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*From the Private Secretary*

8 July 1990

Dear Simon,

PRIME MINISTER'S MEETING WITH THE JAPANESE  
PRIME MINISTER

The Prime Minister had an hour's talk in Houston this afternoon on the eve of the Economic Summit with the Japanese Prime Minister. Mr Kaifu was accompanied by Mr Owada, Deputy Foreign Minister.

Introduction

The Prime Minister congratulated Mr Kaifu on a famous election victory. When it had come to the test, people's loyalty to the LDP had held. Mr Kaifu recalled that when he and the Prime Minister had met in January, the election had been in the forefront of his mind. The Prime Minister had been very kind in giving him encouragement when a lot of other people had not given much for his chances. He very much appreciated that.

Japanese Politics

Mr Kaifu continued that he now had a stable majority in the Lower House but the Opposition controlled the Upper House. As a result, he still faced difficulties in getting his tax bill through. He was going to have to revise the proposed consumption tax somewhat, and would follow the Prime Minister's earlier advice to him to make special provision for basic foodstuffs.

Bilateral Issues

The Prime Minister thanked Mr Kaifu for his help in solving various bilateral problems between Britain and Japan. Relations were now extremely good. We warmly welcomed continued Japanese investment, which was proving very successful.

China

The Prime Minister said that both Britain and Japan had special reasons for wanting to improve relations with China. In our case it was because of Hong Kong: for Japan, China was a near neighbour. Against this background, she was a bit worried about the draft Summit communique which dealt with China in a rather condescending manner. Mr Kaifu said that we had to steer a course between, on the one hand, isolating China and letting it slip further away from us: and on the other, ensuring that the Chinese drew the right consequences from the events of 4 June

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last year. Japan saw China as a very important country which should play a larger role in Asia, while resuming economic and political reform. He thought that the conservatives and reformers were more or less in balance, but the latter would probably come out on top when Deng Xiaoping finally left the scene.

The Prime Minister asked whether Mr Kaifu thought that China should have greater access to World Bank loans, going beyond help for humanitarian projects. Mr Kaifu said he thought that the scope of China's access to the World Bank should be widened. That would contribute to stability. Japan, for its part, wanted to restart its loans to China, which were devoted to fostering long term stability. They would be reintroduced gradually and would be untied. The Prime Minister asked whether Mr Kaifu had discussed this with President Bush. Mr Kaifu confirmed that he had done so. The President's attitude was that the whole question of relations with China needed to be discussed at the Summit, but his personal view was in favour of Japan resuming its loans. He had been slightly more cautious on World Bank loans, saying it was best to wait and see what could be agreed at the Summit. The Prime Minister concluded that the right course was to feel our way forward gently.

#### Uruguay Round

The Prime Minister said it was vital that the Summit should make a contribution to a successful outcome to the Uruguay Round. That meant that all major countries would have to agree to reduce subsidies to agriculture. Japan would have to take action on rice. She understood this was politically sensitive, but there would have to be some action.

Mr Kaifu said that he very much agreed that the Uruguay Round must be a success. Japan had made considerable efforts to that end. Rice was indeed a very sensitive and difficult problem for Japan. The Government had already asked farmers to cut back their production and had lowered guaranteed prices. At the same time, Japan was the world's biggest importer of agricultural products and had the lowest rate of agricultural self-sufficiency among industrialised countries. So Japan would have to ask for special consideration over this particular problem, although he recognised that it would have to be discussed at the Summit and subsequently in the GATT.

#### Aid to the Soviet Union

The Prime Minister said she took the view there was little point in giving massive loans to the Soviet Union to buy consumer goods: the result would simply be to saddle them with more debt. We should concentrate on providing know-how. (This produced some vigorous nodding from Mr Kaifu.) The Prime Minister continued that the Netherlands put forward some quite interesting proposals to help the Soviet Union develop its energy resources. Mr Kaifu said the Prime Minister's comments were very much to the point. We all wanted to help the Soviet Union make the transition to a market economy, and Japan was assisting through, for example, management training. He had received a letter from Chancellor

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Kohl urging Japan to join in providing financial help. But it was not Japan's intention to give loans. One could not ignore the amount which the Soviet Union still spend on defence. And in Japan's case there was the further problem of the Northern Territories. He hoped he would receive the support of Summit colleagues on this issue. The Prime Minister said she thought the outcome of the discussion at the Summit would be to support further analysis of the Soviet Union's needs, involving the international financial institutions and some technical help.

I am copying this letter to John Gieve (HM Treasury), Nigel Wicks (HM Treasury), Martin Stanley (Department of Trade and Industry), Andy Lebrecht (Ministry of Agriculture, Fisheries and Food) and Sonia Phippard (Cabinet Office).

*Yours sincerely,*  
*Charles Powell*

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