

2020
HPSJAN 1637 TYHPAN 3228
CONFIDENTIAL
PP SEOUL
FM TOKYO TO FCOLN
020500Z MAY
GRS 1000

CONFIDENTIAL
IN

CONFIDENTIAL
FM TOKYO
TO DESKBY 020800Z FCO
TELNO 504
OF 020500Z MAY 86
INFO IMMEDIATE UKREP BRUSSELS, WASHINGTON
INFO PRIORITY SEOUL
INFO SAVING EC POSTS, UKMIS GENEVA, UKDEL OECD

SEOUL FOR PRIME MINISTER'S PARTY

FRAME EXTERNAL

MAEKAWA REPORT : JAPANESE GOVERNMENT FOLLOW-UP

SUMMARY

1. ANNOUNCEMENT OF MEASURES FOR THE SHORT TERM AND OTHER FOR THE MEDIUM/LONG TERM TO PROMOTE STRUCTURAL CHANGE. REDUCTION OF THE SURPLUSES ESTABLISHED AS A NATIONAL GOAL. SHORT TERM MEASURES GO LITTLE FURTHER THAN THE RECENT DOMESTIC DEMAND STIMULATION PACKAGE (MY TELNO 383), AND THOSE FOR THE LONGER TERM REMAIN VAGUE. NO INDICATIONS OF FISCAL RELAXATION IN THE NEAR FUTURE.

DETAIL

2. ON 1 MAY THE GOVERNMENT/LDP COMMITTEE TO PROMOTE STRUCTURAL REFORM (MY TELNO 473) MADE AN INITIAL REPORT IN THE FORM OF A PLAN FOR SHORT AND LONGER TERM ACTION. THE REPORT SAYS THAT THE STEADY REDUCTION OF JAPAN'S LARGE CURRENT ACCOUNT IMBALANCE IS A NATIONAL POLICY GOAL. THE FOLLOWING MEASURES ARE PROPOSED.

3. SHORT TERM MEASURES

(A) EXPANSION OF DOMESTIC DEMAND: RELAXATION OF HOUSING AND URBAN DEVELOPMENT REGULATIONS, MORE PAID HOLIDAYS, ENCOURAGEMENT OF LOCAL AUTHORITY PROJECTS.

(B) INDUSTRIAL RESTRUCTURING: SMALL/MEDIUM ENTERPRISES' BUSINESS DIVERSIFICATION AND STABILITY TO BE PROMOTED ON THE BASIS OF RECENT LEGISLATION (DETAILS IN JACK'S LETTER OF 25 APRIL TO LOGIER, DEPARTMENT OF EMPLOYMENT). ENCOURAGEMENT OF OVERSEAS INVESTMENT THROUGH INVESTMENT INSURANCE, EARLY SIGNATURE OF MIGA, AND LOWER INTEREST RATES FOR EXIM BANK LOANS. AN INTERNATIONALLY APPROPRIATE AGRICULTURAL POLICY: STRUCTURAL CHANGE BY PROMOTING LARGER FARMS.

(C) GREATER MARKET ACCESS FOR IMPORTS: REVIEW OF IMPLEMENTATION OF ACTION PROGRAMME AND FOLLOW-UP (THIS AUTUMN). LOWER INTEREST RATES FOR EXIM BANK FINANCE, FULLER USE OF JAPAN DEVELOPMENT BANK LOANS, IMPORT BAZAARS ETC.

(D) STABILISATION OF EXCHANGE RATES AND FINANCIAL LIBERALISATION: FURTHER INTERNATIONAL POLICY CO-ORDINATION THROUGH THE TOKYO SUMMIT AND ELSEWHERE. MEASURES TO DEVELOP SHORT TERM FINANCIAL MARKETS. ESTABLISHMENT OF AN OFFSHORE MARKET IN 1986.

(E) INTERNATIONAL CO-OPERATION: EFFORTS TO INCREASE FINANCIAL CO-OPERATION WITH THE WORLD BANK AND OTHER INSTITUTIONS, ACCORDING

TO THE PRINCIPLE OF FAIR SHARES (THE REPORT SAYS THAT A CONCLUSION OF NEGOTIATIONS ON INCREASED FUNDS FOR IDA AND ASIAN DEVELOPMENT FUND IS IN PROSPECT). MAXIMUM EFFORTS TO ACHIEVE A CONSENSUS ON THE AIMS ETC OF THE NEW GATT ROUND.

4. MEDIUM AND LONG TERM MEASURES

(DATES IN PARENTHESIS ARE TARGETS FOR REPORTS BY EXISTING GOVERNMENT ADVISORY COUNCILS.)

(A) EXPANSION OF DOMESTIC DEMAND: PROMOTION OF HOUSING AND URBAN DEVELOPMENT (BY END OF FY1986). ENCOURAGEMENT OF APPROPRIATE (I.E. HIGHER?) WAGE SETTLEMENTS. TAX REDUCTIONS (AUTUMN OF 1986). REDUCTION OF WORK HOURS AND INCREASE IN HOLIDAYS (BY END OF FY1986). ALSO PROMOTION OF A FIVE-DAY WORKING WEEK IN GOVERNMENT AND FINANCIAL INSTITUTIONS, DEVELOPMENT OF SOCIAL INFRASTRUCTURE IN THE REGIONS.

(B) INDUSTRIAL RESTRUCTURING (IN FIRST HALF OF 1986). PROMOTION OF DIRECT INVESTMENTS IN BOTH DIRECTIONS, INDUSTRIAL CO-OPERATION AND CO-OPERATION WITH LDC'S (BY END OF 1986). AGRICULTURAL POLICY (AUTUMN 1986): TO INCLUDE STUDY OF AGRICULTURAL TRADE, JAPAN'S POSITIVE PARTICIPATION IN DRAWING UP NEW RULES FOR AGRICULTURE IN THE NEW GATT ROUND, AND EFFORTS TO IMPROVE MARKET ACCESS

(C) IMPROVED MARKET ACCESS AND PROMOTION OF MANUFACTURED IMPORTS (END 1986). FULL IMPLEMENTATION OF THE ACTION PROGRAMME. POSSIBLE STRENGTHENING OF THE FUNCTIONS OF THE TRADE OMBUDSMAN (OTO).

PROMOTION OF RATIONALISATION OF THE DISTRIBUTION SYSTEM. STRICT APPLICATION OF THE ANTI-MONOPOLY LAW AGAINST UNFAIR PRACTICES

(D) STABILISATION OF EXCHANGE RATES AND FINANCIAL LIBERALISATION: POSITIVE PARTICIPATION IN THE G10 AND THE IMF INTERIM COMMITTEE, AND THE STRENGTHENING OF MULTILATERAL SURVEILLANCE. LIBERALISATION, ESPECIALLY IN RESPECT OF ASSET MANAGEMENT. EXAMINATION OF THE WORKINGS OF THE BOND MARKET (AFTER THIS AUTUMN), AND OF THE MONETARY SYSTEM (BY THE END OF 1987).

(E) INTERNATIONAL CO-OPERATION: INCREASED IMPORTS FROM LDC'S. CONSULTATIONS WITH OTHER DEVELOPED COUNTRIES ON, AND A CASE BY CASE RESPONSE TO, THE INDEBTEDNESS PROBLEM. EARLY ACHIEVEMENT OF THE PRESENT MEDIUM TERM ODA TARGET. IMPROVED GRANT ELEMENT, RESTRICTIONS ON MIXED CREDITS, PROMOTION OF UNTYING AID. EXAMINATION OF JAPAN'S AID POLICY (SUMMER OF 1987). PROMOTION OF THE NEW ROUND

(F) FISCAL AND MONETARY POLICY: A FLEXIBLE APPROACH, WHILE MAINTAINING THE POLICY OF ENDING RELIANCE ON DEFICIT FINANCING. STRESS ON MORE EFFECTIVE AND TARGETED USE OF GOVERNMENT RESOURCES, PRIVATE SECTOR VITALITY AND DEREGULATION. REVIEW OF THE TAX SYSTEM, INCLUDING THE TREATMENT OF INTEREST ON SAVINGS (THIS AUTUMN).

COMMENT

5. THE POSITIVE ELEMENTS IN THIS REPORT ARE THE REAFFIRMATION OF THE REDUCTION OF SURPLUSES AS A NATIONAL GOAL, AND THE FACT THAT THE ANNOUNCEMENT PUTS AN OFFICIAL AND PARTY SEAL OF APPROVAL ON THE MAIN LINES OF THE MAEKAWA REPORT (WITHOUT, HOWEVER, MENTIONING IT BY NAME). THE BUREAUCRATISATION OF MR NAKASONE'S ORIGINAL INITIATIVE MAY BE A PRE-CONDITION TO GETTING LONG-TERM RESULTS IN THE JAPANESE SYSTEM BUT IT MAKES IT VULNERABLE TO THE SECTORAL INTERESTS IN THE ADVISORY BODIES WHO WILL NOW CARRY MATTERS FORWARD IN THE NEXT STAGE. YESTERDAY'S ANNOUNCEMENT CONTAINS NO NEW IDEAS, BUT IS FAIRLY FAITHFUL TO THE MAEKAWA AGENDA. IT STILL REMAINS TO BE SEEN HOW SERIOUSLY THE JAPANESE WILL ADDRESS THE STRUCTURAL ISSUES. MY ADVICE REMAINS AS IN MY TELNO 473: THAT WE SHOULD SUPPORT AND WELCOME THE LONG TERM GOALS IN THE MAEKAWA REPORT NOW ENDORSED BY THE JAPANESE GOVERNMENT AND LDP. BUT THE JAPANESE WILL HAVE TO DO MORE IN THE SHORT TERM TO STIMULATE DOMESTIC DEMAND, AND ENSURE THAT THE PLETHORA OF ADVISORY COUNCILS COME UP WITH MEANINGFUL MEDIUM/ LONG TERM MEASURES.

6. PLEASE PASS ADVANCE COPIES TO BRAITHWAITE, SHEPHERD, WARREN (FCO), FITCHEW (TREASURY), HUTTON AND HALL (OT2, DT1).

GIFFARD

YYYY

FCO PLEASE PASS SAVINGS ADDRESSEES

TYHPAN 3228

NNNN

CONFIDENTIAL

11/20 2.