

CONFIDENTIAL
FM TOKYO
TO IMMEDIATE FCO
TELNO 1123
OF 060730Z DEC 89
INFO IMMEDIATE WASHINGTON
INFO PRIORITY UKREP BRUSSELS, UKDEL OECD, MOSCOW

*There is a parallelism
between US/Japan &
UK/FRG relations &
problems.
C.M.*

PART ONE OF TWO

WASHINGTON TELNO 3085 AND YOUR TELNO 2209 TO WASHINGTON:
US/JAPAN RELATIONS

SUMMARY

1. US/JAPAN RELATIONS LOOKING POTENTIALLY UNSTABLE IN THE MEDIUM TERM. US FRUSTRATION ON TRADE ISSUES MATCHED BY JAPANESE RESENTMENT OF SUPER 301 AND US FAILURE TO ADDRESS ITS OWN BUDGET DEFICIT AND OTHER STRUCTURAL PROBLEMS. US POLICY MEANWHILE APPEARS TOO HAND-TO-MOUTH AND FOCUSED SOLELY ON TRADE ISSUES. THE FUNDAMENTAL CAUSES OF THE IMBALANCE ARE THE SUPERIOR JAPANESE MANUFACTURING PERFORMANCE AND IMBALANCE OF SAVINGS IN THE TWO ECONOMIES. IF THESE ARE NOT ADDRESSED, TOGETHER WITH OTHER PROBLEMS ON THE SII AGENDA, GROWING IMBALANCES AND VISIBLE US DEPENDENCE ON JAPANESE CAPITAL WILL INTENSIFY POLITICAL FRICTION. MORE POLITICAL LEADERSHIP AND A STRATEGIC APPROACH ON BOTH SIDES NEEDED TO REVERSE THIS DANGEROUS TREND. EVENTS IN EASTERN EUROPE MAY CAUSE NEW STRAINS IN THE SECURITY FIELD AS WELL.

DETAIL

- 2. WASHINGTON TELNO 3085 AND YOUR TELNO 2209 TO WASHINGTON PROMPT A NUMBER OF THOUGHTS ON US/JAPAN RELATIONS AS SEEN FROM HERE.
- 3. THIS RELATIONSHIP IS BEGINNING TO LOOK UNSTABLE IN THE MEDIUM TERM IN A WAY WHICH HAS NOT BEEN THE CASE SINCE THE END OF WORLD WAR TWO. PARTICULARLY WORRYING AND REFLECTED IN WILLIAMS' CONVERSATION WITH ROBERTS, IS THE EXTENT TO WHICH THE US ADMINISTRATION'S APPROACH AND ACTIONS VIS-A-VIS JAPAN ARE TACTICAL - DICTATED BY CONGRESS AND PUBLIC PRESSURE, AND DOMINATED BY THE WEAPON WHICH CONGRESS HAS CREATED OF THE

PUNITIVE SUPER 301 CLAUSE. THE ADMINISTRATION AS A WHOLE SEEMS TO LACK A CLEAR STRATEGIC VIEW OF HOW TO CHART A COURSE THROUGH ALL THE TRADE ISSUES, MANAGE THE CONSEQUENCES OF DEPENDENCE ON JAPANESE CAPITAL AND MEET THE TECHNOLOGICAL CHALLENGE OF JAPAN (THE FAR EAST) WITHOUT DAMAGING THE ALL-IMPORTANT SECURITY AND POLITICAL RELATIONSHIP WHICH IS THE CORNERSTONE OF STABILITY IN THE PACIFIC.

4. JAPANESE OF THE OLDER GENERATION STILL HAVE AN ENORMOUS SENSE OF DEBT TOWARDS THE US, AND COMMERCIAL LOGIC AND SHEER VOLUME OF INTERACTION IN ALL FIELDS GIVES THE RELATIONSHIP A LOT OF MOMENTUM. BUT DESPITE ALL THE POST-WAR EFFORT OF THE AMERICANS, THIS IS STILL A RELATIONSHIP WHICH CANNOT BE TAKEN FOR GRANTED. AMERICA HAS ALWAYS BEEN THE MAGNANIMOUS SUPERPOWER. BUT HER SEEMING APPLICATION OF INDISCRIMINATE TRADE PRESSURE, THE FSX AND BASE SUPPORT COSTS NEGOTIATIONS, AND US DEMANDS (AS SEEN BY THE JAPANESE) FOR MAJOR CHANGES IN JAPANESE ECONOMIC STRUCTURE WHILE SEEMING TO DO NOTHING ABOUT HER OWN INDUSTRIAL AND SOCIAL PROBLEMS, HAVE AFFECTED US PRESTIGE AT A TIME WHEN JAPANESE SELF-CONFIDENCE IS GROWING STEADILY. THE OFFICIAL IMPULSE HERE HAS BEEN TO KEEP WEATHERING THE STORM, WHILE LOOKING FOR TRADE PALLIATIVES IN THE TIME-HONOURED FASHION. BUT PUBLICLY THE CRITICS ON BOTH SIDES N HAVE THE FIELD AND NEITHER GOVERNMENT SEEMS TO FEEL ABLE TO STEP IN TO REVERSE THIS DRIFT.

5. EVEN IF THE ADMINISTRATION CAN SCRAPE THROUGH NEXT APRIL'S SUPER 301 REVIEW WITHOUT THE NEED FOR FURTHER TRADE SANCTIONS AGAINST JAPAN, THE POLITICAL TENSIONS SEEM UNLIKELY TO DIMINISH, BECAUSE THE FUNDAMENTAL CAUSES OF THE BILATERAL IMBALANCE ARE NOT BEING ADDRESSED. REASONS WHY THIS COULD GET WORSE ARE :

A) THE TRADE BALANCE. DESPITE SOME REDUCTION IN JAPAN'S OVERALL TRADE SURPLUS, THE BILATERAL SURPLUS WITH THE US HAS FALLEN MUCH LESS. JAPANESE OFFICIALS ARE CONCERNED THAT THIS MAY START TO WIDEN AGAIN : THERE IS NOW A DEMAND, AND IN MANY INDUSTRIES A NEED, FOR JAPANESE GOODS WHICH COULD ONLY BE TURNED OFF WITH GREAT DIFFICULTY AND DISRUPTION. MOREOVER THIS DEPENDENCY IS LIKELY TO CONTINUE. THE JAPANESE PRIVATE SECTOR HAS THIS YEAR SPENT THE EQUIVALENT OF 20 PERCENT OF GNP IN NEW CAPITAL INVESTMENT AND R AND D, MOST OF IT IN THE MANUFACTURING SECTOR. ALTHOUGH STIMULATED BY RECORD DOMESTIC DEMAND, THIS ALSO POTENTIALLY INCREASES EXPORT COMPETITIVENESS AND CAPACITY. THERE IS NO CONFIDENCE THAT EVEN A SIGNIFICANT APPRECIATION OF THE YEN

AT THIS STAGE WOULD STEM THE VOLUME OF EXPORTS FLOWING FROM JAPAN TO THE US. SUCH A RISE - THOUGH OVERDUE IN TERMS OF ECONOMIC FUNDAMENTALS - COULD SIMPLY MEAN A WORSE NOMINAL TRADE SURPLUS AND CHEAPER BARGAINS FOR JAPANESE SHOPPERS IN THE US SUPERMARKET.

B) US DEPENDENCE ON JAPANESE CAPITAL WILL CONTINUE AS LONG AS THE BUDGET AND TRADE DEFICITS PERSIST. THE CURRENT RELATIVE STABILITY OF THE US ECONOMY MUST BE UNDERPINNED BY THE FLOW OF JAPANESE SAVINGS INTO US INVESTMENTS OF ALL KINDS. THE BANK OF JAPAN ESTIMATED THE NET OUTFLOW OF LONG-TERM CAPITAL FROM JAPAN TO THE US AT DOLLARS 62 BILLION IN 1988 : OF THIS 58 PERCENT WENT INTO SECURITIES (BONDS AND STOCKS) AND 30 PERCENT INTO

DIRECT INVESTMENT (INCLUDING REAL ESTATE). THE LACK OF ATTRACTIVE ALTERNATIVES AND THE STRENGTH OF THE DOLLAR IS CURRENTLY GIVING A FAIR DEGREE OF STABILITY TO THIS FLOW OF CAPITAL, BUT EVEN A TEMPORARY HALT COULD JEOPARDISE THE US GOVERNMENT'S BORROWING PROGRAMME, OR THE OUTLOOK FOR THE US ECONOMY AS A WHOLE. THE US STOCK MARKET IS NOW VERY SENSITIVE TO THE MOVEMENTS OF JAPANESE INVESTORS. THESE INVESTMENTS GENERATE REPAYMENTS. AS THE STOCK OF JAPANESE ASSETS IN THE US INCREASES, SO THE FLOW OF INTEREST, PROFIT AND DIVIDENDS BACK TO JAPAN WILL RISE. OVER TIME, THIS WILL INCREASE THE BILATERAL CURRENT ACCOUNT DEFICIT, EVEN IF PROGRESS IS ULTIMATELY MADE IN REDUCING THE TRADE DEFICIT.

C) COMPLACENCY ABOUT THE CONSEQUENCES OF PROLONGED US BORROWING. AS SEEN FROM HERE THERE ARE TWO FACTORS WHICH ARE LULLING JAPANESE INVESTORS, AND SOME PARTS OF THE US GOVERNMENT, INTO FALSE SENSE OF SECURITY ABOUT THE CURRENT SITUATION. THE FIRST IS THAT DESPITE THE BUILD-UP OF DEBT, NO INVESTOR IS SERIOUSLY QUESTIONING THE CREDITWORTHINESS OF THE US, NOR ARE THEY LIKELY TO DO SO IN THE IMMEDIATE FUTURE, GIVEN THE CENTRAL ROLE OF THE US IN THE WORLD ECONOMY AND OF THE DOLLAR IN THE FINANCIAL SYSTEM. THE SECOND FACTOR IS THE EFFICIENCY OF MODERN FINANCIAL MARKETS, WHICH IS ALLOWING THE TWIN DEFICITS TO BE FINANCED SO EASILY AND PAINLESSLY (FCO TELNO 54 TO UKDEL OECD, PARIS). RECYCLING JAPANESE SAVINGS INTO THE US IS CLEARLY VITAL FOR FINANCIAL STABILITY IN THE SHORT TERM, BUT IS NOT A SOUND LONG TERM POLICY. THE CONSEQUENCE OF SIMPLY LETTING THIS CONTINUE WITHOUT TAKING OTHER POLICY MEASURES IS A HIGHER DEBT SERVICE BURDEN (CURRENT ACCOUNT DEFICIT), MORE JAPANESE ACQUISITIONS OF US ASSETS AS THE DOLLAR BECOMES CHEAPER, AND MORE VISIBLE DEPENDENCE ON

JAPANESE CAPITAL. MIDDLE AMERICA DOES NOT UNDERSTAND THIS, AND CERTAINLY DOES NOT LIKE IT. THIS EXPEDIENT COURSE IS THEREFORE LIKELY TO LEAD TO GREATER POLITICAL FRICTIONS.

D) JAPANESE ACQUISITIONS. INEVITABLY THESE WILL INCLUDE COMPANIES REGARDED AS STRATEGIC OR SYMBOLIC, AND THE INCREASING POWER OF JAPANESE BANKS AS PROVIDERS OF CAPITAL WILL INDEED GIVE ADVANTAGE TO OTHER JAPANESE OVER US NATIONAL CUSTOMERS. THIS WILL AROUSE CALLS FOR RESPONSES ON SECURITY OR NATIONALIST GROUNDS. BUT ONE HAS TO EXAMINE THE SELLER'S REASONS, AS WELL AS THOSE OF THE BUYER.

E) JAPANESE TECHNOLOGICAL ADVANCES. JAPANESE INDUSTRY WILL NOT BE DEFLECTED, IN THE LONG RUN, FROM DEVELOPING THE TECHNOLOGIES IN WHICH IT CURRENTLY LAGS BEHIND THE US. IF THE AMERICANS WITHOLD TECHNOLOGY AND COOPERATION, FOR EXAMPLE IN AEROSPACE, THE JAPANESE WILL DO IT THEMSELVES EVENTUALLY, WITHOUT COUNTING THE COST. UNLESS US COMPANIES INVEST SUFFICIENTLY TO KEEP AHEAD, THEIR REMAINING PRESERVES WILL CONTINUE TO DISAPPEAR.

6. UNFORTUNATELY THE CONCENTRATION ON UNFAIR ASPECTS OF JAPANESE TRADING PRACTICE AND ON REMOVING MARKET BARRIERS TO QUOTE LEVEL THE PLAYING FIELD UNQUOTE, HAS SIDE-TRACKED POLICY MAKERS AND POLITICIANS FROM ADDRESSING THESE MORE IMPORTANT SHIFTS IN THE BALANCE OF INDUSTRIAL AND FINANCIAL POWER AND FROM ACCEPTING THAT SOLUTIONS OFTEN REQUIRE DOMESTIC ACTION. THE QUOTE REVISIONIST UNQUOTE ARGUMENT THAT JAPAN IS DIFFERENT AND THEREFORE REQUIRES DIFFERENT TREATMENT RISKS DOING THE SAME IN A MORE EMOTIONAL AND DANGEROUS WAY. PEOPLE ARE ONLY NOW REALISING THAT, FOR STRUCTURAL REASONS, EVEN IF THE PLAYING FIELD IS LEVELLED THE JAPANESE TEAM HAVE POWERFUL ADVANTAGES. RESTRICTIONS TO THE JAPANESE MARKET IN AREAS SUCH AS AGRICULTURAL AND FORESTRY PRODUCTS, CONSTRUCTION, SATELLITES, SUPERCOMPUTERS AND OTHER ITEMS OF GOVERNMENT PROCUREMENT ARE CONTRIBUTORY BUT BY NO MEANS FUNDAMENTAL CAUSES OF THE TRADE IMBALANCE. THEREFORE, IMPORTANT AS IT NOW IS POLITICALLY TO SOLVE THESE INDIVIDUAL ISSUES, IT SEEMS RASH TO RISK SERIOUSLY DAMAGING THE HIGHLY IMPORTANT US/JAPAN OVERALL RELATIONSHIP IN THE PROCESS.

WHITEHEAD

YYYY

CONFIDENTIAL
FM TOKYO
TO IMMEDIATE FCO
TELNO 1123
OF 060730Z DEC 89
INFO IMMEDIATE WASHINGTON
INFO PRIORITY UKREP BRUSSELS, UKDEL OECD, MOSCOW

PART TWO OF TWO

7. THE FUNDAMENTAL REASONS FOR THE IMBALANCE ARE JAPAN'S SUPERIOR MANUFACTURING PERFORMANCE AND OUTPUT, AND THE IMBALANCE OF SAVINGS BETWEEN THE TWO ECONOMIES. THIS REFLECTS A MUCH HIGHER PRIORITY PLACED IN JAPAN THAN IN WESTERN MARKET ECONOMIES ON INVESTMENT AND SAVINGS RELATIVE TO PROFITS AND CONSUMPTION. AT BOTH THE INDIVIDUAL AND CORPORATE LEVEL JAPANESE COMPANIES' SUCCESS HAS BEEN HELPED BY ACCESS TO CHEAP CAPITAL, STABLE SHAREHOLDING, ESCALATING LAND AND STOCK PRICES AND REPRESSED CONSUMERS. BUT THAT IS NOT TO SAY THAT THESE ARE UNFAIR. NOR ARE THEY THE ONLY FACTORS. IT IS EASY TO LOSE SIGHT OF THE FACT THAT MUCH OF THE JAPANESE SUCCESS HAS BEEN VERY HONESTLY WON.

8. THE GROWING INSTABILITY IN THE RELATIONSHIP OCCURS BECAUSE NEITHER CONGRESS NOR THE US PUBLIC IS PREPARED TO ACCEPT THE CHAIN OF CAUSE AND EFFECT BETWEEN THEIR CONTINUAL DEFICITS AND JAPANESE ACQUISITION OF US ASSETS, AND BECAUSE QUOTE EXCESSIVE OR FLASHY UNQUOTE JAPANESE INVESTMENT, JAPANESE FINANCIAL INFLUENCE AND PRE-EMINENCE IN KEY COMMERCIAL TECHNOLOGIES AROUSES AN EMOTIONAL RESPONSE IN THE UNITED STATES. AS FAR AS ONE CAN SEE NOBODY IS EXPLAINING THIS TO THE ELECTORATE, AND NOBODY SEEMS PREPARED TO GRWD THE NETTLE OF RAISING REVENUE TO SOLVE THE BUDGET PROBLEM.

9. THE SITUATION CALLS NOT ONLY FOR A SOLID PROGRAMME OF MEASURES TO DEAL WITH THE REAL CAUSES OF THE IMBALANCE, BUT ALSO FOR A POLITICAL GAME PLAN TO MANAGE THE ALLIANCE AND PRESERVE ITS POLITICAL FABRIC WHILE THE LONG PROCESS OF RECTIFICATION TAKES PLACE.

10. THE AGENDA OF THE SII TALKS CONTAINS ALL THE ELEMENTS OF A MAJOR SUBSTANTIVE PROGRAMME. MUCH OF IT THE JAPANESE HAVE ALREADY ACKNOWLEDGED AS BEING NECESSARY. THE AMERICAN LIST BREAKS DOWN INTO THREE BASIC PARTS:

- (A) MEASURES OF DEREGULATION AND STRENGTHENED COMPETITION POLICY TO MAKE THE JAPANESE MARKET MORE TRANSPARENT, ACCESSIBLE TO FOREIGN COMPANIES, AND CHEAPER FOR JAPANESE CONSUMERS. ON DISTRIBUTION AND PRICING POLICY, FOR EXAMPLE, THESE HAVE THEIR PROPONENTS INSIDE JAPAN AND SHOULD BE PUSHED AS ITEMS FOR EARLIEST POSSIBLE IMPLEMENTATION.
- (B) MEASURES TO ABSORB MORE SAVINGS IN DOMESTIC INFRASTRUCTURE, INCLUDING LEISURE AND HOUSING: THESE ARE MORE LONG-TERM IN THEIR EFFECTS, BUT WORTH PURSUING FOR THEIR EFFECT UPON CONSUMPTION AND SAVINGS INVESTMENT BALANCE - BUT RAISING THE LEVEL OF PERSONAL AND CORPORATE SAVINGS IN THE US IS MORE IMPORTANT.
- (C) MEASURES TO GET AT THE CORPORATIST STRUCTURE OF JAPANESE INDUSTRY - E.G. INTER-GROUP TRANSACTIONS, INTERLOCKING SHAREHOLDINGS, BARRIERS TO TAKEOVERS ETC. IN THIS AREA GOVERNMENT HAS LESS CONTROL AND JAPANESE ARE MUCH LESS APT TO ACCEPT THAT THE US SYSTEM WITH ITS EMPHASIS ON CONSUMERS AND SHAREHOLDERS IS A MORE RATIONAL WAY OF DOING THINGS.

11. ON THE JAPANESE SIDE THE LIST IS VERY SIMPLE AND APPPOSITE: THE BUDGET DEFICIT: THE SAVINGS LEVEL: EDUCATION AND TRAINING FOR INDUSTRY: AND SHORT-TERMISM IN US INDUSTRY.

12. THE ANALYSIS ON BOTH SIDES IS VERY SOUND, BUT THE TALKS HAVE CURRENTLY DESCENDED INTO A MORASS OF DETAIL. ONE DOES NOT AT THIS MOMENT SENSE A VERY STRONG POLITICAL WILL ON EITHER SIDE TO PAY THE DOMESTIC PRICE NECESSARY TO MAKE SERIOUS PROGRESS. AN ORDER OF PRIORITIES NEEDS TO BE IMPOSED, AND THE ''DOABLE'' ITEMS FRONT-LOADED, BECAUSE IF THE PROCESS FAILS TO PRODUCE RESULTS FRUSTRATION COULD PRODUCE MUCH WORSE ALTERNATIVES.

13. IF, AS OPINION POLLS SUGGEST, JAPAN IS REPLACING THE SOVIET UNION AS PUBLIC ENEMY NUMBER ONE IN THE UNITED STATES, A POLITICAL GAME PLAN TO REVERSE THIS SHOULD BE LED FROM THE HIGHEST LEVELS. THE ESSENCE OF SUCH A PACT WOULD HAVE TO BE AN AMERICAN COMMITMENT TO ABSTAIN FROM PROTECTIONIST AND PUNITIVE MEASURES AGAINST JAPAN IN RETURN FOR MUCH MORE RADICAL JAPANESE ACTION TO DEREGULATE AND MAKE ITS MARKETS TOTALLY TRANSPARENT. THIS DEPENDS IN TURN ON JAPAN'S

ABANDONING ITS HABIT OF MOVING ONLY IN RESPONSE TO THREATS OF EXTREME PRESSURE. (I RECOGNISE THAT BOTH OF THESE ARE TALL ORDERS, BUT I SUGGEST THAT THEY ARE NONE THE LESS IMPORTANT FOR THAT). IDEALLY ONE WOULD LIKE TO SEE THE US ADMINISTRATION EXPLAINING THE HOME TRUTHS TO ITS OWN PUBLIC ABOUT JAPANESE INVESTMENT, AND BIPARTISAN AGREEMENT THAT REDUCING THE DEFICIT IS NECESSARY TO BRING SOME STABILITY BACK INTO THE SITUATION, AND THAT NEW REVENUE SHOULD BE RAISED FOR THE PURPOSE. IF THE LEADERS ON BOTH SIDES EXPLAINED THE NEED FOR POLITICALLY UNPOPULAR MEASURES ON THE DEFICIT AND MARKET OPENING RESPECTIVELY, AS BEING NECESSARY TO SAVE THE ALLIANCE - AND WENT AHEAD TO DO THEM - SOME OF THE WILDER POLICY PRESCRIPTIONS AND JAPAN-BASHING MIGHT LOSE THEIR APPEAL.

CONCLUSIONS.

14. AT PRESENT IT LOOKS AS IF WE SHALL HAVE TO RECONCILE OURSELVES TO SOME ELEMENTS OF MANAGED TRADE BETWEEN JAPAN AND THE U.S.,. THIS, AFTER ALL, IS SOMETHING WHICH MITI, THE PRINCIPLE INTERLOCUTOR, CAN DELIVER. THE AMERICANS ARE DEMANDING CERTAIN LEVELS OF MARKET SHARE IN CERTAIN COMMODITIES. MORE INFORMAL CONTROLS ON EXPORTS AND INVESTMENT ARE POSSIBLE. SCHEMES ARE ALREADY IN TRAIN TO INCREASE INDUSTRIAL IMPORTS BY POSITIVE DISCRIMINATION WHICH MAY WELL, IN PRACTICE, FAVOUR THE UNITED STATES. THE EC'S ATTITUDE TOWARDS SUCH MEASURES IS BOUND TO BE AMBIVALENT. MORE WORRYING IS THE POTENTIAL PROBLEM OF DIVERSION OF JAPANESE EXPORTS TO THE EC IF MANAGED US-JAPAN TRADE PRODUCES EVEN IN THE SHORT TERM A SUBSTANTIAL OVERHANG OF JAPANESE GOODS WITHOUT THEIR TRADITIONAL MARKET.

15. AT THIS JUNCTURE I SUGGEST THAT OUR ROLE SHOULD BE TO USE OUR OWN CHANNELS TO BOTH SIDES TO PERSUADE THEM TO TAKE A MORE STRATEGIC LOOK AT THEIR RELATIONSHIP, SO THAT JAPAN'S ABSORPTION INTO WESTERN POLITICAL LEADERSHIP IS NOT FRUSTRATED BY MISTRUST BASED ON ECONOMIC FACTORS. SOLVABLE PROBLEMS SHOULD BE SOLVED QUICKLY.

16. THE MORE SENSITIVE QUESTIONS OF WHICH PATTERN OF CAPITALISM, CORPORATE STRUCTURE AND GOVERNMENT-INDUSTRY RELATIONS IS MORE VALID, AND WHICH IS THE MORE CONDUCTIVE TO WELFARE, MAY NEED REFLECTION IN SLOWER TIME, BUT ARE EQUALLY RELEVANT TO EUROPEAN AND OTHER TRADITIONAL WESTERN ECONOMIES WHICH WILL HAVE TO COMPETE WITH THE ASIAN ECONOMIES

IN THE FUTURE.

17. THE FOCUS OF THIS TELEGRAM HAS DELIBERATELY BEEN ON ECONOMIC FACTORS AND FRICTION ASSOCIATED FUNDAMENTALLY WITH THE RELATIVE DECLINE OF AMERICAN, AND THE GROWTH OF JAPANESE, ECONOMIC POWER. THIS SHIFT WILL CAUSE CHANGES IN THEIR RESPECTIVE POLITICAL AND SECURITY ROLES, BUT IT IS NOT THE ONLY FACTOR AT WORK. THE JAPANESE HAVE LOOKED AT THE DECLARATION BY RUSSIANS AND AMERICANS OF THE END OF THE COLD WAR PRINCIPALLY WITH A VIEW TO ITS IMPACT ON THE US/JAPAN RELATIONSHIP. AT A POPULAR LEVEL, THE LESSENING OF TENSION IN EUROPE COULD FEED THE IDEA THAT JAPAN WILL BE AMERICA'S NEXT ENEMY AS ECONOMIC COMPETITION REPLACES MILITARY CONFRONTATION AS THE CENTRAL COMPONENT OF INTEHPATIONAL RELATIONSHIPS. IT COULD HOWEVER ALSO BRING NEW STRAINS IN THE SECURITY RELATIONSHIP ITSELF. THE JAPANESE BELIEVE THE THREAT FROM THE SOVIET UNION IN ASIA IS AS REAL AS EVER, BUT WITH PEACE BREAKING OUT IN EUROPE THEY WONDER IF THE AMERICANS WILL RETAIN AS MUCH INTEREST IN THEIR SECURITY COMMITMENTS IN OTHER REGIONS AND WHETHER JAPAN ITSELF WILL NOT BE SEEN AS LAGGING BEHIND IN THE NEW ERA OF DETENTE. THESE QUESTIONS TOO REQUIRE A MORE STRATEGIC APPROACH INVOLVING VERY CLOSE CONSULTATION AS NISHIHIRO (PUS AT THE JDA) COMMENTED TO SIR MICHAEL QUINLAN LAST WEEK. THE GRADUAL ASSUMPTION BY JAPAN OF A MORE PROMINENT POLITICAL AND SECURITY ROLE WOULD NOT BE EASY TO MANAGE AT ANY TIME, AND IT REQUIRES PARTICULAR CARE WHEN WORLD EVENTS ARE MOVING UNUSUALLY FAST.

18. FOR WASHINGTON. PLEASE PASS COPY TO GILLMORE.

WHITEHEAD

YYYY

DISTRIBUTION

235

MAIN 234

.FRAME EXTERNAL
ECD (E)
NAD

FED
MR MCLAREN
MR BEAMISH

ADDITIONAL 1

FRAME

PAGE 4
CONFIDENTIAL

NNNN