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PRIME MINISTER

Tokyo Economic Summit

1. We shall be meeting tomorrow to discuss our objectives and tactics for the Tokyo Summit. As the Chancellor has pointed out in his minute of 28 April, it takes place against a background of good economic news. The economic arguments underlying Summit communique since Versailles have been translated into policy to a greater or lesser extent in all the Summit countries. I agree with the Chancellor that we should therefore aim positively for an endorsement of the international medium term economic strategy which he advocated to the IMF in April; and for a suitably strong message of support for an early and successful round of trade talks in the GATT.

2. There are however potential difficulties: with the Americans over terrorism and Libya, and over the trade effects of the enlargement of the Community; and with the Japanese over a range of economic issues. The President, with his eye on the November elections and his own place in history, is hoping for a Summit that will show the United States at the head of a Western world united politically and successful economically, in contrast to the political and economic inadequacy of the Soviet system. This East/West contrast is an objective we can share. In the shorter term he will want to mend fences over Libya and to secure a common stance by the Seven against terrorism, including a commitment to take (or urgently study) new concrete measures possibly including a Libyan oil embargo. This general objective is

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one we can not only share, but should promote in our own national interest. Although the positions of the Americans and ourselves on an oil embargo need much careful thought, we shall aim to arrive at the Summit with our own clear proposals for an action programme of the Seven on Libya and terrorism; and with our own draft of a statement on Terrorism which would meet these aims. We shall also want to get due credit for the work done already by the Seven on drugs, and to secure a commitment to cooperate on this through all the proper bodies in future. Other political issues look relatively straightforward now that the US have undertaken not to press for a statement on South Africa.

3. On the trade front, it looks as if - in keeping with Washington's political priorities - any American retaliation against the Europeans over enlargement will now be delayed at least until after the Summit. We and the other Europeans will need to make clear to the President personally that American trade action on enlargement would be unjustified and illegal, and would certainly lead to retaliation by the Community against sensitive American farm interests. There is no sensible alternative to negotiation. I think this point should be put firmly to the President when you see him.

4. As at previous Summits, most of those going to Tokyo will want a good deal out of the Japanese: early reduction of their trade surplus, specific measures to open their markets, longer term structural adjustment of their economy, and a more generous approach to development aid, especially to their share of IDA 8. No doubt there will also be the traditional feeling that the host should be allowed a success on his home ground. The President in particular, who values his personal relationship with Nakasone, will want to avoid anything which could damage Nakasone's hopes for a third term as Prime Minister, especially with an election in the offing. This means that despite the pressure the Americans



have been exerting on the Japanese on trade matters in recent months, the President himself may prefer an emollient approach.

5. Nakasone has taken a more internationalist view of Japan's responsibilities than his predecessors, and has made an effort to change Japanese attitudes to the importation of foreign goods. Against that, his "Action Plan" to increase exports has shown no results after nearly a year. The Maekawa Report, which he commissioned to advise on ways of opening the Japanese economy, is short on concrete recommendations and has not been supported by his colleagues, and he has been criticised for appearing to advocate it to the Americans as Government policy. The rise in the yen, and the pressure of this on to Japanese exporters, is causing him increasing domestic problems. In all, Nakasone's chances for a third term are at best doubtful. So the pressure needs to be applied not only to him, but to his rivals and potential successors, Abe and Takeshita, both of whom will be at the Summit. The Chancellor and I will be able to make detailed points to them in our separate sessions. We shall need to balance the necessity of further pressure on Nakasone against the risk of damaging the success of "his" Summit and undermining his incentive to meet our requirements. But he intends to table the Maekawa Report at the Summit, which will open up the discussion, and you will have a further opportunity in your bilateral meeting to impress on him the need to accompany his declarations of good intent with some specific and early measures: British and European aircraft and Scotch whisky would be a good start.

6. The world wide problem of agriculture has attracted increasing attention in recent weeks. At the OECD two weeks ago the Chancellor and I argued that technological change and the resulting increase in productivity means that countries which formerly imported food are now self sufficient or even

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net exporters: and that the consequent increase in competitive subsidies to secure diminishing export markets damages us all without tackling the basic problem. The Americans picked up these remarks and the President is likely to pursue the issue in Tokyo. He may make it an occasion for attacking the CAP. But that is not the point. US farm subsidies are bigger than European ones: and the Japanese are as bad as the rest of us. We shall need to ensure in Tokyo that the others understand that the problem is a common, as well as a national or regional one. There is an appropriate speaking note in your briefing; and the Chancellor and I will also be able to pick up the argument in our separate exchanges.

7. I am sending a copy of this minute to the Chancellor of the Exchequer, to the Secretary of State for Trade and Industry, to the Home Secretary and to Sir Robert Armstrong.

(GEOFFREY HOWE)

Foreign and Commonwealth Office
30 April 1986

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