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Foreign and Commonwealth Office

London SW1A 2AH

10 July 1989

*Dear Charles,*French Bicentenary: Bilateral with Japanese Prime Minister

The Prime Minister has agreed to meet the Japanese Prime Minister, Mr Uno, on 14 July at 1215-1245 at the British Embassy. She last saw him in January when he visited London as Foreign Minister. I enclose a personality note.

The Prime Minister might concentrate on:

- bilateral relations;
- China;
- Japan's economic role.

Mr Uno is likely to wish to add East/West relations and the Soviet Union to this list. If there is time the Prime Minister might also refer to Vietnamese boat people.

Mr Uno comes to the Paris Summit with his domestic political powerbase severely shaken. His Liberal Democratic Party (LDP) has suffered recent defeats in two local elections and is widely expected to make a poor showing in the Upper House elections later in July. Recent press allegations about his womanising have damaged his standing and undermined his confidence. Indeed Mr Uno appears acutely conscious that in domestic and world opinion he may not be the right man to represent Japan at the Paris Summit. (There has even been speculation in Japan as to whether the Prime Minister will be willing to shake his hand.) But none of this has affected Japan's economic performance (GNP rose by 2.3% in the first quarter of 1989).

Political Relations

We have maintained a close political dialogue with the Japanese in an effort to ensure that Japan looks to the UK as a key interlocutor in dealing with Europe. The Prime Minister may wish to welcome this closer political dialogue. Her own visit to Japan in September (19-21) this year should give further impetus to a dynamic bilateral relationship.



### Trade Relations

Trade relations with Japan have improved. So far this year, UK exports to Japan are up by 36% (year on year). Over a hundred Japanese firms have now established manufacturing operations in the UK. One outstanding problem has been membership of the Tokyo Stock Exchange. The TSE board has now set up a committee to consider how to expand the membership. Mr Uno may repeat this (but give no date for membership). On past form, the process may take six months. The British companies concerned would be content with this. However, the Japanese will not want us to appear publicly to take for granted the decision of the membership committee. The Prime Minister might:

- welcome Mr Uno's likely message as an encouraging start;
- say that we will keep a close watch on progress and will naturally be concerned if there are any signs of slippage;
- add that she hopes to learn more about the timescale when she visits Japan.

### Japanese investment in UK

There have been some recent indications of hesitations by Japanese companies over further investment in the UK because of their fear that we might leave the European Community. The Prime Minister might wish to tell Mr Uno that:

- the recent agenda of the EC (budgetary and CAP reform; the single market) has largely been set by the UK;
- at the recent European Council we fended off the proposed Social Charter which, as envisaged, could have been damaging to the interests of companies wishing to invest in the Community;
- we got agreement that a range of practical options will be looked at for progress towards economic and monetary union;
- all this illustrates our very firm commitment to the Community. It is because it is vital to our interests that we fight hard within it to ensure it remains efficient, competitive, deregulatory and outward looking.

### Wider Economic Issues

We wish to see Japanese reform in the areas of land and agriculture policy, the distribution system and air transport. The US agree and are about to embark on their own "structural impediments" talks with Japan. But Mr Uno is in a weak position at home. The Prime Minister might say:



- Economic Summits are a valuable opportunity for plain speaking among G7 leaders;
- microeconomic reforms should be high on the agenda; there is scope for more structural adjustment and deregulation in all our economies;
- in Japan's case it would help external adjustment too;
- land and agriculture: the distribution system and air transport are areas where reform could bring benefits both to Japanese consumers and to Japan's trading partners.

### China

The Japanese have been criticised at home and abroad for their reaction to recent events. Japan provides around 68% of China's total aid. But they have now halted plans for new aid projects, and postponed discussions on the (Yen 810 billion) package of loans for 1990-95. Nevertheless they do not want to be pushed into the sort of measures taken against China at Madrid (copy of conclusions attached). We are not seeking extension of these measures. But we do want a firm Summit statement on China and trust the Japanese can go along with this. The Prime Minister might:

- stress the strength of reaction in the UK and Hong Kong to events in China and the need for the G7 to take a firm concerted line;
- request Japanese support in ensuring Hong Kong's continuing stability and prosperity (where they have major interests).

### East/West Relations

Mr Uno will be interested in the Prime Minister's views. Japan's relations with the Soviet Union are still held back by the Northern Territories issue. Mr Uno's visit to Moscow in May did not produce the breakthrough required for Japan to be willing to consider a significant increase in trade relations. More generally, the Japanese take a cautious line towards developments in the Soviet Union.

### Vietnamese Boat People

There are now some 46,000 boat people in Hong Kong, of whom 14,000 have refugee status. The Japanese have been helpful over the repatriation of non-refugees. They have also undertaken to resettle 1,000 refugees from the region and they have contributed US\$11 million towards UNHCR's programme, with emphasis on Hong Kong. The Prime Minister might:

- express our thanks;

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- ask Mr Uno to help persuade the Philippines to proceed with a refugee processing centre. Money would help. We have offered £5 million.

I am copying this letter to Alex Allan (HM Treasury) and Trevor Woolley (Cabinet Office).

*Yours,  
Steph*

(J S Wall)  
Private Secretary

C D Powell Esq  
10 Downing Street

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MR SOSUKE UNO, JAPANESE PRIME MINISTER

After an early career in local government politics, Mr Uno entered the Diet in 1960 and has represented his Shiga constituency since. He has held five previous Cabinet posts, including Defence (1974), International Trade and Industry (1983-87) and Foreign Affairs (1987-89). He was elected Prime Minister and President of the Liberal Democratic Party (LDP) to succeed Mr Takeshita on 2 June 1989.

Mr Uno is a principal figure in the Nakasone faction, and close to Mr Takeshita. His lack of his own power base limits his influence with his party colleagues. He was not implicated in the Recruit Cosmos scandal but his reputation has been sullied since his election by a scandal involving his former geisha mistresses. He is already regarded by the LDP as more of an electoral liability than an asset. Mr Uno has considerable international experience and is well disposed towards the UK, which he has visited privately and officially several times.

He speaks no English but understands a little.

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Declaration on China

The European Council, recalling the Declaration of the Twelve of June 6, strongly condemns the brutal repression taking place in China. It expresses its dismay at the pursuit of executions in spite of all the appeals of the international community. It solemnly requests the Chinese authorities to stop the executions and to put an end to the repressive actions against those who legitimately claim their democratic rights.

The European Council requests the Chinese authorities to respect human rights and to take into account the hopes for freedom and democracy deeply felt by the population. It underlines that this is an essential element for the pursuit of the policy of reforms and openness that has been supported by the European Community and its Member States.

The Twelve are aware that the recent events have caused great anxiety in Hong Kong.

In the present circumstances, the European Council thinks it necessary to adopt the following measures:

- raising of the issue of human rights in China in the appropriate international fora; asking for the admittance of independent observers to attend the trials and to visit the prisons,
- interruption by the Member States of the Community of military cooperation and an embargo on trade in arms with China,
- suspension of bilateral ministerial and high level

ets,

postponement by the Community and its Member States of new cooperation projects,

- reduction of programmes of cultural, scientific and technical cooperation to only those activities that might maintain a meaning in the present circumstances,
- prolongation by the Member States of visas to the Chinese students who wish it,

Taking into account the climate of uncertainty created in the economic field by the present policy of the Chinese authorities, the European Council advocates the postponement of the examination of new requests for credit insurance and the postponement of the examination of new credits of the World Bank.