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MIPT : HOUSTON ECONOMIC SUMMIT: JAPANESE POLITICAL AND ECONOMIC
SCENE

SUMMARY

1. PRIME MINISTER KAIFU GOES TO HOUSTON WITH BOTH HIS PERSONAL POLITICAL POSITION AND THE JAPANESE ECONOMY ON A NEW HIGH. THE LATTER IS BOOMING AND GROWTH FORECASTS FOR 1990 ARE BEING UPGRADED. THE FEB/MARCH STOCK MARKET COLLAPSE HAS HAD LITTLE APPARENT AFFECT AND BUSINESS CONFIDENCE IS RESTORED.

POLITICS

2. KAIFU GOES TO HOUSTON DURING SOMETHING OF A DOMESTIC POLITICAL LULL. HE IS STILL SCORING HIGHLY IN THE OPINION POLLS. NONE OF HIS RIVALS DARE TRY TO MOUNT A CHALLENGE AT PRESENT. JAPANESE DIETMEN ARE THINKING OF THEIR SUMMER TRAVEL PLANS AND THEIR FIRST BREAK FROM EIGHTEEN MONTHS OF ELECTIONS AND POLITICAL TURMOIL. ACTION WILL HOWEVER RESUME IN THE AUTUMN WHEN KEY ISSUES WILL BE: ELECTORIAL REFORM, WHICH DEEPLY DIVIDES THE LDP AT PRESENT BUT ON WHICH KAIFU HAS PROMISED AGREED GOVERNMENT PROPOSALS IN NOVEMBER: POSSIBLE TRADE FRICTION WITH THE AMERICANS AS THE URUGUAY ROUND DRAWS TO A CLOSE AND THE JAPANESE COME UNDER STRONG PRESSURE TO OPEN THEIR RICE MARKET: AND THE CONSUMPTION TAX, ON WHICH THE LDP HOPE TO DO A DEAL WITH THE OPPOSITION.

3. KAIFU WILL NEED STRONG SUPPORT FROM TAKESHITA AND HIS FACTION TO COPE WITH VESTED INTERESTS AND SEE HIS WAY THROUGH THESE ISSUES, BUT THERE ARE NO SIGNS AT PRESENT THAT THEY ARE THINKING OF DITCHING HIM. HIS GENERAL ELECTION SUCCESS AND SUBSEQUENT POPULARITY SEEM TO HAVE GIVEN HIM GREATER ASSURANCE AND SELF CONFIDENCE.

4. ASSUMING THAT HE SUCCESSFULLY NEGOTIATES THE SII TALKS

WITH THE US, WHERE THE FINAL REPORT STILL HANGS IN THE BALANCE TODAY, KAIFU AND HIS FELLOW MINISTERS WILL BE SPEAKING FROM A POSITION OF DOMESTIC STRENGTH.

THE ECONOMY

5. THE ECONOMY IS NOW IN ITS SECOND -LONGEST PERIOD OF UNINTERRUPTED POST- WAR GROWTH, A CONTINUOUS 43 MONTHS SINCE DECEMBER 1986. MANY ECONOMIC FORECASTERS ARE CONFIDENT THAT THE BOOM WILL GO ON AT LEAST UNTIL AUGUST 1991, BY WHICH TIME IT WILL HAVE MATCHED THE RECORD IZANAJI BOOM OF 1965-70. REAL GNP GROWTH IN FY1989 (ENDING IN MARCH) WAS 5% . ALTHOUGH A SLOWER RATE WAS EXPECTED FOR 1990 CURRENT INDICATORS SUGGEST THAT THIS STRONG PACE IS CONTINUING. DOMESTIC DEMAND, AND IN PARTICULAR BUSINESS INVESTMENT, REMAINS THE MAJOR DRIVING FORCE ALTHOUGH THERE ARE SIGNS OF RENEWED EXPORT GROWTH. NEW ORDERS FOR MACHINERY, FOR EXAMPLE, ROSE BY 13.8% DURING FY 1989 - ONLY MARGINALLY DOWN ON THE PREVIOUS YEAR'S INCREASE. BUSINESS CONFIDENCE REMAINS HIGH , WITH COMPANY PROFITABILITY AT RECORD LEVELS: THEIR MAIN PROBLEM IS SHORTAGE OF LABOUR.

6. THE RISE IN INTEREST RATES , AND THE WEAKNESS OF THE STOCK MARKET SEEN EARLIER THIS YEAR, SEEM TO HAVE HAD LITTLE REAL IMPACT ON THE ECONOMY. NEITHER CONSUMER SPENDING NOR (AS MENTIONED ABOVE) BUSINESS INVESTMENT APPEAR TO HAVE BEEN AFFECTED BY HIGHER INTEREST RATES. SINCE MID-APRIL, THESE HAVE STABILISED AND STOCK PRICES HAVE RECOVERED. MOST COMMENTATORS NOW REGARD THE PROBLEMS OF FEBRUARY AND MARCH AS A NECESSARY PRICKING OF A SPECULATIVE BUBBLE.

7. TWO CLOUDS REMAIN ON THE HORIZON. THE FIRST IS INFLATION: THE RETAIL PRICE INDEX REMAINS ROUGHLY STABLE (ALTHOUGH AT A HIGHER LEVEL THAN BEFORE THE INTRODUCTION OF CONSUMPTION TAX LAST YEAR), BUT THE AUTHORITIES ARE STILL CONCERNED THAT THE WEAKNESS OF THE YEN AND FACTORS SUCH AS THE TIGHTNESS OF THE LABOUR MARKETS MAY YET PRODUCE INFLATIONARY PRESSURES. THE SECOND AND INTERCONNECTED PROBLEM IS THE EXCHANGE RATE . THE AUTHORITIES HAVE HAD SOMETHING OF A RESPITE IN RECENT WEEKS, AS THE YEN HAS TRADED IN THE RANGE Y150 - Y155 , BUT ANY FURTHER WEAKENING OF THE CURRENCY TOWARDS Y160 OR BELOW WOULD LEAD TO RENEWED CONCERNS ABOUT THE CONSEQUENCES FOR INFLATION. THE RESPONSE WOULD ALMOST CERTAINLY BE RENEWED UPWARD PRESSURE ON INTEREST RATES AND THIS IN TURN COULD LEAD TO FURTHER WEAKNESS ON THE STOCK MARKET.

8. DURING FY 1989 THE TRADE SURPLUS REGISTERED A SATISFACTORY 26% DROP, TO US DOLLARS 70.2 BILLION, AS EXPORTS STAYED VIRTUALLY UNCHANGED AND IMPORTS ROSE BY 15% IN DOLLAR VALUE TERMS. IN THE FIRST FOUR MONTHS OF 1990, THE TRADE SURPLUS HAS BEEN ONLY US DOLLARS 19.4 BILLION, AGAINST US DOLLARS 33.8 BILLION IN THE SAME PERIOD IN 1989. SO FAR, FEARS THAT THE WEAKNESS OF THE YEN WOULD LEAD TO A SURGE OF JAPANESE EXPORTS HAVE NOT BEEN FULLY REALISED: IT SEEMS LIKELY THAT FACTORS SUCH AS THE IMPORT SUBSTITUTION EFFECTS OF JAPANESE OVERSEAS PRODUCTION PLANTS, NOTABLY OF CAR MANUFACTURERS IN THE US, ARE NOW BEGINNING TO MAKE SOME SIGNIFICANT IMPACT UPON THE OVERALL FIGURES. NEVERTHELESS, THE US/JAPAN TRADE IMBALANCE REMAINS (A JAPANESE SURPLUS OF US DOLLARS 12.9 BILLION IN THE FIRST FOUR MONTHS OF 1990, AGAINST US DOLLARS 15.6 BILLION IN THE SAME PERIOD IN 1989). ALTHOUGH TRADE FRICTION PER SE HAS BEEN SUBSUMED TO SOME EXTENT BY THE ISSUES IN THE SII TALKS, THE TRADE IMBALANCE IS LIKELY TO REMAIN THE FUNDAMENTAL IRRITANT IN US/JAPAN RELATIONS FOR SOME TIME TO COME.

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