

1. Mr Powell

2. PRIME MINISTER

I attach the note which I did for your Japanese press interview. I think it has the main points which it would be useful to get over on TV.

INTERVIEW WITH NHK JAPANESE TELEVISION

You might add that you know Takashita very well from his attendance at many Economic Summits &

You are giving an interview to NHK Japanese Television tomorrow morning at 9.30. The interview will be transmitted live to Japan where it will be subtitled and broadcast shortly afterwards during the main evening news programme. *greatly respect him*

The interviewer will be Mr Hatsuhisa Takashima, London Bureau Chief of NHK, who speaks fluent English. *CDD 25/6*

The make-up girl will be waiting for you at 9.30. The interview itself will last approximately 15 minutes.

Mr Takashima wishes to ask you about Anglo-Japanese relations, East-West relations post-INF, the Soviet Union and Perestroika, the Anglo-American special relationship, and Mr Takeshita's visit.

I attach a note by the FCO on these points together with Charles's note for your interview with Yomiuri Shimbun.

MICHAEL BATES
Press Office
28 April 1988

PRIME MINISTER

INTERVIEW WITH YIOMURI SHIMBUN

You are doing an interview with Yiomuri Shimbun, a major Japanese newspaper, on Monday as a curtain-raiser for Mr. Takeshita's visit on 4 May. There will be four interviewers and they have sent in their questions in advance. I attach some answers suggested by the Treasury and FCO.

I think that the main points you should try to work in are these:

- our relationship with Japan has developed enormously from being almost entirely trade-dominated to a much broader and closer political relationship. You welcome that and your meeting with Mr. Takeshita will take it an important step further forward;
- we welcome the measures taken by Japan to establish a better balance in the world economy, particularly by letting the yen rise and by expanding domestic demand;
- in Britain we also very much welcome the growth in Japanese investment and the management practices which they have brought us. The experience of Japanese companies is that the British workforce is as good as any when properly managed;
- we are impressed with the way in which Japan is expanding its scientific research and its ability to translate research into products;
- but some difficult problems remain. Recall your words at the Lord Mayor's Banquet: "no country should seek to run its economy and society in such a way as to entrench a massive and permanent trade balance in its ^{favor in} ~~power~~, for that could only be at the expense of others."

- there is still some way to go in market-opening. Europe is setting an example by its commitment to a single market without barriers by 1992;
- you will have specific problems to raise with Mr. Takeshita - some of them problems which you have raised with more than one of his predecessors but which you hope now to see finally laid to rest, e.g. whisky tax and Stock Exchange seats. There is also still a feeling that Japanese people are not sufficiently open to the idea of buying from abroad;
- so we cannot sweep problems under the carpet. But that does not mean that the problems should dominate our relations. There is a very broad range of international issues on which Britain and Japan can consult and work together more - the Middle East, the Gulf, East/West - as well as the common problems of modern societies, on which the UK-Japan 2000 Group is doing a lot of valuable work;
- in short you approach the meeting with Mr. Takeshita in the same spirit as you would a meeting with any other of Britain's major allies in Europe or North America: as a frank talk with a partner and friend.

C.D.P.

Charles Powell
22 April 1988

PRIME MINISTER'S INTERVIEW WITH NHK

1. UK-Japan relations

- UK-Japan relations are good. Increases in both directions :in Trade (exports up in 1987 25% to £1.5 bn and still rising); in Investment (80 Japanese manufacturing companies in the UK, major investments in Japan by ICI, Glaxo etc); and in visits for business, education and pleasure.
- Japan and UK have the two fastest growth rates of the major industrial countries. Japan has paid tribute to our fast rising productivity and competitiveness by making the UK her first location for investment in Europe.
- Look forward to Mr Takeshita's visit. Chance to get to know each other before the Toronto Summit. Hope to have a thorough discussion of international economic and political issues. We want to work with Japan in all these fields. Japan and UK have many interests in common : peace, free trade, security relations with the US. But working together entails speaking frankly to each other.
- Hope to clear up some unfinished business. Hope Mr Takeshita will be able to give a clear statement of intention on whisky tax. Japan accepted the GATT panel's recommendations in November. We expect the Japanese authorities to implement those recommendations rapidly and in full.
- Welcome decision to allow four new British firms to become members of the Tokyo Stock Exchange. But two British firms BZW and James Capel had their applications turned down. I will emphasise to Mr Takeshita the importance which be attached to full liberalisation of financial markets. Many in this country find it hard to understand why there should be so many restrictions in Japan that work to the disadvantage of foreign firms in this area where Japanese companies are now so powerful and where access to our own markets is completely open.

PRIME MINISTER'S INTERVIEW WITH NHK

2. EAST-WEST RELATIONS POST-INF

- The INF Treaty was a triumph for Western unity and determination. An agreement which removes a whole category of nuclear weapons and enhances our security.

- Our task now is to build on that achievement in the arms control field. We are working in close partnership with our allies to reach agreements covering: a 50% reduction in superpower strategic arsenals; a total ban on chemical weapons; and a stable and secure balance of conventional forces in Europe.

- But we are determined that any agreement should remove existing Soviet and Warsaw Pact superiority, particularly in the conventional field, and should be fully and effectively verifiable. Bad agreements are likely to be worse than no agreement at all.

- And we must remember that East/West relations are not just a question of arms control. The arms race is the result, not the cause, of East/West tensions. We need further progress after the welcome Soviet decision to leave Afghanistan after 8 bloody years of occupation. We need to break down the underlying barriers which divide our societies. Mr Gorbachev talks of a "Common European Home"; but it is the East which has built the Berlin Wall through the middle of it.

- We must ensure a free flow of people, information and ideas particularly in Europe. We must increase trust and openness.

- But such trust cannot be established while the Soviet Union continues to imprison its own citizens without good reason; to prevent those who wish to leave from doing so; to jam foreign broadcasts. Some progress has been made but underlying attitudes too often remain unaffected.

PRIME MINISTER'S INTERVIEW WITH NHK

3. PERESTROIKA AND ITS IMPLICATIONS FOR INTERNATIONAL RELATIONS

- After 70 years of socialism the Soviet Union is falling further and further behind - economically and technologically. There has been an almost total failure to exploit the country's enormous natural resources. The Russians now admit that the Brezhnev period saw over 20 years of stagnation in the civilian economy. In some areas the USSR is actually going backwards - eg life expectancy is falling.

- Gorbachev is attempting to drag the Soviet Union into the late 20th century. A massive task - particularly in the face of widespread foot dragging and resistance from the junior and middle ranks of the Party bureaucracy. I admire his courage and determination.

- The average Russian has no entrepreneurial experience; no training or preparation for greater responsibility. Used to taking orders, not taking decisions. We have seen an agricultural miracle first in India, then in China. But there is no sign of this happening in the Soviet Union.

- Against this background, Gorbachev is looking for stability and predictability in international relations. Russians beginning to realise that past foreign adventures were expensive mistakes. Less and less keen to prop up corrupt and inefficient 3rd world dictatorships which are out of tune with Moscow's attempts to introduce domestic reform. These signs of "new thinking" are welcome; and long overdue.

BRIEF FOR PRIME MINISTER'S INTERVIEW WITH NHK

BRIEF NO 4: ANGLO/US RELATIONS

- Good strong close relationship. Based on shared history and political ideals, and helped by common language. Myriad of links ranging from personal ties, built up over the years, to the closest possible consultation on world affairs and social issues
- The US is UK's largest export market (£11 bn in 1987). UK is the largest investor in the US, and the US the largest investor in UK
- This does not mean that we don't have differences. But, as befits friends, we discuss them frankly and try to resolve them before they do serious harm to the overall relationship
- The size of the US budget deficit worries us in particular. We hope that the next President will take early steps to reduce it. Whoever wins the next US Presidential election in November will face some hard decisions, which will inevitably affect Japan and Europe
- We are daily made more aware that we are entering a multipolar world, not one so clearly dominated by two superpowers. Japan and Europe will need to work closely with each other and with the new President so that, together, the three of us can be ready to manage the changes taking place around us; and ensure that the world trading system and Western defences remain vigorous and unimpaired.

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- But central Soviet security objectives appear untouched by "new thinking". As determined as ever to hang on to Eastern Europe and maintain massive conventional superiority in Europe; to weaken and divide West whenever an opportunity occurs.

- We must therefore ensure that we are in a position to defend ourselves effectively and thus deter aggression. Our aim is a world free from war, not simply a world free from one class of weapon or another.

QUESTION 1 : EVALUATION OF ECONOMIC SUMMITS


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

- Economic Summits have undoubtedly been a success.
- Annual Economic Summits provide unique opportunity for Heads of State/Government to meet for informal, personal and unstructured discussion of the leading economic - and political - issues of the day. Offer chance to take initiatives on longer term matters as well as to respond quickly to crises, (eg Chernobyl in 1986). Lack of institutionalised machinery a major advantage. Valuable forum - no other quite like it.
- Initiatives taken at past summits on subjects as diverse as terrorism and AIDS. On the economic side, particularly proud of UK's contribution in getting agricultural reform on to the international agenda. At Venice last year pressed for our proposal to help the poorest, most indebted sub-Saharan African countries.
- Agreement not always easy, yet Summit countries have achieved a remarkable consensus on how to tackle world economic problems - a strategy of getting inflation down, keeping public spending and borrowing within tight limits, resisting protectionism, and implementing market-oriented structural reforms.
- These policies have served us well and we have seen six years of continuous growth, averaging some 3%, while inflation has been reduced to very low levels.

QUESTION 2 : AGENDA OF THE TORONTO SUMMIT

The main objective of recent Summits has been the co-ordination of policies. What items on the agenda of the forthcoming Toronto Summit do you consider important? What should individual countries do to strengthen the world economy? In connection with this, how do you think a stable exchange rate - a pressing need for both Britain and Japan - can be achieved?

- The objective for Toronto will be to keep the world economy moving in the right direction. This means reaching agreement on policies to sustain a steady and satisfactory rate of non-inflationary growth, while reducing further the large current account imbalances of the United States, Japan and Germany.

 - To strengthen the world economy, each country needs to pursue appropriate policies (which will vary from country to country). Growing consensus that there is scope for countries to pursue structural adjustment of their economies - to make them more responsive - and so achieve higher growth.

- US still has some way to go in reducing its budget deficit. Japan will need to maintain strong growth of domestic demand for several years and continue the progress on opening up her markets.

- Continuing to coordinate economic policies to strengthen the underlying fundamentals will reinforce the conditions for exchange rate stability.

- Also vital to reinforce our determination to resist protectionism and to tackle the problems of world agriculture. Important that Toronto Summit demonstrates political determination to tackle problems of agricultural support and protection.

QUESTION 3 : MR TAKESHITA'S VISIT TO BRITAIN

What do you expect from Mr Takeshita's visit to Britain?

- Look forward to Mr Takeshita's visit. Chance to get to know each other before the Toronto Summit. I hope to have a thorough discussion of international economic and political issues.
- Hope Mr Takeshita will appreciate that we want to work with Japan in all these fields. Japan and Europe have many interests in common: peace, free trade, security relations with US. But working together entails speaking frankly to each other.

Are there any specific problems you would like to see resolved during your meeting with Mr Takeshita?

- I hope to clear up some unfinished business. I hope that he will be able to give me a clear statement of intention on whisky tax. Japan accepted the GATT panel's recommendations in November. We expect the Japanese authorities to implement those recommendations rapidly and in full. This has been a problem between us too long. Now we can remove the subject from our agenda once and for all.
- I welcome the decision to allow four new British firms to become members of the Tokyo Stock Exchange. But two British firms, BZW and James Capel had their applications turned down. I will emphasise to Mr Takeshita the importance which we attach to full liberalisation of financial markets. Many in this country find it hard to understand why there should be so many restrictions in Japan that work to the disadvantage of foreign firms in this area where Japanese companies are now so powerful and where access to our own markets is completely open.

QUESTION 4 : BRITISH-JAPANESE ECONOMIC RELATIONS

How do you regard the present economic relationship between Britain and Japan?

- Our economic relations are good. Japan and Britain have the fastest growth rates of the major industrial countries.
- British industry is now more competitive than ever and our productivity is rising faster than in any other industrialised country. Japan has paid tribute to our economic success by making Britain the first location for investment in Europe.

What do you consider to be hopeful aspects of the relationship and what obstacles would you like to see removed in order to improve relations?

- The hopeful aspects are that Trade is increasing in both directions [exports up 25% to £1.5 bn in 1987 and still rising] Investment is increasing in both directions (80 Japanese manufacturing companies in UK. Major investments in Japan by ICI, Glaxo and others). Visits in both directions for business, education and pleasure increasing rapidly.
- Obstacles : Want more of all these. Would help if air fares came down [cost per mile Tokyo - London is more than double London - New York]. Would help if you spoke more English and we spoke more Japanese.

QUESTION 7 : GORBACHEV AND EAST-WEST RELATIONS

- Mr Gorbachev realises that for 70 years Soviet policies have totally failed to deliver the goods. He has rightly decided that fundamental changes are needed and he is determined to press these through. I admire his determination: everybody would benefit - above all the Russian people - if the Soviet Union became more open and liberal.

- But he does not seem to plan on turning the Soviet Union into a Western-style democracy. And after such a long period of oppression and mismanagement, it would be foolish to underestimate either the enormous difficulties which he faces or the obstacles which will be put in his way. The problems confronting a multi-national empire have been vividly highlighted by recent events in Armenia and Azerbaijan.

- On the foreign policy side, the total withdrawal of Soviet troops from Afghanistan will be an important indication that "new thinking" is more than mere public relations, that we may be witnessing a significant change.

- But withdrawal from Afghanistan must be matched by a willingness to take comparable steps in other parts of the world; we look for a genuine commitment to resolve regional conflicts by peaceful means, rather than by arming client states and so-called liberation movements.

- In any case for us, as Europeans, the key test of "new thinking" will be Soviet willingness to reduce their massive and threatening military superiority in Europe. As far ahead as I can see, our security must depend on our ability to defend ourselves effectively, not on faith in changes which may or may not be taking place in the Soviet Union.

5. The British economy

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

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

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

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

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

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

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

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

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

6. Tax reform

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

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

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

Since 1979 we have

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

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

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



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