had told Gorbachev that the pattern of international relations following the Second World War had been characterised by Soviet expansionism and western containment. The Soviet Union would have to give up its expansionary ambitions if relations were to improve. Gorbachev in turn had said that the Soviet Union would like to be a good neighbour to the Pacific countries. He had taken Mr. Nakasone to task for failing to make any mention at all of the Soviet Union in a major speech which he had delivered in Washington about the Pacific. Mr. Nakasone had riposted that Gorbachev's book on perestroika mentioned Europe's Common House sixteen times but had not a single mention of Asia's Common House. He had also suggested that the Soviet Union should enter into economic cooperation with South Korea: Japan and no doubt the United States would then start trade links with North Korea. If cooperation could be developed

between China, Japan, the United States and the Soviet Union in the area round the Korean Peninsula that would help stabilise the situation considerably.

Mr. Nakasone continued that he had found Gorbachev a good listener with an acute understanding of the international scene. But he was also capable of being devious. His wish for better relations with Japan and China was directed in part at the United States. He was obviously very concerned, too, about the delay in exploiting the natural resources of Siberia and might use the Northern Territories as bait to secure Japanese participation in this. Mr. Nakasone said that he intended to judge Gorbachev only by results not by words. If the results were good, then the West should respond flexibly. His own judgement was that the crucial test would come in Eastern Europe. If Gorbachev pressed ahead with perestroika in the Soviet Union, this could cause turmoil in Eastern Europe and in turn demonstrate whether or not the Brezhnev doctrine was still valid. The long term aim must be to bring down the Iron Curtain and offer the Soviet Union a soft landing in a civilised world community.

Mr. Nakasone said there was another subject he would like to discuss with the Prime Minister and that was the future of the Pacific area. A number of informal proposals were being debated, for instance a US/Canada/Japan/Mexico free trade area, or a broader system of loose cooperation between those countries together with ASEAN, South Korea and Taiwan, Australia and New Zealand. The latter association would be much looser than the EEC and would have no military dimension. But it would reflect a pattern of common interests and would help the smaller countries in the area resist Soviet infiltration. President Reagan had shown interest in these ideas and they were being discussed within the Liberal Democractic Party in Japan. If the European Community wished to be associated, it would be welcome. The group would not be exclusive.

The Prime Minister said that she had a number of instinctive worries about this. First, the key negotiating forum on trade issues was the GATT and nothing should be done to distract attention from the current round of multi-lateral trade negotiations and the goal of reducing barriers particularly those of the NIEs. Secondly, she wondered where India and the Islamic world fitted into Mr. Nakasone's plan. Thirdly, she wondered whether it was not better to think in terms of a linkage between all democractically-minded countries in opposition to communism rather than simply a regional grouping. Mr. Nakasone said that he entirely agreed about the importance of the GATT round and the need to rectify the unfair trade practices of the NIEs. He had in mind much more a group which would discuss economic and cultural cooperation. The ideas he had put forward were in part a response to the European Community's intention to develop much tighter cooperation by 1992, which others saw as putting their interests at risk. But he wished to emphasise again that it was not the intention to develop an exclusive relationship. The Prime Minister said that her misgivings remained.

Mr. Nakasone asked about the Prime Minister's views on a European Central Bank and a single European currency. I do not think I need record them: they will be familiar to you.

The Prime Minister commented to me afterwards that Mr. Nakasone's ideas for the Pacific were the strongest indication which she had noted yet of the Japanese flexing their muscles.

I am copying this letter to Brian Hawtin (Ministry of Defence), Neil Thornton (Department of Trade and Industry) and to Trevor Woolley (Cabinet Office).

(CHARLES POWELL)

R.N. Peirce, Esq.,
Foreign and Commonwealth Office.

PRIME MINISTER

MEETING WITH MR. NAKASONE

You are to see Mr. Nakasone on Monday. He is taking part in a study on East/West relations and will also speak on this at Chatham House. He has recently been to Moscow. The background is set out in the attached.

He clearly wants East/West relations to be the main subject of the discussion. But if there is time you might refer also to:

- the world economic situation;
- your satisfaction that the whisky issue is resolved at last;
- the importance you attach to a resolution of the question of seats on the Tokyo Stock Exchange.

CDP

CHARLES POWELL

15 September 1988

LOKAVN

cc PC
BUP

Foreign and Commonwealth Office

London SW1A 2AH

14 September 1988

Dear Charles

Call by Mr Nakasone

Mr Nakasone is due to call on the Prime Minister on Monday 19 September at 11.30. As we discussed, he will be accompanied initially by two Dietmen, who hope to be introduced to the Prime Minister and have a photograph taken. Following the introductions the Dietmen will leave and only the Japanese Ambassador and an interpreter will be with Mr Nakasone at his talks with the Prime Minister.

Mr Nakasone is in London in connection with a Trilateral Commission study on the USSR and East/West relations, in which we have have been involved because Sir J Bullard has been helping to draft it. Mr Nakasone and his two colleagues (Dr Kissinger and M Giscard) will be calling on the Foreign Secretary on 20 September.

The Japanese Embassy have told us that Mr Nakasone would like to discuss East/West relations with the Prime Minister. (He speaks on this subject at Chatham House on 20 September).

Mr Nakasone has recently visited Moscow (primarily to pursue the question of the disputed Northern Territories - see below) and he will no doubt wish to give the Prime Minister his views on Gorbachev, perestroika etc and to hear her assessment of developments in the Soviet Union and the prospects for reform. In general, the Japanese are admirably realistic about the likely pace and scale of change in the Soviet Union : they insist on judging by deeds not words.

Japan's relations with the Soviet Union are cool and are dominated by a dispute over the "Northern Territories", a group of islands at the Northern tip of Japan which were occupied by the USSR at the end of the

/war

war. Until then, the "Northern Territories" had never been anything but Japanese. The Japanese claim for the return of these islands has been the principal issue between them and the Soviet Union since the end of the war. Japan has said that it will not sign a Peace Treaty with the USSR until the question is settled. The USSR's formal position is that the matter is closed, although in 1956 they did offer to return 2 of the 4 islands (the offer has since lapsed).

The UK position on the legal case is reserved. It is a complex issue which has never been put to an international court. We have however recently given political support to the Japanese claim. When an LDP mission on the Northern Territories called on Lord Glenarthur in August he made the following formal statement :

> "We support the Japanese view that continued administration of these islands by the Soviet Union, more than 40 years after the conclusion of the war, is unjustified, having regard to the general principle that the Allies sought no territorial advantage from the war. The British Government understand the Japanese wish to see these islands restored to Japan, and encourages the Soviet Union seriously to discuss the matter with Japan so as to achieve a just solution."

The statement attracted considerable favourable media attention in Japan. It also provoked a low level complaint from the USSR. Mr Nakasone may raise the subject and thank the Prime Minister for this public expression of political support for the Japanese position.

The Prime Minister may wish to welcome the recent setting up by Mr Nakasone of the "International Institute for Global Peace" which is a Japanese equivalent of IISS and Chatham House rolled into one. The Institute is no doubt partly aimed at ensuring that Mr Nakasone retains an Elder Statesman's role in Japanese foreign policy. This is the first Japanese institute for the study of foreign policy; it may have an important role as Japan becomes more active in international affairs.

Yours ever

Bob Peirce

(R N Peirce)
Private Secretary

C D Powell Esq
10 Downing Street



FILE KK
cc PC

10 DOWNING STREET
LONDON SW1A 2AA

From the Private Secretary

27 July 1988

MR. NAKASONE

Thank you for your letter of 26 July about the visit of Mr. Nakasone. The Prime Minister would be able to see him at 11.30 am on Monday 19 September. I should be grateful if you could let me have a brief a short while before then.

(C. D. POWELL)

R. N. Peirce, Esq.,
Foreign and Commonwealth Office.

Charles 11.30 am. on 19th Sept. (London)

19.27/7

cc PC (1)

Foreign and Commonwealth Office

London SW1A 2AH

26 July 1988

Prime Minister

Agree to see Mr. Nakasone?

CDP.

Dear Charles

Yours

Mr Nakasone

We understand from the Japanese Embassy that Mr Nakasone will be in London from 18-21 September. He is to speak at Chatham House on 20 September on East/West relations.

Mr Nakasone has asked if he might call briefly on the Prime Minister, if possible on 19 September or on the morning of 20 September. We recommend that if possible the Prime Minister should see Mr Nakasone.

Mr Nakasone remains influential. As the leader of a large faction in the Japanese Diet, he was kingmaker to Takeshita and some of the key Japanese ministers are his men. He has also just founded a research institute focusing on foreign policy and strategic questions. This has impressive backing from Japanese industry and could play an important role as Japan focuses increasingly on the international responsibilities that wealth brings.

Yours ever

Bob Peirce

(R N Peirce)
Private Secretary

C D Powell Esq
10 Downing Street


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AM 88

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CONFIDENTIAL

024313
MDHOAN 9753

PRIME MINISTER'S
PERSONAL MESSAGE
SERIAL No. T106/88
SUBJECT
cc Master
OPS

CONFIDENTIAL
FM FCO
TO DESKBY 060030Z TOKYO
TELNO 520
OF 051635Z JULY 88

FROM FED

MIPT : TSE AND GEMM STATUS : PRIME MINISTER'S MESSAGE

1. TEXT IS AS FOLLOWS :

DEAR PRIME MINISTER

WHEN YOU VISITED LONDON IN MAY, I EXPLAINED TO YOU THE DIFFICULTIES WE FACED IN JUSTIFYING THE WAY IN WHICH LONDON FINANCIAL MARKETS ARE SO OPEN AND READY TO ADMIT OVERSEARS FIRMS - INCLUDING JAPANESE FIRMS - WHEREAS THERE ARE CONSIDERABLE OBSTACLES FOR BRITISH FIRMS WISHING TO SET UP BUSINESS IN TOKYO. YOU TOLD ME YOU WERE TAKING A CLOSE INTEREST IN THESE MATTERS.

YOU MAY NOW HAVE SEEN THAT THE BANK OF ENGLAND HAS TODAY GIVEN APPROVAL TO NOMURA SECURITIES TO START UP IN LONDON AS A GILT EDGE MARKET MAKER. THIS FURTHER DEMONSTRATES THE OPENNESS OF OUR MARKET ARRANGEMENTS FOR FOREIGN FIRMS. I HOPE THAT I CAN NOW RELY ON YOU TO ENSURE THAT EARLY PROGRESS IS MADE ON THE QUESTION OF FURTHER SEATS FOR BRITISH FIRMS ON THE TOKYO STOCK EXCHANGE. KIND REGARDS.

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PS/MRS CHALKER
PS/LORD GLENARTHUR
PS/PUS
MR MCLAREN

024313
MDHOAN 9753

ADDITIONAL 4

NICK ILETT, HMT
ROBIN WEBSTER BANK OF ENGLAND

MR WILLOTT DTI
10 DOWNING ST

NNNN

PRIME MINISTER'S
PERSONAL MESSAGE
SERIAL NO. T86a/88

SUBJECT cc MASTER
OPS.

(4)

Prime Minister

COP
4/6.

London,

June 3rd 1988,

Dear Prime Minister,

Thank you very much for your cordial letter dated 1st June 1988.

I regret that I was unable to see you on this occasion due to limited time, but my stay in London proved very fruitful and enjoyable.

I am also looking forward to seeing you again at the Toronto Summit.

Yours sincerely,

Noboru Takeshita.

NOBORU TAKESHITA

Foreign and Commonwealth Office

London SW1A 2AH

3 June 1988

CDP
4/6

Letter from Mr Takeshita

IN PM Box 5/6

I enclose a letter from the Japanese Prime Minister, Mr Noboru Takeshita, to the Prime Minister acknowledging her letter to him of 1 June in which she regretted that she would be unable to see him during his brief time in London. As you will see the letter requires no further action.

(R N Peirce)
Private Secretary

C D Powell Esq
PS/No 10 Downing Street

Prime Minister ©
MOD 23/5

TELEPHONE:
01-280 2222

33 KING WILLIAM STREET,
LONDON EC4R 9AS

R 12/5.

10th May 1988

Dear Prime Minister,

I am most grateful to you for including me in your dinner for Mr. and Mrs. Takeshita last Tuesday. It was a thoroughly enjoyable and interesting occasion, most well by the directness and vitality of your speech. Perhaps the "unbeatable combination" of Japanese management and British workers took some of us by surprise — but the surprise is an excellent one!

My congratulations, too, on your interview with Brian Walker. What more could we all wish for you (and us all) than the subsequent "The choice and master spirit of this age".

Yours Sincerely,

David Schley

SUBJECT
cc MASTER
cc OPS

cc DTI
Sir C T
FCO

PRIME MINISTER'S
PERSONAL MESSAGE
SERIAL No. T83/88

10 DOWNING STREET
LONDON SW1A 2AA

THE PRIME MINISTER

1 June 1988

Dear Prime Minister,

I am sorry that I shall not have the opportunity to welcome you personally to London on this occasion, but I am afraid that neither your programme nor mine has allowed this. I hope, nevertheless, that your short visit to London will prove successful and enjoyable, and I look forward very much to seeing you again at the Toronto Summit.

I have of course replied separately to your welcome message about the taxation of whisky and other alcoholic drinks.

With warm good wishes,

Yours sincerely

Margaret Thatcher

His Excellency Mr. Noburu Takeshita

10 DOWNING STREET

LONDON SW1A 2AA

From the Private Secretary

27 May 1988

VISIT OF MR. TAKESHITA

I enclose a letter from the Prime Minister to Mr. Takeshita to be given to him on his arrival in London explaining why the Prime Minister will not be able to see him on this occasion. As you will see, the letter promises a separate message in response to Mr. Takeshita's own letter about taxation of whisky and other alcoholic drinks.

We have dated the Prime Minister's letter 1 June.

I am copying this letter and enclosure to Stephen Ratcliffe (Department of Trade and Industry).

CHARLES POWELL

R. N. Peirce, Esq.,
Foreign and Commonwealth Office.

010

EC PC

Foreign and Commonwealth Office

London SW1A 2AH

26 May 1988

Dear Charles,

Mr Takeshita

As the Prime Minister will probably be aware, Mr Takeshita will be in London for the morning of 3 June. He is interrupting a European tour to see President Reagan following his Summit meeting with Mr Gorbachev. Mr Takeshita's presence in London is, in a sense, accidental and, apart from courtesies at the airport, the Japanese have not asked us to make any other arrangements for Mr Takeshita. It would in any case be logistically difficult to arrange even a short informal meeting between Mr Takeshita and the Prime Minister.

Nevertheless, the Japanese set great store by personal courtesies. A short personal note from the Prime Minister to Mr Takeshita to welcome him to London would contribute to the Prime Minister's personal relations with him. In case the Prime Minister should wish to send such a note, I enclose a draft. The letter could be sent to the Japanese Embassy who would arrange delivery to Mr Takeshita.

Yours ever,

Roger Parker

(L Parker)
Private Secretary

C D Powell Esq
10 Downing Street

DSR 11 (Revised Sept 85)

DRAFT: minute/letter/teleletter/despatch/note

TYPE: Draft/Final 1 +

FROM:
Prime Minister
DEPARTMENT: TEL. NO:

BUILDING: ROOM NO:

Reference

Your Reference

SECURITY CLASSIFICATION

Top Secret
Secret
Confidential
Restricted
Unclassified

PRIVACY MARKING

..... In Confidence

CAVEAT .....

Enclosures flag(s) .....

TO:

HE Mr Noboru Takeshita

Prime Minister of Japan

Copies to:

DG2C8Q

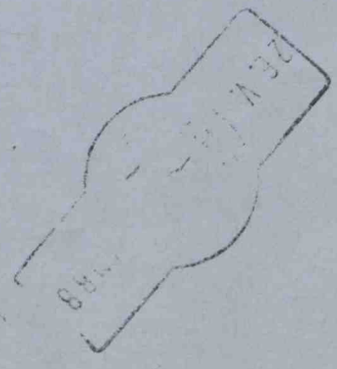
SUBJECT:

I am sorry that I ~~am not~~ shall not have the opportunity ~~able~~ to welcome you personally to London on this occasion, ~~I should have valued an opportunity to continue the frank and interesting conversation we had when you visited~~ London ~~at the beginning of May.~~ But I am afraid that neither your ~~timetable~~ programme nor mine has allowed this. I hope, nevertheless, that your short visit to London will prove successful and enjoyable, and

I look forward very much to seeing you again at the Toronto Summit. ~~I hope that we shall be able to work closely together there.~~

I ~~am~~ have of course replied separately to your welcome message about the taxation of whisky & other ~~[illegible]~~ alcoholic drinks.

With ~~[illegible]~~ warm good wishes



CONFIDENTIAL
FM TOKYO
TO IMMEDIATE FCO
TELNO 504
OF 130935Z MAY 88
INFO ROUTINE UKREP BRUSSELS, UKMIS GENEVA, WASHINGTON

YOUR TELNOS 409-412: PRIME MINISTER'S TALKS WITH MR TAKESHITA AND ALCOHOLIC BEVERAGES.

1. I CALLED THIS AFTERNOON ON MURATA (VICE MINISTER, MFA), HASEGAWA (DIRECTOR GENERAL, EUROPEAN AFFAIRS BUREAU, MFA) AND KUNIHIRO (PRIME MINISTER'S OFFICE). I DELIVERED THE PRIME MINISTER' FOLLOW-UP MESSAGE AS INSTRUCTED IN YOUR TELNO 411 TO HASEGAWA AND TO KUNIHRO
MURATA HAD ALREADY SEEN A COPY WHEN I LATER CALLED ON HIM. ON THE ADVICE OF THE MFA I DID NOT DELIVER LORD YOUNG'S MESSAGE PERSONALLY TO YAMANAKA (CHAIRMAN OF THE LDP TAX COMMITTEE) BUT WE HAVE ENSURED THAT HIS PRIVATE SECRETARY WILL HAND IT TO HIM TODAY. IN HANDING OVER THE PRIME MINISTER'S MESSAGE AND IN SUBSEQUENT DISCUSSION WITH MURATA I SPOKE AS INSTRUCTED.

2. MURATA, WITH WHOM I HAD ABOUT 40 MINUTES (BOTH HASEGAWA AND KUNIHIRO WERE HEAVILY PREOCCUPIED WITH OTHER MEETINGS), SAID THAT MR TAKESHITA HAD NOT YET HAD TIME SINCE HIS RETURN TO DISCUSS THE ALCOHOLIC DRINKS PROBLEM WITH YAMANAKA BUT HE CERTAINLY PROPOSED TO DO SO NEXT WEEK. A FINAL DECISION BY THE JAPANESE GOVERNMENT AND THE LDP ON THIS ISSUE IS NOT LIKELY TO BE TAKEN UNTIL 23 OR 24 MAY. BUT IN THE MEANTIME TAKESHITA HAS ASKED MINISTRY OF FINANCE OFFICIALS TO LOOK INTO THE PROBLEM AGAIN.

3. MURATA WELCOMED THE FACT THAT THERE HAD ALSO BEEN A MESSAGE TO YAMANAKA WHO HAD BEEN TAKING THE LINE THAT HE THOUGHT THE ISSUE HAD BEEN SOLVED DURING MR CHANNON'S VISIT ONE AND A HALF YEARS AGO. MURATA MADE IT CLEAR THAT THE JAPANESE GOVERNMENT RECOGNISED THAT THIS WAS NOT SO SINCE THE FRAMEWORK IN WHICH THIS ISSUE WAS BEING CONSIDERED HAD BEEN ALTERED LAST YEAR AS A RESULT OF THE GATT PANEL REPORT. BUT HE WARNED THAT TAKESHITA WOULD ALSO HAVE TO SEEK YAMANAKA'S AGREEMENT TO MOVES ON THE BEEF ISSUE DISPUTE WITH THE UNITED STATES AND WOULD IN ADDITION HAVE TO RELY ON HIM OVER THE BROADER ISSUE OF TAX REFORM. GIVEN THESE FACTORS AND YAMANAKA'S PERSONALITY AND POSITION, TAKESHITA'S WOULD NOT BE AN EASY TASK.

4. MURATA WENT ON TO SAY THAT WHATEVER THE EXACT TAX LEVELS AGREED UPON LATER THIS MONTH ON WHISKY AND SHOCHU, THE TOTAL PACKAGE OF CHANGES WOULD REPRESENT A MAJOR REFORM OF THE JAPANESE LIQUOR TAX REGIME. HE HOPED THAT THERE WOULD IN ANY CASE QUOTE AT LEAST BE CERTAIN IMPROVEMENTS IN THE JAPANESE PROPOSALS COMPARED TO THOSE BROUGHT TO LONDON BY OZAKI OF THE MINISTRY OF FINANCE TWO WEEKS AGO. WHETHER THIS WILL REACH A RATIO OF 1:10 I AM NOT SURE. BUT IF THERE ARE CERTAIN IMPROVEMENTS WHICH RESULT FROM TAKESHITA'S PERSONAL INTERVENTION WE HOPE YOU WILL NOT INSIST ABSOLUTELY ON THAT REGIME. WE HOPE YOU WILL BE ABLE TO POCKET THE CHANGES AT LEAST FOR THE NEXT 2 OR 3 YEARS UNQUOTE.

5. I REMINDED MURATA THAT THIS WAS AN ISSUE WHICH HAD BEEN AROUND FOR 20 YEARS AND ON WHICH THERE HAD NOW BEEN A DETAILED GATT REPORT. THE LEVELS WHICH HAD BEEN REFERRED TO BY THE PRIME MINISTER IN HER TALK WITH MR TAKESHITA IN THEMSELVES REPRESENTED A CONSIDERABLE MOVE AWAY FROM IMMEDIATE FULL IMPLEMENTATION OF THE GATT RECOMMENDATIONS. THE 1:10 RATIO WHICH MURATA HAD CATEGORISED AS HAVING NO SCIENTIFIC BASIS NEVERTHELESS REPRESENTED A SUBSTANTIAL NARROWING OF THE DIFFERENTIAL TO WHICH WE NOW ATTACHED IMPORTANCE. WE ALSO THOUGHT IT IMPORTANT THAT SOME WAY SHOULD BE FOUND OF LOOKING TO THE FUTURE FULL IMPLEMENTATION OF THE GATT.

6. ON THE TSE ISSUE MURATA SAID THAT TAKESHITA'S VIEW WAS THAT THE PRESENT HEAD OF THE TSE (TAKEUCHI) ''WAS NOT THE MAN TO BRING ABOUT A SOLUTION. HE WOULD BE REPLACED SOON BY ANOTHER FORMER MINISTRY OF FINANCE OFFICIAL, NAGAOKA, WHO WAS A BETTER PERSON TO HANDLE THE MATTER''. TAKESHITA WAS PREPARED TO HAVE A WORD WITH THE LEADING PERSONALITIES INVOLVED INCLUDING THE HEADS OF THE MAJOR SECURITIES COMPANIES. MURATA POINTED OUT THAT THIS WAS NOT SIMPLY A MATTER WHICH INVOLVED TWO BRITISH APPLICANTS: THERE WERE FOR EXAMPLE ABOUT 20 JAPANESE COMPANIES WHICH WERE ALSO SEEKING TO OBTAIN SEATS ON THE TSE. IN REPLY I CONFINED MYSELF TO REITERATING THAT THIS WAS A SUBJECT WHICH, AS THE PRIME MINISTER'S MESSAGE MADE CLEAR, WE ATTACHED IMPORTANCE. WE WERE LOOKING FOR A REASONABLY EARLY SOLUTION: SOME CLEAR INDICATION OF THE WAY FORWARD WOULD HELP CONSIDERABLY. (WE UNDERSTAND FROM OTHER CONTACTS THAT NAGAOKA MAY NOT TAKE OFFICE UNTIL SOME TIME IN THE AUTUMN).

WHITEHEAD

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010530
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CONFIDENTIAL
FM FCO
TO DESKBY 122330Z TOKYO
TELNO 412
OF 121540Z MAY 88
INFO ROUTINE UKREP BRUSSELS, UKMIS GENEVA

MIPT: PRIME MINISTER'S TALKS WITH MR TAKESHITA: FOLLOW-UP MESSAGE

1. TEXT IS AS FOLLOWS :

BEGINS

DEAR PRIME MINISTER,

THANK YOU FOR YOUR KIND MESSAGE.

I WAS DELIGHTED TO WELCOME YOU ON YOUR FIRST VISIT TO THE UNITED KINGDOM AS THE PRIME MINISTER OF JAPAN. I ENJOYED OUR DISCUSSION ON THE WORLD ECONOMIC SCENE AND ON POLITICAL ISSUES. I WAS ENCOURAGED BY THE CONSTRUCTIVE APPROACH WHICH THE JAPANESE GOVERNMENT IS TAKING BOTH IN ECONOMIC AND POLITICAL FIELDS. I LOOK FORWARD TO CONTINUING OUR DIALOGUE AT THE TORONTO SUMMIT AND AFTER. MAY I AGAIN CONGRATULATE YOU ON THE IMPORTANT SPEECH YOU MADE AT THE MANSION HOUSE. I SHARE YOUR WISH TO SEE A CLOSER RELATIONSHIP BETWEEN JAPAN AND EUROPE, AND IN PARTICULAR BETWEEN JAPAN AND THE UNITED KINGDOM.

I WAS GLAD THAT WE WERE ABLE TO HAVE A FRANK DISCUSSION OF THE PARTICULAR ISSUES BETWEEN US. AND I WAS VERY GRATEFUL FOR YOUR PERSONAL UNDERTAKING TO ACHIEVE SATISFACTORY SOLUTIONS TO THEM. I THOUGHT THAT FOR THE SAKE OF CLARITY IT MIGHT HELP IF I WERE TO SET OUT MY VIEWS IN WRITING.

WE TOUCHED ON THE SUBJECT OF SEATS ON THE TOKYO STOCK EXCHANGE. AS YOU KNOW WELL, WE HAVE BEEN EXCEPTIONALLY OPEN IN THE WAY IN WHICH JAPANESE FIRMS HAVE BEEN RECEIVED IN THE CITY OF LONDON. YOU EXPLAINED THE PROBLEMS OF LACK OF SPACE IN TOKYO AND THE DISCUSSIONS YOU YOURSELF HAD HELD WITH THOSE CONCERNED. IT WILL BE HARD TO PERSUADE PEOPLE THAT IN A TECHNOLOGICALLY ADVANCED SOCIETY SUCH AS YOURS LACK OF SPACE SHOULD STAND IN THE WAY OF FAIR TREATMENT WHEN COMPANIES OF THE STANDING OF BZW AND JAMES CAPEL ARE UNABLE TO GET SEATS ON THE TOKYO STOCK EXCHANGE. I AM GRATEFUL TO YOU FOR YOUR PROMISE TO TAKE A KEEN PERSONAL

INTEREST IN THE MATTER. I AM SURE THAT THIS WILL MAKE ALL THE DIFFERENCE AND I VERY MUCH HOPE THAT YOUR INTERVENTION WILL LEAD TO AN EARLY AND SATISFACTORY OUTCOME.

YOU KNOW HOW STRONG MY DEEP SEATED PREFERENCE IS FOR MAINTAINING OPEN MARKETS AND A WELCOME FOR BUSINESS FROM ABROAD. BUT I AM AFRAID I SIMPLY CANNOT DEFEND POLITICALLY A SITUATION WHERE BRITISH FIRMS ARE PERCEIVED AS FACING UNFAIR OBSTACLES IN JAPAN WHILE THEIR JAPANESE COUNTERPARTS ENJOY FREE ACCESS HERE.

WE ALSO DISCUSSED THE IMPORTANT ISSUE OF LIQUOR TAX IN JAPAN AND I STRESSED THAT THE UNITED KINGDOM - AND THE EUROPEAN COMMUNITY - EXPECT JAPAN TO INTRODUCE TAX REFORMS WHICH ALLOW SCOTCH WHISKY TO COMPETE WITHIN A NON-DISCRIMINATORY SYSTEM AS SET OUT BY THE GATT PANEL REPORT.

I REMAIN OF THE VIEW THAT WHILE THE PROPOSALS CONVEYED TO BRITISH OFFICIALS BY MR OZAKI ARE WELCOME AS REGARDS WHISKY GRADING, ABOLITION OF AD VALOREM TAX AND THE ESTABLISHMENT OF A SINGLE RATE OF TAX FOR WHISKY, THEY FELL WELL SHORT OF AN ACCEPTABLE SOLUTION. THE PROPOSALS MAINTAIN AN UNACCEPTABLY WIDE DIFFERENTIAL BETWEEN SHOCHU AND WHISKY AND MAKE NO PROVISION FOR FUTURE REDUCTIONS TO REMOVE DISTORTIONS IN THE MARKET. THEY ALSO TAKE NO ACCOUNT OF OUR CONCERNS ABOUT THE DIFFERENT TAX TREATMENT OF WHISKY AND OTHER SPIRITS. THAT IS WHY ON A PERSONAL BASIS I SUGGESTED THAT A JAPANESE PROPOSAL INCLUDING, AS AN INITIAL STEP, BRINGING THE TAX ON WHISKY DOWN TO YEN 1000 AND DOUBLING THE RATE OF TAX ON SHOCHU WOULD BE OF GREATER INTEREST TO US. I WELCOME YOUR PERSONAL COMMITMENT TO SEEK A SOLUTION TO THIS PROBLEM AND I NOTE THAT YOU INTENDEU TO BRING A SOLUTION FORWARD AT THE TIME OF THE ECONOMIC SUMMIT IN JUNE. PERHAPS I MIGHT UNDERLINE AGAIN MY VIEW THAT THE KEY POINT IS THAT ONLY IF GATT RULINGS ARE STRICTLY OBSERVED CAN WE USE THAT ORGANISATION TO PRESERVE AND ENHANCE THE FREE TRADING SYSTEM.

I LOOK FORWARD VERY MUCH TO OUR NEXT MEETING. I HOPE WE SHALL BE ABLE TO PUT THESE PROBLEMS BEHIND US AND THAT WE CAN GO ON TO FIND WAYS OF WORKING TOGETHER INTERNATIONALLY THAT WILL BENEFIT BOTH OR COUNTRIES AND THE WEST AS A WHOLE.

YOURS SINCERELY
MARGARET THATCHER

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MR MCLAREN

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10 DOWNING STREET
LONDON SW1A 2AA

From the Private Secretary

12 May 1988

Prime Minister's Message to Mr. Takeshita

I enclose the Prime Minister's message to Mr. Takeshita and should be grateful if it could be sent by telegram to Tokyo for delivery as soon as possible.

BF //

(CHARLES POWELL)

R.N. Peirce, Esq.,
Foreign and Commonwealth Office.

SUBJECT cc MASTER
OPS

PRIME MINISTER'S
PERSONAL MESSAGE
SERIAL No. T73/88

10 DOWNING STREET
LONDON SW1A 2AA

THE PRIME MINISTER

12 May 1988

Dear Prime Minister,

Thank you for your kind message.

I was delighted to welcome you on your first visit to the United Kingdom as the Prime Minister of Japan. I enjoyed our discussion on the world economic scene and on political issues. I was encouraged by the constructive approach which the Japanese Government is taking both in economic and political fields. I look forward to continuing our dialogue at the Toronto Summit and after. May I again congratulate you on the important speech you made at the Mansion House. I share your wish to see a closer relationship between Japan and Europe, and in particular between Japan and the United Kingdom.

I was glad that we were able to have a frank discussion of the particular issues between us. And I was very grateful for your personal undertaking to achieve satisfactory solutions to them. I thought that for the sake of clarity it might help if I were to set out my views in writing.

We touched on the subject of seats on the Tokyo Stock Exchange. As you know well, we have been exceptionally open in the way in which Japanese firms have been received in the City of London. You explained the problems of lack of space in Tokyo and the discussions you yourself had held with those

concerned. It will be hard to persuade people that in a technologically advanced society such as yours lack of space should stand in the way of fair treatment when companies of the standing of BZW and James Capel are unable to get seats on the Tokyo Stock Exchange. I am grateful to you for your promise to take a keen personal interest in the matter. I am sure that this will make all the difference and I very much hope that your intervention will lead to an early and satisfactory outcome.

You know how strong my deep seated preference is for maintaining open markets and a welcome for business from abroad. But I am afraid I simply cannot defend politically a situation where British firms are perceived as facing unfair obstacles in Japan while their Japanese counterparts enjoy free access here.

We also discussed the important issue of liquor tax in Japan and I stressed that the United Kingdom - and the European Community - expect Japan to introduce tax reforms which allow scotch whisky to compete within a non-discriminatory system as set out by the GATT panel report.

I remain of the view that while the proposals conveyed to British officials by Mr. Ozaki are welcome as regards whisky grading, abolition of ad valorem tax and the establishment of a single rate of tax for whisky, they fell well short of an acceptable solution. The proposals maintain an unacceptably wide differential between shochu and whisky and make no provision for future reductions to remove distortions in the market. They also take no account of our concerns about the different tax treatment of whisky and other spirits. That is why on a personal basis I suggested that a Japanese proposal including, as an initial step, bringing the tax on whisky down to yen 1000 and doubling the rate of tax on shochu would be of greater interest to us. I welcome your personal commitment to seek a solution to this problem and I note that you intended to bring a solution

forward at the time of the Economic Summit in June. Perhaps I might underline again my view that the key point is that only if GATT rulings are strictly observed can we use that organisation to preserve and enhance the free trading system.

I look forward very much to our next meeting. I hope we shall be able to put these problems behind us and that we can go on to find ways of working together internationally that will benefit both our countries and the West as a whole.

Yours sincerely

Margaret Thatcher

His Excellency Mr. Noboru Takeshita.

PRIME MINISTER

MEETING WITH MR. TAKESHITA

You agreed that it would be wise to write to Mr. Takeshita to follow up your talk and ensure that the Japanese do not try to wriggle off the hook on the issues of whisky and seats on the Tokyo Stock Exchange. I attach a letter for your signature.

C.D.P.

CHARLES POWELL

11 May 1988

(1) The typing on the 2nd page is very uneven as if something is wrong with the spacing on the type writer.

(2) I think the Chancellor said that the second important seat was Barclays as James Capel is now foreign owned. Would you check?

MT

LO4
ATV

CONFIDENTIAL

CCPC

Foreign and Commonwealth Office

London SW1A 2AH

11 May 1988

Dear Charles

Your letter of 4 May said that the Prime Minister wished to follow up her meeting by sending Mr Takeshita a message setting out our views on whisky and the Tokyo Stock Exchange. I enclose a draft.

We suggest that when Sir John Whitehead hands the message over he should tell the Japanese that when the Prime Minister spoke of a ten to one differential between the tax on whisky and that on shochu she meant no more and no less than that. The Japanese suggestion that their proposals would give a ten to one differential is based on juggling the figures to take account of the fact that shochu has a lower alcohol content than whisky. If they were to tax alcoholic drinks purely in proportion to their alcohol content this would be a wholly acceptable solution. But using alcoholic content as a way of massaging their figures solves no practical problems and is of no interest to us. Mr Takeshita's apparent acceptance of a ten to one differential seems to be based on these rather contrived calculations and for this reason we have not referred to it in the draft.

Japanese press reporting on the talks has focussed on what they perceived as a discrepancy between the British and Japanese interpretations of Mr Takeshita's comments about whisky and the Tokyo Stock Exchange. The Prime Minister is (correctly) quoted as having said at her dinner on 4 May that Mr Takeshita had given a personal commitment that the problems would be satisfactorily resolved. The Deputy Chief Cabinet Secretary, Mr Ozawa, is however quoted as denying that Mr Takeshita made any such promise. He insisted that what Mr Takeshita had actually said was that he would take a personal interest in the handling of these issues. Mr Takeshita is himself reported to have confirmed at a press conference in Bonn that he had not used the words "personal commitment". This is, of course, a fine distinction and the Japanese press have quoted Japanese sources (probably the MFA) as saying that resolving the problems is more important than quibbling over whether the Prime Minister has given a personal commitment. The Foreign Secretary recommends that the Prime Minister leave Mr Takeshita in no doubt that, as she said in her dinner speech, he had, in her view, given a personal commitment to achieving satisfactory solutions to both problems.

/The

The draft letter reflects accurately the record of the talks in respect of Mr Takeshita's "keen personal interest" in the TSE issue and his "personal commitment to seek a solution" in respect of whisky, but covers both issues with an umbrella phrase referring to his personal undertaking to achieve satisfactory solutions to both.

I am copying this letter to Alex Allan (HMT), Stephen Ratcliffe (DTI) and Trevor Woolley (Cabinet Office).

Yours ever

Bob Peirce

(R N Peirce)
Private Secretary

C D Powell Esq
10 Downing Street

DSP (Revised Sept 85)

DRAFT: minute/letter/teleletter/despatch/note

TYPE: Draft/Final 1 +

FROM:

Prime Minister

DEPARTMENT: TEL. NO:

BUILDING: ROOM NO:

Reference

POlAAX

Your Reference

SECURITY CLASSIFICATION

Top Secret
Secret
Confidential
Restricted
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PRIVACY MARKING

..... In Confidence

CAVEAT .....

Enclosures flag(s) .....

TO:

Mr Takeshita

Copies to:

For typing
ODL

SUBJECT:

Thank you for your kind message.

I was delighted to welcome you on your first visit to the United Kingdom as the Prime Minister of Japan. I enjoyed our discussion on the world economic scene and on political issues. I was ~~most~~ encouraged by the ~~thoughtful and~~ constructive approach which the Japanese Government is taking both in economic and political fields. I look forward to continuing our dialogue at the Toronto Summit and after.

May I ~~also~~ again congratulate you on the important speech you made at the Mansion House. I share your wish to see a closer relationship between Japan and Europe, and in particular between Japan and the United Kingdom. ~~I hope~~ very much that we shall be able to realise the dynamic and plain-speaking partnership of which my Foreign Secretary, Sir Geoffrey Howe, spoke when he was in Japan in January.

I was glad that we were able to have a frank discussion of the particular issues between us. And I was very grateful for your personal undertaking to achieve satisfactory solutions to them. I thought that for the sake of clarity it might help if I were to set out my views in writing.

We touched on the subject of seats on the Tokyo Stock Exchange. As you know well, we have been exceptionally open in the way in which Japanese firms have been received in the City of London. You explained the problems of lack of space in Tokyo and the discussions you yourself had held with those concerned. It will be hard to persuade people that in a technologically advanced society such as yours lack of space should stand in the way of fair treatment when companies of the standing of BzW and James Capel are unable to get seats on the Tokyo Stock Exchange. I am grateful to you for your promise to take a keen personal interest in the matter. I am sure that this will make all the difference and I very much hope that your intervention will lead to an early satisfactory outcome.

You know how strong my deep seated preference is for maintaining open markets and a welcome for business from abroad. But I am afraid I simply cannot defend politically a situation where British firms are perceived as facing unfair obstacles in Japan while their Japanese counterparts enjoy free access here.

DSR 11C
(Revised 5/87)

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We also discussed the important issue of liquor tax in Japan and I stressed that the United Kingdom - and the European Community - expect Japan to introduce tax reforms which allow scotch whisky to compete within a non-discriminatory system as set out by the GATT panel report.

I remain of the view that while the proposals conveyed to British officials by Mr Ozaki are welcome as regards whisky grading, abolition of ad valorem tax and the establishment of a single rate of tax for whisky, they fell well short of an acceptable solution. The proposals maintain an unacceptably wide differential between shochu and whisky and make no provision for future reductions to remove distortions in the market. They also take no account of our concerns about the different tax treatment of whisky and other spirits. That is why on a personal basis I suggested that a Japanese proposal including, as an initial step, bringing the tax on whisky down to yen 1000 and doubling the rate of tax on shochu would be of greater interest to us. I welcome your personal commitment to seek a solution to this problem and I note that you intended to bring a solution forward at the time of the Economic Summit in June. Perhaps I might underline again my view that the key point is that only if GATT rulings are strictly observed can we use that organisation to preserve and enhance the free trading system.

DSR 11C
(Revised 1/5/87)

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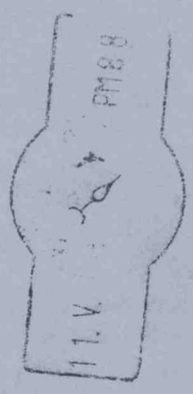
I look forward very much to our next meeting. I hope we shall be able to put these problems behind us and that we can go on to find ways of working together internationally that will benefit both our countries and the West as a whole.

CDS

Japan: Visit of PM Japan
PRO



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JAPAN INFORMATION CENTRE
(EMBASSY OF JAPAN)
9, GROSVENOR SQUARE,
LONDON, W1X 9LB

01-493 6030

D
COP
8/5

May 6th 1988

Dear sir/Madam,

I have pleasure in sending you a copy of the text of speech which Mr Takeshita, Prime Minister of Japan, delivered at a luncheon at Mansion House on May 4th.

I trust this will be of some interest to you.

Yours sincerely,

Gunkatsu Kano

Gunkatsu Kano

Director, Japan Information Centre
Counsellor, Embassy of Japan

JAPAN (Supplement to Japan No. 436)

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,

I must confess, however, that during my tenure as Finance Minister, which lasted for four years, I was sometimes chagrined at the very existence of the London financial market, which opens soon after the activities on the Tokyo market counter close at the end of the day. Indeed, the unpredictability of the foreign exchange market, with its volatile fluctuations, can never be a good sleeping-pill, particularly for someone who is responsible for his Government's financial and monetary policies.

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 the 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 economic 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 should 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 cullture" 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 19th 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 impoprtant 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 sure that, if there had existed a JET Programme when I was at lower secondary school, my English would certainly be better now!

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 cooperation. 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 cooperative 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 Europe as a whole. Japan and France are also drawing up plans for the construction of a cultural centre.

Supplementing these endeavours, my Government intend 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 to 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!

Japan: Visit of PM of Japan
Pr 2.

10 DOWNING STREET
LONDON SW1A 2AA

From the Private Secretary

5 May, 1988.

VISIT OF THE JAPANESE PRIME MINISTER

T64/88

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.

01-493 6030

(2)

EMBASSY OF JAPAN
46 GROSVENOR STREET
LONDON W1X 0BA

PRIME MINISTER'S
PERSONAL MESSAGE
SERIAL No. T64/88
SUBJECT cc OPS
MASTER

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.

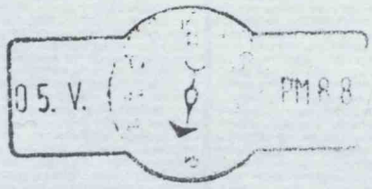
MY STAY IN LONDON WAS VERY BRIEF. I WAS, HOWEVER, THOROUGHLY SATISFIED WITH THE VISIT IN THAT I WAS ABLE TO ESTABLISH PERSONAL TIES AND FRIENDSHIP WITH YOU THROUGH SUBSTANTIAL AND FULFILLING TALKS.

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

YOURS SINCERELY,

NOBORU TAKESHITA

PRIME MINISTER OF JAPAN


05. V.
PM 8 8

Private Secretary

Charles P

Spotter

Grateful to know quickly by phone whether you can approve this (with or without sq. brackets)

Robin C

DSR 11 (Revised)

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DRAFT: minute/letter/teleletter/despatch/note

TYPE: Draft/Final 1+

FROM:
Rosemary Spencer

Reference
W12AAR

DEPARTMENT:

TEL. NO:

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TO:

M A Pakenham Esq
UKRep Brussels

Your Reference
see below

Copies to:

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CAVEAT.....

PS
We are dealing
overnight with DTI.
We would also
hope to draw on
this in response to
enquiries from EC
Member States (some
already received).

Enclosures—flag(s).....

PRIME MINISTERS MEETING WITH MR TAKESHITA

SUBJECT:

1. You asked by telephone what you could say to Burghardt of the Commission Secretariat about the Takeshita visit and especially his meeting with Prime Minister.

2. You should tell Burghardt that the meeting, which took place in a very cordial atmosphere, covered a wide range of international and bilateral matters. The Prime Minister welcomed Mr Takeshita's wish for a closer relationship between Japan and Europe and in particular between Japan and the United Kingdom, making it clear that she very much shared that aim. She looked forward to a broader relationship with Japan as a major partner and ally. On the macroeconomic front, she ackowledged the positive steps taken by the Japanese Government to allow the yen to appreciate and to open up the Japanese market. Discussion of the world economy revealed grounds for cautious optimism. In the context of the forthcoming Toronto Summit the Prime Minister plugged issues such

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as the US budget deficit, imbalances in world trade and solutions to agriculture noting that the latter involved Japan. Mr Takeshita wanted a renewed commitment to policy coordinations, and help for major LDC debtors - on a case by case basis. Bilaterally, the Prime Minister pressed hard for further British seats on the Tokyo Stock Exchange. Mr Takeshita said he was taking a keen personal interest in resolving this problem.

3. On whisky the Prime Minister said that the GATT report had been clear; and it would be unthinkable for Japan to fail to implement its conclusions in full. Recent Japanese proposals had gone some way to meet our requirements, but not far enough. The main outstanding problem was the whisky/Shochu differential. She hinted that an immediate reduction of the differential to 10:1 might be acceptable, a over a period, and monitoring arrangements to ensure that this was happening. Mr Takeshita responded with familiar arguments, saying that his long-term intention was to encourage most of those who produced Shochu to pull out of the business altogether. He proposed changes in the taxes on whisky and Shochu which he claimed would reduce the effective differential to 10:1. He undertook to pursue the matter further on his return to Tokyo. The Prime Minister acknowledged Takeshita's acceptance of a 10:1 target, but emphasised the need for a commitment

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to further subsequent reductions. She agreed on the need for follow-up.

4. In briefing to Burghardt, you should say that you are giving him a full account because we are anxious to stay close to the Commission not only on the whisky issue, but across the whole spectrum of EC relations with Japan. You should, however, emphasise the sensitivity of such exchanges at Prime Ministerial level, and the consequent need for strict confidentiality on his part. You have discretion to brief Schaub, de Clercq, Cabinet, and Krenzler or Loeff on similar lines. Koeff was briefed by Cooke on 4 May on the broad outline of the thoughts the Prime Minister might express on the whisky/Shochu differential. Loeff fully endorsed these. (Record follows by bag).

cc. UKMIS Geneva
FED
Chancery Tokyo

CONFIDENTIAL

Meeting Record
Subject
cc Master

file VC4
cc PC

10 DOWNING STREET

LONDON SW1A 2AA

From the Private Secretary

4 May 1988

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 Seretary 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 Exchance

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 enlargment 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 acepted 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

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.

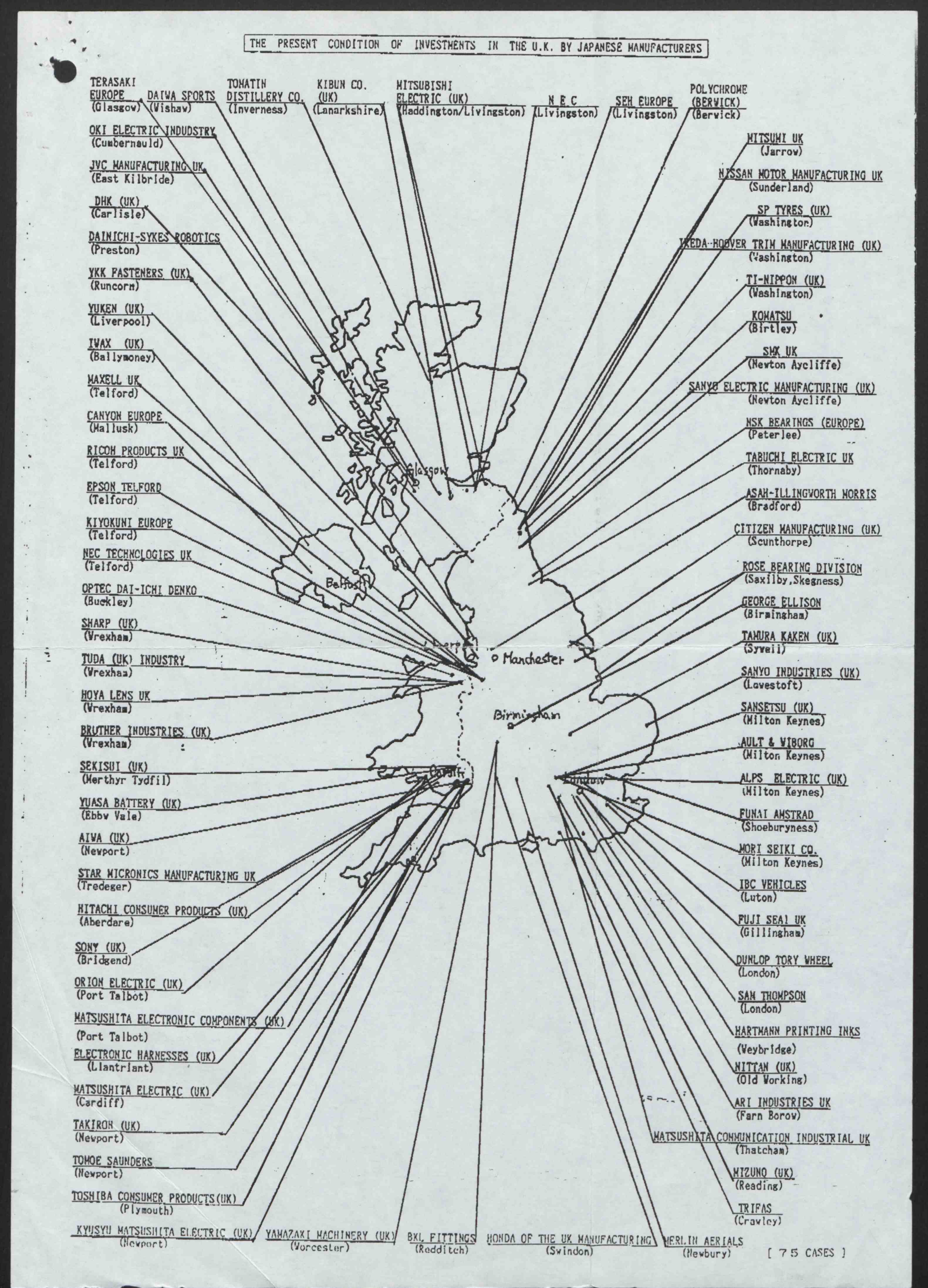
I am copying this letter to Alex Allan (H.M. Treasury), Stephen Ratcliffe (Department of Trade and Industry) and Trevor Woolley (Cabinet Office).

Yours ever,

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



TERASAKI EUROPE (Glasgow)
DAIWA SPORTS (Wishaw)
TOMATIN DISTILLERY CO. (Inverness)
KIBUN CO. (UK) (Lanarkshire)
MITSUBISHI ELECTRIC (UK) (Haddington/Livingston)
N E C (Livingston)
SEH EUROPE (Livingston)
POLYCHROME (BERWICK) (Berwick)

OKI ELECTRIC INDUDSTRY (Cumbernauld)
JVC MANUFACTURING UK (East Kilbride)
DHK (UK) (Carlisle)
DAINICHI-SYKES ROBOTICS (Preston)
YKK FASTENERS (UK) (Runcorn)
YUKEN (UK) (Liverpool)
IWAX (UK) (Ballymoney)
MAXELL UK (Telford)
CANYON EUROPE (Mallusk)
RICOH PRODUCTS UK (Telford)
EPSON TELFORD (Telford)
KIYOKUNI EUROPE (Telford)
NEC TECHNOLOGIES UK (Telford)
OPTEC DAI-ICHI DENKO (Buckley)
SHARP (UK) (Wrexham)
TUDA (UK) INDUSTRY (Wrexham)
HOYA LENS UK (Wrexham)
BRUTHER INDUSTRIES (UK) (Wrexham)
SEKISUI (UK) (Merthyr Tydfil)
YUASA BATTERY (UK) (Ebbw Vale)
AIWA (UK) (Newport)
STAR MICRONICS MANUFACTURING UK (Tredeger)
HITACHI CONSUMER PRODUCTS (UK) (Aberdare)
SONY (UK) (Bridgend)
ORION ELECTRIC (UK) (Port Talbot)
MATSUSHITA ELECTRONIC COMPONENTS (UK) (Port Talbot)
ELECTRONIC HARNESSES (UK) (Llantriant)
MATSUSHITA ELECTRIC (UK) (Cardiff)
TAKIRON (UK) (Newport)
TOMOE SAUNDERS (Newport)
TOSHIBA CONSUMER PRODUCTS (UK) (Plymouth)
KYUSYU MATSUSHITA ELECTRIC (UK) (Newport)
YAMAZAKI MACHINERY (UK) (Worcester)
BKL FITTINGS (Redditch)
HONDA OF THE UK MANUFACTURING (Swindon)
HERLIN AERIALS (Newbury)

MITSUMI UK (Jarrow)
NISSAN MOTOR MANUFACTURING UK (Sunderland)
SP TYRES (UK) (Washington)
IKEDA-HOOVER TRIM MANUFACTURING (UK) (Washington)
TI-NIPPON (UK) (Washington)
KOMATSU (Birtley)
SMK UK (Newton Aycliffe)
SANYO ELECTRIC MANUFACTURING (UK) (Newton Aycliffe)
NSK BEARINGS (EUROPE) (Peterlee)
TABUCHI ELECTRIC UK (Thornaby)
ASAH-ILLINGWORTH MORRIS (Bradford)
CITIZEN MANUFACTURING (UK) (Scunthorpe)
ROSE BEARING DIVISION (Saxilby, Skegness)
GEORGE ELLISON (Birmingham)
TAMURA KAKEN (UK) (Syvell)
SANYO INDUSTRIES (UK) (Lovestoft)
SANSETSU (UK) (Milton Keynes)
AULT & WIBORG (Milton Keynes)
ALPS ELECTRIC (UK) (Milton Keynes)
FUNAI AMSTRAD (Shoeburyness)
MORI SEIKI CO. (Milton Keynes)
IBC VEHICLES (Luton)
FUJI SEAL UK (Gillingham)
DUNLOP TORY WHEEL (London)
SAM THOMPSON (London)
HARTMANN PRINTING INKS (Weybridge)
NITTAN (UK) (Old Working)
ARI INDUSTRIES UK (Farn Borow)
MATSUSHITA COMMUNICATION INDUSTRIAL UK (Thatcham)
MIZUNO (UK) (Reading)
TRIFAS (Crawley)

[75 CASES]

Prime Minister

(1)

You will wish to see the speech which Mr. Takeshita is giving at the Mansion House tomorrow. He calls for the strengthening of EC/Japan relations & proposes

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

a three-part International Cooperation Initiative:

- strengthening of cooperation to achieve peace;
- strengthening of international cultural exchange
- expansion of Japan's overseas aid.

The rest of the speech focuses in particular on cultural exchange.

You will wish to congratulate him upon it.

CDP 3/5

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 gowing 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 throughts 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.

dti

the department for Enterprise

The Rt. Hon. Lord Young of Graffham
Secretary of State for Trade and Industry

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Date 4 May 1988

Dear Charles,

PRIME MINISTER'S MEETING WITH MR TAKESHITA : WHISKY

Thank you for your letter of 2 May.

I now enclose a brief on whisky for the Prime Minister's meeting with Mr Takeshita tomorrow afternoon. As you will see, this contains a note on compensation in another area, as you requested.

I am copying this letter to Robert Culshaw (Foreign and Commonwealth Office), Shirley Staff (MAFF) and Trevor Woolley (Cabinet Office).

Yours ever
Steph Ratcliffe

STEPHEN RATCLIFFE
Private Secretary

the Enterprise initiative

JRPABM CONFIDENTIAL

EC/JAPAN: ALCOHOLIC BEVERAGES: LINE TO TAKE

Objective

Japan should operate a non-discriminatory tax system under which whisky can compete equally with other spirits in the Japanese market.

Timing

Reform should start in April 1989.

Progress So Far

We are grateful for the undertakings to:

(1) Abolish whisky grading

(2) Abolish ad valorem taxes on whisky

(3) Introduce a resultant single tax rate on all whiskies

We also note the proposal to raise the tax on both grades of shochus

RETALIATION (if raised)

The UK's objective is that our exports should compete in a non-discriminatory environment. But if, against all expectation, there were no satisfactory reform of liquor taxes, then Japan could not expect the community to stand idly by without recourse to its full GATT rights.

Outstanding Issues

There are two:

(1) The whisky : shochu differential: This is still too high. Under Japanese proposals, the tax on shochu - all locally produced - will average out at about one fourteenth of the tax proposed for whiskies. This is still discriminatory. We look for any difference in tax treatment to be reduced to a point where its effect is de minimis, as the Panel prescribed.

If appropriate give personal view that a Japanese offer now involving a tax on whiskies of about Y1000 per litre and doubling the tax on shochu might be acceptable to the Community as a starting point, provided that there is a firm settlement setting out a clear programme for tackling the remaining differential over a reasonable period and assessing any trade distortions meanwhile.

(2) Other Spirits: There is a risk of discrimination in the future, if taxes on other spirits are not brought into line. This may seem unimportant now. But it will matter if the tax advantages for other spirits lead to a switch to those spirits. There need to be firm proposals for tackling discriminatory taxation on other spirits.

General

We understand the Japanese difficulties in changing a long-standing system. But the Japanese tax changes are a key opportunity for necessary reforms. We seek a durable and comprehensive solution, embracing significant reforms now and an approach for the future enjoying the confidence of both sides.

PRIME MINISTER'S MEETING WITH MR TAKESHITA
EC/JAPAN: ALCOHOLIC BEVERAGES

BACKGROUND.

Introductory

1 Mr Takeshita's visit comes at a difficult but critical moment. The Japanese authorities have made moves to respond to the GATT Panel findings; but when Mr Ozaki (Ministry of Finance) called on the European Commission and Lord Young last week he made inadequate proposals. Mr Takeshita plans to bring together all the Japanese interests involved over the next four weeks, so as to bring forward an acceptable solution when he sees M Delors before the Economic Summit in June. The Prime Minister's meeting is an opportunity to lay out the UK position.

The Market for Whisky in Japan

2 The Japanese market (one of the largest in the world) is an important one for the UK whisky industry. Whisky is our second largest export to Japan by value (£64m per annum). But sales have fallen from 1979, and a major cause of this decline is believed to be the complex Japanese liquor tax structure penalising imported Scotch.

The GATT Panel Report

3 The GATT Panel report followed two decades of disputes over the Japanese liquor tax system. The system does not tax all spirits according to a single yardstick such as alcohol content. Instead, it subjects groups of spirits to various tax rates. The system bears particularly hardly on Scotch, because it classifies whisky into three grades (Special, First and Second) which are taxed at different rates, the majority of Scotch falling into the heavily taxed Special grade. The most expensive whiskies including some brands of Scotch also suffer high ad valorem taxes. In addition, whiskies of all types are generally taxed more heavily than other spirits (gin, vodka and other white spirits) and much more heavily than shochu (a popular local Japanese vodka-like spirit). The grades and rates of tax are set out at Annex A.

4 Although the Community's concern had been mainly with whisky, the GATT Panel found, in broad terms, that the entire Japanese system for taxing spirits was discriminatory. Their report had two main implications:

(a) All like spirits should be taxed on a non-discriminatory basis.

(b) All competing/substitutable spirits should be taxed on a basis under which any discriminatory effect in favour of domestic products was no more than de minimis

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In essence, this meant that all like spirits (ie, above all, all domestic and imported whiskies) should be taxed alike, and that all competing or substitutable spirits (ie whiskies, vodka, gins, shochus and other spirits) should be given tax treatment which eliminated any serious discriminatory effect.

5 The report was more than the Community had hoped for. As well as endorsing the Community's long-standing case on whisky, it gave grounds for seeking a non-discriminatory regime for other spirits and shochu.

The Japanese Response

6 In December last year, the Japanese authorities announced outline proposals for liquor tax reform in the face of the GATT report. These were acceptable as far as they went, but were in general terms only. Since then we have pressed the Japanese for full details of their proposed reforms.

7 In preparation for Mr Takeshita's visit a senior official from the Japanese Ministry of Finance (Mr Ozaki) called on the European Commission and on Lord Young last week with details of Japanese proposals. These included:

abolition of the whisky grading system;

abolition of the "ad valorem" tax;

introduction of a single rate of tax for all whiskies at around Yen 1350 per litre;

an increase in the tax on shochu of around 50%, leaving a 14:1 differential in tax in yen per litre between whisky and shochu.

UK View

8 This is a valuable package, which meets several of the UK industry's key objectives. Its weaknesses are that it leaves a large whisky/shochu tax differential and promises nothing about reducing this. And it leaves the position of other spirits (eg gin, vodka, rum) unchanged.

9 The Scotch Whisky Association has been prepared to accept that the elimination of the differentials between whisky/shochu and whisky/other spirits might be phased. The Association has nevertheless attached importance to a commitment in principle by the Japanese to reducing differentials to a point where any remaining effect is de minimis. This is an important point for the future. At present, it may matter little: shochu is not at present a serious competitor for whisky and Japanese consumption of other spirits is very low. But UK exports of whisky would suffer if the tax advantages for other spirits led, in the longer term, to a Japanese consumer switch to other spirits. Scotch would then be competing in a tax

environment discriminating against it.

10 It is far from clear that all these elements in the industry's case can be fully met. Domestic political pressures on the Japanese government are likely to prevent complete elimination of the whisky/shochu differential in the foreseeable future. And on other spirits, the GATT findings are arguably less conclusive; and the Japanese appear inclined to argue that no changes at all are required. The settlement between the Community and Japan will therefore turn on how far these points can be met without any risk to the very major gains for Scotch whisky already offered by the Japanese.

11 Any acceptable package which left some steps to implementation for the future would have to contain safeguards so long as tax differentials between competing spirits were to remain. One possible solution would be to negotiate as great a reduction as possible in the whisky/shochu tax differential now (say from the present 40:1 to 10:1 or less) while reaching a firm agreement that the Community and Japan would monitor the effects of remaining differentials - both on shochu and other spirits - and that the Japanese would undertake to eliminate any future distortions of trade which could be shown to have arisen. But this has not been put to the Japanese: the Community's - and our - position has been that there must be full implementation, with a clear programme for eliminating, over a reasonable period, any differentials not removed at the outset.

12 We do not know whether Mr Takeshita has come prepared to improve on the proposals put forward by Mr Ozaki. The Prime Minister's meeting is an opportunity to lay out the UK position and to offer him some guidance on our attitude to details. Final agreement will have to be reached by the Community as a whole.

Retaliation/Compensation

13 Where a Panel report has been inadequately implemented by the defendant country, GATT permits the complainant to ask the contracting parties for authority to retaliate. Retaliation would have to be based on an estimate of the trade lost through inadequate implementation. In this case it would be difficult to judge and, on the assumption that the Japanese will implement the main aspects of their proposals, the amount might not be very great.

14 As a GATT Contracting Party, the Japanese are well aware of the options of retaliaton and compensation. Neither we nor the Community have raised them, since even a threat of retaliation at this stage could let the Japanese off the hook, if they found the prospect of compensation in other sectors preferable to facing-up to domestic pressures on liquor tax reform. That would not be in the UK's interests. Retaliation in the form of increased EC tariffs would also impose extra costs on EC consumers.

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ANNEX A

CURRENT TAX RATES (YEN PER LITRE)

Scotch Premium	-	4.053
Soctch Standard	-	2,098
Japanese Special	-	12.029*
Japanese Special* (lower range)	-	2,098
Japanese First Grade	-	1,011
Japanese Second Grade	-	296
Shochu A	-	79
Shochu B	-	51
Other Spirits	-	362

* The high rate of tax on Japanese Special results from the ad valorem aspect of the tax system. The same applies to a lesser extent to Scotch Premium. The other rates are fixed or 'specific'.

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VISIT OF MR TAKESHITA: TOKYO STOCK EXCHANGE (TSE) MEMBERSHIP

Objective: To emphasise the high political priority attached by the UK to early membership of the Tokyo Stock Exchange (TSE) for BZW (and, in due course, for all qualified UK firms), and that lack of progress on the issue is bound to slow progress on Japanese aspirations in London.

Line to take

i acknowledge progress in mutual access to London and Tokyo markets and want this to continue. Appreciate the personal interest Mr Takeshita has taken in this matter; **but:**

ii. the "rationing" of Tokyo Stock Exchange membership is a cause now of acute difficulty, with its effect of excluding BZW, a major and qualified British firm, from the position its British competitors have been successful in achieving. It is difficult to understand how a country with Japan's leadership in electronics can find floor space an obstacle. This kind of limitation is the antithesis of open markets and symptomatic of the Japanese protectionism of which we complain;

iii. the contrast with London's openness is striking and the resulting imbalance unacceptable;

iv. we look to the Japanese to find a solution to a problem which is caused by the restrictiveness of their system; until they do, they must expect difficulties in making progress for their firms in London, as Lord Young and others have pointed out.

v. (If Mr Takeshita raises specific issue, eg a link with gilt market membership here or branch licence for a Japanese regional bank). Take note - comment in general terms that our actions are bound to be influenced by lack of progress on the TSE membership problem.

Background

Tokyo Stock Exchange Membership for BZW is the most pressing current issue in the field of financial services with Japan. Good progress has been made elsewhere in improving access to Tokyo for British financial firms, and Mr Takeshita as Finance Minister played a valuable role.

The problem is that the Japanese operate a system in which they offer membership only within the limits of numbers of booths in a physically limited floor-space. An enlarged floor to be brought into operation very soon allowed them last December to offer some 22 new memberships. The UK got 4 of these, including County NatWest. BZW were unsuccessful - given the 'ration' this was not unreasonable, because at the time theirs was one of the most recently established firms in Tokyo,still without a developed business.

Because of the unsatisfied demand occasioned by the limitations on Membership, the rare seat which becomes available (by death or merger of an existing holder) has an enormous price-tag -perhaps ten or twenty times the already expensive official cost of entry to a 'new seat'.

Unsatisfied Japanese aspirations in London include in particular:

- Nomura and Daiwa, the 2 largest securities firms, hope to be approved as gilt-edged market-makers very soon. They have been told that progress will be influenced by the Barclays TSE problem;

- The Japanese authorities are pressing strongly that one particular regional bank (Hokuriku, although others will doubtless want to follow) be accorded branch status in London. The Bank of England have been stalling, partly

because they are worried over the scale of increase of Japanese participation in our market if they have to allow a string of big regional banks to enter.

29.IV. 1988

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PRIME MINISTER

MEETING WITH MR. TAKESHITA

You may like to see the briefs for this again. There are two important additional papers:

- a letter from DTI about the whisky tax;

- a copy of Mr. Takeshita's speech at the Mansion House.

Organisation

I suggest that you first take Mr. Takeshita up to the White Room for the restricted session; and then come down to the Cabinet Room for the wider session (for which there will be eight on the Japanese side). You are likely to find the restricted session more profitable.

I have subsequently had a talk with our Ambassador in Tokyo. His information is that Mr. Takeshita will not be bringing any new offer on whisky or the Stock Exchange. His aim will be to sweet-talk his way through, and get back to Tokyo claiming that he had explained the Japanese Government's position to you and that was that. It is important that you should set out your position on both points very clearly, with figures where appropriate, so that there is a clear yardstick against which to measure progress or lack of it.

The detailed brief is attached, but the key points to get over are:

- we are pleased about the progress made on whisky;

- but it is not enough;

- in particular the differential between whisky and shochu is too high;

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- we are looking for an outcome which would set the whisky tax at 1000 yen (the current Japanese proposal is 1350 yen) and would double the tax on shochu. This would reduce the differential from 40:1 to 10:1;

- at the same time we would want a commitment to reduce the remaining differential over a period of time, with a consultative mechanism in which progress can be checked;

- we also want to see proposals for tackling discriminatory taxation on other spirits;

- as regards the Stock Exchange, we expect steps to be taken which would allow two more British firms to obtain seats within a year. This is not just a commercial matter, it is also a matter between Governments;

- meanwhile the Japanese must not be surprised if there are delays in dealing with matters of interest to their banks and companies in London.

C.D.P

CDP
3 May 1988

cc PC
Lb up.

Foreign and Commonwealth Office

London SW1A 2AH

3 May 1988

Prime Minister

As you will see, Mr. Takeshita is bringing several Japanese MPs to the dinner, all of whom will wish to be photographed with you in the receiving line. (A sure-fire for getting re-elected apparently!)

Dear Charles,

Prime Minister's dinner for Mr Takeshita: 4 May

I attach short personality notes on Mrs Takeshita and the 6 Japanese parliamentarians and the four Foreign Ministry officials who will be attending the Prime Minister's dinner. Personality notes on Mr Takeshita and Mr Ozawa are sent under cover of my letter of 29 April.

Yours ever,

(R N Culshaw)
Private Secretary

CDP 3/5

C D Powell Esq
10 Downing Street

MR KURO MATSUDA

Born 1922 Deputy Chairman LDP Diet Affairs Committee

The youngest of nine children in a poor agricultural family worked his way through university. Served as a pilot in the war and spent some time as a Soviet detainee. Served seven terms as a Member of Nakasaki Prefectural Assembly before entering National Politics in 1983 at his fourth attempt. A boisterous character who had a reputation as a fearsome heckler in the Prefectural Assembly. One son (wife deceased).

MR SHOICHI IDE

Born 1939 Member of the LDP Diet Affairs Committee

Graduated in Economics. Worked for 20 years in the family run Sake business. Entered National Politics in 1986. Well versed in problems of small and medium sized businesses. Interested in agriculture, regional development, social welfare and education. Married with two children.

MR HIROSHI KITAMURA

Deputy Minister (Economic) for Foreign Affairs and Japanese Sherpa for Economic Summits. Former Director General (DUSS equivalent) for North America.

MR KAZUTOSHI HASEGAWA

Director-General for Europe and Oceania since September 1987 (DUSS equivalent). Has served in London. Former Private Secretary to Prime Minister.

MR YUKIO TAKASU

Director Second West European Division since February 1988 (Head of Department equivalent)

MR TERUSUKE TERADA

Private Secretary (from Foreign Ministry) to the Prime Minister

R14AAW

MRS NAOKO TAKESHITA

Born 1926

A High School Graduate. She married Takeshita in 1946 after the death of his first wife. Little known to the Japanese public. She appears with her husband only on formal occasions. Like most Japanese politician's wives she plays an important role in maintaining support in the constituency and is a much stronger character than she appears at first sight. Although reserved, she is not shy. She speaks some English.

MR MAKOTO YOSHIMURA

Born 1928 Deputy Chairman LDP Diet Affairs Committee

Official in the Ministry of Transport until he entered politics in 1983 as a Member of the Upper House. Respected in the LDP for his expert knowledge of transport questions. Married with three children.

MR KOJA MASUOKA

Born 1924 Deputy Chairman LDP Policy Research Council

Worked in Ministry of Construction until 1977 when he entered politics as a Member of the Upper House. Has served as Parliamentary Vice-Minister for Finance. Reputation as a hard worker. Member of the Takeshita Faction. Married with two children.

MR HIROYUKI MASUOKA

Born 1923 LDP Deputy Secretary General

Graduated in Politics and Economics and worked briefly in his father's firm before gaining a seat in the Lower House in 1969. Has served as Parliamentary Vice-Minister for Transport and as Minister for Health and Welfare. Well versed in Economics. Married with one child.

MR TAKEHITO ENDO

Born 1983 Member of the LDP Diet Affairs Committee

Worked in local administration and as the Chairman of his own Driving School before election to Yamagata Prefectural Assembly. After three terms entered National Politics in 1986. Married with four children.

R14AAW

01-493 6030

EMBASSY OF JAPAN
46 GROSVENOR STREET
LONDON W1X 0BA

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3/5

3rd May 1988

Dear Prime Minister,

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. Margaret Thatcher, MP,
Prime Minister and First Lord of the Treasury,
10, Downing Street,
London,
SW1A 2AA

EMBASSY OF JAPAN
46 GROSVENOR STREET
LONDON W1X 0BA

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2 PS

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 gowing 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 throughts 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]

01-493 6030

EMBASSY OF JAPAN
46 GROSVENOR STREET
LONDON W1X 0BA

3rd May 1988

CDP
4/5.

Dear Mr. Powell,

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

C.D. Powell, Esq.,
Private Secretary to The Prime Minister,
(Overseas Affairs)
10, Downing Street,
London, SW1A 2AA

EMBASSY OF JAPAN
46 GROSVENOR STREET
LONDON W1X 0BA

01 499 6030

PRIME MINISTER

SPEECH AT DINNER FOR MR. TAKESHITA

I attach an amended version of the speech at the dinner for Mr. Takeshita which I have edited to take account of the amendments you proposed on the earlier version, and one or two minor comments from Departments. It seems to me to run well now.

Content?

CDP

3 May, 1988.

CONFIDENTIAL

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10 DOWNING STREET

LONDON SW1A 2AA

From the Private Secretary

2 May 1988

PRIME MINISTER'S MEETING WITH MR. TAKESHITA: WHISKY

The Prime Minister assumes that if the European Community fails to obtain full satisfaction from Japan on removal of all discrimination in the taxation of whisky and other spirits, then it will be entitled to take action in some area in order to secure compensation. This might for instance be additional duty on VCRs or something similar. The Prime Minister would like a form of words which she could use with Mr. Takeshita to describe this eventuality.

I am copying this letter to Robert Culshaw (Foreign and Commonwealth Office) and Trevor Woolley (Cabinet Office).

C. D. POWELL

Stephen Ratcliffe, Esq.,
Department of Trade and Industry.

CONFIDENTIAL

PRIME MINISTER

MEETING WITH MR. TAKESHITA

You will need to decide how you want to divide your meeting with Mr. Takeshita between the restricted and wider sessions. I suggest you do it as follows.

Restricted Session

You might take the points in the following order:

- congratulate him on his appointment and say that you very much look forward to enjoying an excellent working relationship. You are not a great believer in being diplomatic: you say what you mean. He should not interpret this as in any sense hostility but as a desire to get to the bottom of problems and overcome them;

- you might refer to his very wide experience as a Finance Minister and say that this bodes well for Japan's further integration into the world economy. He will bring a great deal of expertise in particular to Economic Summits;

- you might then go on to set out your broad view of the way ahead in Anglo-Japanese relations. We have a great respect for Japan's achievements both in industry and more recently in science. We very much welcome Japanese investment in this country, which has had excellent results for both of us. We are grateful for the steps taken to resolve some of our bilateral problems such as Cable and Wireless and the admission of four British firms to the Tokyo Stock Exchange. We acknowledge the efforts which Japan is making to deal with its persistent trade surplus, by expansion of domestic demand, by increasing imports and by allowing the yen to rise. This shows a very responsible attitude;

- we want to build on these positive aspects to establish a much broader relationship with Japan with the same political and economic substance as with our main European partners and the United States. While this may take some time, it is not an unrealistic goal to set;

- but we have to recognise frankly that there are still obstacles to be overcome. Some of these are inherent in the different structure and traditions of Japan, its attitude to the outside world and to the whole notion of buying from abroad, in contrast to the very open traditions of our own people who are accustomed to buying from all over the world. There are the continuing problems of Japan's distribution system. You recognise that these are not problems which are going to be solved overnight. But you would welcome Mr. Takeshita's assurance that he will continue the process of opening up and internationalising Japan. The basic needs are to increase Japanese consumers' propensity to import, and to promote more efficient markets (e.g. changing the current law on larger-scale retail outlets which is designed to protect small shop-keepers. This makes it harder for foreign companies to get into the Japanese market.) In the longer term that is essential to the fuller relationship which we want to enjoy with Japan;

- there are also short-term obstacles and here we really must get some early progress. You have in mind in particular the tax on whisky and the problem of seats in the Tokyo Stock Exchange;

- you have been dealing with the whisky problem with successive Japanese Prime Ministers for years and have always been promised that a solution will be found. The GATT has supported us. But still we are not being offered an adequate solution. There must be action to remove the discrimination against foreign whisky not just in relation to Japanese whisky but to other spirits such as shochu. You recognise that this will cause political

problems: but we have all had to face these with different industries and Japan cannot be an exception. It is a nettle which must be grasped and the GATT panel's recommendations implemented in full. That means a substantial reduction in the whisky/shochu differential straight away and a commitment to reduce it to de minimis level in a short time. Otherwise we shall be bound to seek countervailing action by the European Community or some form of compensation;

- on the question of seats on the Tokyo Stock Exchange, there is simply no way that people in this country will be convinced by the argument that it is impossible for British firms to have more seats because of space constraints. We are almost into the 21st century and in a highly technological age. It is bound to be seen as discrimination particularly when Japanese firms have been given every facility here. You recognise that Mr. Takeshita has been helpful in the past. But a further effort is needed. Unless there is progress, we simply shall not be able to go on being so helpful on issues of interest to Japanese firms in London;

- on both these issues you hope that he will give you a personal commitment to take adequate and satisfactory action.

Wider Session

In the wider meeting, you will want to begin by reporting on the restricted session so that a more extended circle of Japanese hear your views. There are then a number of other subjects to tackle:

- the Economic Summit. We shall want to see clear signs that the process of dealing with trade imbalances will continue and be taken further. Agriculture must be a major issue on which action to reduce support costs and

trade distortions is required by all countries. Otherwise the wider trading system will be poisoned by agricultural trade disputes. A device for measuring agricultural support would be useful (the Producer Subsidy Equivalent) and we shall want to see the Summit put its weight behind a constructive Uruguay Round mid-term meeting. We should also welcome Japan's support for the Chancellor's initiative on debt relief for sub-Saharan African countries;

- on the political agenda, you would expect the Summit to cover East-West relations, the Middle East and terrorism. You would be happy also to discuss Cambodia, Philippines, Korea and China (but not South Africa). The Summit could usefully make a statement supporting democracy in South Korea;

- Mr. Takeshita will welcome an account of your views on East-West relations, on developments in the Gulf and on the wider Middle East situation;

- on South Africa, you might point out to Mr. Takeshita the inconsistency between Japan's burgeoning trade with South Africa and its repeated vote at the UN for sanctions. We do not admire the way in which they hide behind us;

- you might welcome Japan's greatly expanded aid effort and say that we would like to discuss closer collaboration including joint financing of projects in Africa and Asia. Mr. Patten might follow this up when he visits Japan in July;

- finally it would be helpful to give a plug to the UK-Japan 2000 Group. It does very valuable work. You hope that he will hold to its effectiveness by nominating as members some people who are close to him.

C.D.?

Charles Powell

2 May 1988

If they don't implement GATT surely we are entitled to compensate? Could we put tax on Jap. video's & personal computers or disk cameras or other components for & other such things? Issues are within our jurisdiction. not

PRIME MINISTER

MEETING WITH MR. TAKESHITA

You are to see Mr. Takeshita for one and a half hours on Wednesday afternoon and give him dinner that evening. You will want the first part of the meeting to be very restricted but might like to enlarge it for the last half-an-hour. You might add the Foreign Secretary, our Ambassador and Sir Percy Cradock on our side.

It is not going to be an easy meeting. You don't particularly want to belabour Mr Takeshita at a first meeting: and the Japanese are emitting smoke signals in every direction to the effect that you should not press him too hard. In some major respects, Japan's performance on trade has improved. On the other hand, they are still not coming up to scratch on contentious items such as the tax on whisky and seats on the Tokyo Stock Exchange, and you will perforce need to raise these issues forcefully with him. Otherwise the Japanese will think they have called our bluff.

You may like to take a first look at the briefing over the weekend. You will recall the basic problem over whisky. The GATT panel has recommended that all whisky and competing spirits should be taxed in a non-discriminatory way. The Japanese have agreed in principle, but there are still a host of practical difficulties. While they are ready to reduce discrimination between various types of whisky, they are much more reluctant to act on other spirits, particularly their own shochu (which carries the lowest rate of tax of all). The reason is political difficulties. Japanese officials will be here for talks over the weekend and we shall not be able to decide our final position until we know the outcome of these.

There is a separate note on Tokyo Stock Exchange membership. Mr. Takeshita was quite helpful on this as Finance Minister. But the Japanese argue that physical constraints - the size of

the trading floor - makes it impossible to offer any more seats. This is patently absurd in a country where electronics are king and is an excuse for continuing a restrictive practice. You will need to make clear that unless there is progress on a seat for BZW, the Japanese must expect difficulties in making progress on issues of interest to their firms in London (in practice we shall just go slow on various applications).

CDP

C D POWELL
29 April 1988

Foreign and Commonwealth Office

London SW1A 2AH

29 April 1988

Dear Charles

29/4

The Prime Minister's Dinner with Mr Takeshita: Speech

You asked for suggestions on how the Prime Minister might refer to Mr Takeshita's book. The book is called "The Furusato Concept: Toward a Humanistic and Prosperous Japan". "Furusato" means native village - the place where you or your parents come from, where your ancestors have lived. You might like to use something from the suggestions below.

> Mr Takeshita, in your speech today at the Mansion House you have acknowledged Japan's cultural debt to Europe. We are proud of the British contribution to Japan's early modernisation. Today, the West increasingly looks to Japan as a source of new ideas. Prime Minister, you have personally contributed to this process. Your book, the "Furusato Concept", has enriched the English Language by giving us a new word to describe that special Japanese sense of pride in one's native place.
>
> Your ideas are remarkably similar to mine. You have written of "a vision of the Japanese people sure of their own identity, building a nation that provides a secure life and a solid basis for prosperity and happiness". This is my vision for Britain.
>
> You believe also that the "Furusato Concept" or pride in one's own identity is not an end in itself. Just as Britain has long been fully integrated into the world community so you advocate that the realisation of the "Furusato Concept" should be the first step towards the internationalisation of Japanese society and the way of thinking of the Japanese people. You say that this "will enable the Japanese to step out into the world and to bring the world to us". Prime Minister, we should be glad to be partners in this undertaking.

Furusato can be pronounced (as can all Japanese) as though it were Latin or Italian, giving equal weight to all syllables.

/A

A further thought has occurred to the Department since we sent you the draft speech. In referring to Britain's relations with modern Japan, it might be appropriate to recognise that Japan is a very different country from the Japan of previous centuries and is now firmly established as a leading world power.

Yours ever

(R N Culshaw)
Private Secretary

C D Powell Esq
10 Downing Street


29.IV.
FM°A

cc PC
BUP

Foreign and Commonwealth Office

London SW1A 2AH

29 April 1988

Dear Charles

Visit by the Japanese Prime Minister, Mr Takeshita

This letter, which incorporates the views of DTI, provides briefing for Mr Takeshita's call on the Prime Minister for talks from 4.30 to 6.00 on 4 May.

The Prime Minister has met Mr Takeshita briefly at economic summits, including the London Summit, when he was Finance Minister. He is more typically Japanese than Mr Nakasone and is less likely to make forthright statements. On the other hand he is a skillful operator in the Japanese political context, and may be better able to deliver on his promises. Notes on Mr Takeshita and the main members of his party are annexed. I also attach four scene-setting telegrams from Tokyo.

This is Mr Takeshita's second major visit abroad following his visit to Washington and Ottawa in January. His visits to Rome, London and Bonn (and later to Paris and Brussels) reflect an interest in closer consultation with Europe. The Japanese recognise that their economic power gives them an influence which calls for a pattern of international relations less exclusively focussed on the United States. It is in our interest to encourage the Japanese in this, and that they should see us as their principal interlocutor in Europe.

The most important bilateral problem is over taxes on whisky. In September 1987, the GATT panel report found that Japanese taxes discriminated against imported whisky. Specifically it recommended that the current grading system for whisky tax should be abolished and that all whisky and competing spirits should be taxed in a non-discriminatory way. Competing spirits include a range of Japanese whiskies and shochu (a white vodka-like spirit), which has the lowest rate of all spirits. The Japanese accepted adoption of the panel report by the GATT Council. They have announced that reform of liquor taxation will be incorporated in a larger tax reform package due to be put to the Diet later this year. We and the Commission have pressed them to implement the panel's recommendations in full, but have indicated that in the light of domestic difficulties (some small shochu producers will go out of business) we could accept some phasing on shochu provided there was a substantial reduction in the whisky/shochu differential in the first instance, and a commitment to reduce it to a "de minimis" level within a reasonable time.

Latest indications from Tokyo are that the Japanese will offer an apparently satisfactory deal on the taxation of whiskies; that we are still a long way apart on the whisky/shochu differential; and that there is still a question mark over taxation of other spirits. Final resolution of the problem will depend on the Japanese making firm and acceptable proposals to the EC. Further briefing will follow as necessary.

The Treasury and DTI will be providing advice separately on Tokyo Stock Exchange.

Discussion of the world economy will be closely bound up with the annual Economic Summit. The OECD Ministerial Council (18-19 May) should provide some pointers for Toronto. The world economy is showing a number of positive features: economic activity continues to expand fairly strongly and inflation remains low; current account imbalances are falling gradually, although they remain high. No fiscal policy measures are in prospect in the major countries over the next few months. Since Venice, Japan (unlike Germany) has achieved a high rate of growth of domestic demand which has had an appreciable effect on her current account surplus (the volume of Japan's exports fell last year while her imports of manufactured goods rose 27 per cent). But sustaining this will require microeconomic reforms, for which there is considerable scope in Japan. It may be more productive to stress the contribution that structural adjustment can make to growth (pointing to, in Japan's case, continued market opening, land and tax reform and perhaps the distribution system). Mr Takeshita has committed his government to the structural reforms proposed in the Maekawa Report.

The Prime Minister might make clear to Mr Takeshita her interest in noting at Toronto the need for progress in the GATT Round on agricultural reform, which the Japanese continue to insist is a matter for exporting countries only. We need to impress on them that action is required on all fronts and by all countries; this would contribute to reducing support costs and trade distortions; no country can be exempt if the trading system is not to be poisoned through agricultural trade disputes. The Prime Minister may also wish to emphasise the valuable role which a support measuring device (like the OECD's Producer Subsidy Equivalent) should play in the GATT negotiations on agriculture; the Japanese have in the past resisted this. Summit leaders should put their collective political weight behind the need for a constructive Uruguay Round mid-term meeting in Montreal this December. We would not want to rule out the possibility of concrete results in certain areas (eg GATT institutional issues) and a framework for further negotiations in others (eg agriculture, services).

/On

On debt we want the Japanese to support the Chancellor's initiative on debt relief. Discussions continue in the Paris Club. The Japanese have expressed interest at the OECD in the need for closer attention to be paid to the NICs. We believe they should be treated on an individual basis rather than as a group (not least to avoid difficulties over Hong Kong); but we agree with the Japanese on the need for a more balanced approach - a mixture of carrots as well as sticks to persuade them to integrate into the developed world economy.

Toronto political agenda: it is accepted that there should be a single political declaration. The principal topics are expected to be East-West, Middle East (both Arab-Israel and Iran-Iraq), and international terrorism. The Japanese have suggested discussion of Cambodia, Korea, the Philippines and China. The first fits into the East-West discussion; and support from the Summit leaders for democracy in Korea would be valuable. There is no obvious focus for a discussion on China, and we do not regard discussion of the Philippines as a high priority. We have made clear to the Canadians and others that we do not favour discussion of South Africa.

On East/West, the Japanese appreciate that their security is bound up with that of the West and have taken a particular interest in arms control. Mr Takeshita will doubtless welcome the Prime Minister's views on START; Japan is particularly concerned about SLCM's which are important to her security. Japan's relations with the Soviet Union are cool and are dominated by the dispute over the ownership of four islands (the Northern Territories) off the Northern coast of Japan.

75 per cent of Japan's oil comes from the Gulf. Domestic constraints have stopped Japan from sending minesweepers to the Gulf; but she has offered to contribute to Gulf security by paying for the installation of a sophisticated navigational system (Hyperfix) to be supplied by RACAL. Japan is likely to agree to an arms embargo resolution against Iran in due course (despite reluctance to damage her correct but cool relations with Iran).

Mr Takeshita may wish to discuss developments in Afghanistan. Japan has agreed in principle to provide a civilian for the UN Monitoring Force and to contribute US$5 million to its running costs. This will be the first time Japan has contributed to any UN force. Japan is likely to be a major source of reconstruction aid; we have cautioned them against channelling this through the PDPA regime in Kabul.

/Japan

Japan is now South Africa's biggest trading partner (as a result of reduction in US trade and yen appreciation). In spite of this they continue to vote for sanctions in the belief that they can hide behind the US and the UK. The Prime Minister might seek Japanese support both in resisting calls for sanctions and in helping the Front Line States.

In bilateral relations, there are a number of positive developments to counterbalance the problems. The Cable & Wireless issue was satisfactorily resolved last year. Our exports to Japan have risen 50 per cent in the last two years and are now worth £1.5 bn annually and still rising. The "opportunity Japan" campaign has been launched to encourage UK business to take a fresh look at the opportunities now opening up in the Japanese market. The trade gap with Japan remains substantial (their exports are £5.5 billion), but we have a substantial surplus in invisibles - at least £0.5 billion, probably more: Japanese investment in the UK is a success story too. Over 80 firms, around £1.5 bn, over 24,000 jobs and a beneficial impact on component suppliers and management. Japanese firms on the whole have found UK a more profitable and satisfactory location than other European countries. Some companies (eg Nissan and Canon) are beginning to locate design and research in the UK.

In absolute terms Japan has one of the largest and fastest growing aid programmes. We wish to see it used to complement our own political and economic interests. The Prime Minister maay wish to welcome the recycling of Jaapanese surpluses not tied to Japanese exports; emphasise the need for aid being part of a common effort, not a source of commercial friction; stress the importance of economic policy reform; suggest closer collaboration, including the joint financing of projects in Africa and Asia; and suggest that Mr Patten follows this up during his proposed visit to Tokyo in July.

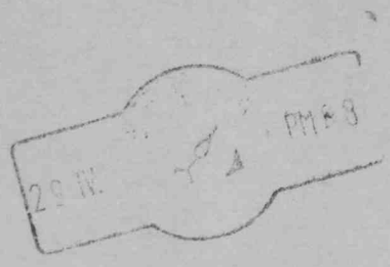
Finally, the Prime Minister might underline the importance we attach to the UK-Japan 2000 Group, and the value of the informal links between prominent individuals in the private sector which the Group fosters: Mr Takeshita could add to the Group's dynamism by replacing some of the less active Japanese members by people who are close to him.

Yours ever

Richard (Culshaw)

(R N Culshaw)
Private Secretary

C D Powell Esq
10 Downing Street



ICHIRO OZAWA: DEPUTY CHIEF CABINET SECRETARY
(SINCE NOVEMBER 1987)

Born 1942

Studied Economics at Keio University and Law at
University

Member of the Diet for Iwate Prefecture (an agricultural region north of Tokyo) since 1969: formerly Parliamentary Vice-Minister for Construction, and for Science and Technology. Minister for Home Affairs 1985-87

One of Takeshita's closest political collaborators; used by the Prime Minister as a trouble-shooter. A potential successor to Takeshita as faction leader and so a possible future Prime Minister. Related by marriage to Takeshita. Three children. Little English.

R14AAU

Charles Powell

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cc PC

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CDP 29/4.

From the Secretary of the Cabinet and Head of the Home Civil Service

Sir Robin Butler KCB CVO

Ref. A088/1338

28 April 1988

Dear Geoff,

Mr Ezawa, the Minister (Financial) at the Japanese Embassy called on me this afternoon. He said that there were two particular economic issues which might arise in discussions between Mr Takeshita and the Prime Minister at the Summit next week: whisky and access to the Tokyo Stock Exchange (TSE). The Japanese position on the former would be explained to Lord Young tomorrow by Mr Ozuki, the Director General of the Japanese Tax Bureau. Mr Ezawa wished to speak about the TSE. He stressed, however, that he was doing so in a personal and very informal capacity, at the request of Mr Ogawa, Mr Takeshita's Private Secretary.

Mr Ezawa rehearsed recent events, in particular the decisions to enlarge the TSE, first in 1985 and then in 1987, in which Mr Takeshita had played a leading part and by which British interests had been well served. He described the difficulties of any further expansion of the Exchange while the 1987 decision was still being implemented. He also stressed that when that decision had been taken, the allocation of new seats to foreign companies was on the basis of criteria (financial position and experience in Tokyo) and BZW had not satisfied the latter. The Japanese Government had made it clear that if BZW wished to have early access to the TSE, there would be no objection if it was achieved by a private acquisition or merger deal but given that Japan operated a "free enterprise system" and that the TSE, being "an independent and membership organisation", could not be directed, that was as flexible a position as they could take.

Mr Takeshita, he said, was very keen that his first summit meeting with the Prime Minister should be a success, and should not be marred by "thorny words" which might bring about "sore relations". In the light of the considerations which he had outlined he therefore hoped very much that the Prime Minister could be prevailed upon not to press Mr Takeshita on this question.

/I made clear to

Sir Geoffrey Littler KCB

I made clear to Mr Ezawa that the Prime Minister also attached great importance to her talks with Mr Takeshita being successful. But her style was to speak frankly where issues arose; and access for BZW to the TSE, as a manifestation of the wider question of British access to Japanese markets generally was an important political issue for us, and particularly so when access to the British Stock Exchange was so open. The general subject of British access to Japanese markets was bound to feature prominently in the talks and I did not see how this particular issue could fail to come up under that heading.

In further discussion Mr Ezawa stressed that Mr Takeshita considers that he personally, in his former capacity as Finance Minister, was responsible for achieving the expansion of the TSE to allow in foreign, and particularly British, companies. His officials clearly consider that he takes pride in this, and expect him to be very sensitive, particularly if his achievement is not recognised and seen to be appreciated. I said that I would make sure that the Prime Minister was aware of this, but that there would be no point in bilateral meetings of this sort if important political matters could not be raised between friends. The important point was for both sides to face such problems and try constructively to find a solution. If we could do so it would be a great help but the success or failure of the talks would not be determined by this issue alone.

I am copying this letter to Patrick Wright, Brian Hayes and Charles Powell.

Yours ever,

Robin.

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MIPT: JAPANESE ECONOMIC POLICY: HOW WELL DONE?

SUMMARY

1. JAPAN IS GAINING CREDIT FROM HER PARTNERS FOR HER MACROECONOMIC POLICIES. TAKESHITA ARTICULATING JAPAN'S ROLE AS A CONTRIBUTOR TO THE FREE WORLD ECONOMY. THE PROBLEM OF THE SURPLUSES IS HOWEVER LIKELY TO REMAIN A STUBBORN ONE, UNLESS JAPAN IS PERSUADED TO DO STILL MORE, PROSPERITY IS CHANGING ATTITUDES AND GIVING JAPAN MORE INFLUENCE, ESPECIALLY IN THE ASIAN REGION.

DETAIL
2. THE STRENGTH OF THE JAPANESE ECONOMIC PERFORMANCE IN 1987, AND THE EVIDENCE OF STRUCTURAL CHANGES BEGINNING TO SHOW IN HER TRADE FIGURES CONTRIBUTED IN NOW SMALL WAY TO THE RECOVERY OF WORLD MARKETS AFTER THE OCTOBER CRASH.THIS HAS EVOKED POSITIVE COMMENT FROM JAPAN'S G7 AND OECD PARTNERS, AND PUSHED THE SPOTLIGHT MORE ON TO THE FUNDAMENTAL PROBLEMS IN THE AMERICAN ECONOMY, AND TO SOME EXTENT THE TRADE IMBALANCES OF THE NICS. THIS RESPITE HAS ENABLED THE JAPANESE TO REFORMULATE THEIR EXTERNAL ECONOMIC POLICIES IN MORE POSITIVE TERSMS . UNDER NAKASONE, THE EMPHASIS WAS ON REDUCING EMBARRASSING SURPLUSES AND IMPROVING MARKET ACCESS, WITH ''INTERNATIONAL HARMONY'' AND INTERDEPENDENCE AS THE RATIONALE FOR HAVING SIMETIMES TO MAKE UNPALATABLE DECISIONS. TAKESHITA HAS CHARACTERISTICALLY ADOPTED THE MORE SOFT-FOCUS CATCH PHRASE OF ''A JAPAN WHICH CONTRIBUTES TO THE WORLD'' TO CHARACTERISE JAPAN'S POLICIES. THIS SLOGAN IMPLIES BOTH THAT JAPAN, HAVING BECOME A LEADING ECONOMIC POWER, SHOULD SOMEHOW REPAY ITS DEBT TO THE FREE WORLD AND THE OPEN TRADING SYSTEM, AND ALSO THAT HER CONTRIBUTION IS ALREADY A SUBSTANTIAL ONE.

3. THE KEY ELEMENTS IN THIS POLICY ARE:
(A) MAINTAINING STRONG DOMESTIC DEMAND.

THIS IS DEEMED NECESSARY FOR STRUCTURAL ADJUSTMENT TO CONTINUE

WITHOUT FRICTION. A 5-YEAR PLAN TO BE ADOPTED IN MAY PROJECTS THAT DOMESTIC DEMAND WILL BE MAINTAINED AT THE CONSTANT LEVEL OF FOUR AND A QUARTER PERCENT IN REAL TERMS, WITH A REAL AVERAGE GNP GROWTH RATE OF THREE AND THREE QUARTER PERCENT. PRIVATE SECOTR DEVELOPMENT IS EXPECTED TO PLAY THE LEADING ROLE, WITH PUBLIC EXPENDITURE CONCENTRATED ON SOCIAL INFRASTRUCTURE. GROWTH IN IMPORTS AND STABILISATION OF EXPORTS ARE EXPECTED TO ENSURE A NEGATIVE CONTRIBUTION TO GROWTH OF 0.5% FROM THE EXTERNAL SECHOR THROUGH THE PERIOD. THE CURRENT ACCOUNT SURPLUS WILL BE REDUCED TO AN ''INTERNATIONALLY SUSTAINABLE LEVEL BY 1992'' THIS IS NOT SPECIFIED BUT INTENDED TO BE OF THE ORDER OF 1.5% OF GNP, WHICH AT CURRENT EXCHANGE RATES AND PROJECTED GROWTH WOULD BE DOLLARS 53 BILLION. THE PLAN ALSO PROPOSES FURTHER MEASURES TO DEREGULATE MARKETS, INCLUDING CHANGES IN THE DISTRIBUTION AND FOOD CONTROL SYSTEMS, AND THE REDUCTION OF WORKING HOURS.

(B) OVERSEAS INVESTMENT

JAPAN'S ABSORPTION OF AMERICAN DEBT HELPS TO STABILISE THE WORLD ECONOMY. JAPANESE OVERSEAS DIRECT INVESTMENT RAN AT THE RATE OF DOLLARS 30 BILLION IN 1987, OF WHICH A QUARTER WAS IN MANUFACTURING, AND 20% WENT TO EUROPE. RESEARCH AND DEVELOPEMENT IS INCREASINGLY BEING DONE IN THE MARKETS. THIS PRODUCT SUBSTITUTES FOR DIRECT EXPORTS AND, FROM THE UNITED STATES AND SOUTH EAST ASIA, IS BEGINNING TO BE EXPORTED BACK TO JAPAN. THIS ACTIVITY BRINGS TECHNOLOGY, MANAGEMENT, SKILLS AND JOBS TO THE COUNTRIES CONCERNED.

(C) RECYCLING OF YEN SURPLUSES AND ODA.

JAPAN IS IMPLEMENTING PLANS TO RECYLCE DOLLARS 30 BILLION LARGELY THROUGH THE INTERNATIONAL FINANCIAL INSTITUTIONS IN UNTIED LOANS TO DEVELOPED COUNTRIES, A DOLLARS 500 MILLIONPROGRAMME OF GRANTS FOR AFRICA, AND THE DOUBLING O ITS ORIGINAL PLANS FOR ODA TO ACHIEVE A TOTAL OF DOLLARS40 BILLION OVER 1986/90. JAPAN MAY OVERTAKE THE UNITED STATES AS THE LARGEST DONOR IN DOLLAR TERMS WITHIN THREE YEARS. THE GOVERNMENT IS NOW CONSIDERING HOW TO MEET CRITICISM OF ITS LOW GRANT ELEMENT AND LOW (0.3) CONTRIBUTION IN PERCENTAGE OF GNP TERMS AND MAY ANNOUNCE IMPROVEMENTS AT THE SUMMIT. THESE POLICIES FIT WITHIN A BROADER MORE POLITICAL CONCEPT OF JAPAN'S ROLE IN THE WORLD WHICH TAKESHITA IS LIKELY TO ELABORATE IN HIS SPEECH AT THE MANSION HOUSE ON 4 MAY.

4. IT IS RIGHT THAT JAPAN BE GIVEN CREDIT FOR WHAT SHE HAS DONE SO FAR. IT IS ALSO TRUE THAT WITHOUT MEASURES TO BRING ABOUT A BETTER BALANCE OF SAVINGS AND CONSUMPTION IN THE US ECONOMY, JAPAN'S TRADE

SURPLUS WILL BE THAT MUCH HARDER TO REDUCE. NONETHELESS IT IS TOO SOON TO SUGGEST JAPAN HAS DONE ALL SHE CAN. SOME CURRENT ASSUMPTIONS MAY PROVE OVER OPTIMISTIC, AND INTERNATIONAL PRESSURE NEEDS TO BE MAINTAINED ON THE ISSUES OF TRADE IMBALANCES AND MARKET ACCESS. THE FOLLOWING QUESTIONS ARE I BELIEVE RELEVANT.

I) HOW REALISTIC IS THE TARGET? THE SPEED OF REDUCTION OF THE SURPLUS ENVISAGED AS A PERCENTAGE OF GNP IS FASTER THAN ITS DOLLAR-DENOMINATED DECREASE BUT IS THE (UNSTATED) TARGET OF GRADUAL REDUCTION TO DOLLARS 53 BILLION IN 1992 ''INTERNATIONALLY SUSTAINABLE''? THE ANSWER WILL OF COURSE DEPEND ON MANY UNKNOWN FACTORSZN PRINCIPALLY IN US POLITICS, BUT IS IT SA SAFE STARTING POINT?

II) HOW PERMANENT ARE THE STRUCTURAL CHANGES WE HAVE SEEN SO FAR? WHAT WILL THE GOVERNMENT DO IF THE FIGURES START TO MOVE THE WRONG WAY AGAIN, AS THE LATEST EXPORT FIGURES SUGGEST COULD HAPPEN. THE UNDERLYING STRENGTH OF JAPAN'S HIGH-TECH MANUFACTURING INDUSTRIES - WHICH ARE ALSO ITS MAIN EXPORTERS - HAVE NOT BEEN AFFECTED BY YEN APPRECIATION. THE INCREASE IN DOMESTIC DEMAND HAS FOR THE PRESENT REDUCED THE SHARES OF PRODUCTION OF MAJOR COMPANIES GOING TO EXPORT, AND ENCOURAGED 8=34'8%8:-589, 8, 59 ,9,-EXPORT ACTIVITIES, BUT SO FAR ONLY TO A MINOR DEGREE. WERE THE LEVEL OF DOMESTIC BEMAND TO FALL, THEY MIGHT WELL REVERT TO CONCENTRATING ON EXPORTS.

III) WHAT MORE CAN BE DONE TO STIMULATE IMPORTS? BECAUSE OF THE DANGERS ABOVE IT IS EVEN MORE ESSENTIAL TO INCREASE JAPANESE CONSUMERS' PROPENSITY TO IMPORT AND TO PROMOTE MORE EFFICIENT MARKETS (MY TELNO 451). THE MAJOR AREA REMAINING FOR LIBERALISATION IS AGRICULTURE, WHERE THE AMERICANS AND AUSTRALIANS ARE THE MAIN INTERESTED PARTIES. (THE EUROPEAN INTEREST IS IN PROCESSED PRODUCE). THIS ISSUE WILL BE MUCH ON TAKESHITA'S MIND BECAUSE OF CURRENT NEGOTIATIONS WITH THE AMERICANS.

5. BROADER TRENDS. TWO TRENDS SEEM PARTICULARLY RELEVANT TO OUR EFFORTS TO ESTABLISH A BROADER MORE COOPERATIVE RELATIONSHIP BETWEEN EUROPE AND JAPAN. FIRSTLY, THE MAJOR CHANGE IN THE EXCHANGE RATE OF THE YEN HAS BEGUN TO RAISE JAPANESE EXPECTATIONS OF THEIR LIVING STANDARDS, AND HAS CONTRIBUTED TO A GROWING SENSE OF THEIR OWN POWER IN THE WORLD. ALTHOUGH IN MANY RESPECTS THE QUALITY OF LIFE HERE STILL LAGS BEHIND THAT IN EUROPE, LIVING STANDARDS ARE RISING RAPIDLY. SO ALSO IS THE COMPETITIVE POSITION OF JAPAN IN HIGH TECHNOLOGY. HER INCREASE IN INVESTMENTS OVERSEAS MEANS SHE WILL HAVE WIDER INTERESTS. ALL THESE FACTORS ARE ALREADY CHANGING ATTITUDES. SECONDLY, JAPAN'S POLITICAL TIES ARE PRIMARILY WITH THE UNITED STATES, BUT HER ECONOMIC TIES WITH ASIA ARE INCREASING FAST.

JAPAN WISHES TO SEE THE DEVELOPMENT OF THE PACIFIC RIM FROM KOREA TO AUSTRALIA AS A SERIES OF INTEGRATED MARKET ECONOMIES IN WHICH JAPANESE CAPITAL AND TECHNOLOGY PLAY A LEADING ROLE. IT IS IN OUR STRONG SELF INTEREST TO INCREASE THE EUROPEAN STAKE IN THIS GROWING REGION.

6. FCO PASS SAVING OTTAWA, ROME

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MR TAKESHITA'S VISIT TO LONDON: THE JAPANESE ECONOMY

SUMMARY

1. THE ECONOMY HAS COPIED WELL WITH YEN APPRECIATION. RESILIENCE OF THE PRIVATE SECTOR, AIDED BY FISCAL POLICY, HAS BROUGHT ABOUT STRONG GROWTH IN DOMESTIC DEMAND. FAVOURABLE CHANGES IN THE TRADE BALANCE IN 1987, BUT SOME SIGNS OF EXPORTS RECOVERING IN 1988. GOVERNMENT MAINTAINING A MILDLY EXPANSIONARY FISCAL STANCE, WHILE CONCENTRATING ON LONG TERM TAX REFORM.

DETAIL

2. HAVING ABSORBED THE INITIAL DEFLATIONARY EFFECTS OF THEYEN'S VIRTUAL DOUBLING IN VALUE AGAINST THE DOLLAR BETWEEN SEPTEMBER 1985 AND MID-1987, THE JAPANESE ECONOMY IS NOW BOOMING. INTERNATIONAL PRESSURE AND DOMESTIC CONCERN ABOUT IMPACT OF YEN APPRECIATION CAUSED THE GOVERNEMTN TO SWITCH FROM A POLICY OF FISCAL AUSTERITY TO ONE OF RELATIVE EXPANSION IN MID-1987, BUT IT IS NOW EVIDENT THAT THIS COINCIDED WITH AN AUTONOMOUS RECOVERY IN THE ECONOMY. AS A RESULT, DOMESTIC DEMAND GREW BY AS MUCH AS 5%, (WITH REAL GNP GROWTH OF 4.2%) IN FY 1987. THE RESILIENCE OF THE PRIVATESECTOR WAS PRIMARILY RESPONSIBLE FOR THIS RAPID RECOVERY. INDUSTRY GENERALLY WAS NOT SHIELDED FROM THE CHANGE IN EXCHANGE RATES. IN THE MANUFACTURING SECTOR, PREVIOUS LIQUIDITY, RISING LAND AND STOCK VALUES, EASY MONEY AND WAGE STABILITY HELPED THEIR ADJUSTMENT LAST YEAR. MORE IMPORTED INPUTS (MANY FROM THEIR OWN SUBSIDIARIES), HAVE ALSO OFFSET THE SQUEEZE ON EXPORT PRICES.LEADING EXPORT COMPANIES HAVE REDUCED THEIR FIXED COSTS, INCREASED R AND D EXPENDITURE,SHIFTED TOWARDS HIGHER VALUE ADDED PRODUCTS, DEVELOPED NEW BUSINESSES, AND ADJUSTED PRODUCTION AND PRICING TO BENEFIT FROM THE CONSUME LED RISE IN DOMESTIC DEMAND. CAPITAL INVESTMENT IN THE MANUFACTURING SECTOR, INCLUDING THE EXPORT INDUSTRIES, HAS RECOVERED STRONGLY SINCE 1987, AND PROFITS ARE RETURING TO HIGH LEVELS. ALTHOUGH IT HAS BEEN TOUGH IN SOME DECLINING SECTORS AND IN THE SUPPORTING SUB-CONTRACTING SECTOR THE ECONOMY AS A AWHOLE REMAINS VERY HEALTHY AT YEN 125 TO THE DOLLAR.

3. THESE CHANGES BROUGHT ABOUT IMPROVEMENTS IN THE TRADE BALANCE IN 1987. IMPORTS INCREASED RAPIDLY, UP 50% FROM THE ASIAN NICS, 26% FROM THE EC, BUT ONLY 8% FROM THE US. MANUFACTURED IMPORTS, EXCLUDING GOLD, ROSE BY 36%. THE TRADE SURPLUS FELL BY 15.3% FROM DOLLARS 90BN IN FY 1986 TO DOLLARS 76BN IN FY 1987. BUT IN YEN TERMS IT FELL BY 26.4% AND AS A PERCENTAGE OF GNP, FROM 4.5% IN FY 1986 TO 3.3% IN FY 1987. IT IS FORECAST TO FALL A FURTHER DOLLARS 10 BILLION IN FY 1988 TO A LEVEL OF AROUND 2.6% OF GNP.

4. RECENT EVIDENCE SUGGESTS HOWEVER THAT EXPORTS MAY BE BEGINNING TO GROW AGAIN BECAUSE OF THE SUCCESS OF EXPORT COMPANIES IN SHIFTING TO HIGHER VALUE-ADDED, LESS PRINCE-SENSITIVE PRODUCTS, FOR WHICH DEMAND, INCLUDING IN THE US, REMAINS STRONG. IN MARCH, COMPUTER EXPORTS WERE UP 31%, AND FACSIMILES 40% OVER MARCH 1987, WHILE THE FALL IN EXPORT VOLUMES OF DOMESTIC ELECTRICAL GOODS AND CARS APPEAR TO HAVE BEEN ARRESTED. GLOBAL EXPORT VOLUMES IN FEBRUARY AND MARCH WERE UP 4.2% AND 3% RESPECTIVELY, WITH EXPORTS TO EUROPE AND SOUTH EAST ASIA PARTICULARLY STRONG. THE SEASONALLY ADJUSTED TRADE SURPLUS FOR JANUARY/MARCH WAS DOLLARS 20.8 BILLION, COMPARED WITH DOLLARS 18.3 BILLION IN THE PREVIOUS QUARTER. THESE TRENDS NEED TO BE WATECHED CAREFULLY.

5. THE GOVERNMENT FORECASTS REAL GNP GROWT OF 3.75% IN FY 1988 (WITH A 4.25 INCREASE IN DOMESTIC DEMAND). FOR THE TIME BEING, THEREFORE, IT SEES NO NEED FOR FURTHER FISCAL MEASURES AND THE BUDGET FOR FY 1988 BROADLY CONTINUES THE SAME POLICY STANCE AS IN 1987. IF, AS SOME PREDICT, GROWTH SLACKENS TOWARDS THE END OF THIS YEAR OR IN 1989
,
TAX CUTS OF AROUND YEN 3 BILLION, WHICH ARE LIKELY TO ACCOMPANY A WIDER-RANGING TAX REFORM THIS AUTUMN, COULD PROVIDE THE GOVERNMENT WITH THE OPPORTUNITY FOR A FURTHER FISCAL STIMULUS IF NECESSARY.

6. IT IS THE TAX REFORM ISSUE WHICH NOW DOMINATES THE ECONOMIC POLICY DEBATE, AND MAY DETERMINE WHETHER TAKESHITA IS A ONE OR TWO TERM PRIME MINISTER. IN THIS, THE GOVERNMENT'S AIM TO STRENGTHEN ITS REVENUE BASE BY INTRODUCING A NEW INDIRECT TAX IN ORDE R TO MEET THE INCREASED WELFARE COSTS OF AN AGEING SOCIETY, AND TO ELIMINATE DEFICIT FINANCING BY 1990, WHILE DECREASING THE BURDEN OF DIRECT INCOME AND CORPORATION TAXES. THE FORM OF INDIRECT TAX TO BE ADOPTED REMAINS SENSITIVE WITH THE SMALL BUSINESS WHO SUPPORT THE GOVERNMENT, BUT A PACKAGE ALSO INCLUDING REFORM OF INHERITANCE, COMMODITY, LIQUOR TAXES AND A NEW CAPITAL GAINS TAX IS LIKELY TO GO THE DIET IN JULY FOR PASSAGE IN THE AUTUMN. IT IMPACT ON THE

ECONOMY IS EXPECTED TO BE NEUTRAL. SEE MIFT

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MIPT: MR TAKESHITA'S VISIT: UNFINISHED BUSINESS

SUMMARY

1. THERE HAS BEEN MUCH PROGRESS IN OUR BILATERAL ECONOMIC RELATIONS OVER THE LAST YEAR: A 25 PER CENT INCREASE IN UK EXPORTS TO JAPAN, THE RESOLUTION OF THE CABLE AND WIRELESS PROBLEM, THE ADMISSION OF FOUR MORE COMPANIES TO THE TOKYO STOCK EXCHANGE, AND A LARGE NUMBER OF NEW MANUFACTURING INVESTMENTS IN THE UK. THE JAPANESE ARE WELL AWARE OF OUR CONCERN ABOUT STILL UNRESOLVED ISSUES. THE MEETING OF PRIME MINISTERS PROVIDES A GOOD OPPORTUNITY:
A. TO MAKE IT UNEQUIVOCALLY CLEAR WHAT WE WANT ON WHISKY . THE JAPANESE HAVE CONSISTENTLY SAID THAT FINAL DECISIONS WILL BE MADE BEFORE THE END OF MAY,
B. TO EXERT PRESSURE FOR SEATS ON THE TOKYO STOCK EXCHANGE FOR BARCLAYS DE ZOETE WEDD (BZW) AND JAMES CAPEL, AND IN PARTICULAR TO MAKE IT CLEAR TO THE JAPANESE THAT THIS IS UNFINISHED BUSINESS BETWEEN GOVERNMENTS. FAILURE TO RESPOND ON THIS ISSUE WILL MEAN DELAYS IN PROCESSING JAPANESE APPLICATIONS FOR LICENCES FOR THEIR SECURITY HOUSES AND BANKS,
C. TO PRESS FOR ALL POSSIBLE STEPS TO BE TAKEN BY THE JAPANESE TO ACCELERATE THE INCREASE IN IMPORTS FROM BRITAIN. WE WOULD HOPE FOR A POLITICAL LEAD ON THIS, PERHAPS FROM MR TAKESHITA HIMSELF: FURTHER GOVERNMENT ACTION TO CLEAR AWAY THE NOW VERY FEW ADMINISTRATIVE BARRIERS TO OUR EXPORTS: AND ACTION ON AT LEAST ONE SPECIFIEC ASPECT OF THE DISTRIBUTION SYSTEM.

DETAIL

2. MR TAKESHITA WILL BE WELL BRIEFED AT LEAST ON WHISKY AND THE STOCK EXCHANGE PROBLEMS AND I SUGGEST THAT THE MORE SPECIFIC THE CONVERSATION, THE MORE LIKELY IT WILL BE TO PRODUCE RESULTS. IF TAKESHITA HAS SPECIFIC RESPONSES PREPARED THERE WILL BE NO DIFFICULTY. IF HIS ANSWERS ARE IN GENERAL TERMS IT WILL BE IMPORTANT TO ENSURE THAT HE HAS A SPECIFIC PROPOSITION TO CONSIDER. AN UNDERTAKING FROM HIM TO MAKE HIS BEST EFFORTS OR STUDY THE REQUEST SHOULD THEN BE SUFFICIENT, SINCE ON BOTH ISSUES HE WILL HAVE TO CONSULT WITH OTHERS BEFORE THE GOVERNMENT CAN FINALLY RESPOND. HE

WILL BE CONSCIOUS OF HIS FURTHER MEETING WITH THE PRIME MINISTER IN TORONTO.

ALCOHOLIC BEVERAGES

3. THE PRIME MINISTER HAS MADE IT CLEAR THAT WE WANT TO SOLVE THIS PROBLEM QUICKLY. A SENIOR JAPANESE MINISTRY OF FINANCE OFFICIAL WILL MEET THE EC COMMISSION AND LORD YOUNG ON 28/29 APRIL AND THE FINAL BRIEF FOR THE PRIME MINISTER WILL HAVE TO BE PREPARED AFTER THOSE MEETINGS. THE KEY POINT FOR US AT THE OUTSET OF THIS DISPUTE, NAMELY THE ABOLITION OF THE GRADING SYSTEM AND INTRODUCTION OF A SINGLE TAX RATE FOR ALL WHISKY (IMPORTED AND DOMESTIC) HAS ALREADY BEEN ACCEPTED BY THE JAPANESE. THE OUTSTANDING ISSUES CONCERN THE RELATIONSHIP BETWEEN TAX RATES ON COMPETITIVE SPIRITS, NOTABLY WHISKY AND THE LOCAL VODKA-LIKE PRODUCT, SHOCHU. HERE THE KEY QUESTIONS WILL BE HOW MUCH THE JAPANESE WILL BE PREPARED TO REDUCE THE DIFFERENTIALS BETWEEN THE RELEVANT TAX RATES (BOTH BY REDUCING THE TAX ON WHISKY AND RAISING THAT ON SHOCHU) AND WHETHER IN RETURN FOR A MAJOR FIRST STEP THE COMMUNITY WILL BE PREPARED TO COMPROMISE ON ITS DEMAND FOR SOMETHING VERY CLOSE TO AN EVENTUAL SINGLE RATE OF TAX ON ALL SPIRITS. I HOPE THAT THE PRIME MINISTER MAY BE ABLE, ON THE BASIS OF A COORDINATED EC POSITION AND HAVING HEARD WHAT MR TAKESHITA HAS TO SAY, TO ADVANCE A SPECIFIC PROPOSAL WHICH, IF ACCEPTED BY THE LDP ON TAKESHITA'S RETURN, WOULD ENABLE BOTH SIDES TO SETTLE THE ISSUE. IF TAKESHITA DECLINES THIS AND HIS OFFER IS CLEARLY UNACCEPTABLE, WE SHOULD BE PREPARED TO BE VERY FIRM INDEED, AND STATE OUR INTENTION TO REVERT TO THE ISSUE AT THE TORONTO SUMMIT. UNDER THAT PRESSURE, TAKESHITA MIGHT WELL STILL ACCEPT OUR PROPOSAL AT A LATER STAGE.

4. TAKESHITA HAS RECOGNISED THAT THIS IS A PROBLEM WHICH IN THE FINAL ANALYSIS ONLY HE HIMSELF CAN SOLVE. HIS PROBLEMS IN DOING SO ARE THE STRONGLY ENTRENCHED OPPOSITION IN THE LDP TO MOVES WHICH WOULD SIGNIFICANTLY RAISE THE TAX RATE ON SHOCHU, THE FACT THAT THOSE WITH WHOM HE IS NOW ARGUING ARE ESSENTIALLY ALLIES OF HIS IN PILOTING THROUGH A MUCH BROADER TAX REFORM PACKAGE IN THE NEXT FEW MONTHS ON WHICH HIS GOVERNMENT MAY STAND OR FALL (AND ON WHICH NAKASONE AND OHIRA ALMOST CAME TO GRIEF BEFORE HIM), AND THE PROSPECT OF BANKRUPTCIES AMONG SOME SHOCHU MANUFACTURERS.

TOKYO STOCK EXCHANGE

5. BZW AND JAMES CAPEL ARE ALREADY OPERATING WITH SECURITIES BRANCH LICENCES HERE BUT SUFFER SUBSTANTIAL COMPETITIVE

DISADVANTAGES BY COMPARISON WITH THOSE FIRMS ALREADY WITH SEATS ON THE TOKYO STOCK EXCHANGE. THERE ARE THEREFORE THREE POINTS THAT COULD USEFULLY BE PUT BY THE PRIME MINISTER:
A. WE ARE NOT PREPARED TO ACQUIESCE IN THE TWO OUTSTANDING BRITISH CANDIDATES BEING KEPT WAITING FOR TOKYO STOCK EXCHANGE SEATS INDEFINATELY. WE EXPECT A SOLUTION WITHIN THE NEXT 12 MONTHS, BY WHICH TIME THEIR MORE FORTUNATE COMPETITORS WILL HAVE A YEAR'S HEADSTART,
B. HOW THIS CAN BE ARRANGED ON TERMS BROADLY EQUIVALENT TO BZW AND JAMES CAPEL'S COMPETITORS IS UP TO THE JAPANESE AUTHORITIES. IF THEY THINK THAT A SIDE ENTRANCE CAN BE EFFECTED BY A JAPANESE SECURITY HOUSE FINDING AN OPENING FOR THEM (TAKESHITA HAS TALKED TO THE HEAD OF NOMURA ABOUT THIS PERSONALLY, BUT WE DO NOT KNOW WHAT HAS TRANSPIRED) WE WOULD BE CONTENT. BUT WE SEE THIS MATTER AS FIRMLY ONE BETWEEN GOVERNMENTS AND SHALL LOOK TO THE JAPANESE TO DEVISE A SATISFACTORY METHOD,
C. TO THE EXTENT THAT THIS IS NOT POSSIBLE, WE SHALL FIND IT DIFFICULT TO AGREE TO NOMURA AND DAIWA BECOMING GILT EDGED MARKET TRADERS, AND TO APPLICATIONS FROM JAPANESE REGIONAL BANKS FOR BANKING LICENCES.

THE TRADE BALANCE

6. LAST YEAR OUR EXPORTS TO JAPAN INCREASED BY 25%, OUR IMPORTS FROM JAPAN BY ONLY 10%, AND THE RESULTING INCREASE IN THE IMBALANCE OF POUNDS 212 MILLION WAS THE SMALLEST FOR MANY YEARS. THIS REFLECTS BOTH THE EFFORTS OF BRITISH EXPORTERS AND INCREASED OPPORTUNITIES IN JAPAN. OUR IMPORTS FROM JAPAN NOW INCLUDE A CONSIDERABLE AMOUNT OF MACHINERY AND PARTS FOR JAPANESE MANUFACTURING OPERATIONS IN THE UK, AND OUR EXPORT FIGURES DO NOT INCLUDE GROWING SALES TO JAPANESE COMPANIES DOING BUSINESS IN THIRD COUNTRIES. THE PRIME MINISTER MIGHT THEREFORE SUGGEST THESE POSITIVE TRENDS IN OUR TRADE AND INVESTMENT SHOULD BE CONTINUED AND ACCELERATED. THE SOLUTION NOW LIES MORE IN GENERAL MEASURES TO SUSTAIN DEMAND AND INCREASE THE EFFICIENCY OF THE MARKETPLACE IN JAPAN THAN IN SPECIFIC MARKET-OPENING MEASURES. WITH THE EXCEPTION OF THOSE AREAS WHICH THE COMMUNITY IS ALREADY PURSUING (ALCOHOLIC BEVERAGES, TAX ON MOTOR VEHICLES, THE TARIFF ON DAIRY PRODUCTS), THERE ARE NOW FEW SERIOUS IMPEDIMENTS TO THE ENTRY OF CONSUMER AND CAPITAL GOODS. FOR MOST COMPANIES THE DIFFICULTIES ARE THE COMMITMENT AND COST REQUIRED TO ESTABLISH ONE'S FOOTHOLD IN THIS VERY COMPETITIVE MARKET, AND, FOR THOSE WITH NO DIRECT SALES PRESENCE, CHOOSING THE RIGHT ENTRY INTO THE DISTRIBUTION SYSTEM. THE MECHANISM VARIES ACCORDING TO PRODUCT BUT IS NOT DISCRIMINATORY.

THE JAPANESE SYSTEM TRADITIONALLY PUTS EMPHASIS ON SERVICE AS MUCH AS PRICE, BUT THIS EMPHASIS IS CHANGING, IN CONSUMER GOODS AT LEAST, AS A RESULT OF
COMPARATIVE PRICE CHANGES AND CONSUMER AWARENESS. ONE SPECIFIC WAY OF IMPROVING THE AVAILABILITY OF FOREIGN CONSUMER GOODS WOULD BE A CHANGE IN THE LAW ON LARGER-SCALE RETAIL OUTLETS, WHICH WAS DESIGNED TO PROTECT SMALL SHOPKEEPERS. A QUESTION ABOUT THIS COULD BE HELPFUL AS THE MATTER IS UNDER STUDY HERE.

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PRIME MINISTER TAKESHITA: VISIT TO LONDON: 3-5 MAY

1. PRIME MINISTER TAKESHITA SETS OUT FOR ROME, LONDON AND BONN AT THE END OF THIS WEEK. THE GENESIS OF HIS VISIT WAS TO GET ACQUAINTED WITH EUROPEAN LEADERS OF THE SUMMIT SEVEN BEFORE THE MEETING IN TORONTO. BUT IT IS NOW SEEN IN JAPANESE EYES AS A VISIT OF MAJOR SIGNIFICANCE IN DEMONSTRATING A RADICAL REAPPRAISAL OF HER RELATIONS WITH THE PRINCIPAL COUNTRIES OF WESTERN EUROPE, PARTICULARLY THE UNITED KINGDOM, AND LEADING HOPEFULLY TO A MUCH CLOSER POLITICAL AND CULTURAL , AS WELL AS COMMERCIAL AND ECONOMIC RELATIONSHIP.

2. JAPANESE TALK OF A QUOTE NEW ERA IN JAPAN/EUROPE RELATIONS UNQUOTE IS MUCH MORE THAN SIMPLE WINDOW-DRESSING. IT IS BASED ON A REASSESSMENT OF THE RELATIVE POLITICAL AND ECONOMIC STANDING OF THE UNITED STATES AND EUROPE. THE US/JAPAN RELATIONSHIP REMAINS THE CORNERSTONE OF JAPANESE FOREIGN POLICY. BUT THE JAPANESE HAVE CONCLUDED THAT THEIR BROADER INTERESTS CAN BEST BE SERVED BY REINFORCING CONTACTS IN ALL FIELDS WITH EUROPE.

3. IN THIS JAPANESE STRATEGY THE RELATIONSHIP WITH BRITAIN IS SEEN AS CRUCIAL. WE ARE VIEWED AS THE EUROPEAN COUNTRY WITH THE STRONGEST AND MOST EXPERIENCED LEADERSHIP, THE MOST DYNAMIC ECONOMY AND THE GREATES INFLUENCE INTERNATIONALLY. BUT WE ARE ALSO CONSIDERED TO HAVE THE LONGEST MEMORIES, A DASH OF ANTI-JAPANESE RACIAL ATTITUDES AND A TENDENCY TO SEE JAPAN AS A SET OF PROBLEMS RATHER THAN AS A POWERFUL, STABLE DEMOCRACY WHICH HAS DECLARED ITSELF TO BE PART OF THE QUOTE WESTERN COMMUNITY UNQUOTE.

4. TAKESHITA WILL THEREFORE COME TO LONDON WITH THE INTENTION OF DEMONSTRATING:
A. THE WISH OF JAPAN TO PUT OUR RELATIONS ON A MORE SUBSTANTIAL AND MORE COOPERATIVE FOOTING,
B. THAT SUBSTANTIAL EFFORTS ARE BEING MADE TO SOLVE THE FEW REMAINING ITEMS OF UNFINISHED BUSINESS (WHISKY AND TOKYO STOCK

EXCHANGE SEATS),
C. JAPAN'S MAJOR ROLE IN THE MANAGEMENT OF THE WORLD ECONOMY IN THE PAST YEAR OR TWO WHICH SHE INTENDS TO CONTINUE TO PLAY IN THE FUTURE,
D. HER INCREASING INTEREST AND MORE ACTIVE INVOLVEMENT IN INTERNATIONAL AFFAIRS PARTICULARLY IN EAST/WEST RELATIONS AND IN REGIONAL ISSUES SUCH AS THE GULF AND AFGHANISTAN AS WELL AS IN SOUTH EAST ASIA.

5. TAKESHITA IS NOT IMPRESSIVE INITIALLY , EITHER PHYSICALLY OR AS A PERSONALITY. HIS STYLE OF SPEECH AND CAST OF MIND ARE MORE FITTED FOR THE SMOKING ROOM THAN THE CONFERENCE HALL. BUT HE IS A SHREWD POLITICIAN, STRONG WITHIN HIS OWN POLITICAL SYSTEM, A CAREFUL LISTENERA AND A QUICK LEARNER. HE CAN DELIVER FOR US TO SOME EXTENT: THE KEY IS TO MAKE HIM WANT TO DELIVER. THE PROSPECTS ARE THAT HE WILL BE RE-ELECTED AS PRESIDENT OF THE LIBERAL DEMOCRATIC PARTY IN THE AUTUMN OF NEXT YEAR AND REMAIN AS PRIME MINISTER FOR 4 YEARS UNTIL 1991 (THE MAXIMUM PERIOD NOW STIPULATED UNDER THE PARTY'S RULES). HE WILL NEVER HAVE THE CHARISMA OF A NAKASONE, BUT HE HAS THE MAKINGS OF BEING A MORE EFFECTIVE PRIME MINISTER THAN ANY OF HIS PREDECESSORS IN RECENT YEARS. HIS PERSONAL POPULARTIY AND THAT OF HIS GOVERNMENT ARE HIGHER AFTER SIX MONTHS IN OFFICE THAN THAT OF NAKASONE AND HIS ADMINISTRATION AFTER THE SAME PERIOD. AND A BACKGROUND CONCERNED PRIMARILY WITH DOMESTIC POLITICS IS NOW BEING ROUNDED OUT BY AN INTENSIVE SERIES OF OVERSEAS VISITS: HE WILL MAKE 9 IN HIS FIRST YEAR AS PRIME MINISTER (NAKASONE AVERAGED 4 OR 5 IN A YEAR) - TO SOUTH EAST ASIA, THE UNITED STATES, EUROPE TWICE, THE UN (FOR THE FINAL SESSION ON DISARMAMENT), TORONTO FOR THE SUMMIT, CHINA, AUSTRALIA (FOR THE BICENTENNIAL) AND ONE OTHER TRIP AS YET UNDISCOLOSED.

6. THIS FAVOURABLE DISPOSITION ON THE PART OF TAKESHITA AND HIS COLLEAGUES AND ADVISERS PRESENTS US WITH AN OPPORTUNITY:
A. TO ESTABLISH BRITAIN AS ONE OF THE COUNTRIES WITH WHICH JAPAN MOST FREQUENTLY CONSULTS ON ECONOMIC AND INCREASINGLY ON POLITICAL MATTERS. THIS SHOULD GIVE US POLITICAL INFLUENCE WITH THE JAPANESE WHICH HAS NOT BEEN ATAINABLE BY ANY OTHER COUNTRY OVER A BROAD RANGE OF ISSUES OTHER THAN THE UNITED STATES. GIVEN JAPAN'S ECONOMIC WEIGHT (12% OF WORLD GNP WITH THE STRONG POSSIBILITY THAT THIS WILL HAVE REACHED 20% WITHIN THE NEXT DECADE) AND THE POLITICAL INFLUENCE WHICH IS NOW RAPIDLY EMERGING, THIS IS, I SUGGEST, A MAJOR CHANCE TO INFLUENCE THE WORLD'S MOST

DYNAMIC COUNTRY AT A FORMATIVE PERIOD: A CHANCE WHICH SHOULD PRODUCE CONSIDERABLE NATIONAL ADVANTAGE AS WELL AS BENEFIT FOR THE WESTERN COMMUNITY AS A WHOLE.
B. TO SECURE A MORE POSITIVE BILATERAL RELATIONSHIP ON SPECIFIC PROBLEMS BY CLEARING THE WAY FOR A SATISFACTORY SOLUTION OF THE WHISKY AND TOKYO STOCK EXCHANGE PROBLEMS, BY PRESSING THE JAPANESE FOR FURTHER LIBERALISATION OF THEIR MARKETS TO INCREASE EXPORTS AND TAKEN ONE OR TWO SPECIFIC STEPS TO MODERNISE THE MORE BACKWARD PARTS OF THEIR DISTRIBUTION SYSTEM (MY SECOND IFT CONTAINS SUGGESTIONS ON HOW WE MIGHT TACKLE THESE ITEMS OF UNFINISHED BUSINESS). THE BILATERAL RELATIONSHIP ALSO DEPENDS HEAVILY ON FURTHER INVESTMENT BOTH WAYS: A SUSTAINED ATTACK ON THE JAPANESE MARKET BY BRITISH BUSINESS WHICH IS BEING GALVANISED THROUGH THE OPPORTUNITY JAPAN CAMPAIGN: QUICK-FOOTED AS WELL AS HARD-NOSED COLLABORATION IN THIRD MARKETS: AND MORE COMMERCIAL, TECHNICAL AND SCIENTIFIC COLLABORATION.
PLEASE SEE MIFT (NOT TO ALL).

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From the Private Secretary

27 April 1988

VISIT OF MR. TAKESHITA

The Prime Minister and the Foreign Secretary had some discussion of Mr. Takeshita's forthcoming visit. The Prime Minister said that it would be a tricky visit to handle. We should not seem to belabour Mr. Takeshita on a first visit. Equally, it would be very important to secure worthwhile commitments on the talks on whisky and on seats on the Tokyo Stock Exchange. She agreed with the Foreign Secretary that it would be important to persuade Mr. Takeshita to maintain sponsorship of the UK/Japan 2000 Group.

The Foreign Secretary said that at least some of the meeting with Mr. Takeshita should be in plenary session so that senior Japanese officials should be able to hear at first hand the Prime Minister's views. The Prime Minister will want to start in much more restricted session, as I have already indicated, but is ready to consider the final half hour of the talks being held in a rather larger circle (on the Japanese side at least).

C. D. POWELL

R. N. Culshaw, Esq., M.V.O.,
Foreign and Commonwealth Office

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PRIME MINISTER

JAPAN

I attach a letter to you from Laurens van der Post enclosing a paper which a friend of his has written about how to deal with Mr. Takeshita. I am not sure how useful you will find it. The main advice is:

- refer to his reputation as a man of his word, and extract a personal commitment to action

- try to get him to do the talking and give his analysis of the domestic and international situation

- ask about his 'furusato' programme. This seems to involve asserting the Japanese identity and returning to the source of Japan's traditions, while at the same time trying to internationalise ways of thinking in Japan. (I would have thought that a contradiction in terms.)

- propose some sort of exchanges between the UK and his native prefecture of Shimane

- stress how Britain and Japan should work together.

Laurens has also sent you a paper on Scotland (attached).

C.D.P.

(C. D. POWELL)
27 April 1988

COPY OF LETTER TO PRIME MINISTER FROM LAURENS VER DER POST

Margaret Dear:

I have asked a close friend of mine who loves and believes in your Britain and also knows Japan better than most, to produce the enclosed material, in the first instance for you. It is longer than usual but too short even now for the importance of the ultimate issue. It gives you what so dismally is lacking in all European policies to Japan the atmosphere, so intangible and yet indispensable for the rain to fall. I also enclose for the same reason something similar and more immediately disturbing about Scotland. Outside Africa, Japan and Scotland have played special roles in my life, and I know that if you give yourself a time, if it is available, to read these, you will in your own way find the exercise worthwhile. And if you wish I could pursue the Japanese documents further with Geoffrey Howe or if it were possible best of all with you.

Always Laurens

27 CHELSEA TOWERS
CHELSEA MANOR GARDENS
LONDON SW3 5PN

April 25, 1988

R26

Margaret Dear: I have asked a close friend of mine who loves and believes in your Britain and also knows Japan better than most, to produce the enclosed material, in the first instance for you. It is longer than usual but too short, even now for the importance of the ultimate issue. It gives you what so dismally is lacking in all European policies to Japan the atmosphere, so intangible and yet indispensable for the rain to fall. I also enclose for the same reason something similar and more immediately disturbing about Scotland. Outside Africa, Japan and Scotland have played special roles in

SCOTLAND

my life, and I know that if
you give yourself a little
if it is available, to
read these. You will
on your own may find
the exercise worthwhile.
And if you wish I could
pursue the Japanese documents
further with Geoffrey Hand
or if it were possible
best of all with you

always.

Jane.

NOTE

ABOUT HOW TO DEAL WITH

PM NOBORU TAKESHITA & JAPAN

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1. Snapshot of PM TAKESHITA:

An expert in the art of survival, an expert in judo (a 5th rank black belt, who is called *"a master of the draw"*), in love with the sea and yachting, a family man, a writer (his latest work is ***'The Furusato Concept: Toward a Humanistic and Prosperous Japan'***. Excellent negotiator and expert in the art of survival, he is now at heads of the strongest faction inside the Liberal Democrat Party. He is renowned for his skill in political maneuvering. Some Japanese friends of mine have given him the nickname of *"Mickey Mouse"* , whose big ears are able to pick up a large volume of information from all directions.

In contrast with his predecessor. Mr. NAKASONE, Mr. TAKESHITA feels probably more at ease on the home front than on the international front. His one step forward and one step backward in his dealing with the Americans over the liberalization of imports of American beef and citrus should not be misinterpreted. He is firmly set to reform, among other things, Japanese agriculture. Besides, as he personally promised to Reagan, he has pressed for the participation of US firms in public construction projects. In all of this, of course, Europeans should not be discriminated against, and they are moving into line behind the Americans.

2. Timing of TAKESHITA's visit to Europe & objectives:

Mr. TAKESHITA's visit to Europe is important for him, as well as his government and Japan, in order to strengthen their image, visibility and credibility. More and more (and as a follow up of a process initiated by Nakasone) Japan wants to show that it has got a Face and a Voice.... It is also necessary for TAKESHITA to establish a political and personal relationship with the European leaders. Simultaneously, NAKASONE remains very active, trying to keep communication channels open at the highest level on the international scene, by (officially) promoting peace ful relationship; but certainly also, behind this strategic smoke-screen, the conventional rearmament and global expansion of Japan is being consolidated. All that seems to be good teamwork and division of labour.

3. Japan-UK: some strategies for a better relationship

With the UK, the main problem is still the trade imbalance, which can be resolved partly at a technical and diplomatic level. The British Ambassador to Tokyo seems to be particularly qualified and quite active in this economic field. His arguments (as presented in his speech to KEIDANREN, a copy of which is in **Annex 4**) are well presented and to the point, especially concerning socio-cultural differences.

Quite naturally, the British interlocutors of PM TAKESHITA will speak about bilateral issues and problems, which can be also tackled in the framework of the EEC, the GATT, diplomatic channels, etc. They would gain also by expressing confidence in the political experience of Mr. Takeshita and in his sincere personal commitment for a better integration of Japan in the Global Game. Mr. Takeshita has a reputation as being a man of his word.

However, instead of speaking, a good strategy would be to do what the Japanese excel in doing, i.e. to listen.

Another good strategy — which would both constitute an agreeable

surprise to Mr. TAKESHITA, and help in trying to have him to commit himself — would be to ask about his own analysis of the situation on the home and global front, of his fight for better and deeper 'internationalization' in his government, administration, bureaucracy, education, research and eventually how he expects to change the mindset of the Japanese.... All these are sensitive and essential issues and pet ideas of his ***Furusato*** programme and book (Refer to the article 'Takeshita's Japan' in **Annex 2**). Then, the final move would be to express support and cooperation, especially at a personal level.

(N.B. : Does a 'red telephone line' already exist between Downing Street and the residence of the PM of Japan?)*

4. Japanese in the Global Game:

Mr. Takeshita does need some support from his allies and friends in order to consolidate his grip on power at home, and his performance on the internationale stage. For this he might form a new cabinet next October to bring in more members of his own faction (Fact sheet with the Cabinet Lineup in **Annex 5**). Besides, we all know that TAKESHITA and Japan cannot fully integrate into the global community and play an international role commensurate to their economic power without taking new initatives and responsibilities, but also WITHOUT the mirror, guidance, help, support, cooperation, help of all their partners and friends.

Although Japan is and deserves to be a leader, it still needs to be coached and led. Mr. Koichi KATO — a rising political star, who was director-general of the Defense Agency until 1986, and is presently acting chairman of the LDP's Policy Research Council, (and to whom I refer to in my article "Will the XXIst century be Japanese?", in **Annex 3**) — said candidly to his American friends in the Japan-America Society of Honolulu, last July: *"Japan can no longer seek out viable models for its own development from the world around it."*

However, the same KATO always refers to what the late PM Ohira confided in him (after a meeting with President Carter): *"We have many grievances with our American friends, but the US is working hard to play the role of leader of the free world. Neither Japan nor West Germany can play this role, even if we wanted to. We must have a leader. So even if we have complaints, we should soft-pedal them and support the US in its leadership role. In this way, we can strengthen the free world."*

Nevertheless, because of various solicitations, pressures, as well as opportunities and challenges, Japan is condemned to go its own way and has to find its own niche, and to race towards the 21st century. The traditional low posture of Faceless and Silent Japan is changing fast since NAKASONE, who initiated a so-called more "objective" policy vis-a-vis, for instance, the Middle East or the Eastern European countries. TAKESHITA is certainly more 'Japanese', with less international experience and zest in dealing with world leaders; but one should not consider him a weak leader for that reason. Rather, because of his skill in dealing with practical problems, and his relative lack of international experience as a leader, one would benefit in approaching him at the practical, managerial and personal level, rather than at a theoretical, philosophical, geopolitical or strategic level.

5. Call upon personal involvement and commitment:

One should not expect too much from this first meeting with PM TAKESHITA. But it should be worth trying to plant seeds for the future, and try to appeal to him, play on his personal feelings, try to solicit from him some personal ideas and projects, and a personal involvement and commitment. He is known for being a man of his word, and could be praised for it en passant.

6. HOW TO HELP — AND HOPEFULLY CONTROL — THE JAPANESE: COMMUNICATION, BRIDGE-MAKING & FRIENDSHIP:

One of the problems in associating with the Japanese is how to help them, control them, or even stop them when the need arises. History is here to proves that, with success and power, Japan could get intoxicated, even neurotic, and jump off the tracks. Therefore we need to keep permanent contact with the Japanese, multiply communication channels, do a good deal of listening, learn their language, engage in networking and sharing, and possibly make friends with them.

We should persuade them that they have a special talent and a mission as bridge makers, communicators, messengers, cross-fertilizers, and alchemists more than makers of swords or Zero fighter planes.

In short, the Japanese should know by now:

— that we need them, inasmuch as they should need us.

— that we should try together to survive, and to plan and build a better world — not a Brave New World.

7. THE RIGHT TO BE DIFFERENT

The Japanese should be made aware (because they always repeat, in various forms, the same old slogan of *"All nations like one family under the same roof"*) that coexistence and interdependence are founded and should be guaranteed by the respect of differences and not uniformization, of individualism and personal creativity and not mass movements, mass societies, mass consumption, on a personal quest and humanistic values, and not glorification of science and technology....

8. RESPOND TOGETHER TO COSMIC & HUMANISTIC CHALLENGES:

One could now, more than ever before, propose to the Japanese to prepare together future plans for a new adventure: try to respond to the

cosmic and humanistic challenges, which have been put aside for so long. In this respect, we should together enroll the best of our talents, brains, hearts and energies. We should together also develop our capacity to respond to challenges, to dream, to be tolerant and stretch out — as the Japanese are doing in their own fine way.

9. Possible scenario of an ideal meeting with Mr. TAKESHITA:

One should be aware that the timing and circumstances are excellent, on both sides, not to argue, but to confirm, innovate, and enter a new phase in bilateral and international relationship. Great Britain is fashionable again, and Mrs. Thatcher is respected, admired, and even imitated. It is very likely that Mr TAKESHITA is expecting a lecture, and a few remonstrances — and is prepared to cope with them. One could then greatly surprise Mr. TAKESHITA, and the Japanese in general, by acting differently than expected, and try to beat the Japanese on their own ground, with their own methods and weapons.

In this perspective one should perhaps:

- keep in mind that Mr. Takeshita is not fluent in English, and will certainly use an interpreter;

- warm him up by asking him how his *'Furusato'* programme and reforms are progressing;

- pointing out to him — and deplore — the fact that no Sister City afreements exist yet between his native prefecture of **Shimane** and Great Britain (an initiative in this area could help 'internationalization', while encouraging promotion of exchanges and the strengthening of friendly realtions);

- refer to Lafcadio Hearn, whom Mr. TAKESHITA mentions in his *Furusato* book and programme;

- try to do a good deal of listening;

- make a personal appeal to Mr. Takeshita, and try to get some personal commitment from him, or at least some personal promise;

- stress once again how much UK & Europe have in common with Japan, and how close our interests are in the Global Game;

- stress how we could work together in order to solve our mutual problems, and prepare together the future;

- invite the Japanese to be at their best by using all the ressources of their *Furusato* and traditional talents and values, while acting with *noblesse oblige* (as rightly stressed by the British Ambassador in Tokyo). In that sense, what the world is expecting from the Japanese is not to open more their doors and their windows, but more their minds and hearts.... all things, in fact, which are part of TAKESHITA's vision and programme — and we the non-Japanese should also do.

- ask Mr. TAKESHITA and the Japanese to put forward a few concepts, ideas, plans, projects, suggestions, recommendations, etc. on how the UK and the rest of the world could help Japan in its transformation and Big Leap Forward, while reinforcing friendship, communication channels, free flow of information, permanent consultation, exchanges at all levels.

10. CONCLUSION: BRAIN & HEART-STORMING

To proceed along the above lines requires, not only some brain-storming, but also some heart-storming at all levels — by the Japanese as well as the non-Japanese — by leaders, politicians, diplomats, journalists, scientists, educators, scientists, researchers, businessmen, artists, etc. (See some concrete examples in "Ideas & Scenarios", in **Annex 1**).

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Jean-Marc Pottiez

Tokyo, 18.04.88

ANNEX 5 :

IDEAS & SCENARIOS

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I. KEY CONCEPTS, CATCH PHRASES & KEY WORDS

1. Japan is as important to us as we are — or should be — to Japan.

2. Japan is still a hungry nation:

Japanese are and will always 'hungry', in the literal as well as the symbolic sense. Hence their dynamics, energy, work, nervous tension, stretching out, or yogic capacity — but also their bulimia, obesity, bulldozing, agressiveness, insensitivity to slow down, incapacity of slowing down, and thus the risk of becoming derailed.

3. Communication with Japan:

'Japanization' can easily lead to isolation, and a tendency to be delirious and neurotic. One should, hence, never lose contact with the Japanese, and should benefit by using their sense of responsibility *(giri & ninjo)*, their sense of shame and guilt, their need to relate to or to belong to, their taste for challenge and setting records, their snobbery, their pride in belonging to the exclusive club of developed nations, their sentimentalism, and ultimately their romanticism.

4. Japan as a model, or a catalyst:

Japanese could teach us how to be more frugal, more disciplined, how to control and recycle waste, how to work more and better, how to be better organized, to be more flexible in our planning and strategies, to establish a broader concensus and call upon more personal involvement, etc. - all things we were able to do at one time or another. PM TAKESHITA likes to quote the following Kegon Sutra: *"A single grain of rice is as weighty as the universe"*. Although the Japanese are wild consumers and waste as much as others, they still have great respect for a single a grain of rice.

5. Japan can play a vital role in communication and bridge-making:

Japanese could balance their and our masculine, triumphant, scientific, technological and belligerent ways with their own feminine way, their intuitive way of the *'Hara'* — (of the heart and the womb). This feminine element includes and favors communication, compassion, benevolence, solidarity, brotherhood (or sisterhood), caring, how to be more human, how to love Mother Earth, etc. These are certainly key concepts and key words for survival and the building of a *'noosphere'*, as predicted and recommended by Teilhard de Chardin.

All over the world the respect for human or individual rights is being replaced by a more fondamental, more urgent (and less politically sensitive) right: the *Right to Communicate*. But this Right to Communicate should be simultaneously reinforced by another equally fundamental right, i.e. the ***'Right to be different'***. This right, one of the most sophisticated of all rights, implies respect for others, peaceful coexistence, interaction and mutual enrichment. It should help us to reach the 21st century together, and together concentrate our efforts on a more human world, while starting, at

last, a cosmic adventure — both inward and outward.

In this regard, one should not expect from a 'different' country as Japan seems to be — one of the countries on our geographical and mental periphery —the same patterns of mind, language, discourse or attitudes. Although conditioned by their mental and social structures, the Japanese can be all the more tolerant and respectful of differences. One of their sayings expresses this tolerance (and pragmatism) in this way: *"One can share the same bed, but not necessarily the same dreams"* .

6. The Tranquil and Silent Way of Japan:

This Tranquil & Silent Way of the Japanese, at a crucial moment when one is expecting them to speak louder, could be criticized as in the past, and be labelled as a low posture, a weak attitude, and even a lack of fair play. But, seen the other way around or from a different angle, this special way of the Japanese (similar, after all, to others, like the Africans or the Arabs) could be considered as a more grown-up, more sophisticated, more subtle and wiser attitude, or strategy — whereas the non-Japanese way tends to be noisy, insensitive, crude, brutal, intolerant, egocentric, and, sometimes, quite illogical regarding their own logic. In its own way Japan could help us to calm down the political game, defuse tensions and conflicts, refuse intolerance, be more suspicious of ideology, or of theory and intellectualism, while displaying (why not say it?) more democratic qualities, i.e. by trying to produce as large as possible a concensus, and in fact calling upon more more individual and social involvement for the greatest benefit of one's country and oneself.

Vice-versa, non-Japanese could help the Japanese to be less Japanese. For instance, they could help them by either better integrating them in the Global Village, shouldering more responsabilities, reinforcing the ingredients they lack for more creativity, more reciprocity, more noblesse oblige, or

diplaying less fetishistic belief in economics or technology in the quest for happiness.

6. Role and importance of the feminine element in Japan:

Concerning this feminine element in the Japanese psyche, culture and civilization (Japan was a matriarchy, and — despite its name and its flag, is much more a moon- than a sun-oriented country), it is worthy to note that in TAKESHITA's Japan female employment is on the rise. Mr. TAKESHITA himself (consciously or not) often associates the feminine with the vision of the future and Mother Earth. For instance, he likes to quote the only woman astronaut under training in Japan, Ms. Chiaki MUKAI, who once told him: *"Humanity has only one place to return home to, and that is planet Earth. IFor me a* 'furusato' *is the place that you can return to, be it in a spiritual sense or a physical sense. Once we leave the Earth, I doubt we'll ever find any other place in the depths of space that will be willing to take us in."*

II. SOME SUGGESTIONS AND SCENARIOS FOR ACTION

1. Exchanges:

Promote exchange at all levels, especially at the individual and personal level. Make friends out with the Japanese.

(* N. B. : Allow me to mention here my 'hostage' theory: If world leaders, VIPs, personalities, stars, etc. could go themselves once, or at regular intervals, or send their own family members, relatives, and friends, to the 'other country', the 'different' or rival country and system like the USA, the USSR, China or Japan — then, one could reasonably hope that, during that period, nothing serious would happen, no missile would be shot, no verbal attack would be unleashed).

2. Communication:

Multiply and vary channels of communication, multiply and vary the communicators, by selecting them on one's own criteria, but also Japanese criteria.

3. Culture, arts:

Why not take PM TAKESHITA at his word about his *'Furusato'* vision and programme, by suggesting to him the use of his native prefecture of **Shimane** as a pilot experience and a launching pad for the 'internationalization' of Japan. **Shimane** could thereby become one of the first *Furusato* of the Global Village. Besides, PM TAKESHITA has written in his book 'The *Furusato* Concept': *"(....) prefectures could do well by developing close ties with a specific foreign country so that people from that nation would be able to live and study there, using their own language."*

Some suggestions:

a. Designate Sister Cities;

b. Organize festivals, exhibitions, all kinds of cultural encounters or 'happenings', symposiums, meetings, etc.

c. Use Lafcadio Hearn as an experience and a symbol of interpretation of Japan, of cross-fertilization and bridge-making, by creating, for example, an Anglo-Japanese Cultural Center, a Research Center in Japanology, a Language & Interpretation Training Center, etc.

4. Education, training, research:

The time is ripe, for there is a demand and a need on the Japanese side, to:

a. Develop exchanges of educators, specialists & researchers;

b. Create campuses of British Universities in Japan (as US universities are starting to do), etc.

5. Economic & social:

In this field, projects and ideas are aplenty. However, the following suggestions might help:

a. Try to experiment with a new kind of retailing outlet (or a cooperative system?) which would be allowed to sell British (and other European or foreign products) at prices fixed mutually by the Japanese central government and the foreign governments, in order to develop domestic demand and consumption, while side-steppinging the traditional distribution system and bureaucracy. If the Japanese central government is reluctant, this experiment could be attempted with the help of prefectural governments and local authorities (in **Shimane** and other prefectures and regions).

b. Another solution would be to initiate the process by sending a British Exhibition Ship — and at a later stage a European one —, where on board sales could be permitted for promotional purpose, at prices and taxes mutually agreed upon.

Of course, this experiment in internationalization of trade at a consumer level could be organized by the Japanese themselves and/or sponsored by GO or NGO foreign organizations.

c. The foreign residents in Japan (particularly journalists, diplomats, and those who are working in Japan in a private capacity and outside local employment) certainly need special stores and special rents for their offices and housing if they are to survive in Japan. This is a crucial problem of mutual concern, which needs an urgent solution.

6. Information, Radio, TV, Cinema & Press:

This area, together with communication and exchange at a personal level, is undoubtly very sensitive and should be on the top priority list — and the

Japanese should be aware of it. Some suggestions:

a. Enlarge the proportion of British, as well as European and foreign-made programmes on the Japanese radio and TV (and vice-versa). At the beginning, some British radio or TV programme festivals could be organized (Up to this day Shakespeare and documentary series are relegated to the 3rd educational channel of the semi-public NHK). Some hope is allowed with Direct broadcasting satellites and cable TV in Japan; they will need a large supply of software and programmes, and a sort of menu à la carte to be offered to potential viewers. Sales of foreign-made programmes and films, or co-productions with the Japanese, will be then more possible, and should be encouraged.

b. The same can be said and hoped for with the propagation of High Definition Video Theaters, which will compete some day with the standard cinema theaters. Here also sales of one's own products, or co-productions, are possible.

c. Foreigners should have direct or access to, and control of some radio FM channels — like in some countries of Europe and the US.

d. Reinforce mutual press coverage, and the exchange of journalists of the different media. With the strong Yen (and the lack of interest in the long-term journalistic investment in Asia & the Pacific region) some amount of subsidizing or sponsoring could be considered, without endangering independence and objectivity.

)o(

In 1955 or 1959, I can't remember which, there was a majority of Scottish M.P.'s: 36 out of 71. Now there are 10, The then Defence Secretary(and former Secretary of State for Scotland), a good minister, nearly lost his seat(!) and ~~from~~ the 1987 general election confirmed that Scotland trusted neither the Alliance nor the Tories, staying massively Labour.

I am not enough of a psephologist to know whether 10 represents a rock-bottom Tory return. But I would venture the guess that further seats could well be lost next time. This would mean a kind of de facto political devolution. Constitutional Devolution, it is true, is NOT the policy of the Labour Party. Rightly so, because nobody has ever shown or, for that matter, convinced the Scots that it would work. Nevertheless a situation in which the United Kingdom was being governed by, say, the Tories with a majority of 25 or 30 while they held only 8 seats in Scotland, might well lead to civil disobedience.(The 'reds' in Strathclyde already openly advocate it over the Poll Tax).

The trouble is that even intelligent Southerners fail to grasp the essential fact that Scotland was once a nation. Now it is an ex-nation, which is a rather uncomfortable thing to be; even granted ones own religion, law and education. The upshot is that whenever adversity hits Scotland's southern belt, many Scots complain that their very existence is being disregarded.

This kind of 'pique', or whatever one likes to call it, is immediately aroused by a piece of legislation such as the Poll-tax. I have no doubt that this new tax, like the rest of Conservative current policy, is a move in the right direction (although I very much hope that it won't be enacted in its present form). But it was an act of great stupidity to introduce it into Scotland one year in advance of England and Wales, for it looks as if Scotland is being treated as a kind of guinea-pig for the rest of the U.K.

Another Anglo-English failing is to imagine that all this will be forgotten in a year or two; that these feelings will blow over. In Scotland a month is NOT a long time in politics. This, as I've suggested, because the country is past-orientated, in that it is inclined to harbour regrets or grievances. You yourself know how much more the Scots know their own history than the Sassenachs do.

It is very important, I feel, that the Prime Minister should develop a real popular constituency in Scotland. She is in fact the sort of leader whom they should like, but not many of them do yet - although I believe many half-do!

Another cardinal matter which the Anglo-English forget is the great blow to Scotland which was the demise of the British Empire. That had been the place in which the Scots could still be Scots untrammelled by the English. Now no more Malay States, no more Calcutta; not in the old style, anyway.(Top Scottish Nationalists have told me this when I visited them as a journalist.)

At a guess, I would instance Nicholas Ridley as the sort of politician to whom all these simple realities would be Greek, not to say Sanskrit.

One could add that while the Scots could be bamboozled in times of economic non-adversity by a really accomplished actor such as H. Mc Millan, they revolted as soon as they found themselves locked in with the likes of Harold Wilson, who rarely ventured north of the Border and usually sent Denis Healey to do his bluff Yorkshire act. Result: Scottish Nationalism; which has now definitively lost out to Labour. I think. Having first made Scottish Labour more venimous.

I am pontificating as an Anglo-Welshman resident on Scotland's north coast, in other words a semi-naturalised Scot since 1946. I have a very great respect for Scottish people who (are so nice and decent) have such a good structure and who have achieved so much everywhere. I should hate to see a nonsense in Scotland, even if it were the fault of London.
I would make one other remark: Conservatism, as everyone knows, is not (more or less) Scotland's indigenous political creed. But it always held its own (because it) represented the Empire. And those who served in the Empire would vote Conservative even in parts of Glasgow. All this is gone or nearly. (Same point made earlier.)

Anyway, I recommend that distinguished ministers should devote to Scotland a far greater attention than its 71 seats at Westminster warrant. I am surprised that this hasn't been insisted on by people of Scottish origin in the London Establishment. Have they forgotten the home-country×?! As a matter of fact I can't think of many ministerial faces that would be presentable in Scotland at present. Able as I am sure they are, they incline to lack poetry.

Perhaps only the Prime Minister, the Foreign Secretary, the Home Secretary should appear in Scotland; in other words the Big Shots?

I have just shot this off to you after a long TV-viewing of the Poll-Tax debate and also much Scottish News. I wonder what you think? I'm sure you will agree that this is a problem pas comme les autres.!

No answer, of course. I'll give you a ring one evening. We're here for another 5 weeks. Much love to Ingaret; and to you from us both

× yes, they do forget the home-country when they become immersed in administration and business in the South. Not many of them take their holidays in Edinburgh or Glasgow, or even the Highlands: they make for the sun. To put it another way, the Scots in England, the emigrés, do not in my experience make the Southerners feel that Scotland exists.

01-493 6030.

EMBASSY OF JAPAN,
46, GROSVENOR ST.,
LONDON,
W1X OBA

Rt Hon Margaret Thatcher, FRS, MP,
Prime Minister & First Lord of the Treasury;
Downing Street,
SW1A 2AL

Prime Minister
You may like to glance at this. Perhaps you should like something similar before your foreign visits! CDP 28/4

April 25th 1988

Dear Prime Minister,

As you may be aware, Mr Noboru Takeshita, the Prime Minister of Japan, will make official visits to Italy, the Vatican, the United Kingdom and the Federal Republic of Germany from Friday 29th April to Monday 9th May 1988. The itinerary of his visit to the United Kingdom from 3rd to 5th May will include a call on His Royal Highness The Prince of Wales; talks with the Prime Minister, The Rt. Hon. Mrs Margaret Thatcher M.P.; a luncheon given by The Rt. Hon. The Lord Mayor of London and the Corporation of London; a Dinner given by Her Majesty's Government; a Parliamentary Reception at the Speaker's House, and a Reception given jointly by the Japan Society, the Japan Association, the U.K. Japan 2000 Group, the Japanese Chamber of Commerce and Industry, and the Nippon Club.

The visit to Europe will be Mr Takeshita's first as Prime Minister, and the objective of the visit will be to further strengthen relations between Japan and the countries of Europe.

In this connection, I have pleasure in sending you one copy of the photograph album produced especially for the said occasion to introduce in advance Mr Takeshita, his personality and his political career. I hope you will find it of interest.

Yours sincerely,

Kazuo Chiba

Kazuo Chiba
Ambassador of Japan

RESTRICTED

VC73
cPC

10 DOWNING STREET

From the Private Secretary

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

PRIME MINISTER

VISIT OF MR TAKESHITA

We are getting a great deal of lobbying from the Japanese about the visit of Mr. Takeshita, the purpose of which appears to be to stage-manage the meeting so far as possible in advance and to prevent anything happening at the meeting which has not been precisely foreseen by the Japanese bureaucracy. Part of this is to suggest that he should be accompanied at the meeting by almost every Japanese under the sun: and there is thus increasing pressure from Ministers and senior officials on our side to be present at the meeting as well.

My very strong advice is that you should see Mr. Takeshita alone with just me to take a note (possibly with the addition of our Ambassador if he returns for the visit), and that I should urge the Japanese to accept a similar constraint on their side. There will be plenty of opportunity for others to see and be seen with him at the subsequent dinner.

Content? Yes

CDP

CHARLES POWELL

25 April 1988

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10 DOWNING STREET

LONDON SW1A 2AA

From the Private Secretary

25 April 1988

VISIT OF JAPANESE PRIME MINISTER:
UK/JAPAN 2000 GROUP

Patrick Jenkin telephoned me on Friday in something of a state because the Japanese Ambassador had informed him that Mr. Takeshita was not particularly favourably disposed to the UK/Japan 2000 Group, which he regarded very much as Mr. Nakasone's creation. He was stalling on the appointment of Japanese members.

Lord Jenkin viewed this with some alarm. He assumed that we wanted the Group to survive. He hoped that the Prime Minister could be briefed to raise the Group's future with Mr. Takeshita, confirm our view of its importance and urge that it continue. I should be grateful if you could cover this point in briefing.

C. D. POWELL

R. N. Culshaw, Esq., M.V.O.,
Foreign and Commonwealth Office.

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bc: PC

10 DOWNING STREET
LONDON SW1A 2AA

From the Private Secretary

21 April 1988

MR TAKESHITA'S VISIT

Thank you for your letter of 21 April about the agenda for Mr Takeshita's talks with the Prime Minister. There seems to be no chance whatsoever of getting through such a monumental agenda. I suggest that we propose that the following items be tackled as priority: 1,2,4 and 5, with the remainder to be done over dinner if possible.

C. D. POWELL

R. N. Culshaw, Esq., M.V.O.
Foreign and Commonwealth Office

CONFIDENTIAL

DS

CONFIDENTIAL

Foreign and Commonwealth Office

London SW1A 2AH

21 April 1988

Dear Charles

Mr Takeshita's visit: 3-5 May

The senior Japanese Foreign Ministry official who will accompany Mr Takeshita on his visit here, and who is principally responsible for briefing him, called at the Foreign Office on 19 April. He suggested the following agenda for the Prime Minister's talks with Mr Takeshita:

(1) Introductory remarks: Mr Takeshita would wish to say something about the aims of his visit and the emphasis he wishes to give to Japan's relations with Europe, and in particular with the UK.

(2) Whisky and the Tokyo Stock Exchange: (the Japanese now accept that it would be better to tackle these early on in the meeting).

(3) Political subjects:

(a) East/West (including disarmament)

(b) Regional problems:

Iran/Iraq

Afghanistan

South Africa

(c) Asia-Pacific:

Philippines

China

Korean Peninsula

(4) International economic issues:

(a) Management of the world economy

(b) Japan/EC economic relations

(5) Toronto Summit (including the GATT Round and Agriculture)

/(6)

(6) Japan's relations with the UK and with Europe:

(a) The management of bilateral relations

(b) Japan/Europe political relations

(c) The 2000 Group

(d) Cooperation in science and technology

(e) Other cultural exchanges

(f) Cooperation in aid matters

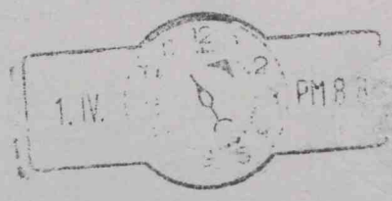
We said that, subject to the Prime Minister's views, we could see merit in discussion on all of these subjects, but time available would hardly permit that (though some further discussion would also be possible at dinner). We would therefore prefer to regard the agenda proposed by the Japanese as a menu from which the Prime Ministers could choose.

If among this list there are any topics which the Prime Minister particularly wishes to tackle with Mr Takeshita, in addition to the bilateral problems mentioned at item 2, I should be grateful if you could let us know so that we can give the Japanese advance warning.

Yours ever

(R N Culshaw)
Private Secretary

C D Powell Esq
10 Downing Street



MR POWELL

13 April 1988

C Mr Galsworthy
Mr Gillmore

CALL BY MR MURATA: MR TAKESHITA'S VISIT

1. Mr Murata, the Japanese Vice Minister for Foreign Affairs, called on me on 12 April. He is in London preparing the way for Takeshita's visit from 3 to 5 May.

2. The Japanese are clearly rather apprehensive that Takeshita's style could go down badly. Murata spent some time explaining how different Takeshita was from Nakasone, but emphasised his strengths: not so clear conceptually as Nakasone perhaps, but with great political weight and capable of delivering on all his decisions. Moreover, part of the credit for the economic changes under Nakasone leading to the opening up of the Japanese economy and the reduction of the trade surplus was owing to Takeshita, who at the time was Secretary-General of the LDP. Murata also recalled, again rather apprehensively, his own impressions of Mrs Thatcher at earlier economic summits: her interest in specific issues, her command of detail and formidable memory. He hoped that these two very diverse characters would hit it off together and that it would be possible to have wide-ranging and constructive discussions on world economic and political issues.

3. I assured him that we attached great importance to the coming visit and were determined to ensure its success. The Prime Minister would certainly want wide-ranging discussions. She would probably want to cover the world economic situation, East-West relations, the Middle East and South Africa. But, as he had rightly observed, she was also keenly interested in specific bilateral questions. I

strongly recommended that Mr Takeshita should bring with him a detailed statement of Japanese proposals on the liquor tax. Preferably this should be offered early in the talks.

4. Murata said that Takeshita would probably wish to say something about Korea, the Philippines, Cambodia and perhaps China (he was planning a visit to China later in the summer).

5. He also suggested that there should be a short tête-à-tête between the Prime Ministers, followed by a rather less restricted meeting, attended by the Japanese Deputy Cabinet Secretary, the Deputy Foreign Minister and possibly the Head of the West European Department of the Foreign Ministry. This was the pattern they followed with the Americans etc. There would also be some senior members of the Diet in Mr Takeshita's party, who would want simply to be photographed shaking hands with the Prime Minister.

PERCY CRADOCK

6/F 18/4

10 DOWNING STREET

Note for file

Paul Diamond FCO. telephoned to say that Royal Bonsley was a "Japanese favourite" particularly

Honeysuckle
Cornflower
Fuchsia.

29/3

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copied to
Mrs. C. Edwards.
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Q DIST ?

YOUR TELNO 170: VISIT OF MR TAKESHITA: PRESENTS

1. THE MFA HAVE SO FAR BEEN UNABLE TO CONFIRM MR TAKESHITA'S INTENTIONS ABOUT PRESENTS. BUT IT APPEARS LIKELY THAT HE WILL AT LEAST MAKE A GIFT TO THE PRIME MINISTER. Japanese style painting.

2. APART FROM GOLF AND A LIKEING FOR NIHON-GA MR TAKESHITA HAS NO READILY IDENTIFIABLE HOBBIES OUTSIDE POLITICS. I SUGGEST THAT ONE OF THE FOLLOWING WOULD MAKE A SUITABLE RETURN GIFT:
A) A BRITISH MADE CRYSTAL DECANTER, FILLED WITH AN EXCLUSIVE WHISKY, AND ACCOMPANYING GLASSES,
B) A LEATHER BOUND VOLUME OF LAFCADIO HEARN'S ACCOUNT OF HIS STAY IN MATSUE, SHIMANE PREFECTURE, IN MR TAKESHITA'S CONSTITUENCY,
C) AN HONORARY MEMBERSHIP AT A PRESTIGIOUS BRITISH GOLF CLUB,
D) AN INSCRIBED ANTIQUE GOLF PUTTER OR MODERN GOLF ACCESSORIES BY A WELL-KNOWN BRITISH MANUFACTURER.

WHITEHEAD

YYYY

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cc Tessa Gaisman
No 10 D.S.

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AN. 22/3



Foreign and Commonwealth Office

London SW1A 2AH

18 March 1988

Dear Charles

Dinner for the Japanese Prime Minister

The Prime Minister has agreed to host a dinner for Mr Takeshita on Wednesday, 4 May at 20.00 hours. I attach a suggested guest list. This has been prepared on the basis that the total number of guests will be 65.

We do not yet have the names of everyone in Mr Takeshita's party. We know that his wife will be accompanying him. In addition to senior officials, Mr Takeshita is likely to be accompanied by 5 or 6 members of the Japanese Diet, whom it would be helpful to include in the dinner. This could bring the total number in Mr Takeshita's party for the dinner to 12/13.

We recommend that on this occasion the Prime Minister should not invite spouses other than Mr Thatcher and Mrs Takeshita. This arrangement would be perfectly normal as far as the Japanese are concerned, and would allow the Prime Minister to include the greatest possible numbers and range of people involved in Anglo-Japanese relations. The suggested guest list includes both British industrailists with important connections with Japan and representatives of influential Japanese firms which have invested substantially here (both in manufacturing and in the City).

Yours ever

(R N Culshaw)
Private Secretary

C D Powell Esq
10 Downing Street

Mr. Gaisman
CDP

4/3

PRIME MINISTER cc Mr. Powell

VISIT OF MR. TAKESHITA

We have been trying to arrange with the Foreign Office a suitable day for dinner here for Mr. Takeshita when he comes over from Japan. He arrives in London on the afternoon of Tuesday 3 May. Therefore although we could hold a dinner on the Tuesday night it would not be possible to have talks that day. There are two options:

i) You could give a dinner for Mr. Takeshita on Tuesday night with talks on Wednesday 4 May; or

ii) You could have the talks and dinner on Wednesday 4 May.

I am sure that you would, in normal circumstances, wish to have the talks and dinner on the same day but I hesitate to put in a dinner on a Wednesday night because of Cabinet and Questions on a Thursday. In addition you are giving a dinner for the Prime Minister of Hungary on Thursday 5 May. Could you please therefore let me know on which night you would like to hold the dinner for Mr. Takeshita?

Tessa

(TESSA GAISMAN)

2 March 1988

Wednesday 4th May would be best - we can't have the dinner before the talks

10 DOWNING STREET

LONDON SW1A 2AA

17 February 1988

From the Private Secretary

VISIT BY THE JAPANESE PRIME MINISTER

Thank you for your letter of 15 February about the visit of the Japanese Prime Minister. The Prime Minister will see Mr Takeshita on Tuesday 3 May from 1000-1130 and give a dinner for him that evening.

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

Charles Powell

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

Charles

With you to me F/O ?

TG 16/2

PRIME MINISTER

VISIT BY THE JAPANESE PRIME MINISTER

Mr. Takeshita will be in the United Kingdom from 3-5 May. You have agreed to see him and give a dinner on Tuesday 3 May. The dinner will be at 1945 for 2000.

Because it is a Questions day, I wanted to make sure that you were happy with the times I am proposing to give the Foreign Office for the talks. You are due to look in at the Anglo-American Conference some time between 1700 and 1900 that afternoon. However, you may prefer to see Mr. Takeshita then and not in the morning. But this would mean pulling out of the Anglo-American Conference (invitation via Sir Hector Laing). I can't do that.

Basically, the two alternatives are talks with Mr. Takeshita at

1000-1130 ✓
or
1630-1800

Could you let me know which you would prefer?

PM

PP **MRS. TESSA GAISMAN**
16 February 1988

Charles: Tuesday 3rd May
Talks 10.00 - 11.30
11.30 - 13.00
1945 for 2000 Dinner

Foreign and Commonwealth Office

London SW1A 2AH

15 February 1988

TQ. 16/2

Dear Charles

Visit by the Japanese Prime Minister

The Japanese Embassy have proposed that the Japanese Prime Minister, Mr Takeshita, should visit the UK from 3-5 May. He also hopes to visit the FRG and Italy (but not France, because of the Presidential elections). The Embassy have sought our confirmation that these dates are convenient.

The Prime Minister invited Mr Takeshita to visit the UK on the way back from his visit to the United States in January. He was unable to take this up but said that he hoped mutually convenient dates might be found before the Toronto Summit.

We hope that the Prime Minister will be able to receive Mr Takeshita and offer him some entertainment. In view of the need for interpretation, it would be wise to allow 1½ hours for talks, if possible.

The Japanese would see a dinner as a great honour (formal lunches are comparatively rare in Japan). If the Prime Minister's schedule makes a lunch more convenient, it would be presentationally better to make it a working lunch.

We are looking into the options for the remainder of Mr Takeshita's programme. We have not yet heard from the Japanese of any special wishes on the part of Mr Takeshita. It may be appropriate to arrange a Guard of Honour before talks with the Prime Minister, and the Lord Mayor has agreed in principle to host a lunch for Mr Takeshita - this would be an opportunity to meet business leaders. The Government Hospitality Fund have agreed to accept Mr Takeshita as a guest of government.

Does the Prime Minister agree that we may now confirm to the Japanese that a visit on the dates proposed is convenient?

I am copying this letter to Alex Allan, Alison Brimelow and Trevor Woolley.

Yours ever

(R N Culshaw)
Private Secretary

C D Powell Esq
10 Downing Street

15. II.

Mrs Tessa Gaisman
10 Downing St.

With the compliments of

THE PRIVATE SECRETARY

To be aware

Sandra
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PG.
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FOREIGN AND COMMONWEALTH OFFICE
SW1A 2AH

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YOUR TELNO 71: POSSIBLE VISIT BY MR TAKESHITA

1. I HAVE BEEN PRESSING THE MFA HARD TO COME UP WITH A FIRM DATE. THEIR DELAY IS IN LARGE PART ATTRIBUTABLE TO COMPETING PRESSURE FROM OTHER EUROPEAN COUNTRIES THAT THEY SHOULD BE INCLUDED IN TAKESHITA'S ITINERARY. HASEGAWA, DIRECTOR GENERAL OF EUROPEAN AND OCEANIC AFFAIRS BUREAU, TOLD ME ON 29 JANUARY IN RESPONSE TO A FURTHER ENQUIRY THAT IT NOW LOOKED AS IF TAKESHITA WOULD VISIT ITALY, THE UK AND FRG BETWEEN 2 AND 6 MAY.

2. I HAVE REEMPHASISED TO THE MFA THAT WITHIN THIS PERIOD 4 MAY IS THE DATE THAT WOULD BEST SUIT THE PRIME MINISTER'S CALENDAR. IT LOOKS HIGHLY LIKELY THEREFORE THAT TAKESHITA WILL VISIT THE UK AS THE MIDDLE OF THE THREE COUNTRIES. WE SHALL CONFIRM THIS AS SOON AS WE CAN.

WHITEHEAD

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EMBASSY OF JAPAN

LONDON

21st December 1987

CC FCO e DTI

Prime Minister

CDP 22/xii

Dear Prime Minister,

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

... I have pleasure in enclosing herewith the text of this message.

Yours sincerely,

Toshio Yamazaki

Toshio Yamazaki
Ambassador

The Rt.Hon. Margaret Thatcher, MP,
Prime Minister and First Lord of the Treasury,
London.

PRIME MINISTER'S
PERSONAL MESSAGE
SERIAL No. T 237B/87

SUBJECT
cc MASTER
OPS

(T E X T)

Dear Prime Minister,

Thank you for your message inviting me to visit the United Kingdom on my way back from the United States. I am most grateful for your kind invitation.

I am afraid, however, that the very tight schedule for Diet deliberations towards the end of January makes it impossible for me to accept.

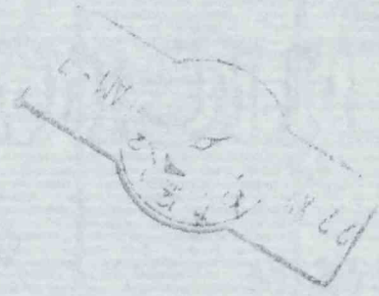
I hope most earnestly that we may find mutually convenient dates for a meeting as early as possible in the coming year.

With best wishes,

Yours sincerely,

NOBORU TAKESHITA
Prime Minister of Japan

The Rt.Hon. Margaret Thatcher, MP,
Prime Minister of the United Kingdom
of Great Britain and Northern Ireland,
London.



10 DOWNING STREET
LONDON SW1A 2AA

From the Private Secretary

21 December 1987

Japan: Visit by Mr. Takeshita

Thank you for your letter of 21 December warning that Mr. Takeshita is likely to propose a visit to the United Kingdom at some point in the period 29 April to 5 May. You may like to know that the most convenient days for the Prime Minister in this period, on which she could offer talks and a lunch, would be 29 April and 4 May. There would be no harm in letting the Japanese know this.

(CHARLES POWELL)

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

10 DOWNING STREET

Charles.

Lunch 29/4
or 4/5.

Andy

If we have only
a preference,
we had better
let them know
soon.

Any views? 1½
hrs talk + lunch
or dinner.

CDP

010

CCPC

Foreign and Commonwealth Office

London SW1A 2AH

21 December 1987

Dear Charles

Japan: Visit by Mr Takeshita

We have learned from Japanese officials that Mr Takeshita is planning a trip to Europe between 29 April and 5 May. We understand that he will wish to include the UK in his itinerary, though we do not know on which dates this will be. The timing of Mr Takeshita's visit is dictated by his Parliamentary commitments: the week of his visit is a week of public holidays in Japan and is the first opportunity he will have of travelling abroad. It is encouraging that after his brief visit to the Asean Summit, and his trip to Washington, he is giving a reasonable priority to meeting European leaders.

Yours ever

Robert

(R N Culshaw)
Private Secretary

C D Powell Esq
10 Downing Street

CONFIDENTIAL

043643
MDADAN 8883

ADVANCE COPY

CONFIDENTIAL
FM TOKYO
TO IMMEDIATE FCO
TELNO 1006
OF 110845Z DEC 87

Mr Miller
1) Pls copy to PS/No10
2) Pls request Japan (political + Economic Background) distribution
DT 11/12

FOR FED

YOUR TELNO 806: POSSIBLE VISIT BY THE JAPANESE PRIME MINISTER.

1. I DELIVERED THE PRIME MINISTER'S INVITATION TO MR TAKESHITA VIA HASEGAWA, DIRECTOR GENERAL, EUROPEAN AND OCEANIC AFFAIRS BUREAU, MFA ON 1 DECEMBER.

2. I EXPLAINED THAT THE PRIME MINISTER WAS AWARE OF MR TAKESHITA'S NEED TO BE BACK IN JAPAN TO MAKE A MAJOR POLICY SPEECH IN THE DIET ON 22 JANUARY AND THAT HE WAS LIKELY TO BE DETAINED BY DIET BUSINESS EXCEPT FOR CERTAIN SPECIFIC PERIODS UNTIL THE END OF THE SESSION. BUT THE PRIME MINISTER HOPED NONETHELESS THAT IT MIGHT BE POSSIBLE FOR MR TAKESHITA TO FIT IN A VISIT TO BRITAIN AFTER HIS VISIT TO THE US AND CANADA. HASEGAWA THANKED ME FOR THE MESSAGE WHICH HE UNDERTOOK TO TRANSMIT TO THE PRIME MINISTER'S OFFICE AS SOON AS POSSIBLE.

3. HE HAS SUBSEQUENTLY TELEPHONED TO SAY THAT TAKESHITA WAS MOST APPRECIATIVE OF THE PRIME MINISTER'S KIND INVITATION BUT, MUCH AS HE WOULD HAVE LIKED TO HAVE FITTED IN A VISIT TO LONDON, HIS SCHEDULE WOULD NOT ALLOW THIS. TAKESHITA STILL HOPED HOWEVER TO MEET THE PRIME MINISTER BEFORE THE TORONTO SUMMIT. HASEGAWA SAID THAT A FORMAL WRITTEN ANSWER TO THE PRIME MINISTER'S LETTER WOULD FOLLOW SHORTLY.

4. THIS IS A DISAPPOINTING, ALTHOUGH NOT COMPLETELY UNEXPECTED, REPLY. I AM SURE HOWEVER THAT THE PRIME MINISTER'S MOVE TO INVITE TAKESHITA TO LONDON WILL HAVE BEEN APPRECIATED AND WILL HELP TO CONTRIBUTE TO ESTABLISHING GOOD RELATIONS WITH THE NEW JAPANESE ADMINISTRATION AT AN EARLY STAGE.

WHITEHEAD

YYYY
ADVANCE 1

[redacted]

NNNN

PART ONE ~~TWO~~ ends:-

CDP to FCO 23.10.87

PART TWO begins:-

Tokyo Tel No 1006 11.12.87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