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NATIONAL SECURITY COUNCIL
WASHINGTON, D.C. 20506

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National Security Council Meeting
April 28, 1987, 11:05 a.m. - 12:02 p.m., Cabinet Room

SUBJECT: Minutes of the National Security Council Meeting on
Prime Minister Nakasone's Visit to Washington

PARTICIPANTS:

The President

The Vice President's Office:

Donald Gregg, Assistant to the Vice President for National
Security Affairs

State:

Secretary of State George Shultz

Gaston J. Sigur, Assistant Secretary of State for East Asian
and Pacific Affairs

Treasury:

Secretary James A. Baker III

David C. Mulford, Assistant Secretary of the Treasury for
International Affairs

OSD:

William H. Taft IV, Deputy Secretary of Defense

Karl D. Jackson, Deputy Assistant Secretary of Defense for East
Asia and Pacific Affairs

Commerce

Louis Laun, Assistant Secretary of Commerce for International
Economic Policy

CIA

Robert Gates, Acting Director

Deane Hoffmann

JCS

General Robert T. Herres, USAF, Vice Chairman of JCS

Rear Admiral Joseph Donnell, USN

USTR

Ambassador Clayton Yeutter

USIA

Marvin Stone

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BY RW NARA DATE 8/16/19

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OMB

James C. Miller III, Director
Wayne Army, Associate Director

Agriculture

Peter Myers, Deputy Secretary

White House

Frank Carlucci, Assistant to the President for National Security
Affairs

Senator Howard Baker, Chief of Staff

General Colin L. Powell, Deputy Assistant to the President for
National Security Affairs

Nancy Risque, Assistant to the President and Cabinet Secretary

Marlin Fitzwater, Assistant to the President for Press Relations

James A. Kelly, Special Assistant to the President for National
Security Affairs

Steve Danzansky, Special Assistant to the President for National
Security Affairs

CEA

Michael Mussa

Minutes

The President began the meeting by pointing out that the United States and Japan stand at an important moment. The U.S. is Japan's indispensable ally, defender, customer and colleague. Japan is our second largest trade customer and the economic leader of Asia. Japan's strategic location is critical. Its strengths, including investment, technology, and capacity to assist less developed countries complement our own strengths. The President pointed out that Japan has become a great democracy. He noted that Prime Minister Nakasone is a loyal friend, but that he has been weakened by problems at home. The President sympathized with Nakasone's need to withdraw his contentious tax reform program and observed that rapid strengthening of the yen had created pockets of recession in Japan. Moreover, the President stated that troubling economic imbalances had not yet been corrected.

As results of the visit, the President indicated that we need important progress from Japan on several economic fronts. Nakasone's credibility has suffered from incompleting items announced during past visits. The President charged the meeting to look at what was needed and what can be reasonably expected from the Nakasone visit. The President further cautioned that as with the visit to Prime Minister Mulroney in Ottawa, our side should try to keep expectations low. In summary, we need real progress on the divisive economic and trade issues, but we must also keep in mind important larger realities.

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Mr. Carlucci listed three objectives for the NSC meeting: First, to establish the importance of the U.S.-Japan relationship and its broad dimensions. Second, to update all present on the economic situation, Nakasone's weakness and political problems, what we expect from him and what Nakasone needs from us. Last, to close on some details needed for the visit.

Mr. Carlucci noted that the President had set the tone for the meeting - of keeping expectations low, but obtaining as specifically as possible progress on the measures that had been advanced during the visit of former Foreign Minister Abe. Mr. Carlucci continued that it is important to understand and to be able to articulate publicly the importance of a successful U.S.-Japan relationship. Mr. Carlucci suggested that the meeting agenda have Secretaries Shultz, Weinberger and Baker review key issues, and that Ambassador Yeutter and representatives of Commerce and Agriculture also comment on problems which may come up during the visit. Mr. Carlucci suggested there be some consideration to follow-up after the visit. He mentioned the possibility of the Vice President perhaps playing such a role.

Acting Director Gates gave the intelligence assessment. He noted that Prime Minister Nakasone will come to Washington at a low political ebb. His hand has been weakened and his clout is vitiating. At the same time, Nakasone has made comebacks before; his tenure remains uncertain, with some critics hoping he leaves before Venice, others predicting that he may even be able to stay beyond October. Mr. Gates identified and assessed likely items that would be brought by the Prime Minister -- the supplementary budget package of \$34 billion, an expanded program of imports for Japan, a program of up to \$30 billion assistance for lesser developed countries and details of individual trade issues. In summary, the Acting Director concluded that some of the Nakasone package was significant, but that the lengthy process of developing consensus suggests that the package will not lead to fundamental economic change.

Secretary Shultz spoke: Overall, he noted our need to push for trade and economic measures, but that U.S. officials should stress that these could be positive for Nakasone and were in the interest of Japan itself. He observed that although Prime Minister Nakasone may be weaker than he was, his accomplishments in trade, defense and economic policy are clearly superior to those obtained from past or prospective Japanese prime ministers. Given these realities, the Secretary stressed that the U.S. government should act in recognition of what Nakasone has accomplished.

On the economic situation, the Secretary suggested that past American approaches have been wrong by suggesting that what is needed are measures to "please" the U.S. What we must affirm is the reality that the trade deficit will disappear, probably very

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soon, and that the question is how. Japan is quite vulnerable in this process; if it acts in its own interest to do the things that it needs to do, the world and Japan will be the better for it. He summarized by emphasizing the importance of personal courtesy to the Prime Minister, that we recognize that we know he is trying, and that we try to make it easier for him to accomplish what is needed.

Following the Secretary of State's presentation, Mr. Carlucci called on Ambassador Mike Mansfield. The Ambassador presented a 12-minute tour d'horizon which was comprehensive and detailed. The Ambassador described the political outlook in Japan for Nakasone and for the Liberal Democratic Party. He talked about Japanese unemployment and its recent increases. He noted ongoing efforts to improve economic imbalances and increased Japanese assistance to lesser developed countries overseas.

The Ambassador reviewed the defense effort with Japan and the hazards to cooperation that the FSX project poses. He spoke in detail about the value of Japanese assistance to U.S. Forces based in Japan, and compared that with the much smaller assistance to U.S. Forces by Germany. Ambassador Mansfield described the trade situation in detail, including the implications with the Gephardt Amendment, and he commented on the positive results of the recent visits of Ambassador Yeutter and Secretary Lyng to Japan. Ambassador Mansfield discussed the difficult rice issue, and contrasted that with other U.S. agricultural sales to Japan, which he pointed out have been approximately \$6 billion a year for several years, with a downturn reversed in 1987. Ambassador Mansfield warned that these agricultural imports to Japan were not guaranteed to the U.S. market, and this must be considered should an atmosphere of trade retaliation develop. The Ambassador discussed his belief that our ambitious goal should be a free trade treaty between the U.S. and Japan. He concluded by asking consideration of a second Presidential meeting on Friday (May 1) with Prime Minister Nakasone.

In reply, Mr. Carlucci and the Chief of Staff indicated that the prospect of a second meeting would be looked at very carefully before the visit.

Following Ambassador Mansfield's presentation, Secretary Baker began his review. The Secretary restressed the importance of the macro-economic elements in this visit; he agreed with both Ambassador Mansfield and Secretary Shultz on the importance of the visit. He pointed out the delicacy of exchange rates. The circumstance at the moment, he said, was a condition of significant volatility in the financial markets. Secretary Baker pointed out that the Japanese side has sought to put some responsibility for the weakness of dollar versus yen on the U.S.,

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but he said although the yen has appreciated 10% against the dollar since the February 22nd Paris meeting, other currencies, such as the Deutsche mark, have not followed suit. The Secretary stated that it was imperative to find a way to stabilize the financial markets at this time.

Moving into detail, Secretary Baker noted the Japanese seek from the U.S. correction of the budget deficit. Secretary Baker believes that there is substantial progress being made on this in terms of deficit as a share of the gross national product. He cited 6.3% for 1983, improving to a projected 3.9% for FY 87. Secretary Baker noted that in the letter the President had sent the previous weekend to the Prime Minister, monetary, tax, and fiscal measures were all identified and that progress in each area was needed from the Japanese, but he continued that the "worst thing" would be for the U.S. to ask the Japanese to take action to reduce its interest rates, and it did not do so. Such would have serious implications in the markets, and the Secretary stressed that matters of this sort must be very closely held.

Secretary Baker described the proposed Japanese tax reform plan, including its very helpful reduction of income and business tax rates, and new taxation of savings accounts. The part of tax reform which has been a political problem in Japan, and which concerns the U.S. as well, is the proposed 5% sales or value added tax (VAT). The Secretary described why Japanese budget stimulus was needed and how the budget stimulus needs to be described by Japan in specific terms. That, along with the package of aid to lesser developed countries and the reaction of financial markets will "tell the tale" for the visit. The Secretary warned all attendees of the need to be careful and sensitive in public commentary because of the tendency of the exchange market to over-react to even modest comments.

Ambassador Yeutter then gave a brief summary of the highlights of his trip, which covered the entire range of domestic and trade questions in a way that was consistent with the previous remarks. He pointed out that many Japanese had remarked to him that external pressure was necessary for Japan to take actions that are quite in its own interest. He stated that he found the logic of the Japanese sales tax proposal to be questionable, and that the new Maekawa report was good news as long as it became specific and moved toward execution.

The Assistant Secretary of Commerce had short remarks on the need for specific Japanese actions.

Deputy Agriculture Secretary Myers, at the request of Secretary Lyng, discussed the need for progress from Japan on beef and citrus, that he hoped an EPC working group could be held as a result of the meeting to discuss agricultural issues. This request was taken under consideration by Secretary Baker.

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Ambassador Yeutter underscored the importance of increased Japanese beef and citrus imports. Existing agreements expire April 1, 1988, and should be followed by unrestrained trade, but prospects for this are weak.

OMB Director Miller offered comment on the advantages of tax cuts to the Japanese budget vis-a-vis spending stimulus.

Deputy Secretary of Defense Taft stressed a great progress has been made in recent years on the Japanese defense side. He noted the FSX, a possible indigenous design Japanese fighter aircraft, and reaching agreement on a strategic defense initiative cooperation mechanism, as two items that were problems.

Ambassador Mansfield interjected that he felt SDI cooperation was coming along well, and that Japan remains very concerned about the possibility of 100 Soviet SS-20's being left targeted on them following the completion of INF arms negotiations, and that it was important that any agreement be seen as an interim step toward a zero balance of Soviet INF systems.

The President commented on sales taxation experience in California, as well as in the significant economic benefits to be provided by doing away with high tax brackets on individual income taxation.

Ambassador Yeutter spoke on the discussions of Japanese food import practices that Secretary Lyng had had in Tokyo. He compared vastly disparate rice prices, noting that wheat sold at \$130 a ton to Japan would sell within Japan for \$530 a ton, with the \$400 difference going to the Ministry of Agriculture and its Japanese Government Food Agency. He pointed out that rice sold in world markets at \$200 a ton retails in Japan for over \$3,000 a ton.

President Reagan then asked that a way be found to send Prime Minister Nakasone home with some accomplishments for his visit. No prime minister in his memory has been as good. The President said he was interested, if possible, in hosting a breakfast for the Prime Minister as an additional touch during the visit.

Mr. Carlucci concluded by noting the importance and the complexity of the visit, the need for expert preparation, and the utility of gracious gestures.

Ambassador Mansfield suggested affirming a commitment to an annual meeting during the visit. Following that, the meeting was concluded.

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May 8, 1987

ACTION

MEMORANDUM FOR FRANK C. CARLUCCI

FROM: JAMES A. KELLY *jam*

SUBJECT: Minutes of the NSC Meeting on the Nakasone Visit,
April 28, 1987

Attached at Tab A are the minutes of the NSC Meeting that was held on April 28 prior to the visit of Prime Minister Yasuhiro Nakasone.

n.a. jam
Steve Danzansky concurs.

RECOMMENDATION:

That you review and approve the minutes for record purposes.

Approve *G* Disapprove _____

Attachment:
Tab A NSC Minutes

DECLASSIFIED
White House Guidelines, August 28, 1997
By *any* NARA, Date *11/3/07*

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