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FM TOKYO

TO IMMEDIATE FCO

TELNO 1130

OF 200257Z NOV 86

INFO ROUTINE SEOUL, PEKING, WASHINGTON, UKREP BRUSSELS

*W. J. ...
Some good
judgements*

JAPAN: HAVE NAKASONE'S FORTUNES CHANGED?

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SUMMARY

1. DESPITE THE LIBERAL DEMOCRATIC PARTY'S SUBSTANTIAL MAJORITY, PRIME MINISTER NAKASONE'S LEGISLATIVE PROGRAMME IS BEING HELD UP IN THE DIET. THE PARTY HAS ATTEMPTED TO SEIZE THE INITIATIVE ON TAX REFORM AND ECONOMIC POLICY. NAKASONE'S FOREIGN POLICY HAS ALSO SUFFERED SETBACKS. NONETHELESS, HIS POSITION AS PRIME MINISTER IS NOT UNDER IMMEDIATE THREAT.

DETAIL

2. SWEEPED ALONG BY THE LIBERAL DEMOCRATIC PARTY'S LANDSLIDE VICTORY IN THE JULY GENERAL ELECTION, PRIME MINISTER NAKASONE WON HIS PARTY'S AGREEMENT TO EXTEND HIS TERM OF OFFICE FOR UP TO A YEAR FROM 31 OCTOBER. WHEN THE DIET REASSEMBLED IN EXTRAORDINARY SESSION IN THE EARLY AUTUMN, NAKASONE PLEDGED TO COMPLETE HIS PROGRAMME OF PRIVATISATION AND OF TAX AND EDUCATIONAL REFORM. IN FOREIGN AFFAIRS, HE MADE CLEAR HIS WISH TO ACHIEVE A HISTORIC BREAKTHROUGH IN JAPAN-SOVIET RELATIONS. HE CALCULATED THAT THE SUCCESSFUL COMPLETION OF THESE TASKS WOULD STRENGTHEN HIS SAY IN THE CHOICE OF HIS SUCCESSOR AND QUARANTEE HIS CONTINUED INFLUENCE WITHIN THE PARTY AFTER RETIREMENT.

3. NAKASONE HAS NOT MADE AS MUCH PROGRESS AS HE WOULD HAVE LIKED. THE BILL TO PRIVATISE JAPAN NATIONAL RAILWAYS, THE CENTRE PIECE OF THE GOVERNMENT'S LEGISLATIVE PROGRAMME FOR THIS SESSION, GOT OFF TO A GOOD START. BUT ITS FURTHER PROGRESS HAS BEEN BLOCKED SINCE 13 NOVEMBER BY AN OPPOSITION BOYCOTT OF THE DIET IN PROTEST AT THE GOVERNMENT'S UNWILLINGNESS TO INTRODUCE NEW PERSONAL TAX ALLOWANCES IN ADVANCE OF NEXT YEAR'S BUDGET. NAKASONE HAS ALSO LOST SOME OF THE INITIATIVE ON TAX REFORM, THE PRINCIPAL DOMESTIC POLITICAL ISSUE OF THE AUTUMN. THE FIRST MAJOR REFORM OF THE JAPANESE TAX SYSTEM FOR 35 YEARS WILL IMPINGE DIRECTLY ON SOME OF THE SPECIAL INTEREST GROUPS WHICH EXERCISE GREAT INFLUENCE WITHIN THE LDP. PARTY LEADERS INSIST THAT THEY, AND NOT NAKASONE, WILL ULTIMATELY DECIDE THE SHAPE OF THE TAX REFORMS. THE EVENTUAL PACKAGE IS HOWEVER LIKELY TO CORRESPOND FAIRLY CLOSELY TO WHAT NAKASONE AND THE GOVERNMENT WANT. NAKASONE IS ALSO UNDER LDP PRESSURE FOR MORE REFLATIONARY POLICIES TO OFFSET THE EFFECT ON THE DOMESTIC ECONOMY OF A HIGHER YEN. ALMOST UNHEARD OF IN RECENT TIMES, REGIONAL UNEMPLOYMENT IS BECOMING A MATTER OF CONCERN.

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4. NAKASONE'S TOUCH IN FOREIGN AFFAIRS APPEARS TO HAVE BECOME LESS SURE. HE PLANNED TO APPROACH THE SOVIET UNION SECURE IN THE KNOWLEDGE THAT JAPAN'S RELATIONS WITH HER CLOSEST ASIAN NEIGHBOURS AND THE UNITED STATES WERE ON A FIRM FOOTING. INSTEAD, HE HAS BEEN FORCED TO ATTEMPT TO SOOTHE CHINESE AND KOREAN SENSITIVITIES IRRITATED BY THE ILL-CHOSEN REMARKS OF LEADING LDP POLITICIANS. US/JAPAN RELATIONS TOO HAVE BEEN JOLTED BY NAKASONE'S OWN SOLECISM ABOUT THE LEVEL OF INTELLIGENCE OF AMERICA'S RACIAL MINORITIES. MORE DISTURBINGLY, THE DEMOCRATS' MID-TERM GAINS IN CONGRESS HAVE ROUSED THE SPECTRE OF RENEWED PROTECTIONIST PRESSURES AGAINST JAPAN. THE PROSPECT FOR AN EARLY VISIT BY GORBACHEV TO JAPAN MAY ALSO BE RECEDING. RATHER THAN RECEIVING GORBACHEV IN TOKYO IN JANUARY AS HE CONTINUES TO HOPE, NAKASONE MAY FIND THAT A PROPHYLACTIC MISSION TO WASHINGTON EARLY IN THE NEW YEAR BETTER SERVES JAPAN'S INTERESTS.

5. NAKASONE'S MISFORTUNES HAVE DENTED HIS STANDING IN THE OPINION POLLS. THERE HAS EVEN BEEN TALK OF HASTENING HIS DEPARTURE FROM OFFICE. BUT THIS STILL LOOKS UNLIKELY THIS SIDE OF THE VENICE SUMMIT. NONE OF THE CONTENDERS FOR THE SUCCESSION IS YET CONFIDENT ENOUGH TO MOVE AGAINST HIM. IT SUITS THEM THAT NAKASONE SHOULD SHOULD THE RESPONSIBILITY FOR UNPOPULAR MEASURES ON THE POLITICAL AGENDA LIKE THE INTRODUCTION OF AN INDIRECT TAX. THE CASTING VOTE OF THE NAKASONE FACTION MAY WELL BE DECISIVE IN THE DESIGNATION OF THE NEXT PARTY LEADER. SO LONG AS EACH OF THE CONTENDERS ASPIRES TO HIS SUPPORT, NAKASONE REMAINS WELL PLACED TO DIVIDE AND RULE.

6. PLEASE PASS ADVANCE COPY TO PS/SECRETARY OF STATE FOR TRADE AND INDUSTRY.

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[ADVANCED AS REQUESTED]

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