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RM



10 DOWNING STREET

From the Principal Private Secretary

4 May, 1985

Dear Len,

PRIME MINISTER'S BILATERAL MEETING WITH MR NAKASONE AT THE
BRITISH RESIDENCE, BONN, 4 MAY, 1985, 1830 HRS

I enclose a record of the Prime Minister's meeting with Prime Minister Nakasone in the margins of the Economic Summit.

I am sending a copy of this letter and its enclosure to Rachel Lomax (HM Treasury), Richard Mottram (Ministry of Defence), John Mogg (Department of Trade and Industry) and Richard Hatfield (Cabinet Office).

Yours ever,

Robin Butler

L Appleyard, Esq.,
Foreign and Commonwealth Office

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NOTE OF A BILATERAL MEETING BETWEEN THE PRIME MINISTER AND
PRIME MINISTER NAKASONE AT THE RESIDENCE, BONN ON SATURDAY
4 MAY 1985 AT 1830 HOURS.

Present:

The Prime Minister
Mr. F.E.R. Butler

Prime Minister Nakasone
Mr. T. Nishiyama - Director
General of Economic Affairs,
Foreign Ministry
Mr. A. Saiki - Interpreter

Strategic Defence Initiative

Mr. Nakasone started the meeting by asking the Prime Minister her views on the Strategic Defence Initiative. He said that the Japanese Government had sympathy with the United States Government intention to undertake research and was still considering whether Japan should participate.

The Prime Minister said that she also agreed that the United States should also undertake research. It was important to recall the background. Seven or eight years ago the West had learned that the Russians were undertaking research into lasers and electronic pulse beams. They also had an anti-satellite capacity and had had an anti-ballistic missile defence around Moscow for 20 years. They were also building big radar stations which the United States believed were contrary to the ABM Treaty. If the United States did not undertake research there was a risk they would fall behind and Russia would develop a capability to knock out American missiles, which would undermine deterrence. Throughout history each generation of weapons had generated systems to ward them off.

The Prime Minister continued when she had visited Camp David she had wanted to persuade the Americans that deployment would require negotiation under the ABM Treaty.

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One of her current anxieties was that it was not clear how this would be done. But research should be undertaken: it was not covered by the ABM Treaty because there was no way in which it could be verified. She had also wanted to persuade the Americans not to speak about nuclear weapons as if they were immoral: other forms of weapon were no less immoral.

On participation in research the Prime Minister said that President Mitterrand had made it clear that he did not want to undertake what he described as sub-contracts for the Americans. She thought that Germany and Italy would want to participate, as would the United Kingdom.

Mr. Nakasone asked when the British Government would be proceeding with participation and whether they would do so bilaterally or in co-operation with other European countries. The Prime Minister said she thought it likely that arrangements for participation would probably go ahead soon. She thought it likely that the European countries would take part on a co-ordinated but not a collective basis. They would want to ensure that they were given some interesting research to undertake.

Mr. Nakasone said that his personal view was that Japan should take part in research but the timing of an announcement was very delicate. Japan was prevented from taking part in collective research by the provision in its constitution against collective action in defence. His own view was that the United States were in the best position to co-ordinate the sharing of the work; and Japan already had arrangements with the United States for the transfer of defence technology, on which arrangements could be built. He would want to ensure that any participation by Japan brought a return for Japan.

East/West Relations

Mr. Nakasone asked the Prime Minister's view about the prospects for East/West relations and particularly for a bilateral meeting between President Reagan and Mr. Gorbachev.

The Prime Minister said that she thought that President Reagan would like a meeting soon. Mr. Gorbachev had carefully avoided committing himself. Only a member of his staff had said that he would be going to the United Nations in the autumn, and it was not clear whether this would be in September or October. She thought that a visit to the United Nations provided the best opportunity for one or more meetings: the time was not yet right for a full summit. On Mr. Gorbachev, she said that in her opinion he was an orthodox Communist, although younger and more open-minded than his predecessors. He recognised that the Soviet system was not working efficiently and would try to make it work better: in fact this was impossible since the only way in which the system could be improved was by relaxing controls which he would not dare to do.

Korea

Mr. Nakasone said that he wanted to tell the Prime Minister something which he had not previously told anyone else. South Korea was trying to improve relations with China and North Korea was trying to improve relations with Japan. South Korea was particularly concerned that the Communist countries should take part in the 1988 Olympic Games and had opened a dialogue with North Korea for this reason. The South Koreans were seeking to establish a tripartite contact meeting with the United States and North Korea. They did not trust North Korea but did want to improve relations with China in order to take advantage of the trading opportunities made possible by China's open-door policy: already a large volume of trade was done by South Korea with China through Hong Kong.

On North Korea's motives, Mr. Nakasone said that the Japanese had some intelligence that the North Koreans were keeping forces on the border with South Korea. But the Chinese would never allow them to attack. They were, however, willing to have talks with South Korea and would be taking

part in Red Cross and trade talks with them.

The Prime Minister commented that it was essential that the United States commitment to South Korea should not be weakened as it had shown signs of being under President Carter. Mr. Nakasone said that there was no danger of this under President Reagan. He thought that the North Koreans were making overtures to the Russians as well as to the Chinese. His own view was that the improvement of relations between North and South Korea and mutual recognition of the border might be helpful in preserving cross-border peace: the German model could be a valid precedent.

Taiwan

Mr. Nakasone said that President Chiang was suffering from diabetes and his health was not good. The proportion of the older generation which had originated in China was declining fast. But now 90 per cent of the Taiwanese Army were native to Taiwan. The Vice President, who could be expected to succeed President Chiang, was also a Taiwanese native. This was a matter of much concern to the Chinese. Although President Chiang's death might not be imminent, this was a factor to be borne in mind.

The Prime Minister commented that she assumed that the Chinese would not attack Taiwan. Mr. Nakasone agreed: the Hong Kong agreement was the shop window for China. He added that, despite China's open-door policy, the Japanese had told the Chinese Government that they would be watching keenly to see how open China in fact was to foreign investment.

Bosphorus Bridge

The Prime Minister said that she was very concerned at the course of events over the contract for the new Bosphorus Bridge. The British had built the first bridge and had submitted the lowest tender for the second. She had agreed to match the Japanese aid and trade provision for the bridge,

although Britain could ill afford it. The firm which had tendered for the bridge was based in the North East and the employment was greatly needed. But by forming a consortium with the Italians and extending their concessionary terms to the bridge and road system, the Japanese/Italian consortium had obtained the whole contract. It was particularly galling for the British to lose this order to a consortium composed by the Japanese and the Italians when the British kept their markets open to Japanese cars whereas the Italians limited Japanese imports to 2,000 a year. She was tempted to draw the moral that Britain's interests would be better served by restricting Japanese imports than by keeping our markets open.

Mr. Nakasone said that he was aware that this contract had created problems. But the tender of the Japanese/Italian consortium was entirely a commercial matter in which the Japanese Government were not involved. The Prime Minister interjected that she did not understand how this generous aid/trade assistance had been provided without the inter-position of the Japanese Government. Mr. Nakasone said that by agreement with the United States, Turkey was a strategic area for Japanese aid, as Jamaica had been and as Egypt also was in the Mediterranean area. But Japanese assistance was provided to the Turkish Government, not to the consortium which had tendered for the bridge.

The Prime Minister said that she understood that the British tender had been lost for the bridge but by extending concessionary terms to the whole contract the Japanese/Italian consortium had been successful. She could not help thinking that the Japanese Government were using the profits which they made from the sale of vehicles and other goods to the British market to subsidise their competition with Britain over projects like this one. She also suspected that the Japanese aid offer was conditional upon the Japanese consortium winning the contract for the whole project. She was greatly upset about it and would not forget it: it was bound to influence her future actions. Mr. Naksaone said that he understood the Prime Minister's feelings. He had not been in a position to

intervene, although he realised that from many points of view it would have been better if the Japanese had joined forces with the British rather than with the Italians. He would look into the point which the Prime Minister had made about the link between Japanese aid and the success of their bid for this contract.

7 May 1985