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10 DOWNING STREET

From the Private Secretary

2 November 1983

Call on the Prime Minister by Mr. Watanabe

Thank you for your letter of 31 October. Mr. Watanabe called on the Prime Minister for 40 minutes at 1610 this afternoon. He was accompanied by the Japanese Ambassador and an interpreter.

Mr. Watanabe handed to the Prime Minister a letter from the Prime Minister of Japan. A copy of this is enclosed. The Prime Minister recalled her friendly discussions with Mr. Nakasone at Williamsburg. Taking up the reference to Prince Hiro in Mr. Nakasoné's letter, the Prime Minister asked how the Prince was getting on. Mr. Watanabe said that he was very pleased with the arrangements made for him at Oxford.

Mr. Watanabe then went on to explain that he was setting up a policy study group which he himself would head. Its title in Japanese meant "Getting back to first principles" and in a sense it was concerned with the policies of Thatcherism. The main area in which Japan had breached fundamental economic principles was in relation to the budget deficit. There was constant pressure on the Government to increase public expenditure. As he understood the Prime Minister's policy of "new conservatism" it was based upon the principles of defeating inflation and limiting public expenditure. The Prime Minister said that there were in fact three planks to her economic policy: the reduction of inflation, the restraint of public expenditure and the containment of the budget deficit. Only if all three were pursued consistently would the policy be sound.

Turning to the political situation in Japan, Mr. Watanabe said that the next week or so would see major political conflict. The Opposition were now proposing a resolution which would request Mr. Tanaka to resign. If Parliament did not accept this, the Opposition threatened to boycott proceedings. Parliamentary business was in limbo. On 4 November when Chancellor Kohl would leave Japan, the Liberal Democratic Party might seek to vote through every Bill unilaterally in the absence of the Opposition. The Japanese Ambassador explained that this would be a radical departure from normal procedures whereby Japanese laws were enacted by consensus. Mr. Watanabe said that there was a possibility that Parliament would be dissolved. The fact that President Reagan was due to speak to the Parliament on 9 November presented a difficulty.

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/ The Prime Minister

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The Prime Minister asked whether voluntary resignation by Mr. Tanaka would solve everything. Mr. Watanabe said that it would but Mr. Tanaka seemed determined to remain a Member of Parliament. The Opposition would be delighted if Parliament were dissolved. But Mr. Nakasone took a different view because if it were dissolved in present circumstances the main issue in the ensuing elections would be the morality of politics. However, the Liberal Democrats were already anticipating dissolution and making their dispositions for the election campaign.

The Prime Minister commented that it was bad to hold elections in a period of domestic crisis. In Britain the governing party would lose ground in such circumstances. Mr. Watanabe said that postponement would probably not help his party since Mr. Tanaka would probably still be a Member of Parliament.

Mr. Watanabe then asked whether the Grenada episode would damage the basic alliance between the United Kingdom and the United States. Japan was concerned because it had a Security Treaty with the United States. The Prime Minister replied that we should see to it that our alliance remained strong. Japan should have no worries on that score. Events involving a small island of 110,000 people could not upset a major alliance. The differences had arisen because of a lack of consultation.

Mr. Watanabe then asked whether, with regard to sanctions against the Soviet Union, Britain would adopt the same attitude as the United States or would co-ordinate its policy with France or Germany. The Prime Minister explained that our basic policy was to trade with the Soviet Union where this was to our mutual benefit. We did not support subsidised CAP sales to the Russians. We placed restrictions on the export of technology and we were against highly subsidised credit terms.

In conclusion, Mr. Watanabe said that he believed that Britain and Japan should stay in close consultation. The Prime Minister said that this would be very welcome. She would be grateful if Mr. Watanabe would pass her thanks to Mr. Nakasone for the explanations of Japanese policies which he had given.

I should be grateful if in due course you could let me have a draft reply to Mr. Nakasone's letter to the Prime Minister.

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Peter Ricketts, Esq.,
Foreign and Commonwealth Office.

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